



# Sell: Automatic Data Processing (ADP)

MARCH 2026

HOLDINGS UPDATE

JENSEN QUALITY GROWTH STRATEGY

## Investment Thesis and What Led Us to Sell

While **Automatic Data Processing (ticker: ADP)** remains a high-quality and durable business supported by its scale, brand, and deeply embedded customer relationships, we believe the risk/reward has become less compelling as competitive dynamics evolve and long-term growth expectations moderate. The company's competitive advantages are becoming more defensive in nature, with a higher likelihood of slower growth and increased pricing pressure over time.

- **Gradual Moat Erosion:** Although ADP's core competitive advantages, including switching costs, scale, and regulatory complexity, remain meaningful today, the incremental strength of these appears to be declining. Improvements in cloud-based solutions and user experience are gradually reducing differentiation, particularly in less complex customer segments.
- **Increasing Competitive Intensity:** Payroll is increasingly viewed as a standardized service, with cloud-native platforms narrowing historical gaps in functionality, implementation speed, and cost. This is most evident in small and medium-sized business and mid-market segments, where switching providers is easier and competitors can iterate and deploy features more quickly.
- **AI as a Structural Risk:** While ADP's investments in AI should improve internal productivity and enhance its platform, broader adoption of AI also lowers barriers to entry and accelerates automation of payroll and human resource workflows. Over time, this increases the risk of disintermediation and may limit ADP's ability to differentiate or sustain pricing power. While AI-driven efficiencies may support productivity and margins, they are unlikely to fully offset longer-term pressure on growth and pricing power.
- **Growth Headwinds:** Increased automation, particularly in administrative and back-office roles, could reduce overall employment levels over time. Given ADP's revenue is tied to payroll volumes and employee count, this creates a structural headwind to long-term growth.

## Company Overview

ADP provides payroll, human capital management (HCM), and business outsourcing solutions to employers globally. The company offers a comprehensive platform spanning payroll processing, benefits administration, compliance, and workforce analytics.

ADP serves a broad customer base across small, mid-sized, and large enterprises, with revenue largely tied to the number of employees processed ("pays per control").

## Why Now

The **Jensen Quality Growth Investment Team** has trimmed back our ADP position opportunistically throughout 2025 and 2026 as our conviction in the long-term outlook has gradually declined. While many of these risks have existed for some time, we have increased confidence that AI-driven disruption and competitive pressures are becoming more relevant, particularly with respect to employment growth and barriers to entry. ADP should remain a stable and relevant player in the human capital management market. At the same time, we see less upside potential as growth moderates as the risk/reward becomes less favorable.

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