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CDK - Q4 2019 CDK Global Inc Earnings Call

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CORPORATE PARTICIPANTS

Brian M. Krzanich *CDK Global, Inc. - President, CEO & Director*

Joseph A. Tautges *CDK Global, Inc. - Executive VP & CFO*

Julie Schlueter *CDK Global, Inc. - Director of IR*

CONFERENCE CALL PARTICIPANTS

Gary Frank Prestopino *Barrington Research Associates, Inc., Research Division - MD*

Ian Alton Zaffino *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Matthew Charles Pfau *William Blair & Company L.L.C., Research Division - Analyst*

Rayna Kumar *Evercore ISI Institutional Equities, Research Division - MD*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the CDK Global, Inc. Q4 2019 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call may be recorded.

I would now like to introduce your host for today's conference, Ms. Julie Schlueter. Ma'am, you may begin.

Julie Schlueter - *CDK Global, Inc. - Director of IR*

Thank you. Good afternoon, and thank you for joining us for our year-end fiscal 2019 earnings call and webcast. Joining me on today's call are Brian Krzanich, CEO; and Joe Tautges, CFO.

A few items before we get started. Throughout today's call, unless otherwise noted, all references to financial amounts are in a non-GAAP adjusted basis. And for purposes of comparability, all results and year-over-year comparisons are presented in accordance with ASC 605. Reconciliations of the adjusted amounts to the most directly comparable GAAP amounts are included in this afternoon's press release and are available in the Investor Relations section of our website.

Also, unless otherwise noted, discussions and financial amounts herein relate to the company's continuing operations only and do not include the Digital Marketing Business, which is held for sale and therefore has been classified as discontinued operations. In addition, we are now reporting in 2 segments: CDK North America and CDK International. Together, these were previously called core auto software.

I would also like to remind everyone that remarks made during this conference call will contain forward-looking statements. These statements involve risks and uncertainties, including the risks detailed in our filings with the SEC, which would cause actual results to differ materially from those set forth in the forward-looking statements. And finally, we're anticipating on filing Form 10-K this week.

With that, it is my pleasure to turn the call over to Brian.

Brian M. Krzanich - *CDK Global, Inc. - President, CEO & Director*

Thanks, Julie, and good afternoon, everyone. Fiscal 2019 was a big year for us. When I look at the strong performance we achieved in Q4, it reinforces that we've taken the right actions in the last 6 months and makes me optimistic about our future growth momentum.



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Before diving into the financial results, I'd like to thank our 9,000 employees, not only for their dedication and commitment to delivering best-in-class software and services, but for sharing their insights and talents with me over these past 9 months. I've been very impressed by the high caliber talent of our team and I'm excited about the opportunities that our company has to deliver additional value to both our customers and shareholders into the future.

I'd like to begin with a summary of our 2019 fiscal year-end financial results and some key highlights, then Joe will provide more details on both the fourth quarter and year-end results as well as the fiscal 2020 guidance.

Full year results were very positive. We saw total company revenue growth of 8%, North America growing 11% largely due to the addition of the ELEAD business and the acceleration of subscription revenue growth. In our International business, full year revenue was up 2% on a constant currency basis with strong revenue per site growth.

Moving to the bottom line. Our full year adjusted EBITDA grew 13%. Margins improved 180 basis points to 40.1% and EPS grew more than 20% for the year.

Now I'd like to turn the discussion to some of our business highlights from the full fiscal year. To start, I'm very pleased with North America auto site count at 8,946, which represents a net increase of 13 sites over 2018 and is the highest quarter end number since December of 2017. This is now the second quarter in a row of positive year-over-year growth and clearly demonstrates that the investments we're making to put the customer first are paying off. During the year, we implemented several programs aimed at improving our customer experience and dealer usage of installed products.

The success of these programs can be seen by the improvements across all of our key metrics for the year in North America. Sales growth was up double digits and we had a record DMS sales in the fourth quarter, our best ever. New site installations were up approximately 20% and site retention was up nearly 0.5% from last year. We believe that we can continue to grow sites with investments in these initiatives as well as through product innovations like Drive Flex and Fortellis, which are allowing us to attract new customers and improve retention within our current base given their superior technology advantages.

We saw an increase in revenue per site in North America, up 7% over last year driven primarily by commercialization and solid layered application sales, notably in our CRM, service and Doc Cloud application areas. Our International segment saw positive momentum in revenue per site growth as well with a 10% increase over last year. International sites grew 110 sequentially versus Q3 and were down slightly by 1% year-over-year. We're encouraged by the building momentum in the business. Like-for-like sales were up 10% year-over-year and new offerings such as our DMS Light product and partner program will continue to ramp throughout fiscal 2020.

I would like to turn the discussion now to a few of our next-generation technologies that will continue to fuel CDK's growth long into the future. Drive Flex is now live in nearly a dozen dealerships, and we have approximately 40 more dealers signed up from multiple manufacturers and also some independents. We're seeing a good mix of both existing customers looking to migrate to Flex as well as new customers to CDK. Our second OEM certification is expected in the next couple of weeks and we're also focused on improving the automation capabilities that will enable us to install and scale faster and deliver an improved customer experience both during installation and afterwards.

We continue to make good progress on Fortellis that I would like to provide a quick update on the latest developments. As you may recall, Fortellis is designed to be a DMS agnostic API layer that will allow the industry to connect solutions to partners and provide our customers with the best solutions no matter who developed them. We now have the Hailer program with Lyft up and running and is being very well received. We have over 100 dealers in partnership so far in the first few weeks going live. We're also publishing several new CDK APIs to Fortellis, including Repair Order, which is in beta testing now. The Repair Order API is important as it allows a simpler, more cost-effective way for our partners to link their service and repair software with CDK DMS.

We're happy to report that we're moving into a new chapter with our largest participant in the partner program, Cox Automotive, who'll be an important beta test partner on our new Repair Order open API. This is the first step in helping to take away some of the past frustration with the



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program and with the right investments over the next couple of years, we believe that we can transition the remaining partner program business towards leveraging this open API Fortellis model.

Our partner program contributes in total approximately \$125 million of revenue to our top line and has proven to be a source of friction with our dealers and with our partner program participants. We've been working hard on developing and testing solutions that deliver tangible value that our customers appreciate while effectively supporting the industry and our customers with our innovation and capabilities. The ability to provide a partner-friendly solution through Fortellis is critical to not only transforming CDK but the entire automotive software industry. We expect to roll out these solutions more broadly throughout fiscal 2020.

On July 10, we entered into a settlement agreement with Cox Automotive, resulting in the dismissal of all claims from the litigation between our companies. We're glad to put this behind us and look forward to our renewed and positive relationship with this key partner.

In summary, 2019 was a busy and pivotal year for CDK. We are pleased that the actions and programs we've put in place are producing valuable results. As you know, over the past 4 years, CDK has been focused on executing its business transformation plan, which is primarily centered on improving operations and margins. We now have solid foundation for building the right strategy to move forward and accelerate revenue growth.

We're setting a clear direction in terms of our priorities in order to maintain our leadership in the dealer software industry. There are numerous opportunities for CDK to play a bigger and better role with new and existing dealers, OEMs and consumers in the auto vertical and other adjacent industries.

In Q4, we took an important step in the continuing evolution of the company with the announcement to sell the Digital Marketing Business. This will allow us to sharpen our focus and attention on accelerating software growth while providing an opportunity for long-term value of the Digital Marketing Business and its employees to be better realized by someone in the digital space.

We believe this transition will benefit all stakeholders. And I'd like to thank the Digital Marketing employees for their hard work and dedication towards developing this business and delivering excellent service to our digital customers. During the sale process, our customer service and support remain unchanged, and we have not made any changes to internal operations or staff. Joe will provide additional details about the financial implications of the digital disposition later in his section.

With that decision made, our focus on accelerating software growth will be realized by: One, CDK will modernize its software. By improving the technology stack, we will not only be able to maintain our current portfolio of 30,000 global sites but will grow new sites and deliver better solutions to all our customers.

Two, CDK will make its key layered applications DMS agnostic, which will open up the market to an additional 11,000 North American franchise auto dealerships we currently don't serve and then ultimately to an even larger group of dealers in the global market.

Three, CDK will leverage its newer technologies like Drive Flex to win with independents and used car dealerships, a market that has several thousand sites that has not been serviced by CDK.

And four, CDK will continue to set the industry standard for exchange platforms with Fortellis, which will provide differentiated experiences that benefit the auto industry at large now and into the future. And to deliver the sustainable long-term revenue growth, we will invest approximately \$30 million in several technology and service-related projects in 2020.

With this growth framework in mind and the momentum we built in 2019, we're confident that we can grow the business in the 4% to 6% range in fiscal 2020. We believe that CDK can consistently deliver mid-single-digit growth going forward, but we will continuously work each day to find additional opportunities that will take us beyond this target in the future.



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And as we begin fiscal 2020, we are enthusiastic about our new opportunities for profitable top line growth. We believe that focusing and building on our world-class software and customer experience competency will position us to grow with our existing and new customers as we head into the future.

I'll now turn it over to Joe.

Joseph A. Tautges - CDK Global, Inc. - Executive VP & CFO

Thank you, Brian, and good afternoon, everyone. Fiscal 2019 was an important and successful year for us at CDK. When I reflect on the year, we made progress on a number of fronts which represent strategic building blocks for us as we go forward to drive growth acceleration.

First, we are honing in on the recurring revenue streams from our core subscription-based software and services. As a result, we announced at the end of June our intent to sell our Digital Marketing Business.

Second, we focused on improving the customer experience and these efforts are showing in the results. We have stabilized sites sooner than we anticipated and expect to see continued site growth in 2020.

Third, we made the right strategic acquisition with the purchase of the ELEAD business which has strengthened our suite of applications to bring the best solutions to our customers within the DMS portfolio. Importantly, it has also unlocked new market opportunities for us to deliver applications that are agnostic to the DMS.

Fourth, we reached a settlement agreement that resulted in the dismissal of all claims in one of the antitrust lawsuits.

In summary, made a lot of progress in 2019. Our core business is in good shape, sites are growing, and we have a strong portfolio of products. I'm excited about building off the solid foundation and the opportunities we have to accelerate growth and in the guidance section, I'll share our views on the outlook for 2020 and beyond.

Before getting into the detailed results, I would like to discuss the Digital Marketing divestiture. This includes all of the Advertising North America business which was previously one of our reported segments, plus a portion of the North America segment related to website services and mobile advertising. You will see the Digital Marketing results are now reported as discontinued operations on the financial statements and the assets and liabilities associated with the expected divestiture are classified as held for sale on the consolidated balance sheet. Prior year amounts have been reclassified accordingly, and the details are available in the Investor Relations section of our website. We now have 2 reporting segments: North America and International.

Now let me turn to the results, starting with revenues. On an ASC 606 basis, total company fourth quarter revenue was \$489 million and for the full year was \$1.9 billion. On a quarterly and full year basis, North America revenue was \$409 million and \$1.6 billion. And International revenue was \$80 million and \$322 million, respectively.

On an ASC 605 basis, total company revenues grew 10% in the quarter and 8% for the full. Growth came primarily from North America which had revenue increases of 14% in the quarter and 11% for the year. Subscription revenue growth was up 11% for the quarter and 10% for the year as a result of adding the ELEAD business and 7% growth in revenue per site driven by gains in key applications like Document Management and CDK Services in addition to ELEAD.

Recurring revenue growth from 3-plus auto site groups was up low double digits while revenue growth in the 1- to 2-site segment was roughly flat. North America auto sites were at their highest level since December 2017 and increased by 13 over last year due to the growth in 3-plus site groups partially offset by a decline in 1- to 2-site groups.

Transaction revenue grew 4% in the quarter and was down 1% for the year. Other revenue increased 61% in the quarter and 42% for the year primarily driven by ELEAD.



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Revenue from our International segment decreased 4% and 2% for the quarter and year, respectively, and increased 2% on a constant currency basis for both the quarter and year. Constant currency revenue growth was driven by higher recurring revenues as seen by the increase in average revenue per site which was up 10%. This growth was somewhat offset by declining sites and timing of certain other revenues.

International sites were up sequentially from last quarter and down slightly by 1% over last year due in part to the impact of site consolidations and losses in legacy products. In 2020, we expect International sites to grow as well.

Moving on to EBITDA performance. On an ASC 606 basis, adjusted EBITDA for the company was \$194 million and \$775 million for the quarter and year with an adjusted EBITDA margin of 39.7% and 40.5%, respectively. On an ASC 605 basis, adjusted EBITDA was up 9% for the quarter and margins were down slightly by 30 basis points to 39.1%. For the year, adjusted EBITDA was up 13% while margins expanded 180 basis points to 40.1%.

At the segment level, on an ASC 606 basis, North America pretax earnings were \$170 million for the quarter and \$686 million for the year with margins of 41.5% and 43.1%, respectively. On an ASC 605 basis, North America pretax earnings were up 6% in the quarter and 11% for the year. In the quarter, margins were down 290 basis points to 40.1%. Economies of scale on strong revenue growth and benefits from the transformation plan were offset by the lower-margin profile of ELEAD and incremental investments. For the year, margins expanded 10 basis points to 42.2%. Margin improvement drivers for the year were similar to that of the quarter as well as an impact from lower incentive compensation in the prior year.

For International, on an ASC 606 basis, pretax earnings were \$21 million for the quarter and \$78 million for the year with margins of 26.5% and 24.2%, respectively. On an ASC 605 basis, International pretax earnings for the quarter and year were down 3% and 5%, respectively. In the quarter, margins expanded 30 basis points to 31% driven by scale from revenue growth, somewhat offset by investments related to strategic growth initiatives. These same initiatives drove a margin contraction of 80 basis points for the year, resulting in a year-end margin of 27.6%.

For the total company on an ASC 606 basis, our effective tax rate was 19.2% and 23.7%, and diluted earnings per share were \$0.88 and \$3.32 for the quarter and full year, respectively. On an ASC 605 basis, our effective tax rate was 19.7% and 23.8%, and diluted earnings per share grew 22% to \$0.89 and grew 24% to \$3.35 for the quarter and full year, respectively. EPS growth was driven by increases in operating income and lower average share count due to buybacks, which were partially offset by increased interest expense.

I want to provide some additional details on the Digital Marketing divestiture. On an ASC 606 basis, the loss from discontinued operations for the fourth quarter was \$156 million and \$110 million for the year, which includes a goodwill impairment of \$169 million booked in the quarter. We have identified approximately \$20 million of stranded costs primarily related to shared software and hosting arrangements which are and will be included in the continuing operations of North America. We have engaged Allen & Company to advise us on the divestiture of the business and are committed to completing the sale by the end of the fiscal year. Included in the guidance which I am sharing today is the assumption that we will complete the sale of the business by the end of the calendar year.

On July 10, we entered into a settlement agreement that resulted in the dismissal of all claims brought by Cox Automotive. In the fourth quarter, we recorded a litigation provision of \$90 million comprised of both the Cox settlement and a reserve for the remaining unsettled cases.

Our cash balance on June 30, 2019 was \$311 million, of which \$248 million was held outside of the United States. We ended the quarter with a leverage ratio of 3.4x net debt-to-adjusted EBITDA. The increase from prior quarters is primarily due to the drop in adjusted EBITDA caused by the discontinued operation treatment of the Digital Marketing Business. In fiscal 2019, we returned nearly \$600 million to shareholders through a combination of dividends and share repurchases.

Now let's move on to our guidance for fiscal 2020 which is provided on an ASC 606 basis. We expect total revenues between \$2 billion and \$2.05 billion. Specific to North America, we have factored into the guidance approximately 1 point of headwind as a result of the partner program transition that Brian mentioned. In addition, as of July 1, 2019, we have adopted the new lease accounting standard ASC 842 which will impact certain hardware arrangements previously recognized as subscription revenue over the contract duration that will now be accounted for as sales-type leases and recognized as upfront revenue.



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We expect EBITDA dollars between \$790 million and \$820 million which is inclusive of the previously mentioned \$30 million of investments. We expect EBITDA improvements to be weighted towards the second half of the fiscal year as revenue growth accelerates. We expect earnings per share of \$3.30 to \$3.50. We anticipate our tax rate to be 24% to 25%.

As we look forward, our top priorities for capital allocation will be a thoughtful balance between, one, organic investments that will continue to accelerate the growth and performance the business, such as our planned technology enhancements and service-related projects; two, inorganic opportunities that are synergistic with our portfolio and would meaningfully provide additional profitable revenue and increase long-term value; and three, return of capital to shareholders while targeting a leverage ratio of 2.5 to 3x net debt-to-adjusted EBITDA.

Within the framework of this strategy and while prudently reducing our current leverage down over time to a range of 2.5 to 3x, we are anticipating that our free cash flow available in 2020 will allow for \$75 million to \$150 million of shareholder returns.

Fiscal 2019 was the final year of the business transformation plan which was successful at targeting operational efficiencies and margin improvements. And you will see that we are no longer adjusting for those costs in the guidance tables. We have added an adjustment for our new business process modernization initiative, which includes funding of approximately \$15 million in 2020 and a total of approximately \$30 million over the next 3 years, which will be used for comprehensive redesign of our customer quoting, contracting, fulfilling and invoicing processes and systems and tools used.

Before we conclude the call, I also want to share with you our perspective on the growth framework for the next couple of years and beyond. We are confident that this business can deliver mid-single-digit top line growth in 2020 and going forward. As Brian mentioned, we continue to focus on further acceleration of growth beyond this target in the future.

In terms of EBITDA, we will appropriately balance EBITDA growth with investments into the business and expect over the next 2 to 3 years that EBITDA will grow low single digits with a longer-term view post-investment period of growth accelerating to high single to low double digits.

In closing, we are really pleased with the results in 2019. We've delivered on the commitments we've made either on or ahead of schedule. We are quite excited about the future and look forward to updating you on our progress of delivering growth acceleration on future calls.

I'll now turn it back to the operator and we'll be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Rayna Kumar with Evercore ISI.

Rayna Kumar - Evercore ISI Institutional Equities, Research Division - MD

So you saw some good improvement in the fourth quarter results, but just help me better understand your medium, long-term guidance. What is that disconnect between your mid-single-digit top line guide versus the low single digit growth you expect in EBITDA over the next 2 to 3 years? Like how much of that is like incremental investments versus, say, negative pricing?

Brian M. Krzanich - CDK Global, Inc. - President, CEO & Director

So I can start and then Joe will go into the detail. It is absolutely focused on the incremental investments. So I think you saw in the year that the revenue per site was increasing over the quarter and over the year. We continue to drive that both with North America and Internationally. But we are making some investments. We talked about the whole program to improve our quote and billing and that system. And then we talked about



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the investments in the technology around Fortellis, Drive Flex and some of our other products. So it's absolutely that, but I'll let Joe give you a little more detail on the numbers.

Joseph A. Tautges - CDK Global, Inc. - Executive VP & CFO

Yes. So when you look at the 2020 guidance we gave, it's right in line with the long-term guide we provided before. So just maybe let me take it piece by piece. We had said we expect the business to grow 4% to 5% organically. And when we look at the guidance we're sharing today for 2020, we shared 4% to 6%. And within that, I would point out that the commercial agreement that we've announced today with Cox puts about 1 point of pressure on that range. And so we're right where we want to be from a revenue perspective. In fact, a bit ahead of where we expected to be.

And then on EBITDA, what we've factored into the guidance for 2020 is \$30 million of investments that Brian described in his section of his prepared remarks. That's about 4% of EBITDA impact. And then, in addition, the 1 point of commercial agreement framework that we agreed to with Cox puts a bit of pressure on EBITDA growth as well.

So when you look at the foundational core business, the EBITDA is within that 8% to 12% range. And we're doing the right things to invest in the business and continue to accelerate the momentum in the top line. So we're quite encouraged with where the business is performing and with the confidence of now investing more aggressively to further accelerate revenue.

Rayna Kumar - Evercore ISI Institutional Equities, Research Division - MD

That's very helpful. And then just on the revenue per site, that was up nicely in North America, 7%. How much of that is actual price increases versus selling layered application software?

Joseph A. Tautges - CDK Global, Inc. - Executive VP & CFO

Sure. So we're happy with the revenue per site growth. And as we look at it, the majority of it is coming from sales of more applications within existing sites. Rate is a smaller piece of it. In fact, smaller and smaller for each quarter and more just our existing customers buying more services from us and expanding the relationships.

Rayna Kumar - Evercore ISI Institutional Equities, Research Division - MD

And just one final question for me. If you can just discuss the market share trend you saw both at the low end of the market and the high end of the market for DMS.

Brian M. Krzanich - CDK Global, Inc. - President, CEO & Director

So I can start. And I think it goes back to your other question a second ago, Rayna, about is it about pricing or is it about selling more product. And absolutely, we believe that the best way for us to grow is to grow with our customers and our partners. And so that's always going to be giving them better and more product. And that's why we saw most of the growth coming from more product versus price increases.

From a share, we're seeing that same thing. We're seeing us continue to grow. You saw us shift both in the total count and then the increasing site count this quarter, second quarter in a row. So we definitely turn the tide of actually decreasing share to now we're starting to win share back. So I'd tell you, our plans or what we saw in the second half of this year was increasing share from a declining position. And our plans for 2020 are to continue that trend, to continue to increase share and to continue to grow those sites. That's all built into the plans that Joe and I described this morning.



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Rayna Kumar - *Evercore ISI Institutional Equities, Research Division - MD*

Is the market share gain both at the high end and the low end of the market?

Joseph A. Tautges - *CDK Global, Inc. - Executive VP & CFO*

So when you look at the portfolio, Rayna, the 3-plus sites continue to perform quite well and in line with what we've seen historically. Where we're seeing things continue to improve quarter-on-quarter is within the 1 to 2 portfolio, both in terms of selling more and in terms of retention. And as we look at going into next year, we continue to see strong performance out of the 3-plus sites and the momentum we have there continuing. And then at the 1 to 2, with the broader rollout of Drive Flex, at this point, we have 50 either signed up or in the backlog, new customers with the Drive Flex platform. And as you look at that scaling and going forward, that's really some of the line of sight that we have confidence in as we look going forward around sites as well as the confidence in revenue.

Operator

And our next question comes from Matt Pfau with William Blair.

Matthew Charles Pfau - *William Blair & Company L.L.C., Research Division - Analyst*

I wanted to follow up on Drive Flex and the customers you have signed up and then the dozen that you've transitioned over or got implemented on the platform. Are these mainly smaller dealership groups in the 1, 2-site segment? And then, are these new customers for you or are you transitioning some existing customers over to the Drive Flex platform?

Brian M. Krzanich - *CDK Global, Inc. - President, CEO & Director*

The answer to that, Matt, is going to be a lot of yeses. Because we still have just our GM integration complete, the second one will be done here in the next probably week or 2, hopefully. And then we have the third. And we're still on target to finish the majority of them by the end of this calendar year and maybe into, like slightly into Q1. It's always dependent on how fast our OEM partners can work with us.

So the majority of the ones we signed up are 1 and sometimes maybe 2 OEM. They tend to be either single rooftops within larger groups. There's a few of those. The majority of them are just single rooftops on their own. There are a few independents in there. Remember, we said we were going to expand our marketplace. There's some number, somewhere around 1,000-ish, we think, independent dealers and dealer groups that could benefit from Drive Flex. So we started to play with some of those and those are in the installs as well.

So all of those are making it up. We think it's mid next year to late next year before we're really doing the larger multi-OEM 5 and above dealer group organizations. We really need to get the multi-OEM and then also some of the reporting function up and running where you can aggregate the various reporting systems.

Matthew Charles Pfau - *William Blair & Company L.L.C., Research Division - Analyst*

Got it. And then just wanted to ask on International. Maybe you can just give us some detail on how you view the long-term growth opportunity there. Is that a segment that is going to be slower growing than North America or can it be the same? And then when I look at the growth drivers that you kind of listed out, I mean maybe I'm wrong, but it seems like they were more focused towards North America. So just trying to sort of figure out if some of those opportunities are applicable towards International segment as well.



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Brian M. Krzanich - CDK Global, Inc. - President, CEO & Director

Sure. I can start this. One of the things International, we're just in the process of rolling out. So we talk a lot about Drive Flex. What we don't talk a lot about as much right now, it's a little earlier at this stage, is Drive Light, which is the International version of low end, I'll call it, or less featured DMSes. It's really targeted for expansion in the, I'll call it, greater Asia and maybe I'll call it other emerging countries. It's being run right now in Vietnam. We have another install going on in China. So we think a lot of the growth that International will see will come from that space, taking Drive Light into those emerging markets.

And then just growing the per site spending in the existing, I'll call it, European and Western European countries. We see continued growth there, especially as we move into the partner program in International. So we do see the growth. You see our plans for 2020, see renewed growth back into the International segment. And so absolutely, we've built into this the return to growth in International.

Joseph A. Tautges - CDK Global, Inc. - Executive VP & CFO

Matt, this is Joe. And what I would add is, when you look at Q4, you start to see the same behavior in International in terms of performance as you do in the rest of the book of business, sites improve sequentially. And I would expect that we'll continue to see that as we go into next year. The business grew 2% on a constant currency basis in the quarter. Q1 will look similar to Q4. And as you look at our backlog and the business that's coming online, we have confidence that the business will accelerate Q2 to Q4 and will contribute as a mid-single-digit grower, quite in line with the rest of the portfolio of what we're seeing International. So it is an important part of business that we look to continuing to grow.

Brian M. Krzanich - CDK Global, Inc. - President, CEO & Director

Matt, I just want to kind of go back to maybe the broader question and just kind of tie to Drive Flex and then Drive Light and International. I think this is one of the first times or very unique in CDK's history where we've had 2 DMSes, both of them very modern, both of them targeted towards the broader spectrum, including the lower-end capability. Both technologies are modular. They're capable of adapting to defeatured operations. So we really feel like these aren't yet to come or not here, there, here, there in installs. They're ready to ramp and we're actually working more time now on how do we ramp faster, how do we automate more of the procedures for installation and how do we finish the OEM integrations. But we're really excited about both of these products coming into the 2 different markets.

Operator

And our next question comes from Ian Zaffino with Oppenheimer.

Ian Alton Zaffino - Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst

A question would be on the Digital Marketing side. Can you just help us maybe bridge the gap between what your guidance was, what you issued pre-announcement of divestiture of DM and what it actually was as you just kind of compare your performance in the fourth quarter to what you told us you were going to do?

Joseph A. Tautges - CDK Global, Inc. - Executive VP & CFO

Sure. So what I would say just to state the numbers that we had in the 8-K. What we said is, year-to-date, the digital business comprised of 19% of revenue and 13% of GAAP earnings. And so when you look at the final numbers that concluded, I believe it was 18% of revenue and roughly 16% of profit. So largely in line, plus or minus a couple of points, with what we shared previously. The way I would think of the business is a bit over \$400 million of revenue in 2019 and profitability in the \$90 million range.



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And with what we have line of sight to, I think you'll see that business revenue go through some of the changes we described going into next year and on the bottom line, be in line with the 1 to 2 and closer to 2 points of profit reduction when you look at that portfolio.

So we're very much in line with what we shared before. The one nuance I would point out is the way discontinued operation treatment works. There is roughly \$20 million of stranded cost that is in the continuing operations numbers we've guided today. And we're working to either reduce those costs or get them assigned to the business that will be held for sale.

Ian Alton Zaffino - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Okay. And then also on the antitrust side. Does this conclude all the antitrust cases? And can you just maybe go into a little bit more about what the payments were or the dollars that are being kind of swapped?

Brian M. Krzanich - *CDK Global, Inc. - President, CEO & Director*

Sure. I can start. This does not conclude all of them. This was predominantly the larger of the lawsuits that are out there. And I think it's important because I think it's also a bellwether and kind of representative of our effort to go and mediate these and work through them. So I think it's not all. It's one of the largest. And I think it gives you a flavor for where we're headed with these because we want to get these behind. I mean, we're always better working together towards business rather than sitting with lawyers in courtrooms arguing about things. From a dollars transaction, I'll let Joe talk about what was booked into the system.

Joseph A. Tautges - *CDK Global, Inc. - Executive VP & CFO*

Yes. So for the quarter, we recorded \$90 million of total accrual related to our best estimate of the settlement value of the outstanding litigation. We're not, based on nondisclosure agreements, disclosing separately the portion of what was settled for the one claim we described, but we're happy to make the progress we made and the outcome that we've had and really look forward to continuing to go forward to put this behind us.

Ian Alton Zaffino - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

And just as a final question would be, now that everything's settled. You've broadened your relationship with Cox. Does that extend to Dealertrack as well or how do we think about that?

Brian M. Krzanich - *CDK Global, Inc. - President, CEO & Director*

I think that it's an emerging relationship. I'd tell you that our goal is to make it very broad, yes, and to continue to build this partnership that can work together. We'll compete in certain areas still and like any other 2 companies in a marketplace, there's places we'll find where we can work together, some of our layered apps and integrating into both of our DMSes. There's going to be places we're going to compete ferociously for customers. And I think that's the healthiest place for the market and that's really where we ought to be focusing rather than arguing in court.

Joseph A. Tautges - *CDK Global, Inc. - Executive VP & CFO*

Yes, Ian. When we look at how we're heading forward with Fortellis and Fortellis being an industry-standard platform, it's less about one vendor or another, it's all about bringing connected and integrated solutions to the auto where we're focused.

Operator

(Operator Instructions) Our next question comes from Gary Prestopino with Barrington Research.



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Gary Frank Prestopino - *Barrington Research Associates, Inc., Research Division - MD*

A couple of questions here. There's a lot to digest here. But in terms of -- with this Repair Order in beta testing, did you say that Cox is going to be taking the Repair Order product through Fortellis?

Brian M. Krzanich - *CDK Global, Inc. - President, CEO & Director*

Yes. So they are one of the lead first users of the Repair Order API and that is through Fortellis, yes.

Gary Frank Prestopino - *Barrington Research Associates, Inc., Research Division - MD*

So wouldn't that just translate into then that they have -- if they're taking it, they're going to use it for their Dealertrack DMS domestically or are they going to use it somewhere else in the system?

Brian M. Krzanich - *CDK Global, Inc. - President, CEO & Director*

I'm not going to speak for them about where they're going to use it. I mean, you can ask them. This is a very open agreement. And Fortellis would allow them to use it almost anywhere, but I'm not going to -- they are welcome to use it anywhere. So we don't dictate those requirements and I suggest you talk to them about where they'll use it.

Gary Frank Prestopino - *Barrington Research Associates, Inc., Research Division - MD*

Okay. And then in terms of, Brian, you mentioned something about that with the Drive Flex, you're eventually going to start going upmarket with 5-plus dealerships, 5-point plus dealerships. Have you -- I mean I thought you had developed the product or refined the product for bigger dealerships. Has that been done and now the goal is to start rolling it out -- trying to roll it out across your entire enterprise?

Brian M. Krzanich - *CDK Global, Inc. - President, CEO & Director*

So it is designed to be scalable to any size dealership. So it's absolutely designed to that. But in order to do that, we have to finish all of the OEM certifications. And that's 30-plus certifications we have to go through, but there is like a few big ones that you have to get in order to kind of have the other ones kind of fall much, much quicker. We finished GM. Obviously, we've talked about. We're in the process of finishing up Ford. Ford will hopefully be in the next week or 2. And then we'll move on to many of the other ones, the FCAs, Toyotas, Nissans, Honda, and then we'll get to all the rest of the OEMs.

We think we'll have those finished end of this year, maybe into Q1. That will then allow us to start scaling because most -- once you get to 3-plus dealers or 3-plus rooftop dealers, you're talking about multi-OEM. And you've got to have enough of a mix for them to be comfortable with you doing that. So that's why I've said it's mid to late next year when we can really go into those larger dealer sites. So you're going to see 1 rooftop independent and 1 rooftop within a larger dealer group as they test out the system. We have a couple of those where there may be 50 rooftop dealers, but they maybe acquired somebody or they've got a single store that they'd like to try it with, and we're then going and doing those installations as well now. And then it will scale in the second half of next year into those bigger groups.

Gary Frank Prestopino - *Barrington Research Associates, Inc., Research Division - MD*

And then, Joe, did I hear you say that there's between \$75 million and \$150 million of free cash flow that's going to be devoted to shareholder enhancement or returns? Does that mean buying back stock? Are you going to be -- with your debt ratio, are you going to be able to buy stock in the market?



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Joseph A. Tautges - CDK Global, Inc. - Executive VP & CFO

Yes, for sure. So right now, what we guided, just to make sure we're saying the same thing, we said we would return \$75 million to \$150 million of capital to shareholders. \$75 million, the low end of that range is our dividend. And we are committed to maintaining our dividend. And based on opportunities that we see either organically in the portfolio or inorganically, we'll balance that against share buybacks as well, which is why we've provided the range up to \$150 million.

From a leverage perspective, we will continue to manage down our leverage throughout the year with our excess of free cash flow and strike the right balance.

Gary Frank Prestopino - Barrington Research Associates, Inc., Research Division - MD

Can I just ask one more question?

Joseph A. Tautges - CDK Global, Inc. - Executive VP & CFO

Sure.

Gary Frank Prestopino - Barrington Research Associates, Inc., Research Division - MD

With the installations of the Drive Flex that you have out there now, what has been the feedback from the dealerships in terms of having to devote employee time and effort to learning the system and getting the system up and running versus your legacy DMS platform that it's replacing?

Brian M. Krzanich - CDK Global, Inc. - President, CEO & Director

It's literally night and day. The Drive Flex system is drop-down menus. It's autofill. It's web-based. So it's much more, I'll call it, an iPhone-like experience as I've tried to describe it. The response has been very positive from both those that we've installed in and those that we've done demo. And the last time I counted, we've done over 100 demos to people. And typically the response we get back is, just how soon can you guys be ready to push this into the dealership.

So the transition time is fairly quick from a start-up and usability. When it's a CDK to CDK transition, the data feeds and all are fairly quick. So it's kind of a normal install. When it's an acquisition where we're moving off another DMS, it has the usual issues of us aligning our data sets and all. But we're trying to -- because of the way this one is architected, we're trying to automate a lot of that. And that's the other thing we're spending our time with before we really try to ramp in the multi-hundred per year is as much automation as we can to lower the cost and time of an install.

Operator

Thank you. And I am not showing any further questions at this time. I would now like to turn the call back over to Brian Krzanich for any closing remarks.

Brian M. Krzanich - CDK Global, Inc. - President, CEO & Director

Thank you. I'll make a few closing comments.

First of all, I think our teams have really executed incredibly well at delivering on our technology innovations and our customer-focused strategies. And I'm very pleased with their efforts and the resulting strong financial performance that we've seen this year.

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And second, I'm very confident in our ability to continue our growth strategies going forward. I'm excited to see the lasting value that we're building for our customers, our employees and our shareholders.

So I want to thank all of you for joining us on this call this morning, and I'd like to wish everybody to have a good day and we'll see you next quarter.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program and you may all disconnect. Everyone, have a wonderful day.

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