

Pershing Square's Response To ADP's September 12th Investor Presentation

September 25, 2017



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ADP's Response and "Transformation Plan" Are Arguments For The Status Quo And No Improvement

On September 12th, ADP responded to Pershing Square and released its "Transformation Plan," which:

1. Is an affirmation of the status quo

"[ADP's] rebuttal was, in our view, a confident, well-articulated, detailed, reiteration of the status quo for ADP, providing plenty of insightful incremental data points and disclosures, but no material change to the financial outlook for the company. ADP established three-year guidance for the first time, but the guidance was consistent with its already-disseminated FY18 guidance and long-term business model."⁽¹⁾ (Emphasis added)

- Lisa Ellis, Bernstein (Sep 13, 2017)

2. Fails to address critical deficiencies and the magnitude of the opportunity for improvement

3. Selectively focuses on certain, often incorrect, data points and ignores others to support ADP's case for the status quo

4. Attempts to discredit the messenger, rather than addressing the substance of the message

ADP's response is an attempt to deflect and distract attention away from the key question for shareholders – Is ADP achieving its full potential?

ADP's Response Misses The Point

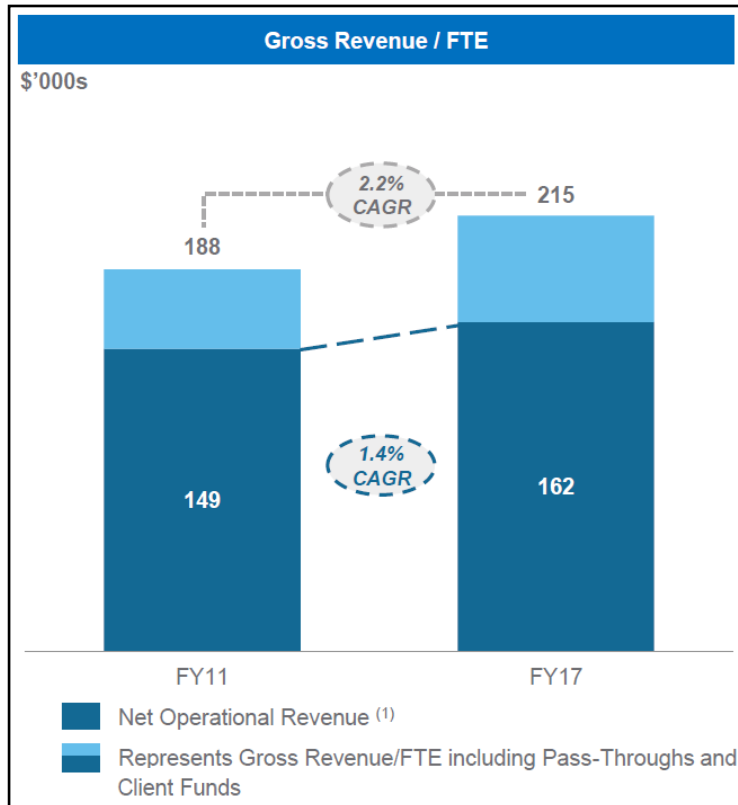
ADP's presentation qualitatively describes significant business progress underway across many work streams

Much of ADP's analysis, however, fails to address the substance of our arguments or the magnitude of the opportunity for improvement

ADP Highlights Relative Labor Productivity Gains

ADP Representation

“Investments in Technology and Service Are Yielding Productivity Gains”



Pershing Square Observations

The Bigger Picture Points Ignored by ADP

- ADP's net operational labor productivity of \$162k massively trails competitors' labor productivity metrics which average \$223k
- ADP's claimed ~1% labor productivity CAGR significantly trails PAYX's ~5% labor productivity CAGR over the same period

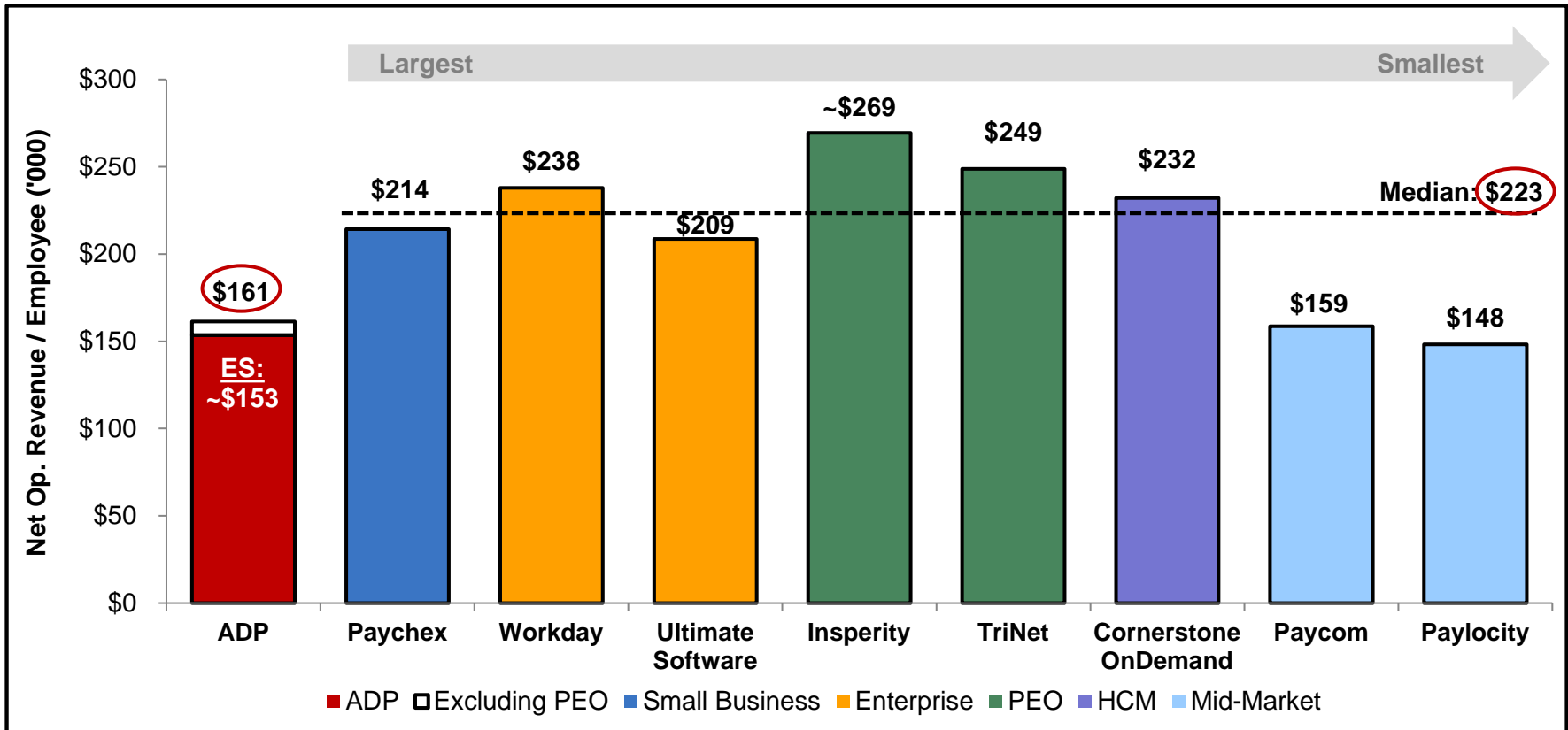
Additional Context

- As presented, ADP's ~1% labor productivity gains include the benefit of PEO mix-shift; Employer Services' labor productivity has actually declined
- ADP's productivity declined through the FY 2009-2010 recession period. By using FY 2011 as the starting point, ADP overstates productivity gains. When measured across the cycle (from FY 2009), productivity is essentially flat

ADP's Net Operational Revenue per employee of \$162k massively trails competitors' labor productivity which averages \$223k

ADP Labor Productivity Trails Competitors' Significantly – a Fact ADP Ignores Entirely

Net Operational Revenue per Employee⁽¹⁾



Why is ADP's labor productivity a fraction of its direct competitors' despite its significantly larger scale?

Note: Based on latest fiscal year end, as relevant. Note: Kronos produces operational revenue per employee of \$240k.

(1) Net operational revenue excludes float income ("Funds Held for Clients") and PEO Services pass-through costs (~\$2.6bn for ADP, estimated at \$165m for Paychex).

ADP Touts its Service Alignment Initiative

ADP Representation

“FACT: ADP proactively recognized the opportunity to streamline its corporate structure several years ago and launched its Service Alignment Initiative in FY16 in response

- To date, ADP has exited a net 29 service locations for a reduction of 1/3 in total service locations
- ADP expects to exit 68 service locations by the end of the Service Alignment Initiative”

Pershing Square Observations

- ▶ ADP quantified for the first time the benefit of its Service Alignment Initiative. However, the “0.5-1.5%” “operational” margin uplift targeted suggests little benefit from this initiative
 - Note that the stated uplift includes 20bps of duplicative costs depressing the starting base⁽¹⁾
- ▶ Why does a ~\$100m+ multi-year plan to close 68 disparate sub-scale service centers only deliver 30-120bps of normalized margin uplift?
- ▶ Why does the Service Alignment Initiative not increase labor efficiency due to the various initiatives management claims to have underway, such as product self-service?

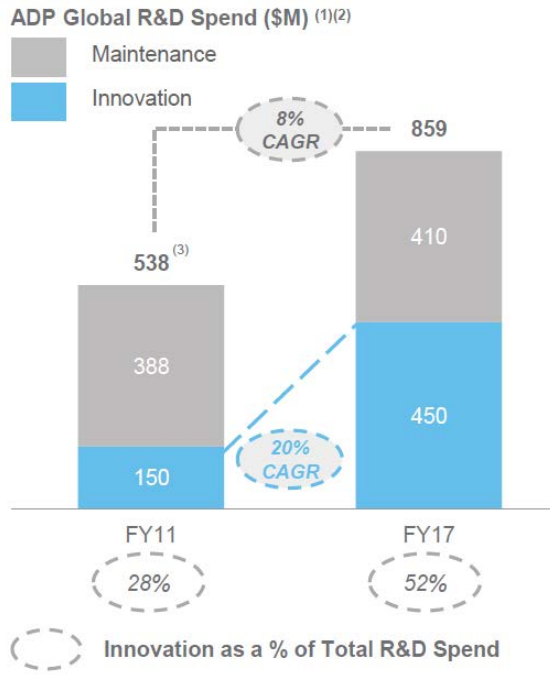
The Service Alignment Initiative is a good first step, but management is not capturing a large enough benefit from this initiative

(1) According to management commentary, stated 2017 margins include 20bps of expense from dual operations. (Source: Q4'2017 Earnings Call)

ADP Touts its Increased Innovation R&D Spend

ADP Representation

“We Have Increased Overall R&D Spend While Significantly Shifting Our Investment Towards Innovation”



Pershing Square Observations

Legacy Technology Spend Has *Increased* Since FY 2011

- ADP’s legacy technology expense has actually *increased* since FY 2011, despite ADP having “retired / divested 13 major legacy platforms”⁽¹⁾ over the same time period
- ADP’s *legacy* R&D spend alone is a multiple of most competitors *entire* technology budgets – e.g., Ultimate Software spent \$159m in total R&D in 2016

Increased spending on innovation R&D should be measured on a results-driven basis

- ADP notes ~1k of ADP’s associates in Innovation Labs
 - Represent only a small fraction (11%) of ~9k *total employees* in R&D and technology⁽²⁾
- What are the results of this spend? Why doesn’t ADP have world-class Enterprise HCM, Time & Attendance and other critical products? When will it deliver these products?

What is an appropriate level of legacy spend? Why is ADP not committing to reducing it? What is an appropriate timeframe for doing so?

(1) ADP Investor Presentation. September 12, 2017. Page 19.

(2) ADP’s CTO noted in an August 22, 2017 Forbes article that ADP has 9,000 people in Global Products and Technology including 6,000 focused on R&D and 3,000 on Infrastructure and Operations.

ADP Claims to be “Refreshing and Engaging” Talent

ADP Representation

“Refreshing and Engaging Talent:

- Infused external talent at all levels including ~30% of executive level hires
- Turned over >50% of executives in the last 5 years (only 1 in 4 were voluntary)
- Increased associate engagement survey results by +3 points year-over-year to near top-quartile”

Pershing Square Observations

- ▶ **None of ADP’s senior operating executives has worked at another company in the last decade, and their average tenure at ADP is ~20 years**
 - Limited, if any, outside perspectives in the senior executive ranks
 - CEO Carlos Rodriguez’s team consists almost entirely of executives who rose up through the ranks alongside him
- ▶ Many of ADP’s direct competitors rank among the best places to work in the country, according to prestigious lists such as the Fortune 100 Best Companies to Work For, while ADP is notably absent from this list
- ▶ ADP’s overall employee ratings and satisfaction metrics rank last or second-to-last among peers according to employee review website Glassdoor

If “refresh[ed] talent” is important, why is it not present in the senior leadership ranks? Wouldn’t outside perspectives be a valuable attribute to the executive management team? Why doesn’t ADP have best-in-class employee engagement?

ADP Defends its Track Record of Flat “Comparable” Client Counts in Enterprise

ADP Representation

“FACT: ADP’s total number of comparable up-market clients between FY09 and FY17 has remained largely consistent

- Today ADP serves approximately 3,000 HCM clients with more than 1,000 employees”

This is both misleading and ignores the more important point...

Pershing Square Observations

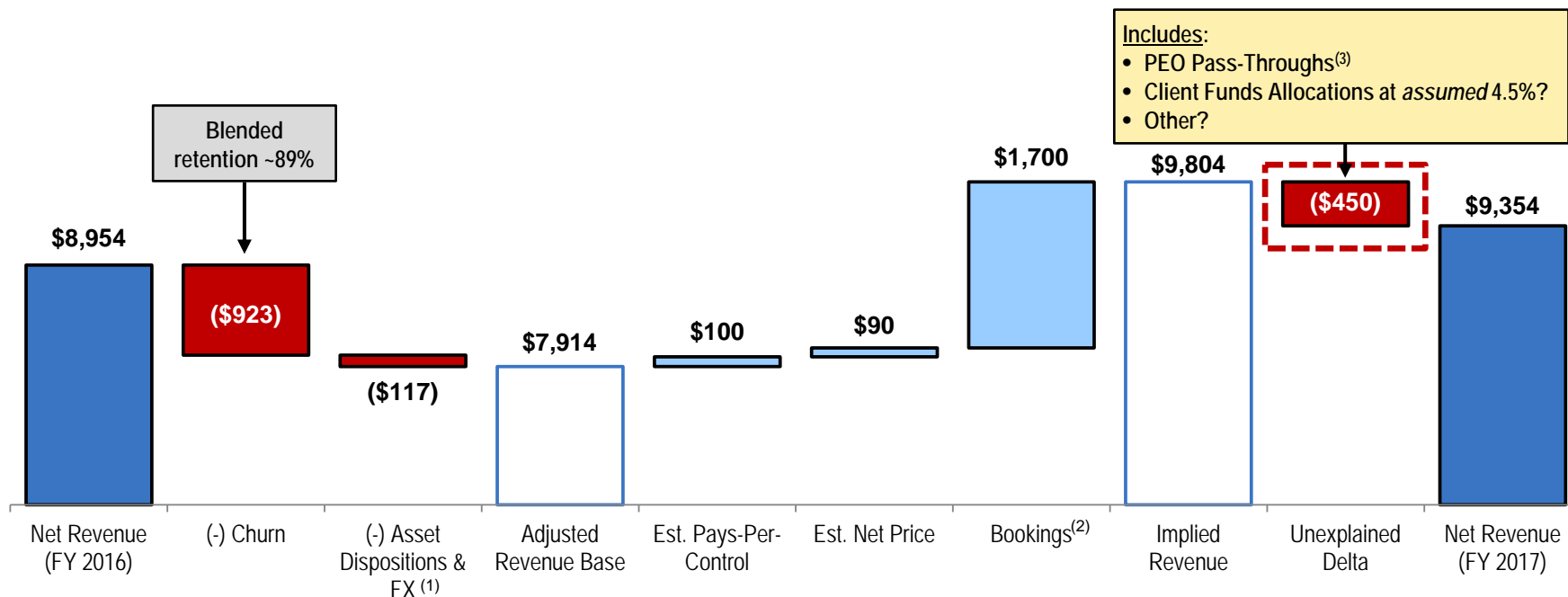
- ▶ ADP introduced a new metric – “comparable up-market clients” (the definition of which is undisclosed) – which it claims have been “largely consistent”
- ▶ Regardless of the Enterprise client count:
 - Absolute Enterprise **revenue** has declined ~10% since FY 2009, despite significant industry growth
 - Enterprise revenue has declined as a percent of ES revenue from ~30% in FY 2009 to ~20% today
 - While ADP’s total domestic client count has expanded ~20% since 2009, total domestic pays has only expanded ~8%⁽¹⁾ (against a positive economic backdrop of 2% pays-per-control CAGR) suggesting a negative client mix-shift due to Enterprise account losses
- ▶ **ADP often retains the payroll account while losing the HCM upsell to competitors – this is a poor long-term strategy**

Why is Enterprise revenue declining? Should ADP be praised for achieving “largely consistent” “comparable up-market clients” trends against a backdrop of significant industry growth? Why doesn’t ADP have a world-class Enterprise HCM product?

(1) ADP’s 2009 Analyst day notes 24m domestic pays (33m total pays minus 9m international pays). ADP’s 2017 10K notes 26m domestic pays.

ADP's Stated Bookings Do Not Reconcile with ADP's Illustrative Revenue Bridge

ADP's reported bookings don't reconcile with changes in annual revenue – we believe bookings include non-economic drivers



"[W]e are still having trouble reconciling the reported bookings dollars to the reported growth rates."
 - David Grossman, Stifel (Aug 28, 2017)

We believe there is non-economic revenue included in bookings – including, but not limited to, PEO pass-throughs and Client Funds interest allocations (at an assumed 4.5% rate) – ADP has been unwilling to explain this discrepancy

(1) ADP's 10K notes "Our revenues, as reported, increased 6% in fiscal 2017, which includes one percentage point of pressure from the net impact of acquisitions, the disposition of our CHSA and COBRA businesses and foreign currency translation."

(2) Average of FY 2016 and FY 2017 given the delay between bookings and billings.

(3) Estimate ~\$100m of workers compensation and SUI related pass-through bookings, based on sell side analyst commentary.

What is in ADP's Bookings?

ADP Representation

✗ **ADP Inflates New Business Bookings by Including Zero Margin Pass-Throughs**

FACT: ADP has never stated that new business bookings included zero-margin pass-throughs

- ✓ ADP has grown new business bookings while driving efficiencies through more inbound sales
- ✓ ADP saw \$1.65B in new business bookings in FY17

Pershing Square Observations

- ▶ **ADP's reported Bookings – a non-GAAP, undefined metric – does not tie with ADP's revenue bridge**
- ▶ **Pershing Square originally highlighted that bookings likely included some or all PEO pass-throughs. ADP management publically disagreed with our claim:**

"CNBC (August 21, 2017): "[O]n our new business bookings number, apparently [Pershing Square has] come to the conclusion that we somehow included the pass-throughs of our PEO business in the bookings results, which is not accurate."

- Mr. Rodriguez, CEO (Aug 21, 2017)

- ▶ **ADP has now confirmed that bookings include at least some PEO pass-through revenue.⁽¹⁾ ADP is now distinguishing between "zero-margin pass-throughs" and pass-throughs where ADP earns a nominal margin (ostensibly workers compensation and State Unemployment Insurance ("SUI"))⁽¹⁾**

What other non-economic revenue is included in bookings? Why doesn't it tie to revenue?

- **Is it Client Funds interest? If so, at 1.7% or 4.5%?**
- **Client Funds allocations in segment revenue have a direct corporate offset; bookings as presented would not**

(1) Estimate ~\$100m of workers compensation and SUI related pass-through bookings, based on sell side analyst commentary.

ADP Defends Its Sales Productivity But Excludes FY 2017 In Its Calculation; ADP Trails All Competitors

ADP Representation

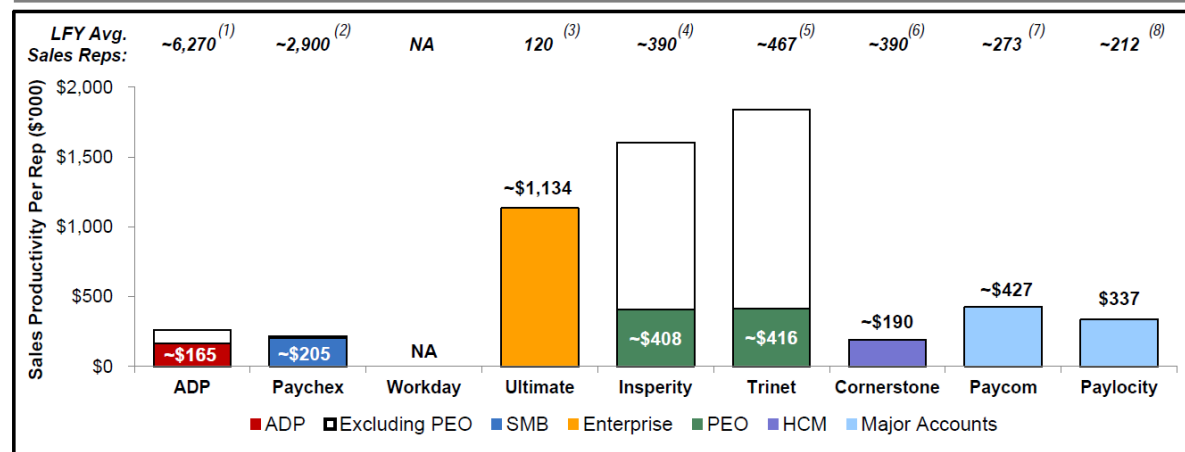
“Optimizing Distribution:

- ✓ New business bookings growth from \$1.1B in FY11 to \$1.65B in FY17
- ✓ Overall sales productivity increase of 27% from FY11 to FY16; invested heavily in Inside Sales in FY17 for future growth”

Pershing Square Observations

- ▶ Measuring productivity through FY 2016 presents an incomplete picture as 2016 was inflated by ACA-related activity, and ignores productivity declines in FY 2017/18
- ▶ Reported bookings include non-economic bookings, overstating salesforce productivity
- ▶ **ADP’s salesforce productivity trails competitors (even on management’s headline bookings numbers), as shown in our original presentation, a fact ADP does not address:**

Estimated Sales Force Productivity Per Quota-Carrying Sales Rep (\$'000)



Why does ADP’s salesforce productivity significantly trail competitors? What are ADP’s actual economic bookings (exclusive of pass-throughs and fictitious allocations)?

ADP's Margin Comparisons are Misleading

ADP Representation

**“Is Pershing Square Looking at the Right Margin?
ADP Margin Comparisons for Most Recent Fiscal Year”**

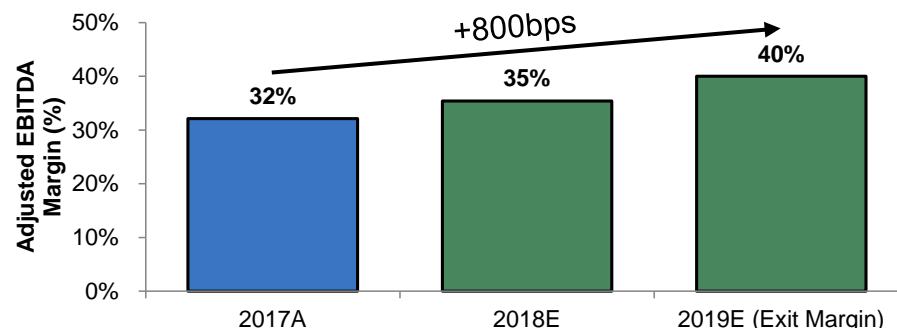
(\$M)	ADP	CDK ⁽¹⁾
Fiscal Year-end	June 2017	June 2017
Total Revenue	12,379.8	2,220.2
Pass-Throughs	2,628.4	-
Revenue w/o Pass-throughs	9,751.4	2,220.2
GAAP Net Earnings including Noncontrolling Interest	1,733.4	302.8
Net Earnings Margin / Total Revenue	14.0%	13.6%
Net Earnings Margin / Revenue w/o Pass-Throughs	17.8%	13.6%
Income Taxes	797.7	132.8
Net Interest Expense	36.9	57.2
(Gain) on Sale of a Business	(205.4)	-
One-time Restructuring	85.0	18.4
Total EBIT Adjustments	714.2	208.4
Adjusted EBIT (as defined by ADP)	2,447.6	510.9
Adjusted EBIT Margin / Total Revenue	19.8%	23.0%
Adjusted EBIT Margin / Revenue w/o Pass-Throughs	25.1%	23.0%
Depreciation & Amortization	316.1	70.3
Stock Compensation	138.9	55.4
Transformation / Other	47.7	77.0
Additional EBITDA Adjustments	602.7	202.7
Adjusted EBITDA	2,950.3	713.6
Adjusted EBITDA Margin / Revenue w/o Pass-Throughs	30.3%	32.1%

Most Recent Fiscal Year Comments

- ~+6% ES client growth
- ~+9% DMSNA avg. client revenue
- ~ -1% DMSNA client decline

Pershing Square Observations

- ▶ ADP attacks our CDK case study based on the non-sequitur that CDK's Adjusted EBITDA adds back both stock-based compensation and restructuring charges
- ▶ If the goal of the comparison (at left) between ADP's and CDK's Adjusted EBITDA margins is to make the point that they are similar today (on an absolute basis), it is relevant to note that CDK's margins are projected to expand by an additional ~800bps over the next 2 years



CDK Global: “Remain committed to achieving target FY18 adjusted EBITDA margin of 35% and FY19 adjusted EBITDA exit margin of 40%” (FY Q3 2017)

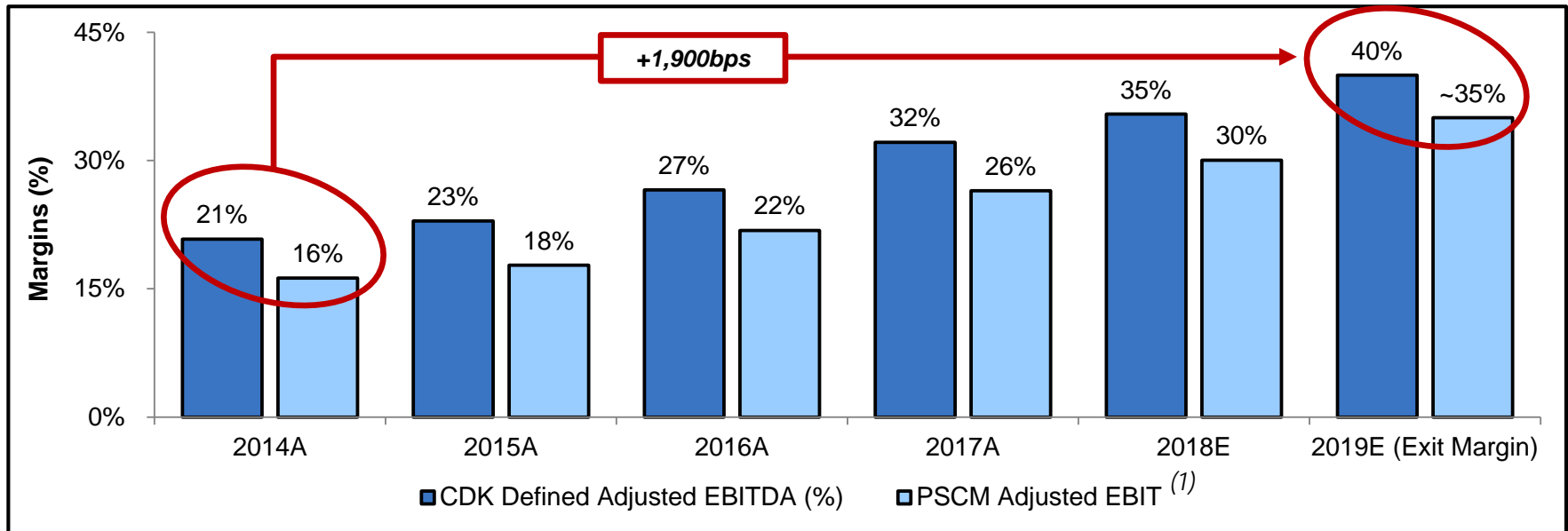
That being said...this misses the point of the CDK case study altogether

ADP Attempts to Obfuscate the CDK Case Study – Any Way You Cut It, CDK’s Performance Lagged Under ADP

ADP’s comparison misses the point:

Whether looked at on an Adjusted EBITDA or Adjusted EBIT margin basis, CDK’s margins increased massively after it was disposed of by ADP. CDK’s underperformance under ADP and massive outperformance after spinoff is an indictment of ADP’s current management’s and board’s oversight and execution

CDK Global Margins Over Time (%)



(1) Adjusted margins expensed stock-based compensation and D&A. 2014 EBIT adjusted to expense \$16.8m of incremental costs associated with the formation of corporate departments as a stand-alone public company. These costs were incurred in fiscal 2016 and have been reflected as adjustments in fiscal 2014 to present these periods on a comparable basis.

You Can't Have it Both Ways: ADP's Usage of Select Data Points is Misleading

ADP: "Compounded annual revenue growth of 7% over the last 5 years, with 580bps increase in net operational margins"

Our Strategy is Delivering Clear and Consistent Results

7%

compound annual
revenue growth
since FY 2011

580

basis points increase in
margins in core operations
since FY 2011

Revenue Growth Calculated GROSS of PEO Pass-Throughs:

- ▶ Growth rate overstated relative to true net economic revenue growth

When presented this way, the following statement is true...

- ▶ Compounded annual revenue growth of **7.3%** over the last **6 years**, with **380bps** increase in operational margins (ex-float)

Margins Calculated NET of PEO Pass-Throughs:

- ▶ The exclusion of pass-throughs increases stated margin expansion

When presented this way, the following statement is true...

- ▶ Compounded annual revenue growth of **5.8%** over the last **6 years**, with **580bps** increase in net operational margins (ex-float, ex pass-throughs)

ADP picks and chooses inconsistent data points to generate misleading and intellectually dishonest conclusions

(1) Revenue growth includes PEO pass-throughs while stated margin expansion excludes pass-through, effectively inflating the stated true economic revenue growth. Gains achieved over a 6 year period (FY 2011 through FY 2017), not 5 years.

ADP's "Transformation Plan":
Shareholders Should Demand More

ADP's "Transformation Plan" Delivers No Meaningful Improvement – Shareholders Should Demand More

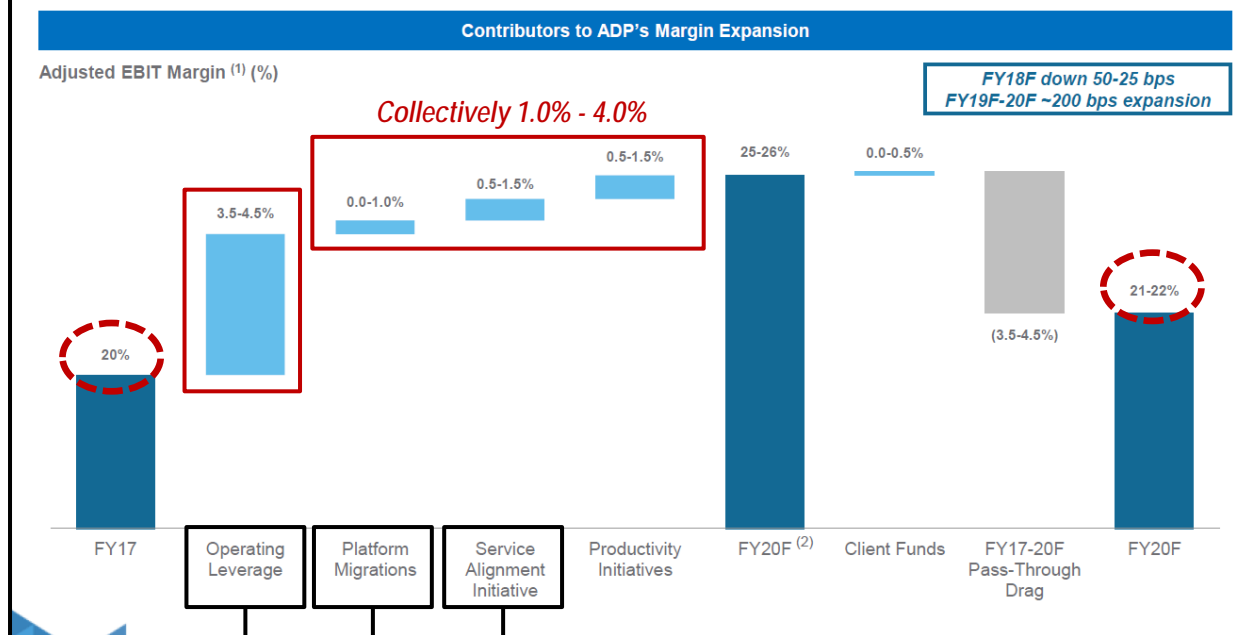
Observations

- ▶ Management's commitment to ~200bps of margin expansion over 3 years is slightly below to in-line with the Company's long-term plan
- ▶ ~75% of the stated ~500bps of "Operational Margin Expansion" is coming from variables outside of management's control
- ▶ Some fraction of ADP's termed "Operating Leverage" directly nets out against the "Pass-Through Drag" bucket
- ▶ Targeted margin expansion is extremely limited and entirely inconsistent with management's own qualitative assessment of their "progress"

ADP's "Transformation Plan"

We Expect Margin Expansion of ~200 bps From FY17-FY20F

Operational Margin Expansion of ~500 bps From FY17-FY20F



Not true like-for-like operating leverage: Includes both PEO mix-shift and the mathematical impact of stripping out pass-through revenue

Includes ~20bps of "dual operations" expense already embedded in the FY17 starting base

Inconsistent with ADP's assertion that SMB margins doubled post-migration and "Small Business Market Transformation" and ADP's claim that the Company "Anticipate[s] Similar Benefits in Mid- and Up-Markets"

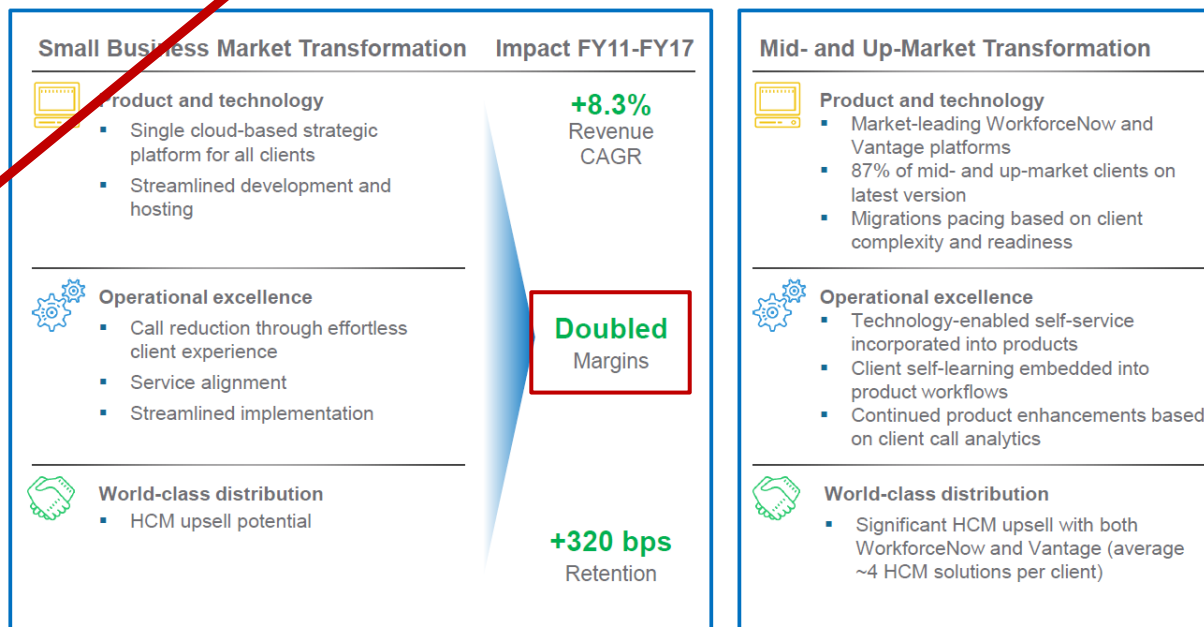
The Numbers Don't Add Up With Management's Plan

Observations

- ▶ ADP claims to have **doubled** SMB margins while growing the topline 8% and improving retention by 320bps
- ▶ The company notes they “Anticipate Similar Benefits in Mid- and Up-Markets”
- ▶ Yet, ADP’s Plan reflects *de minimus* anticipated benefits from platform migrations, most notably in the Mid-market, in its projections

ADP’s Self-Described SMB Transformation

1 We Have Proven Our Ability to Transform in the Small Business Market and Anticipate Similar Benefits in Mid- and Up-Markets



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ADP is Not Delivering Sufficient Benefits From Platform Migrations

Why is management not committing to margin improvement from platform migrations?

- For years, ADP has been highlighting efficiency opportunities post-migrations:

Carlos Rodriguez, ADP President & CEO

“But what's not so obvious and was the gist of the question, which is a great one is, I believe that the biggest leverage of this kind of simplification of our rationalization of platform is on the back office, the service costs, training costs, the frictional cost of selling... So we believe, based on some experience on conversions or migrations that we've already done, that there is a lot of potential operating leverage, not necessarily in the R&D side, but more on the operating costs side.”

Bernstein Strategic Decisions Conference, May 29, 2013

- ADP is set to complete Workforce Now platform migrations in the mid-market later this year, representing ~\$3bn+ of revenue
- Despite this, ADP's margin expansion bridge identifies a mere 0.0-1.0% margin uplift from the current base through FY 2020 from “Platform Migrations”

Management should be held accountable to deliver margin expansion from platform migrations which, based on the company's own statements, is clearly available to be captured

ADP's Long-Term Plan Claims ~500bps of Margin Expansion, Yet Its Plan Implies Only ~300bps

ADP's Claim

Reality

“Operational Margin Expansion of ~500 bps From FY17-FY20F”



- ✗ ADP claims to generate ~500bps of operational margin expansion from FY17 through FY20, but that's not true

ADP's current plan calls for ~300bps of net operational margin expansion

- ✗ ADP's cadence of operational margin expansion (300bps over 3 years) is consistent with its historical results
- ✗ ~30% of the total net margin improvement is driven by PEO mix-shift, NOT underlying Employer Service margin expansion

“ADP's margin guidance appears to only anticipate ~200bps expansion in employer services (the rest from the PEO), which we view as low... We believe there is sufficient evidence to suggest some additional margin expansion in employer services is likely doable.”

- Lisa Ellis, Bernstein (Sep 19, 2017)

- ✗ Projected Employer Services flow-through margins of ~34% are largely consistent with historical results, *despite the inclusion of ongoing productivity initiatives (Service Alignment Initiative, platform migrations, etc.)*

On the next page, we deconstruct ADP's transformation plan

Deconstructing ADP's Long-Term Operating Plan

ADP's Long Term Plan

	ADP Method (Pg.60)		ADP Long-Term Plan (Pg.35)		Change	
	FY 2011	FY 2017	FY 2020	'17-20 CAGR	2011 - 2017	2017 - 2020
Revenue	\$8,265	\$12,380	\$15,500	7.8%		
(-) PEO Pass-Through	(1,182)	(2,628)	(3,793)	13.0%		
(-) Client Funds Interest	(540)	(397)	(530)	10.1%		
Net Operational Revenue	\$6,543	\$9,354	\$11,177	6.1%		
<i>of which, Employer Services</i>	\$6,191	\$8,518	\$9,971	5.4%		
<i>of which, PEO</i>	\$352	\$836	\$1,206	13.0%		
Adjusted EBIT	\$1,638	\$2,448	\$3,333	10.8%		
(-) Client Funds Interest Revenue	(540)	(397)	(530)	10.1%		
(-) Corporate Extended, Net	(68)	(34)	(53)	16.4%		
Net Operational Profit	\$1,030	\$2,017	\$2,750	10.9%		
<i>of which, Employer Services</i>	\$920	\$1,617	\$2,109			
<i>of which, PEO</i>	\$110	\$400	\$641			
Margins (%)						
Reported (%)	19.8%	19.8%	21.5%		(0.05%)	1.73%
Net Operational Margin (%)	15.7%	21.6%	24.6%		5.81%	3.04%
Employer Services, Ex-Float (%)	14.9%	19.0%	21.1%		4.11%	2.17%
Flow-Through Margin (%)						
<i>Employer Services</i>		29.9%	33.9%			
<i>PEO</i>		59.9%	65.0%			

~300bps of net operational margin expansion

ES margins expanding only ~220bps

Note: Blue boxes represent mid-point of ADP's long-term plan. Green boxes represent PSCM assumptions. Red boxes denote a highlighted output.

Why is ADP Unwilling to Achieve its True Potential?

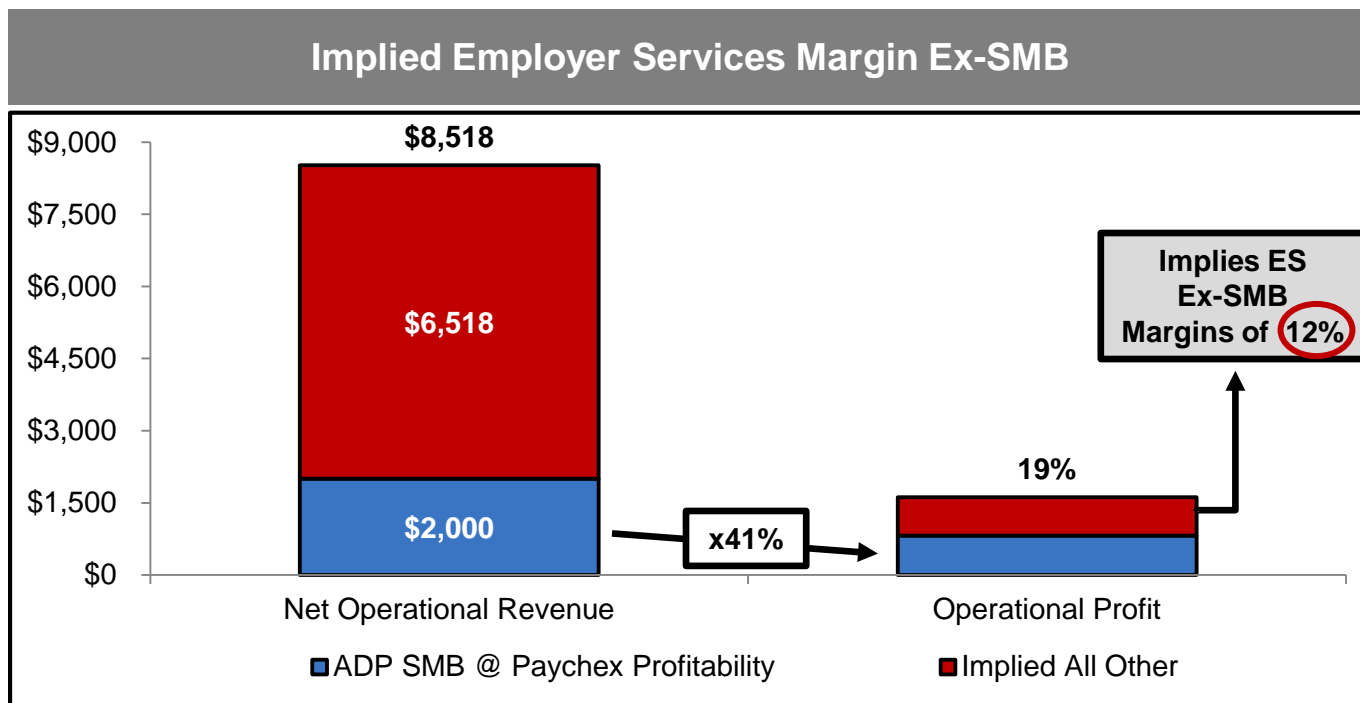
Current initiatives should be paired with a more comprehensive plan to achieve ADP's full structural potential

- ▶ **ADP has additional opportunities to improve performance, including:**
 - Corporate restructuring / reducing legacy silos / spans-and-layers
 - Design products for self-sufficiency; restructure support organization, reduce labor intensity
 - Implementation automation
 - Back-end technology improvements
 - Reduced spending on legacy platforms
 - Technology and innovation leadership

While ADP claims to have some elements of these workstreams underway, while entirely ignoring others, the company has made no commitment to deliver on the margin improvement these changes should drive

ADP has Refused to Disclose its ES Sub-Segment Margins

- ▶ **ADP directly competes with Paychex, mostly in SMB**
- ▶ **If ADP's ~\$2bn SMB business had Paychex's ~41% SMB margin,⁽¹⁾ it would achieve ~\$820mm of operating profit from this sub-segment alone. This would imply the rest of the Employer Services business earns only ~12% operating margins on \$6.5bn of revenue**



(1) Excludes float income. Paychex margins exclude pass-through costs. ADP's ~19% margins allocate corporate overhead as a percent of net operational revenue.

Management's Explanation Is Not Credible

ADP Representation

- ▶ ADP management appears to have recently commented on SMB margin comparisons to Paychex:

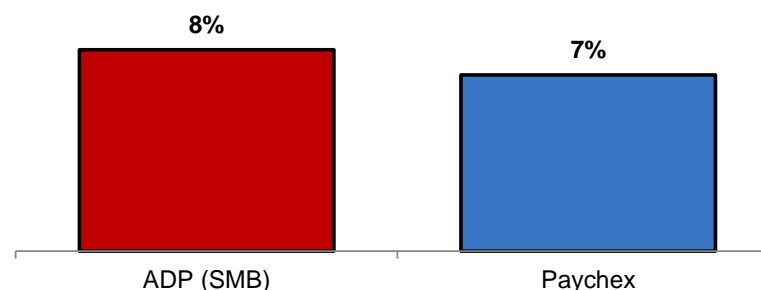
“Management noted that its margins in the down market are below its competitor Paychex, but after normalizing for ADP’s faster down-market growth and higher sales costs as a result of that growth, both ADP and [Paychex’s] margins are similar.”

**- Darrin Peller, Barclays
(Sep 19, 2017)**

Pershing Square Observations

1. The delta in growth rate between ADP SMB and Paychex is not meaningful enough to explain a significant margin differential in SMB, and should be more than offset by ADP’s higher retention

FY11 – FY17 Operational Revenue Growth (%)



2. The fact that growth suppresses HCM margins is a point we made in our original presentation (pp.68-70). ADP should have *high absolute margins* in the Mid- and Up-Market given their slow growth. These segment margins should also be *much higher* than those of rapidly growing peers (e.g., Paylocity, Paycom, Ultimate)

ADP’s explanation for its lower margin in its SMB business is not credible. However, ADP’s slow growth in the Mid- and Up-Market should drive high absolute margins in these segments, which should be substantially above those of rapidly growing peers, an argument which supports our sub-segment benchmarking of ADP’s potential

Illustrative Margin Opportunity by Sub-Segment

- ▶ We believe the majority of the near- to medium-term earnings increase in Employer Services will be driven by SMB, Mid-Market, and International
- ▶ Most of this margin expansion will be driven by basic operational efficiency

Illustrative Margin Bridge by Sub-Segment

	Estimated % of Revenue	Estimated Current Margin (%) ⁽²⁾	Illustrative Structural Margin Potential (%)	Contribution (bps)	% of Total Uplift
<i>Employer Services</i>					
Small Business	~25% ⁽¹⁾	30% ⁽³⁾	40%	250	15%
Mid-Market	~35%	20%	40%	699	43%
Enterprise	~20%	~8%	28%	400	25%
International	~20%	14% ⁽⁴⁾	28%	273	17%
Employer Services (Operational)	100%	19%	35%	1,622	100%
Clients Funds Income		100%	100%		
Employer Services		23%	39%		

- ▶ Much of the revenue in Enterprise may be eligible for migration to Workforce Now which would accelerate the Enterprise-related margin increases

(1) ADP management has indicated SMB is approximately ~20% of ES revenue. We estimate this is likely closer to 25% of ES revenue.
 (2) SMB and Enterprise margins estimated by PSCM. International based on 10-K disclosure (notably, adjusted to exclude an estimated \$40m of float income). Mid-Market margins back-solved based on the blended ~19% operational margins.
 (3) ADP CEO Carlos Rodriguez recently commented that ADP's SMB margins are "very close" to Paychex. (Source: CNBC, August 21, 2017) We suspect that likely does not compare ADP SMB on a like-for-like basis (excluding float, allocating corporate overhead), *but if it did*, it would suggest ADP is massively under-earning in the mid-market business.
 (4) Based on SEC Form 10-K disclosure, adjusted to exclude an estimated ~\$40m of float-income.

ADP Failed to Address the Following Questions:

1. What are ADP's margins by sub-segment?
2. Is ADP earning comparable margins to Paychex in its SMB segment?
3. Why is ADP's absolute labor productivity so much lower than peers?
4. Why do ADP's gross margins trail peers so significantly?
5. Is ADP's sprawling corporate footprint appropriate? (e.g. 6 corporate headquarters, etc.)
6. Does ADP's business structure (aligned around underlying client size) make sense for ADP's clients? What is the cost of this decision (in the form of siloed and duplicative service and support functions)?
7. What is the current roadmap for Enterprise migrations? What is the timeline and what are the milestones shareholders should use to evaluate management success?
8. Why were Solera and CDK able to effectively double margins within ~4-5 years of spinning out from ADP but ADP never captured this opportunity?

ADP's failure to address or acknowledge many of our arguments demonstrates a lack of commitment to a true "transformation"

- ✘ ADP's response fails to address the substance of our arguments
- ✘ ADP is fundamentally underperforming its potential and has an enormous margin improvement opportunity
- ✘ ADP's board and management either (i) don't recognize the magnitude of the opportunity, or (ii) are unwilling or unable to take the steps necessary to realize ADP's full potential

Analysts Recognize ADP is Underperforming its Potential and that Margins Can Be Expanded

“ADP gross margins are noticeably lower than peer [Paychex] and the software providers despite the company's significant scale. In addition, despite the comparison issues such as inclusion of pass through revenues, greater international exposure (higher growth/lower margins), and revenue mix, we believe the company has significant opportunity to expand margins... we agree that there are significant margin expansion opportunities and expect the activist involvement to potentially help drive greater focus on improving the Employer Services margins going forward.”

– Bryan Keane, Deutsche Bank (Sep 5, 2017)

“We believe there is likely a valid case for accelerated margin expansion at ADP, and there is merit in Pershing challenging the rate and pace at which ADP is driving efficiency in service delivery and addressing its legacy platforms. There is a 10-15 [percentage point] delta between ADP and competitor margins which cannot be easily explained by structural differences, ADP's business is more labor-intensive than peers, and examples exist (e.g., CDK) of successful margin expansion after spinning out of ADP.”

– Lisa Ellis, Bernstein (Aug 31, 2017)

“We agreed with many of the points highlighted by Pershing... There is an opportunity to further improve margins. ADP's revenue [per] employee lags competitors reflecting multiple platforms and redundant service centers.”

– Mark Marcon, Baird (Aug 18, 2017)

“[Pershing Square] did break out a number of analytically sound points that can add up to a sizeable benefit. We particularly liked the points on the level of support (vs. service); product sprawl; siloed / unnecessarily complex organization and duplication. Our own checks suggest this may be true... ADP has been managed for risk-averse multi-year gain, it is appropriate to ask these tough questions and expect an answer on the likelihood of setting an aggressive target and trying to deliver on it.”

– Ashwin Shirvaikar, Citi (Aug 17, 2017)

ADP's TSR is Overstated and its
Performance Trails its *Actual* Peers

ADP Claims to Have Generated a 203% TSR...

ADP uses a purported 203% TSR over CEO Carlos Rodriguez's tenure as a centerpiece of its activist defense campaign, and claims to be outperforming its "HCM-related" peers

ADP Investor Presentation

"ADP's Leadership has Delivered Results

- 203% Total Shareholder Return (TSR) under Carlos Rodriguez, significantly outperforming the S&P 500 and peers"

ADP Shareholder Letter

Your Strong and Independent Board Will Work to Continue ADP's Outstanding Track Record of Shareholder Value Creation

ADP's TSR has consistently outperformed the market. For example, since your Board appointed Carlos Rodriguez as CEO nearly six years ago, ADP has generated TSR of 203%, compared to the S&P 500 at 128% and our human capital management (HCM) peer companies at 153%. ADP also has outperformed the S&P 500 over one-, three-, five-, and 10-year periods.



Sources: Bloomberg, Capital IQ. ¹Assumes ADP's 7/27/17 intraday price of \$111.65 as of 12:00PM, which is the assumed ADP "unaffected" price; assumes shareholders have held their CDK shares since it was spun off from ADP on October 1, 2014 and all ADP and CDK dividends have been reinvested on the ex-dividend date. ²Market data as of close on 7/26/17 results in 175% TSR (excludes CDK reinvestment). ³ADP does not have a direct competitor set. The peer set of HCM-Related Players reflects the broadest set of firms that either solely or partially compete in the HCM landscape ranging from early stage companies with narrow product sets to large cap software companies; market capitalization weighted: Benefitfocus; Cornerstone OnDemand; IBM; Insperty; Intuit; Microsoft; Oracle; Paychex; Paycom; Paylocity; SAP; The Sage Group; TriNet; Ultimate; Workday ⁴Market data as of close on 7/26/17.

...But ADP's Purported 203% TSR is Misleading

ADP has generated a 141% TSR when measured correctly⁽¹⁾

ADP's purported 203% TSR calculation is misleading:

Boost to TSR

- ▶ **Wrong Start Date:** Uses the day after Carlos Rodriguez became CEO as the start date of the TSR calculation, which boosts the TSR by 10 percentage points as the stock declined 3.9% on the day of the new CEO announcement from \$52.85 to \$50.79

+10ppts

- ▶ **Does Not Use the Unaffected Price:** Uses an inflated intraday 12:00pm July 27th share price of \$111.65, due to Pershing Square's rapid accumulation of ADP shares and market rumors of our investment, rather than the unaffected price of ~\$97.08

+41ppts

- ▶ **Includes CDK Outperformance:** Includes the performance of CDK – after it was spun off by ADP – which is inconsistent with the methodology used in ADP's own SEC filings. ADP's board and management deserve no credit for CDK's post-spinoff performance which was boosted by activist investors and CDK's decision to pursue a transformation plan. The correct TSR calculation assumes a sale of the CDK shares on the day of spinoff and reinvestment of the proceeds in ADP's stock

+12ppts

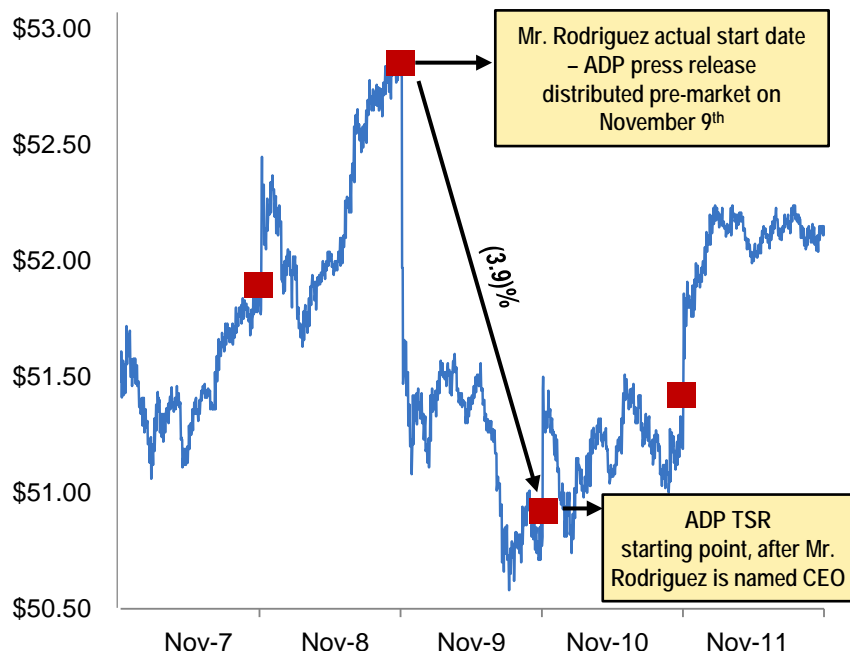
ADP also uses a distorted peer group to assert its "outperformance"

ADP's Purported 203% TSR: Wrong Start Date, Boosting ADP's Reported TSR by 10ppts

ADP TSR Calculation

Page 5, footnote 2: "ADP TSR of 203% is from **close of 11/9/2011** to intraday 7/27/2017..."

ADP Share Price (Week of Nov 7, 2011)



Mr. Rodriguez's Actual Start Date

Mr. Rodriguez's Employment Agreement

Mr. Rodriguez's Employment Agreement

Mr. Rodriguez entered into an employment agreement with the company on December 14, 2011. Mr. Rodriguez's employment agreement provides for a three year term that begins November 8, 2011 and expires November 7, 2014. The employment agreement provides Mr. Rodriguez with an annual

Form 8-K (November 8, 2011)

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

(c) On November 8, 2011, the Company's Board of Directors promoted Carlos A. Rodriguez, the Company's President and Chief Operating Officer, to President and Chief Executive Officer."

Announced Pre-market on November 9th

11/09/2011 07:46:01 [PZM]

7:46AM

Carlos A. Rodriguez Promoted to CEO of ADP

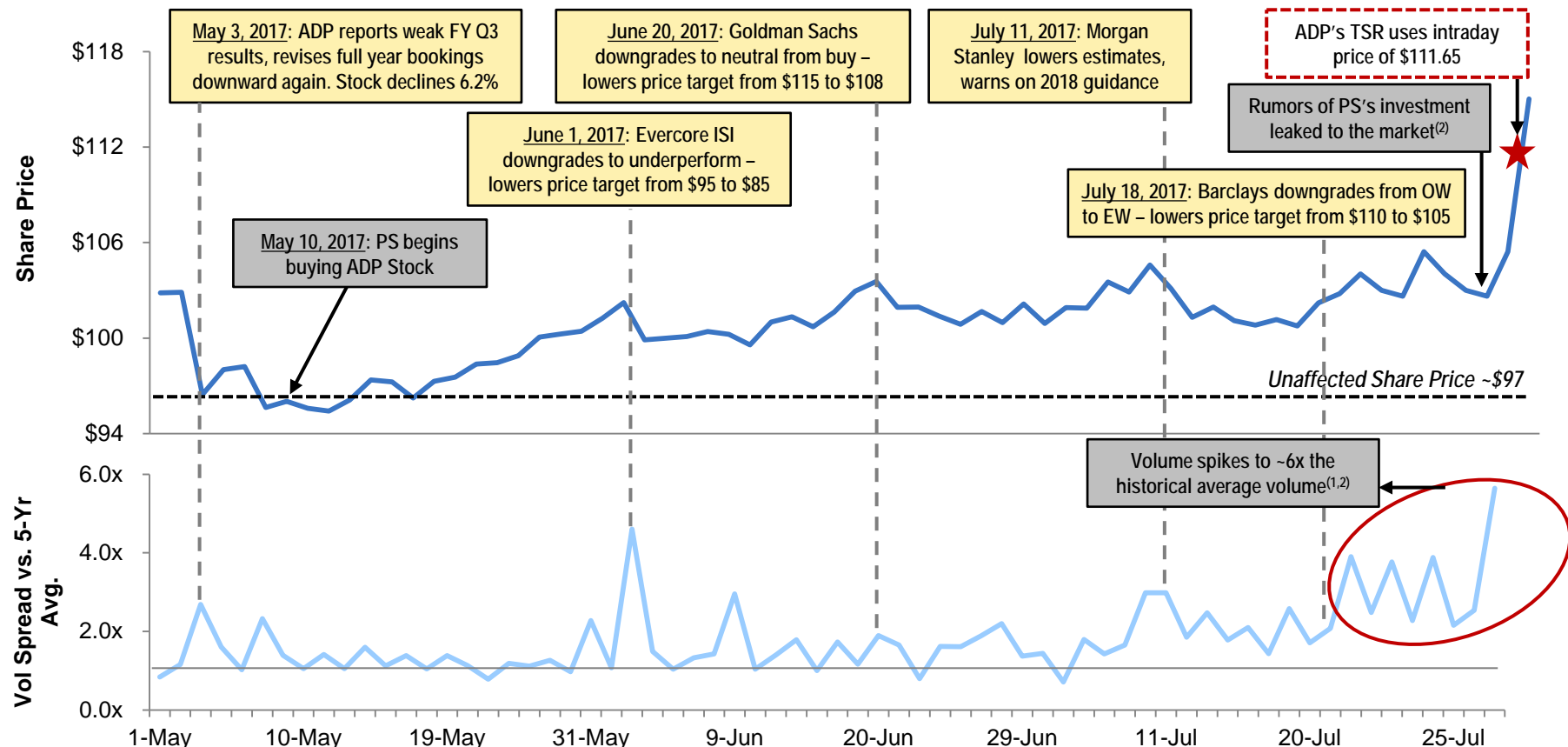
Experienced Leader and Operator Succeeds Gary Butler

ROSELAND, N.J., Nov. 9, 2011 (GLOBE NEWSWIRE) -- Automatic Data Processing, Inc. (Nasdaq:ADP) today announced that its Board of Directors has promoted Carlos A. Rodriguez, the Company's President and Chief Operating Officer, to President and Chief Executive Officer and has elected him to the ADP Board of

ADP TSR calculation uses the November 9th closing price, the day after Mr. Rodriguez was named CEO, which boosts ADP's reported TSR by 10ppts

ADP's Purported 203% TSR: Includes Increase in Share Price Due to Pershing Square's Rapid Accumulation & Market Rumors, Boosting ADP's Reported TSR by 41ppts

ADP Share Price & Spread in Share Volume vs. Prior 5 Year Avg. Daily Volume



Pershing Square's and our hedging counter party's purchases from May 10th to July 27th intraday at 12:00pm represented ~13% of total ADP volume traded during that period, and 28% of July 27th volume⁽³⁾

- (1) Historical average based on the average of the prior 5 years' trading volume, aligned backward around FY Q4 earnings for proper comparability. (Source: Bloomberg)
- (2) Our investment in ADP was definitively leaked to the market on or before July 25th - we were contacted by a media outlet on July 25th requesting confirmation of our investment.
- (3) In determining Pershing Square's volume, we assume that all derivatives purchased (or sold, respectively) by Pershing Square resulted in a hypothetical delta-equivalent purchase (or sale, respectively) of common stock in the marketplace.

ADP's Purported 203% TSR: Includes Increase in Share Price Due to Pershing Square's Rapid Accumulation & Market Rumors, Boosting ADP's Reported TSR by 41ppts (cont'd.)

- ▶ **On May 3th, pre-market, ADP released weak FY 2017 Q3 results, which included a reduction in FY guidance and bookings, causing ADP's stock to decline by 6% from \$104.01 to \$97.51**

- ▶ **Pershing Square begins its rapid accumulation of ADP stock on May 10th. The stock closed at \$97.08 on the previous day (May 9th)**

- ▶ **From May 10th to July 27th Intraday at 12:00pm:**
 - No material news about the Company is released by ADP
 - ADP's stock is downgraded by 3 analysts, with 0 upgrades
 - On July 27th, pre-market, ADP releases FY Q4 2017 earnings and FY 2018 guidance, which calls for FY 2018 EPS which are 4% below consensus

- ▶ **Meanwhile, Pershing Square acquires a substantial ownership stake in ADP**
 - May 10th to July 27th at noon: Pershing Square's and our hedging counterparty's purchases represented ~13% of total ADP volume traded during that period, and 28% of July 27th volume ⁽¹⁾
 - Aggregate volume over this period was ~2x historical levels ⁽²⁾
 - Late July: Pershing Square's investment in ADP leaks to the market, causing ADP's share price to spike with trading volume ~2x to 6x historical levels ^(2,3)

(1) In determining Pershing Square's volume, we assume that all derivatives purchased (or sold, respectively) by Pershing Square resulted in a hypothetical delta-equivalent purchase (or sale, respectively) of common stock in the marketplace.

(2) Historical average based on the average of the prior 5 years' trading volume, aligned backward around FY Q4 earnings for proper comparability. (Source: Bloomberg)

(3) Our investment in ADP was definitively leaked to the market on or before July 25th - we were contacted by a media outlet on July 25th requesting confirmation of our investment.

Analysts Agree That ~\$97 is The Unaffected Price

- ▶ **Pershing Square's TSR analysis for ADP assumes an unaffected stock price of \$97, ADP's closing price as of May 9th, prior to Pershing Square's rapid accumulation of ADP shares and rumors of our investment in ADP**
- ▶ **Analyst commentary confirms an unaffected price in the \$94-100 range (mid-point ~\$97):**

"Prior to the recent developments between ADP and activist investor Bill Ackman of Pershing Square, many investors believed in a \$95- \$100 outcome for ADP (as did we, with our prior \$98 target)... "

- Ashwin Shirvaikar, Citi (Aug 16, 2017)

"Using ADP's historical premium to the S&P, the stock would trade at \$94-\$100, or 6-12% below current levels [if shareholders and the Board completely reject Pershing Square's proposals.]"

- David Grossman, Stifel (Sep 12, 2017)

"[W]e get asked all the time, how much of Ackman is in the stock? We think it's probably about 7-8% right now. We'd expect the stock would probably be trading down around \$100 if Pershing had not gotten involved."

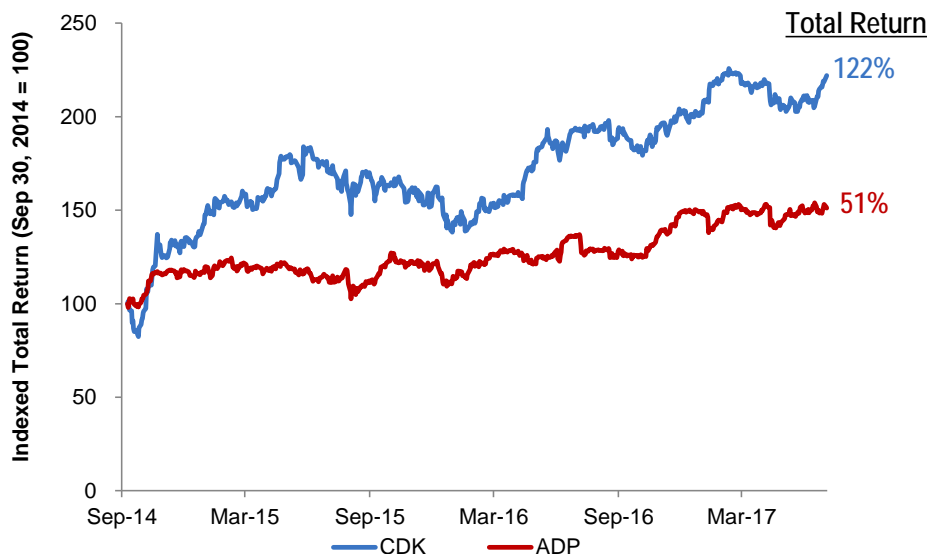
- Lisa Ellis, Bernstein (Sep 19, 2017)

ADP's TSR calculation uses a Pershing Square-inflated stock price of \$111.65, which boosts ADP's reported TSR by 41ppts

ADP's Purported 203% TSR: Includes CDK Outperformance; Boosts Reported TSR by 12ppts

CDK's rapid share price appreciation was driven by its board and management embracing activists' recommendation of adopting and executing a transformation plan

CDK vs. ADP Total Return⁽¹⁾



CDK Transformation Plan

"We have done a deep dive in our organization and performed a comprehensive optimization analysis. As a result, we have developed and are in the process of implementing a compelling transformation plan to significantly increase profitability..."

"We will significantly expand margins. We are targeting 1,300 basis points of margin expansion over the next three years and a 35% EBITDA margin for fiscal 2018."

- Steve Anenen, President and CEO (Jun 16, 2015)

ADP does not deserve *credit* for CDK's outperformance post spin-off. In fact, ADP is *responsible* for the underperformance of this business prior to spin-off

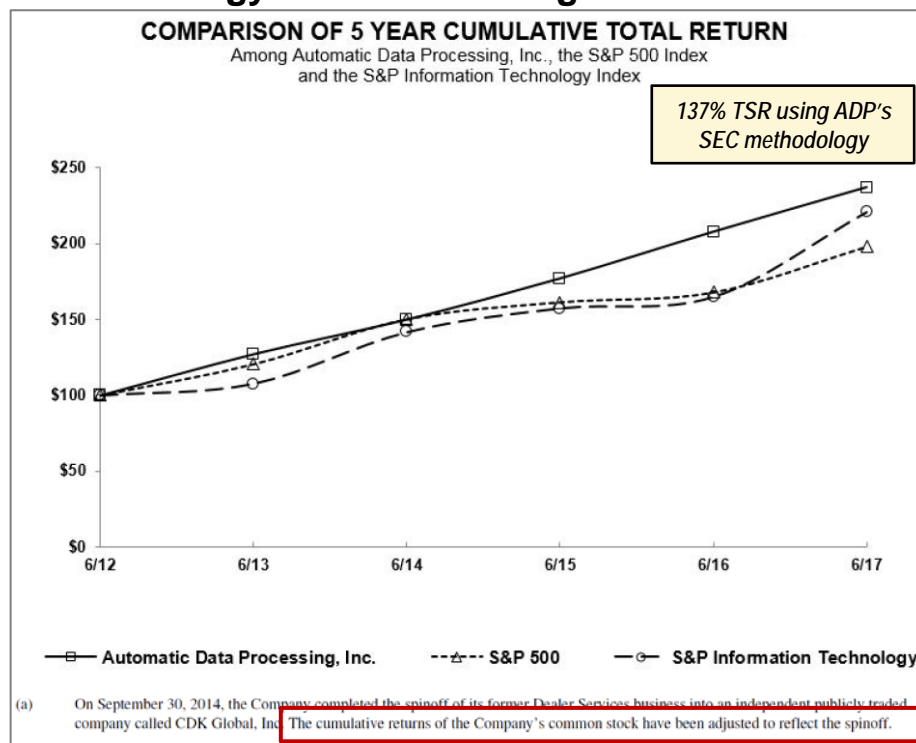
ADP's Purported 203% TSR: Includes CDK Outperformance; Boosts Reported TSR by 12ppts

ADP's treatment of the CDK spinoff in its 203% TSR calculation is inconsistent with its own SEC filings

- ▶ In ADP's calculation of its TSR in its own SEC filings, it treats the CDK spinoff as a dividend, assuming it is sold by shareholders on the day of spinoff and the proceeds are reinvested in ADP stock on that day. This is the correct methodology
- ▶ In determining its 203% TSR in this proxy contest, ADP assumes shareholders retain the CDK spinoff and includes its outperformance in return calculations, which boosts the TSR by 12ppts
- ▶ There is no legitimate basis for including CDK in management's TSR, particularly when the actions which led to CDK's outperformance were catalyzed by activists after CDK was no longer overseen by ADP's board and management

ADP's Form 10-K TSR (FY 2017)

- ▶ **ADP's SEC filings use the dividend reinvestment methodology when calculating its TSR**

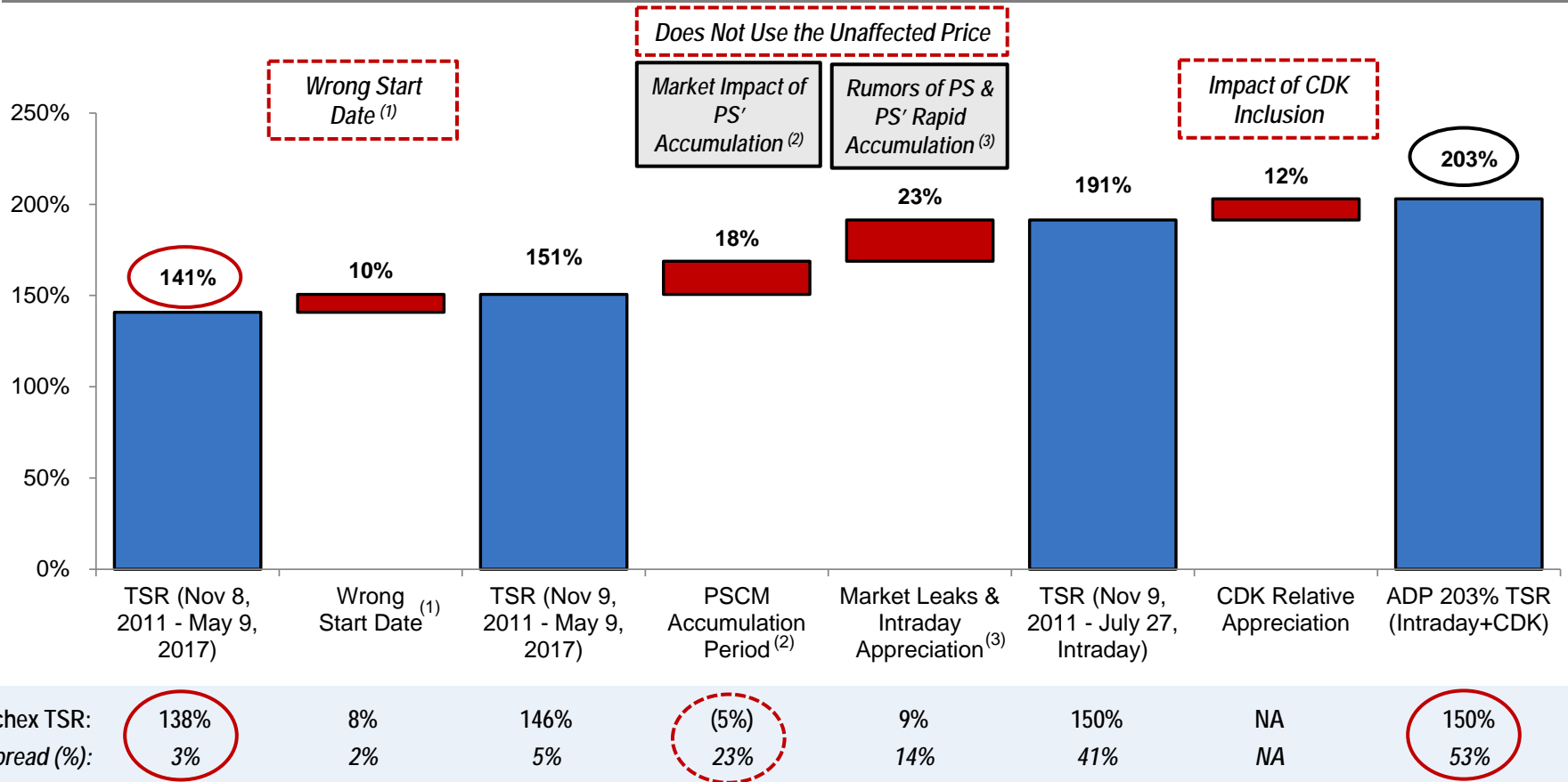


ADP's TSR calculation incorrectly includes CDK's outperformance post spin-off, which boosts the reported TSR by 12ppts

ADP's Actual TSR Relative to Management's Claim

ADP management's TSR is 141% when measured correctly

ADP's Actual 141% TSR vs. Management's Purported "203%" TSR



Source: Capital IQ; Dividend adjusted share price. Assumes dividends reinvested (including CDK proceeds reinvested at time of spin-off).

- (1) ADP announced the promotion of Carlos Rodriguez pre-market on November 9th, 2011 following his appointment as CEO on November 8, 2011. ADP's current TSR calculation incorrectly uses the market close price on November 9th (vs. November 8th). ADP's stock price declined 3.9% on the day of Rodriguez's announcement.
- (2) Pershing Square represented a significant percentage (~13%) of total ADP volume traded between May 10th and July 25th when rumors of our investment definitively leaked.
- (3) Our investment in ADP was definitively leaked to the market on or before July 25th - we were contacted by a media outlet on July 25th requesting confirmation of our investment.

ADP's Selected Peer Group is Misleading

Pershing Square Observations

- ~91% of ADP's market-cap weighting of "HCM-Related Players" consists of Microsoft, Oracle, IBM and SAP which are largely non-HCM businesses
- Actual peers have essentially no weighting:
 - Paychex – ADP's single largest competitor and primary competitor in small-market – has only a 2% weighting
 - Workday and Ultimate Software – ADP's closest enterprise competitors – have only a collective 3% weighting
 - Paycom and Paylocity – ADP's competitors in its largest segment, mid-market – have only nominal exposure in ADP's methodology
 - 16% of ADP's profit comes from its PEO business, yet its selected peer group has only nominal exposure to the two pure-play PEO competitors (Insperity and TriNet)

ADP's "HCM-related players" Peer Group

	Market Cap (\$M)	Weighting
Benefitfocus	1,116	0%
Cornerstone OnDemand	2,342	0%
IBM	135,152	12%
Insperity	1,522	0%
Intuit	35,656	3%
Microsoft	574,971	49%
Oracle	217,370	19%
Paychex	20,867	2%
Paycom	4,162	0%
Paylocity	2,475	0%
SAP	129,312	11%
The Sage Group	9,787	1%
TriNet	2,369	0%
Ultimate Software	7,007	1%
Workday	21,442	2%

ADP's Actual HCM Peer Group

Competitor	TSR Competitor Market-Cap Weighting	
	5 Year	1 & 3 Year
Paychex	67%	36%
Ultimate Software	20%	11%
Workday	0%	33%
Insperity	6%	3%
TriNet	0%	4%
Cornerstone OnDemand	7%	4%
Paycom	0%	7%
Paylocity	0%	4%
Total	100%	100%

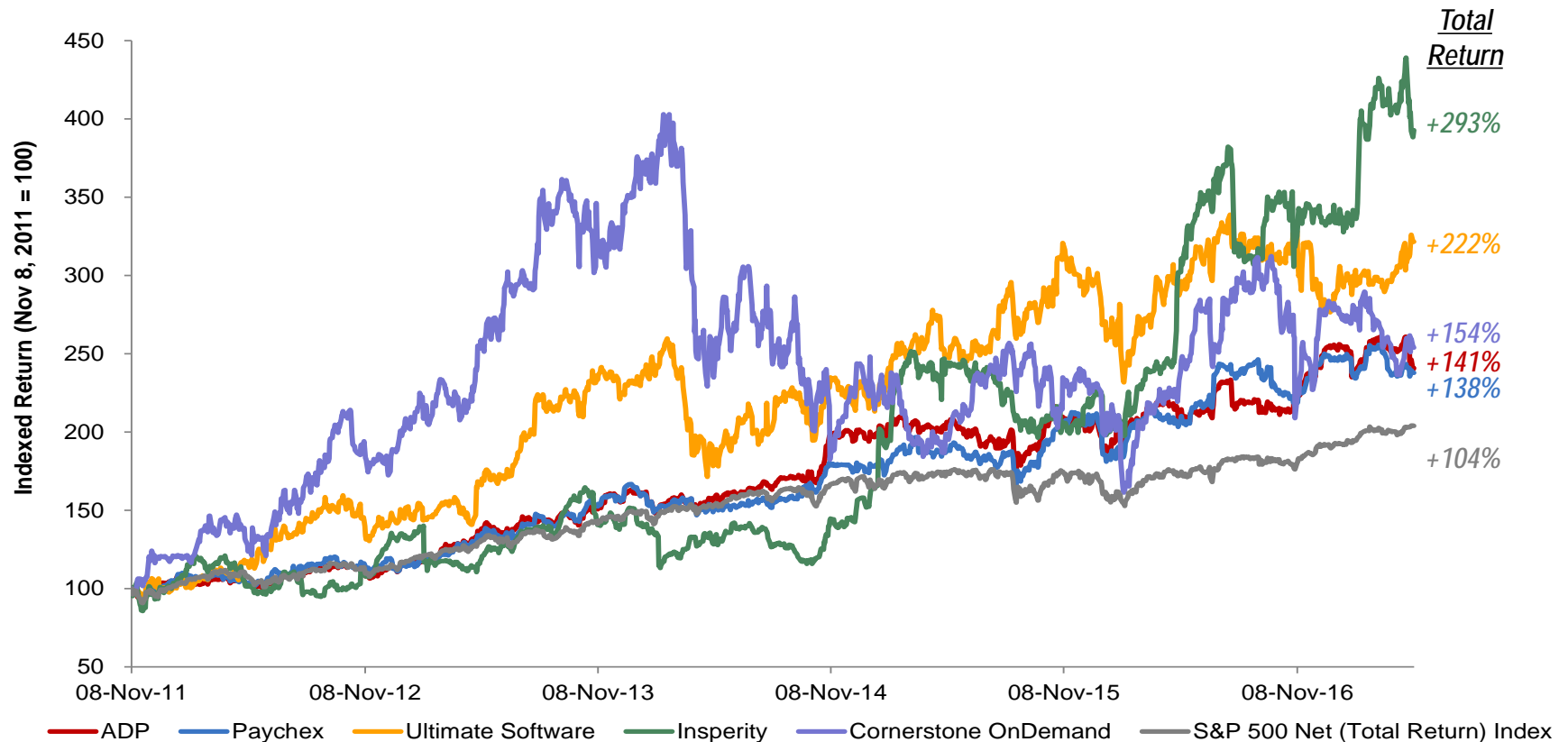
(1) Estimated 2011-2017 CAGR. Based on Wall Street research, IDC (Payroll and HCM vendor share report) and ADP's 2015 Analyst Day presentation.

(2) Jan Siegmund. Q2'2016 Earnings Call. February 3, 2016.

(3) Bloomberg Best blended forward P/E multiple.

Total Shareholder Return vs. Actual Competitors

ADP's actual total shareholder return is in line with Paychex, but trails Ultimate Software, Insperity, and Cornerstone OnDemand



The above competitors are all HCM competitors which were public at the time of CEO Carlos Rodriguez's appointment as CEO

Source: Capital IQ; Total Shareholder Return from November 8, 2011 to May 9, 2017, prior to Pershing Square's rapid accumulation of ADP's stock. Dividend adjusted share price, assuming dividends reinvested (including CDK proceeds reinvested at time of spin-off).

ADP's Recent TSR in Context

HCM market participants have benefited from employment growth since 2009, trends in HCM Beyond Payroll offerings, ACA demand drivers, and earnings multiple expansion

- ▶ **Businesses which participate in attractive industries *should* have positive long-term performance, and thus *should* outperform the broader market (i.e., S&P 500)**
 - ADP participates in an attractive industry with good secular growth; the global HCM industry has grown 6-7% per annum in recent years⁽¹⁾
- ▶ **ADP has benefited from numerous industry tailwinds in recent years**
 - Strong employment growth coming out of the recession, which drove 2.7% average pays per control growth from FY 2011 to 2017
 - Growth tailwinds as the HCM industry built out Beyond Payroll which provided a strong sell-in opportunity for an incumbent with a huge installed base (ADP has suggested sell-in has been half of bookings)⁽²⁾
 - Significant benefits from ACA
- ▶ **ADP-specific, non-operating, drivers have aided ADP's performance**
 - ADP's assumption of \$2bn in corporate debt and associated buybacks
 - P/E Multiple expansion from ~15x to ~25x⁽³⁾

The critical question is not whether ADP, as a participant in a great industry, has outperformed the market, but rather – how has ADP performed relative to peers?

(1) Estimated 2011-2017 CAGR. Based on Wall Street research, IDC (Payroll and HCM vendor share report) and ADP's 2015 Analyst Day presentation.

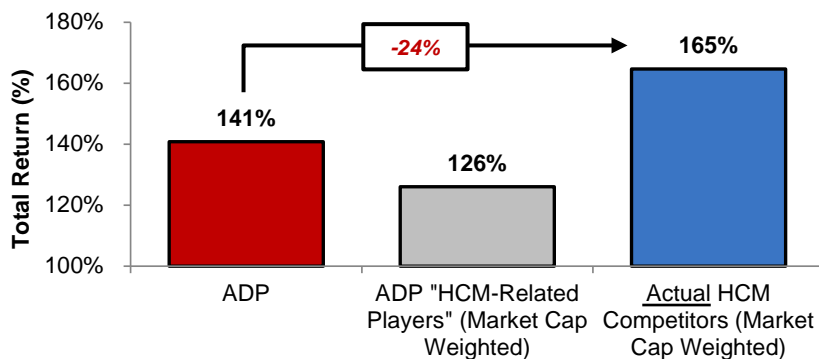
(2) Jan Siegmund. Q2'2016 Earnings Call. February 3, 2016.

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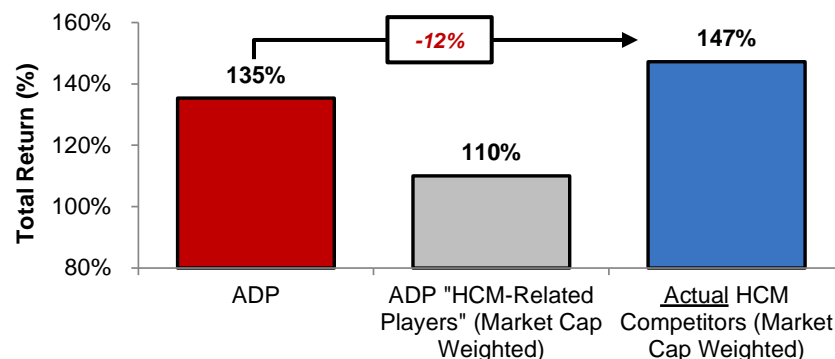
ADP Trails Its Actual Peers Over All Relevant Periods Since Mr. Rodriguez Was Named CEO

ADP's actual TSR of 141% is 24ppts less than its actual HCM competitors' since Carlos Rodriguez's appointment as CEO

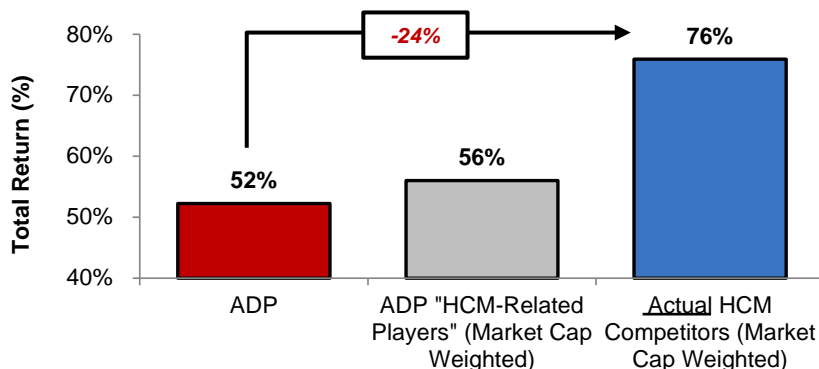
Since Carlos Rodriguez CEO Appointment (11/8/2011)



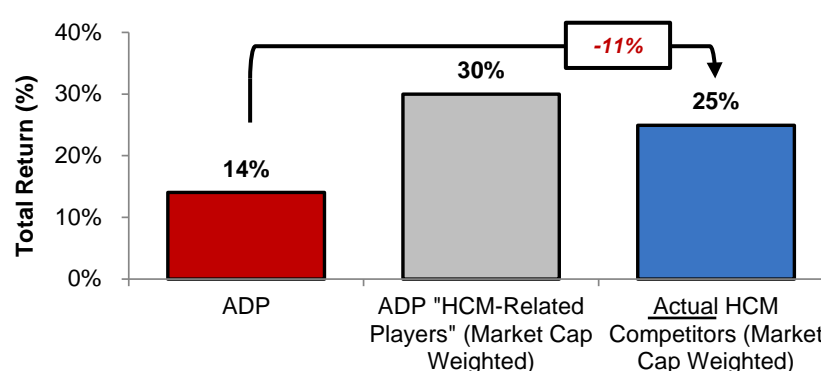
TSR – 5 Year (from 5/9/2012)



TSR – 3 Years (from 5/9/2014)



TSR – 1 Year (from 5/9/2016)





Source: Capital IQ; Total Shareholder Return. Dividend adjusted share price, assuming dividends reinvested (including CDK proceeds reinvested at time of spin-off).

(1) "Actual HCM Competitors" comprised of a market-cap weighted index of Paychex, Ultimate Software, Workday, Insperty, TriNet, Cornerstone OnDemand, Paycom and Paylocity.

Attacking The Messenger

ADP's Advisors Roll Out Activist Defense 101... We've Seen This Playbook Before

Tactic		
“They Don’t Understand”	“Pershing Square has demonstrated a lack of understanding of Canadian Pacific's business.”	“Pershing Square and its director candidates have demonstrated a lack of knowledge and understanding of ADP and its current operations...” ⁽³⁾
“Their Plan Isn’t Specific”	“Pershing Square has disclosed no specific plan to achieve its stated operating ratio targets.”	“Furthermore, Pershing Square has provided no clear roadmap on how it intends to accomplish the returns that it has targeted...” ⁽⁴⁾
“It’s Just Too Risky”	“Pershing Square's Proposal is Ill-Conceived and Introduces Unwarranted Risk to Shareholder Value.”	“[Pershing Square's plan] presents major business risks for ADP. This could do serious harm to our client relationships, disrupt mission-critical technologies, and put ADP's client retention -- and by extension the ADP business model -- at significant risk.” ⁽⁵⁾
“We’re Already Doing This”	“Canadian Pacific is Aggressively Executing a Successful, Value-Enhancing Plan.”	“ADP's Corporate Strategy is Focused on Transformation... ADP has been pursuing this change at an aggressive yet responsible pace.” ⁽⁶⁾
“They Lack the Skills”	“Pershing Square's nominees who accompany Mr. Ackman have no evident railroad industry experience and add no other complementary industry experience.” ⁽²⁾	“The Board determined that none of the Pershing Square nominees would bring additive skills or experience to ADP's Board.” ⁽⁷⁾

(1) CP Proxy.

(2) CP Open Letter to Shareholders. January 9, 2012

(3) ADP Investor Presentation. September 12, 2017.


(4) ADP Stockholder Letter. September 14, 2017.

(5) *Id.*

(6) ADP Press Release. September 7, 2017.

(7) ADP Stockholder Letter. September 14, 2017.

Canadian Pacific: What We Said – What Happened

	CANADIAN PACIFIC	
Existing Margins / Unaffected Share Price ⁽¹⁾	19% / ~C\$46	20% / ~\$97
Pershing Square Target Margins	35% (Year 4) ⁽²⁾	32% (Year 5) ⁽⁵⁾
Projected Future Share Price	~C\$140 (3 Years) ⁽²⁾	~\$220-\$255 (4 Years) ⁽⁵⁾
Company Response to Pershing’s Targets	<p><i>“Pershing Square's operating ratio targets for Canadian Pacific are unrealistic and lack credibility.”</i> ⁽³⁾</p> <hr/> <p><i>“Curves and grades is physics, and the dismissive comments by Mr. Harrison indicates a clear lack of research or understanding or both.”</i> ⁽⁴⁾</p> <hr/> <p><i>“Based on a comprehensive review, Oliver Wyman confirmed that CP’s Multi-Year Plan 2014 target is ambitious, but achievable. And they also concluded that Pershing Square’s stated OR target is both unrealistic and unachievable by 2015.”</i> ⁽⁴⁾</p>	<p><i>“The ADP Board is concerned by Pershing Square's claim that ADP can increase its operating margins by an extreme 1,600 basis points from ADP's already strong and increasing margins.”</i> ⁽⁶⁾</p>
Realized Margins	39% (Year 4)	
Realized Share Price	~C\$223 (3 Years)	

(1) Share price prior to Pershing Square’s rapid accumulation phase.

(2) Pershing Square. The Nominees for Management Change. February 6, 2012.

(3) CP Proxy.

(4) CP Analyst Day, March 27, 2012.

(5) Pershing Square. ADP: The Time is Now. August 17, 2017.

(6) ADP Press Release. September 7, 2017.

Our Plan is Prudent and Measured

Pershing Square is one of the largest shareholders of ADP. We intend to be long-term shareholders and will only propose changes that are in the company's long-term best interests

- ▶ The vast majority of the steps required to improve ADP's operating performance are basic improvements to ADP's underlying management approach, organization design, and operating strategies, which will improve efficiency, client satisfaction, and long-term competitiveness
 - Simply put, the vast majority of our proposed initiatives do not involve "touching" ADP's clients, but rather improving ADP's underlying operations
 - These operational improvements can be addressed immediately and without risk to ADP's business and client relationships
- ▶ Management and the board appear to be adopting elements of our so-called "risky" plan, including our suggestion to transition some Enterprise clients to Workforce Now⁽¹⁾

"[M]anagement provided more color on its Service Alignment real estate changes (began in FY17) and stated it could migrate some of the smaller Enterprise clients to its Workforce Now platform as Pershing suggested."
- Jeff Silber, BMO Capital Markets (Sep 13, 2017)

(1) We first suggested this as a strategy on August 17th. "One tidbit we found most interesting. The enterprise market has been a known challenge for ADP and perhaps one of Pershing's most interesting points was that they argued a substantial portion of the enterprise market could run on WorkForce Now, ADP's mid-market platform." (Source: Stifel, Aug 17, 2017)

ADP Mischaracterizes Pershing Square's Engagement in an Attempt to Discredit the Messenger









ADP's Spin	Reality
“Pershing Square owns 2.0% of ADP's common stock, not the 8.3% that the fund has represented since the start of its campaign”	Pershing Square has had a 13D on file with the SEC since August 7, 2017 which provides a detailed overview of our holdings. We continue to beneficially own 8.3% of ADP's shares outstanding. Excluding stock options, we are ADP's 9 th largest shareholder. As measured by dollars invested (\$2.3 billion), we are the 3 rd largest investor in the Company. As measured by beneficial ownership, we are the largest owner.
“Pershing Square has wrongly characterized 28 million call options (right to buy the stock in the future) as ‘ownership.’”	We own part of our position in deep-in-the-money options to provide a modest amount of non-recourse leverage. The options we own are very deep-in-the-money, have a multi-year duration and typically include a full pass-through of the underlying dividend. In practice, the options behave like common stock (a dollar for dollar increase/decrease in the value of the stock causes a comparable change in the value of the option).
Pershing Square's “Refusal to Engage Demonstrate a Clear Disregard for Responsible and Effective Shareholder / Corporate Engagement”	Pershing Square has consistently communicated our desire to work collaboratively with the board and management to maximize ADP's potential. Claims to the contrary are contradicted by ADP's own SEC proxy filing, which notes, as early as our meeting on August 3 rd , our openness to board expansion as a solution and our willingness to work with current management. Since then we have proposed to negotiate a resolution of this proxy contest, but have been rejected by the board.
“Pershing Square has no experience in the Technology sector”	This is false. Pershing Square has been an active investor in HCM including ADP from 2009-2011. Pershing Square also took a 14.9% activist stake in Ceridian (circa 2006-07) and joined its Board, which led to its sale to Thomas H. Lee and Fidelity National in November 2007.
“Does Pershing Square Actually Understand ADP's Business?”	<i>“[W]e thought Pershing clearly did its homework and scored some important points... [A]t this point, no investor, no analyst, NO ADVISOR, and probably few board members know more about problems in the company than Pershing Square.” (Gordon Haskett, 8/18/2017)</i>

Framing the Decision

ADP is Highlighting the Wrong Director Choice For Shareholders

ADP says our directors are not qualified because they are not technology executives – that misses the point entirely

ADP's Spin

Committee Overview & Relevant Experience								
	Current					Proposed		
								
	Linda Gooden	Peter Bisson	Mike Gregoire	Bill Ready	Sandra Wijnberg	Bill Ackman	Veronica Hagen	V. Paul Unruh
Title	Former EVP Lockheed Martin	Former Leader High Tech Practice McKinsey	CEO of CA Technologies	EVP & COO of PayPal; CEO of Verano	Executive Advisor Aquiline Capital	Founder and CEO of Hedge Fund	Former CEO Polymer Group	Director Symantec Corp.
Enterprise Software	✓	✓	✓	✓				
Big Data		✓	✓	✓				
Cybersecurity ⁽¹⁾	✓		✓	✓				
Cloud Technology	✓	✓	✓	✓				
Change Management	✓	✓	✓	✓	✓		✓	✓
Development / Deal Activity	✓	✓	✓	✓	✓	✓		
Shareholder Perspective	✓		✓	✓	✓	✓	✓	

ADP already has relevant technology experience on the board and we are NOT seeking to replace these directors – the directors we are replacing have no technology experience

ADP needs skills beyond technology expertise to effectuate a proper transformation. We are seeking to add directors with fresh perspectives and relevant expertise in business transformation and operating efficiency to accelerate the necessary changes required for ADP to achieve its full potential

We are Seeking to Replace ADP's Longest-Tenured Directors

<p>John Jones (Board Chairman)</p>	<p>Glenn Hubbard (Chair, Nominating & Governance)</p>	<p>Eric Fast (Chair, Audit)</p>
<p>Director Since: 2005 Observations:</p> <ul style="list-style-type: none"> ▪ Previous CEO of Air Products (“APD”), a business that was massively underperforming its potential. Pershing Square took an activist stake in APD and subsequently helped to transform the company ▪ Has overseen ADP’s underperformance relative to its peers and its potential ▪ Oversaw the sale of Claims Services (Solera) and spin-out of Dealer Services (CDK), assets which were massively under-earning their potential ▪ No technology / HCM experience beyond ADP board role 	<p>Director Since: 2004 Observations:</p> <ul style="list-style-type: none"> ▪ Serial director ▪ Dean of Columbia University's Graduate School of Business ▪ Economist by training ▪ Has overseen ADP’s underperformance relative to its peers and its potential ▪ Oversaw the sale of Claims Services (Solera) and spin-out of Dealer Services (CDK), assets which were massively under-earning their potential ▪ No technology / HCM experience beyond ADP board role 	<p>Director Since: 2007 Observations:</p> <ul style="list-style-type: none"> ▪ Retired industrial executive ▪ Chairs the Audit committee – Company has significantly decreased its disclosures despite business simplification ▪ Has overseen ADP’s underperformance relative to its peers and its potential ▪ Oversaw the spin-out of Dealer Services (CDK), an asset that was massively under-earning its potential ▪ No technology / HCM experience beyond ADP board role

The key question for shareholders is whether or not The Nominees for ADP’s Transformation are better positioned to help ADP achieve its potential than ADP’s longest-tenured directors who have each served on the board for a decade or more

The Nominees for ADP's Transformation Bring Relevant Skills and Fresh Perspectives

The Nominees for ADP's Transformation

William Ackman *(CEO of Pershing Square Capital Management, LP)*



- Extensive management, financial and investment experience
- Significant experience as a public company board director including seven years as Chairman of Howard Hughes Corporation, which has generated a 217% TSR under his leadership
- Investments in public and private companies across a variety of industries provide valuable insight that can be applied to the benefit of ADP and the Board
- As one of the largest owners of ADP with a long-term outlook, completely aligned with shareholder base

Veronica Hagen *(Chief Executive Officer of Polymer Group, Retired)*



- Extensive global executive leadership experience in competitive industries where focus on operational efficiency and productivity were paramount to long-term success
- Currently serves as a director of three large, highly respected publicly-traded companies, including having served as lead director of Southern Company
- Successfully led and sold her business (Polymer Group) to Blackstone; continued as CEO under oversight of private equity
- Personally invested over \$300,000 in ADP common stock more than any current ADP director

Paul Unruh *(Former Vice Chairman, Bechtel)*



- Held several senior leadership positions at Bechtel (including Vice Chairman and CFO); obtained technology, finance, human resources, legal, and strategic planning expertise
- Significant experience on audit committees of public company boards (currently Chair of Symantec's Audit and Risk Committee)
- Instrumental in leading the cost and business transformation at Symantec as a member of a board subcommittee responsible for generating over \$400 million of cost savings in a focused initiative
- Personally invested over \$300,000 in ADP common stock more than any current ADP director

Incumbent Long-Tenured Directors

John Jones *(Board Chairman)*



- Director since 2005 (12 years)
- Has overseen ADP's underperformance relative to its peers and its potential
- No technology / HCM experience beyond ADP board role
- Divested assets which promptly doubled margins – didn't see the opportunity
- Prior Chairman and CEO of Air Products. Led Air Products underperformance – under Mr. Jones tenure, fell behind direct competitor, Praxair

Glenn Hubbard *(Chair, Nominating & Governance)*



- Director since 2004 (13 years)
- Has overseen ADP's underperformance relative to its peers and its potential
- No operating experience
- No technology / HCM experience beyond ADP board role
- Divested assets which promptly doubled margins – didn't see the opportunity

Eric Fast *(Chair, Audit)*



- Director since 2007 (10 years)
- Has overseen ADP's underperformance relative to its peers and its potential
- No technology / HCM experience beyond ADP board role
- Divested assets which promptly doubled margins – didn't see the opportunity
- Has presided over significant reduction in disclosure despite business simplification

ADP's Attacks on Our Directors are Purposely Misleading and Intellectually Dishonest

ADP's Selective and Misleading Claims

- ✗ **Bill Ackman**
 - ✗ Director at Valeant—stock plummeted when company's accounting practices were questioned—resigned and sold entire position for \$3 billion loss
 - ✗ Director at J.C. Penney—resigned and sold entire position after stock declined materially while on the board
 - ✗ Target—ran proxy fight for majority of the board and lost
 - ✗ Borders—company declared bankruptcy and Pershing Square incurred losses
- ✗ **Veronica M. Hag**
 - ✗ Director at **Chipotle Mexican Grill**—resigned after numerous SEC filings over the past
 - ✗ Director at The Southern Company—SEC investigation for potentially deceptive financial reporting
 - ✗ Chair of Compensation Committee at Newmont—approved controversial excessive CEO compensation plan
- ✗ **V. Paul Unruh**
 - ✗ Director at privately-held Bechtel Enterprises for 25 years—resigned during a "financial crisis" at the company
 - ✗ Director of Symantec Corp.—Chairman of the Audit Committee during ongoing shareholder litigation

Selective and Misleading – Intellectually Dishonest

ADP's dishonest tactics are not in the best interest of shareholders and obfuscate the real question at hand – Is ADP achieving its potential?

Pershing Square's Long-Term Track Record

- ▶ **Average return on 13Ds ~145%⁽¹⁾ vs. ~16% for the S&P 500 index over the same periods (Source: 13DMonitor)**
- ▶ **Pershing Square returns since inception⁽²⁾ are 523%⁽³⁾, net of fees, versus 329%⁽⁴⁾ for ADP and 184%⁽³⁾ for the S&P over the same period**

ADP Highlights	But Forgets to Mention Pershing Square's 23 other 13D Investments... ⁽¹⁾
	

(1) See endnote 1.
 (2) From January 1, 2004 to May 9, 2017.
 (3) See endnote 2.
 (4) CapIQ total return.

Pershing Square has Extensive Experience Driving Operational Transformations

Operational Transformations – Significant Margin Expansion



Investment Duration	2011 – 2016	2013 – 2017	2014 – 2016
Thesis	<ul style="list-style-type: none"> High quality business under earnings it potential, best evidenced against direct peer New CEO to drive comprehensive operational efficiency initiative 	<ul style="list-style-type: none"> High quality, stable business Significantly under earnings relative to its potential, best evidenced against direct peer 	<ul style="list-style-type: none"> Great business, under earning its potential; spinout of Pfizer Comprehensive operational efficiency initiative
Outcome	<ul style="list-style-type: none"> All 7 PSCM nominees elected to Board with >85% of the vote Hunter Harrison named CEO CP 2012 Analyst Day details mid-30s margin target by '16 CP announces strong earnings results, achieving margin expansion significantly ahead of original timeline 	<ul style="list-style-type: none"> Consensual resolution Three Directors added to the Board; CEO John McGlade to retire; CEO search commences Seifi Ghasemi named as CEO, enacts transformation plan driving up margins substantially and divesting non-core assets 	<ul style="list-style-type: none"> ZTS agrees to name PSCM member to Board and another independent director Management announces comprehensive operational efficiency initiative; outlined plan to increase operating margins from 25% in 2014 to ~34% in 2017
Existing EBIT Margins / PSCM Projected Margins	19% (2011) / 35% (Year 4)	15% (2013) / ~20% (Year 4)	25% (2014) / 34% (Year 3)
Realized Margins (%)	39% (Year 4)	~22% (Year 4)⁽²⁾	2017 Guidance: 34% to 35%⁽¹⁾
Total Shareholder Return Through PSCM Hold Period⁽³⁾	327% (35% annualized)	92% (16% annualized)	58% (22% annualized)

Note: Excludes Chipotle, an ongoing investment, in its early stages. Each of the above case studies did not involve any significant change in strategy, they were premised on executing the existing strategy more successfully – driving significant margin expansion.

(1) https://zoetis.investorhq.businesswire.com/sites/zoetis.investorhq.businesswire.com/files/doc_library/file/ZoetisReportsSecondQuarter2017Results_PressRelease_080817.pdf

(2) Bloomberg consensus operating margin for FY 2017. APD's non-GAAP operating margin through FY Q3 is 21.3%.

(3) Based on the dividend adjusted share price from our initial purchases through the sale of PSCM's last share. (Source: Bloomberg)

A Vote for The Nominees for ADP's Transformation

- ▶ The election of The Nominees for ADP's Transformation would add to the board:
 - A major shareholder's perspective
 - Fresh perspectives
 - Relevant expertise in business transformation and operating efficiency
 - Directors who are ADP shareholders with significant "skin in the game"⁽¹⁾
- ▶ If elected, The Nominees for ADP's Transformation will represent three of ten directors, with only one representative from Pershing Square
- ▶ These new directors will not have the ability to make unilateral changes to the company's strategy or management, and instead will work with the other directors to seek consensus on the best outcome for all stakeholders
- ▶ While our nominees, if elected, will represent a minority of the board, their election by shareholders will provide a clear mandate for the reconstituted board to transform ADP into a more efficient, profitable and competitive company

(1) Pershing Square has invested approximately \$2.3 billion to acquire our stake in ADP. Our two independent nominees, Veronica M. Hagen and V. Paul Unruh, have each recently invested over \$300,000 of their personal funds in ADP common stock. Together, Ms. Hagen and Mr. Unruh have made a larger investment of their out-of-pocket, personal funds in ADP than all ADP directors combined.

Appendix

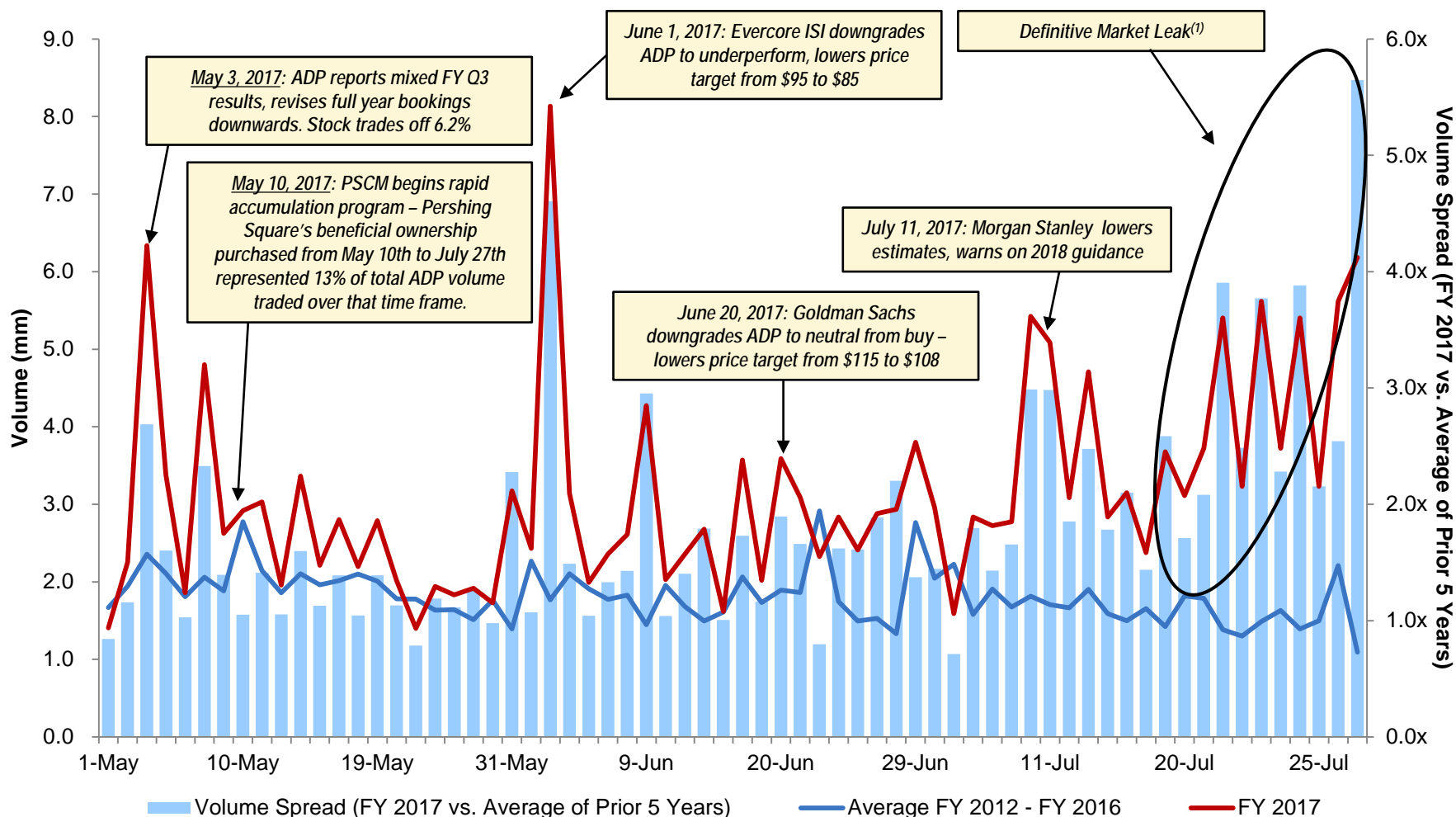
Competitor TSR in Detail

ADP underperforms a market-cap weighted benchmarking of its actual competitors across all relevant time periods

ADP and Competitors Total Shareholder Return

	ADP	Paychex	Ultimate Software	Workday	Inspirety	TriNet	CSOD	Paycom	Paylocity	Average	Median	Market-Cap Weighted
TSR Measured Through May 9th, 2017												
TSR Starting Period:												
Since Nov 8, 2011	141%	138%	222%	NA	293%	NA	154%	NA	NA	202%	188%	165%
Since Nov 9, 2011	151%	146%	231%	NA	312%	NA	163%	NA	NA	213%	197%	174%
5 Year (May 9, 2012)	135%	130%	179%	NA	286%	NA	103%	NA	NA	175%	155%	147%
3 Year (May 9, 2014)	52%	57%	76%	32%	197%	38%	5%	344%	183%	116%	66%	76%
1 Year (May 9, 2016)	14%	15%	10%	28%	30%	71%	6%	67%	29%	32%	28%	25%
ADP Relative Outperformance (Underperformance)												
Since Nov 8, 2011		3%	(81%)	NA	(152%)	NA	(13%)	NA	NA	(61%)	(47%)	(24%)
Since Nov 9, 2011		5%	(80%)	NA	(162%)	NA	(12%)	NA	NA	(62%)	(46%)	(23%)
5 Year (May 9, 2012)		5%	(44%)	NA	(151%)	NA	33%	NA	NA	(39%)	(20%)	(12%)
3 Year (May 9, 2014)		(4%)	(24%)	21%	(145%)	14%	47%	(292%)	(130%)	(64%)	(14%)	(24%)
1 Year (May 9, 2016)		(1%)	4%	(14%)	(16%)	(57%)	8%	(53%)	(15%)	(18%)	(14%)	(11%)

Trading Volume in Detail



Source: Bloomberg.

Note: July 27th represents volume through mid-day only for all years for comparability purposes. Actual volume traded on 7/27/2017 spiked to 30m shares by day-end.

(1) Our investment in ADP had begun to leak to the market definitively by July 25th, as we were contacted by multiple parties requesting confirmation of investment. Although not publicly reported, we believe multiple funds were trading in ADP following market rumors of our involvement on July 25th and July 26th.

Endnotes

Endnote 1: The companies shown on this page reflect all of the companies for which Pershing Square has filed a 13D. While the Pershing Square funds are concentrated and file 13Ds with respect to many of its investments, Pershing Square will own, and in the past has owned, a larger number of investments, including passive investments and hedging-related positions. All trademarks are the property of their respective owners.

Endnote 2: Returns are for Pershing Square, L.P. (“PSLP”), the Pershing Square Fund with the longest track record. Net returns include the reinvestment of all dividends, interest, and capital gains; they assume that an investor has been invested in PSLP since inception and participated in any “new issues”, as such term is defined under Rules 5130 and 5131 of FINRA. Performance results are presented on a net-of-fees basis and reflect the deduction of, among other things: management fees, brokerage commissions, administrative expenses and accrued performance allocation (if any). The inception date for PSLP is January 1, 2004. In 2004, PSCM earned a \$1.5 million (approximately 3.9%) annual management fee and performance allocation equal to 20% above a 6% hurdle from PSLP, in accordance with the terms of the limited partnership agreement of PSLP then in effect. That limited partnership agreement was later amended to provide for a 1.5% annual management fee and 20% performance allocation effective January 1, 2005. The net returns for PSLP set out in this document reflect the different fee arrangements in 2004, and subsequently, except that the tranche of interests subject to a 30% performance allocation and a 5% hard hurdle (non-cumulative) issued on January 1, 2017 is not reflected in the returns. In addition, pursuant to a separate agreement, in 2004 the sole unaffiliated limited partner paid PSCM an additional \$840,000 for overhead expenses in connection with services provided unrelated to PSLP, which have not been taken into account in determining PSLP’s net returns. To the extent that such overhead expenses had been included as fund expenses, net returns would have been lower. November 2004 was an extraordinary month for PSLP, largely driven by the announcement of a merger between our first and second largest long investments. You should not expect similar monthly performance on a regular or irregular basis in the future. Performance data for 2017 is estimated and unaudited.

The market index shown above has been selected for purposes of comparing the performance of an investment in PSLP with a certain well-known, broad-based equity benchmark. The statistical data regarding the index has been obtained from Bloomberg and the returns are calculated assuming all dividends are reinvested. The index is not subject to any of the fees or expenses to which PSCM is subject. PSCM is not restricted to investing in those securities which comprise this index, its performance may or may not correlate to this index and it should not be considered a proxy for this index. The volatility of an index may materially differ from the volatility of PSCM’s portfolio. The S&P 500 is comprised of a representative sample of 500 large cap companies. The index is an unmanaged, float-weighted index with each stock’s weight in the index in proportion to its float, as determined by Standard & Poor’s. The S&P 500 index is proprietary to and is calculated, distributed and marketed by S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC), its affiliates and/or its licensors and has been licensed for use. S&P® and S&P 500®, among other famous marks, are registered trademarks of Standard & Poor’s Financial Services LLC. © 2017 S&P Dow Jones Indices LLC, its affiliates and/or its licensors. All rights reserved