TheStreet Quant Ratings

AUTOMATIC DATA PROCESSING

NASDAQ: ADP

January 26, 2020

BUY

HOLD

SELL

RATING SINCE 01/23/2013

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

TARGET PRICE $210.96

Sector: Information | Industry Group: Data Processing, Hosting, and Related Services

ADP BUSINESS DESCRIPTION
Automatic Data Processing, Inc. provides cloud-based human capital management solutions worldwide. It operates through two segments, Employer Services and Professional Employer Organization (PEO) Services.

STOCK PERFORMANCE (%)

3 Mo. 1 Yr. 3 Yr (Ann)

Price Change 11.11 32.29 20.28

GROWTH (%)

Last Qtr 12 Mo. 3 Yr CAGR

Revenues 5.60 5.41 6.39
Net Income 15.23 19.82 15.84
EPS 16.52 21.47 17.58

RETURN ON EQUITY (%)

ADP Subsector Avg S&P 500

Q1 2020 44.20 55.41 14.94
Q1 2019 42.26 43.35 15.66
Q1 2018 44.95 30.17 17.58

P/E COMPARISON

32.75 42.25 25.02

ADP Subsector Avg S&P 500

EPS ANALYSIS ($)

2018 2019 2020

0.98 1.15 1.15
1.18 1.14 1.16
1.19 1.17 1.18
1.18 1.17 1.18
1.17 1.16 1.18
1.16 1.15 1.16
1.15 1.14 1.14

NA = not available NM = not meaningful
1 Compustat fiscal year convention is used for all fundamental data items.

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 solid stock price performance, impressive record of earnings per share growth, compelling growth in net income, revenue growth and reasonable valuation levels. We feel its strengths outweigh the fact that the company has had generally high debt management risk by most measures that we evaluated.

HIGHLIGHTS
Investors have apparently begun to recognize positive factors similar to those we have mentioned in this report, including earnings growth. This has helped drive up the company’s shares by a sharp 32.29% over the past year, a rise that has exceeded that of the S&P 500 Index. Regarding the stock’s future course, although almost any stock can fall in a broad market decline, ADP should continue to move higher despite the fact that it has already enjoyed a very nice gain in the past year.

AUTOMATIC DATA PROCESSING has improved earnings per share by 16.5% in the most recent quarter compared to the same quarter a year ago. The company has demonstrated a pattern of positive earnings per share growth over the past two years. We feel that this trend should continue. During the past fiscal year, AUTOMATIC DATA PROCESSING increased its bottom line by earning $5.24 versus $4.25 in the prior year. This year, the market expects an improvement in earnings ($6.18 versus $5.24).

The company, on the basis of net income growth from the same quarter one year ago, has significantly outperformed against the S&P 500 and exceeded that of the Data Processing, Hosting, and Related Services subsector average. The net income increased by 16.2% when compared to the same quarter one year prior, going from $565.40 million to $582.40 million.

Despite its growing revenue, the company underperformed as compared with the subsector average of 9.0%. Since the same quarter one year prior, revenues slightly increased by 5.6%. Growth in the company’s revenue appears to have helped boost the earnings per share.
### AUTOMATIC DATA PROCESSING

**Sector:** Information | Data Processing, Hosting, and Related Services

<table>
<thead>
<tr>
<th>Annual Dividend Rate</th>
<th>Beta</th>
<th>Market Capitalization</th>
<th>52-Week Range</th>
<th>Price as of 1/23/2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3.16</td>
<td>0.87</td>
<td>$76.9 Billion</td>
<td>$132.65-$179.89</td>
<td>$177.83</td>
</tr>
</tbody>
</table>

**Annual Dividend Yield:** 1.77%

**Beta:** 0.87

**Market Capitalization:** $76.9 Billion

**52-Week Range:** $132.65-$179.89

**Price as of 1/23/2020:** $177.83

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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 $15 Billion and $353.5 Billion. Companies with NA or NM values do not appear.

**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 -0.9% and 45.3%. Companies with NA or NM values do not appear.

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### SUBSECTOR ANALYSIS

AUTOMATIC DATA PROCESSING falls within the Information sector and the Data Processing, Hosting, and Related Services industry group of the North American Industry Classification System or NAICS.

TheStreet Quant Ratings is currently tracking 537 companies in the Information sector that total around $9,907 billion in market capitalization as well as $2,733 billion in annual sales.

The Data Processing, Hosting, and Related Services subsector accounts for 3.5% of those revenues.

Industries in the Data Processing, Hosting, and Related Services subsector group establishments that provide the infrastructure for hosting and/or data processing services.

### PEER GROUP: Data Processing, Hosting, and Related 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>177.83</td>
<td>76,947</td>
<td>32.75</td>
<td>14,295.60</td>
<td>2,369.80</td>
</tr>
<tr>
<td>FIS</td>
<td>FIDELITY NATIONAL INFO SVCS</td>
<td>149.01</td>
<td>91,582</td>
<td>70.29</td>
<td>9,158.00</td>
<td>754.00</td>
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<tr>
<td>FISV</td>
<td>FISERV INC</td>
<td>122.23</td>
<td>83,104</td>
<td>56.59</td>
<td>7,693.00</td>
<td>932.00</td>
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<tr>
<td>GPN</td>
<td>GLOBAL PAYMENTS INC</td>
<td>199.78</td>
<td>60,043</td>
<td>80.23</td>
<td>3,804.69</td>
<td>403.06</td>
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<tr>
<td>V</td>
<td>VISA INC</td>
<td>206.52</td>
<td>353,529</td>
<td>38.82</td>
<td>22,977.00</td>
<td>12,080.00</td>
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<tr>
<td>MA</td>
<td>MASTERCARD INC</td>
<td>324.98</td>
<td>324,151</td>
<td>48.22</td>
<td>16,276.00</td>
<td>6,917.00</td>
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<tr>
<td>PAYX</td>
<td>PAYCHEX INC</td>
<td>89.65</td>
<td>32,129</td>
<td>29.98</td>
<td>4,033.50</td>
<td>1,077.90</td>
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<tr>
<td>FLT</td>
<td>FLEETCOR TECHNOLOGIES INC</td>
<td>316.70</td>
<td>27,484</td>
<td>29.74</td>
<td>2,593.39</td>
<td>961.56</td>
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<tr>
<td>SQ</td>
<td>SQUARE INC</td>
<td>69.29</td>
<td>24,055</td>
<td>NM</td>
<td>4,332.60</td>
<td>-43.70</td>
</tr>
<tr>
<td>BR</td>
<td>BROADRIDGE FINANCIAL SOLUT</td>
<td>131.26</td>
<td>15,048</td>
<td>33.66</td>
<td>4,332.60</td>
<td>461.30</td>
</tr>
<tr>
<td>PYPL</td>
<td>PAYPAL HOLDINGS INC</td>
<td>117.89</td>
<td>138,425</td>
<td>55.35</td>
<td>17,037.00</td>
<td>2,536.00</td>
</tr>
</tbody>
</table>

The peer group comparison is based on Major Data Processing, Hosting, and Related Services companies of comparable size.
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 5.0 out of 5 stars
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 4.5 out of 5 stars
Measures the historical price movement of the stock. The stock performance of this company has beaten 80% of the companies we cover.

Efficiency 5.0 out of 5 stars
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 5.0 out of 5 stars
Measures the volatility of the company’s stock price historically. The stock is less volatile than 90% of the stocks we monitor.

Solvency 5.0 out of 5 stars
Measures the solvency of the company based on several ratios. The company is more solvent than 90% of the companies we analyze.

Income 3.5 out of 5 stars
Measures dividend yield and payouts to shareholders. The company’s dividend is higher than 60% of the companies we track.

THE STREET QUANT RATINGS RESEARCH METHODOLOGY

TheStreet Quant 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.
FINANCIAL ANALYSIS

AUTOMATIC DATA PROCESSING’s gross profit margin for the first quarter of its fiscal year 2020 is essentially unchanged when compared to the same period a year ago. The company has grown its sales and net income during the past quarter when compared with the same quarter a year ago, and although its growth in net income has outpaced the subsector average, its revenue growth has not. AUTOMATIC DATA PROCESSING has very weak liquidity. Currently, the Quick Ratio is 0.28 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 14.57% 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.
TheStreet Quant Ratings

AUTOMATIC DATA PROCESSING

Sector: Information | Data Processing, Hosting, and Related Services

Annual Dividend Rate: $3.16
Annual Dividend Yield: 1.77%

RATINGS HISTORY

Our rating for AUTOMATIC DATA PROCESSING has not changed since 1/22/2009. As of 1/23/2020, the stock was trading at a price of $177.83 which is 1.2% below its 52-week high of $179.89 and 34.1% above its 52-week low of $132.65.

VALENTATION

BUY. This stock’s P/E ratio indicates a significant discount compared to an average of 56.53 for the Data Processing, Hosting, and Related Services subsector and a premium compared to the S&P 500 average of 25.02. To use another comparison, its price-to-book ratio of 14.38 indicates a significant premium versus the S&P 500 average of 3.59 and a significant discount versus the subsector average of 18.54. The price-to-sales ratio is well above the S&P 500 average, but well below the subsector average. Upon assessment of these and other key valuation criteria, AUTOMATIC DATA PROCESSING proves to trade at a discount to investment alternatives.

Price/Earnings

- Discount. A lower P/E ratio than its peers can signify a less expensive stock or lower growth expectations.
- ADP is trading at a discount to its peers.

Price/Projected Earnings

- 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 discount to its peers.

Price/Book

- Discount. 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 discount to its peers.

Price/Sales

- 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 subsector on this measurement.

Price/CashFlow

- 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.

RATINGS DEFINITIONS & DISTRIBUTION OF THESTREET RATINGS

(as of 1/23/2020)

39.53% Buy - We believe that this stock has the opportunity to appreciate and produce a total return of more than 10% over the next 12 months.

32.65% Hold - We do not believe this stock offers conclusive evidence to warrant the purchase or sale of shares at this time and that its likelihood of positive total return is roughly in balance with the risk of loss.

27.82% Sell - We believe that this stock is likely to decline by more than 10% over the next 12 months, with the risk involved too great to compensate for any possible returns.

TheStreet Quant Ratings
14 Wall Street, 15th Floor
New York, NY 10005
www.thestreet.com

Research Contact: 212-321-5381
Sales Contact: 866-321-8726

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NAICS is the North American Industry Classification System which provides the Sector, Subsector, and Industry Group structure used in this report. As many companies are diversified, the companies may also operate in other industry segments than the one listed.