Automatic Data Processing, Inc. (ADP)

Updated May 11th, 2026, by Josh Arnold

Key Metrics

Current Price:	$213	**5 Year CAGR Estimate:**	18.6%	**Market Cap:**	$85 B
Fair Value Price:	$309	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	06/12/26
% Fair Value:	69%	**5 Year Valuation Multiple Estimate:**	7.8%	**Dividend Payment Date:**	07/01/26
Dividend Yield:	3.2%	**5 Year Price Target**	$455	**Years Of Dividend Growth:**	51
Dividend Risk Score:	A	**Sector:**	Industrials	**Rating:**	Buy

Overview & Current Events

Automatic Data Processing is one of the largest business services outsourcing companies in the world. The company provides payroll services, human resources technology, and other business operations to more than 1.1 million corporate customers. Automatic Data Processing was founded in 1949 and currently trades with a market capitalization of $85 billion, producing annual revenue approaching $22 billion. With 51 years of consecutive dividend increases, it is also a member of the prestigious Dividend Aristocrats Index, and a Dividend King.

ADP posted third quarter earnings on April 29th, 2026, and results were about as expected. The company did slightly beat expectations and raised guidance, but by small margins.

Revenue was $5.94 billion for the quarter, better than the $5.85 billion expected, and higher from $5.55 billion in the year-ago period. Employer Services revenue was $4.04 billion, up 7% year-over-year. PEO Services revenue was $1.91 billion, also up 7%.

Earnings for Employer services were $1.66 billion, up 11% year-over-year, while earnings for the PEO segment declined slightly.

Total expenses were $4.23 billion, higher from $3.99 billion a year earlier.

Consolidated earnings before interest and taxes margin was up 80 basis points year-over-year to 30.2% of revenue, helping drive higher earnings. Earnings-per-share came to $3.37, seven cents better than expected and much higher than the $3.05 from a year ago.

Guidance for the year was very slightly raised, and we've boosted our estimate of earnings-per-share by a nickel to $11.05 as a result.

Growth on a Per-Share Basis

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031
EPS	$3.25	$3.70	$4.53	$5.45	$5.92	$6.02	$7.01	$8.23	$9.18	$10.01	***$11.05***	***$16.24***
DPS	$2.08	$2.24	$2.50	$3.06	$3.52	$3.70	$4.05	$4.79	$5.45	$5.74	***$6.80***	***$10.46***
Shares[1]	456	445	439	436	429	424	416	412	408	405	***404***	***390***

Automatic Data Processing has compounded its adjusted earnings-per-share at a rate of more than 13% per year over the last decade, which we believe it can come close to matching moving forward given that its recent earnings growth had been accelerating meaningfully prior to COVID-19. Looking forward, we believe the company is capable of delivering 8% annualized growth in earnings-per-share over full economic cycles.

Revenue growth has been accompanied by meaningful margin expansion, including in the first three quarters of 2026. In addition, the company's buyback has been a low single-digit tailwind annually for earnings-per-share growth in the past decade, and we expect that will continue moving forward. We see the company's fundamentals as very strong despite a weak share price in recent months, and we think the company will grow at meaningful rates for a long time to come. Growth has also recently picked up in Employer Services, adding to potential top and bottom line expansion.

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[1] Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Valuation Analysis

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Now	2031
Avg. P/E	29.0	26.0	27.0	27.1	26.8	27.7	29.1	26.7	26.0	30.8	***19.3***	***28.0***
Avg. Yld.	2.3%	2.5%	2.3%	2.1%	2.2%	2.2%	2.0%	2.2%	2.3%	1.9%	***3.2%***	***2.3%***

ADP has traded with elevated valuations in recent years, near 30 times earnings. The stock now trades well below our estimate of fair value. Shares trade for a decade-low valuation of 19.3 times this year's earnings-per-share estimate, which is way off from our fair value estimate at 28 times earnings. That implies a huge positive impact to total returns in the coming years from valuation expansion potential. We see the yield at around 2.3% in five years, in part thanks to strong forecasted dividend growth, offset by a potentially much higher valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031
Payout	64%	61%	55%	56%	59%	61%	58%	58%	59%	57%	***62%***	***64%***

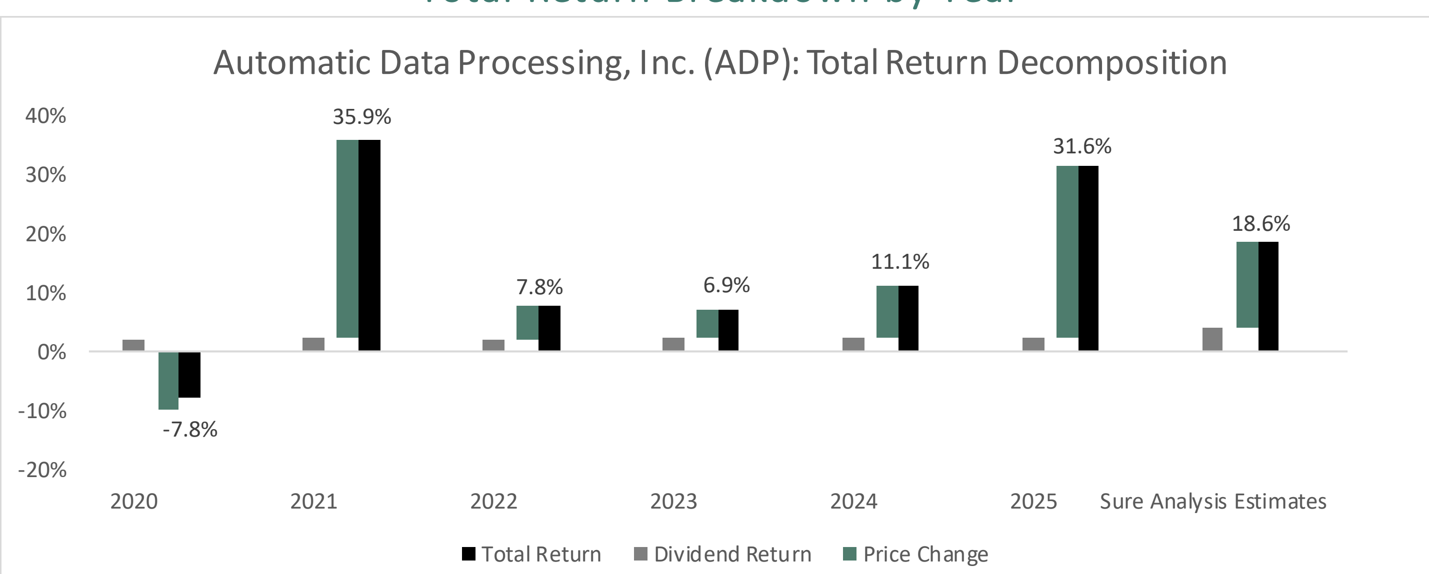
What immediately stands out about ADP's quality metrics is the high levels of debt. Fortunately, the vast majority of this debt is in the form of client fund obligations – money that is held by ADP before being paid out to the employees of its corporate customers. These client fund obligations are actually a source of competitive advantage, as they behave like insurance float and allow the company to invest the proceeds into low-risk investments and generate additional investment revenue. Indeed, the company's long-term debt is quite minimal, which leads to very high levels of interest coverage. Its scalable business model means that minimal additional assets are required to service the payroll needs of more customers. Accordingly, client fund obligations as a percentage of total assets will naturally expand over time.

Recessions will undoubtedly harm earnings potential given that ADP needs people to be employed, but it held up very well during the last recession and performed better than expected during the COVID recession. The rebound out of COVID was impressive and ADP is firing on all cylinders out of what was a very short recession.

Final Thoughts & Recommendation

ADP continues to deliver and guide for sustained growth over time. With 18.6% total projected returns, we're reiterating the stock at a buy rating. This stems from 8% earnings growth, a 3.2% dividend yield, and a 7.8% tailwind from the valuation. ADP is a Dividend King, so its pedigree as an income stock is outstanding, and it's extremely cheap today.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenue	11,668	12,372	13,328	14,175	14,590	15,005	16,047	17,199	19,203	20,561
Gross Profit	4,828	5,128	5,517	6,089	6,145	6,365	6,585	7,245	8,726	10,356
Gross Margin	41.4%	41.4%	41.4%	43.0%	42.1%	42.4%	41.0%	42.1%	45.4%	50.4%
SG&A Exp.	2,637	2,774	2,959	3,064	3,003	3,041	3,233	3,551	3,745	4,052
D&A Exp.	289	316	378	409	480	511	515	549	562	582
Operating Profit	2,191	2,354	2,557	3,024	3,142	3,325	3,351	3,694	4,981	5,412
Operating Margin	18.8%	19.0%	19.2%	21.3%	21.5%	22.2%	20.9%	21.5%	25.9%	26.3%
Net Profit	1,493	1,788	1,885	2,293	2,467	2,599	2,949	3,412	3,752	4,080
Net Margin	12.8%	14.5%	14.1%	16.2%	16.9%	17.3%	18.4%	19.8%	19.5%	19.8%
Free Cash Flow	1,511	1,655	2,044	2,122	2,410	2,587	2,546	3,636	3,594	4,393
Income Tax	741	829	398	713	716	763	855	1,026	1,120	1,230

Balance Sheet Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total Assets	43,670	37,180	38,849	41,888	39,166	48,773	63,068	50,971	54,363	53,369
Cash & Equivalents	3,191	2,780	2,170	1,949	1,909	2,575	1,436	2,084	2,913	7,847
Acc. Receivable	1,743	1,704	1,984	2,439	2,441	2,727	3,171	3,010	3,428	3,579
Goodwill & Int.	2,216	2,361	3,130	3,395	3,525	3,549	3,634	3,683	3,690	4,877
Total Liabilities	39,188	33,203	34,113	36,488	33,413	43,102	59,843	47,462	49,815	47,181
Accounts Payable	152	150	135	126	102	141	110	97	101	169
Long-Term Debt	2,008	2,002	2,002	2,002	2,005	2,985	3,124	2,989	3,377	4,297
Total Equity	4,482	3,977	4,736	5,400	5,752	5,670	3,225	3,509	4,548	6,188
LTD/E Ratio	0.45	0.50	0.42	0.37	0.35	0.53	0.97	0.85	0.74	0.69

Profitability & Per Share Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Return on Assets	3.9%	4.4%	5.0%	5.7%	6.1%	5.9%	5.3%	6.0%	7.1%	7.6%
Return on Equity	32.1%	42.3%	43.3%	45.2%	44.2%	45.5%	66.3%	101%	93.1%	76.0%
ROIC	26.4%	28.7%	29.6%	32.4%	32.5%	31.7%	39.2%	53.7%	51.7%	34.4%
Shares Out.	456	445	439	436	429	424	421	416	412	409
Revenue/Share	25.41	27.48	30.06	32.39	33.72	35.05	38.11	41.37	46.59	50.31
FCF/Share	3.29	3.68	4.61	4.85	5.57	6.04	6.05	8.75	8.72	10.75

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise. ADP's fiscal year ends on June 30th.