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CDK.OQ - Q4 2020 CDK Global Inc Earnings Call

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OVERVIEW:

Co. reported FY20 consolidated revenues of $1.96b. 4Q20 total revenues of $450m and diluted EPS of $0.67.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the CDK Global, Inc. Fourth Quarter 2020 Earnings Conference Call. (Operator Instructions)

At this time, I would like to turn the conference over to Ms. Julie Schlueter, Director of Investor Relations. Ma'am, please begin.

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

Thank you, and good afternoon. I'd like to welcome you to our fourth quarter and year-end fiscal 2020 earnings call. Joining me remotely on today's call are CEO, Brian Krzanich; and CFO, Joe Tautges. On the CDK Investor Relations website, we've provided a slide presentation that we will be referencing during our remarks today.

Unless otherwise noted, all references to financial amounts during our call are on a non-GAAP adjusted basis. Reconciliations of adjusted amounts to the most directly comparable GAAP amounts are included in this afternoon's press release. Please also note that all growth percentages refer to year-over-year change for the period, unless otherwise specified.

I'd like to remind everyone that remarks made during this call may contain forward-looking statements. These statements involve risks and uncertainties as further detailed in our filings with the SEC, which could cause actual results to differ materially from those mentioned in the forward-looking statements.

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

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

Thank you, Julie, and thanks to everyone for joining us today. Since our last call, so much has changed in the world, and I'd like to start by acknowledging with heartfelt sadness that we feel regarding the human tragedies of the health pandemic and the economic hardships that are being experienced by so many. I'm incredibly proud of how well the CDK team has responded during these difficult times. We remain committed to helping our customers and employees, not just to get through the crisis but to emerge stronger and more resilient. We see tremendous opportunities as dealers evolve and adjust to their new normal, and we will continue to deliver the innovation and technology for a more digital environment. Our breadth of solutions, our scale and our strength had never been more important, with customers increasingly turning to us as a sound and trusted partner when they need help the most.

I'm very proud of our performance during the quarter, which highlighted the strength and resilience of our business model. We exceeded our expectations even given the challenges that we faced our industry and the support we gave to our dealers. We delivered $450 million of revenue with approximately 80% coming from subscription-based recurring revenue. We generated full year revenues and EPS at the top end of the guidance range at $1.96 billion and $3.17 and exceeded our guidance for EBITDA at $751 million. If you adjust for the COVID-related impacts we experienced in the last quarter, including the discounts and credits we provided to our customers, our annual revenue growth would have been approximately 5%. I'll let Joe go into all of the details. But so far, we've managed very well, and I'm excited to share with you some of the amazing things we've been working on and our longer-term plan for continued growth.

So today, I'll start the call with some insights based on what we're seeing in the industry. As we shared previously, we believe we have among the richest and most comprehensive sets of data on the auto retail industry. We view it as a privilege to share the trends and insights we see in the data. Second, I'll highlight the strong sales and renewals that we accomplished in the quarter, which were better than expected considering the stressed conditions. And third, I'll share the progress we're making with our investment strategy. As 2020 was a significant year for investments, we want to provide an update on the initiatives and the advancements we've achieved. I'll then turn the call over to Joe for details on the financial results before opening up for Q&A.

So let's start with a look at what's happening in the auto retail industry with North America auto sales per dealer on Slide 4 in the presentation posted on our Investor Relations website. As you may recall last quarter, we mentioned what we thought was the start of a possible recovery in late April. Data proved to be spot on. Seeing our latest data now confirms this with average monthly sales dropping almost 30% in April from the high in February, followed by a strong recovery in both May and June, with sales for the entire quarter averaging out at almost the same level as the previous quarter. While year-over-year performance across retail automotive remains down, we're encouraged to see the sequential improvements in our data.

We believe there was a combination of factors driving the return and demand for auto ownership. In addition to the normal auto replacement cycle and strong OEM incentives, the preference for personal vehicles over public transportation or ride-sharing options due to safety concerns appears to be rising. However, this demand was tempered by the fact that on-site purchases in showrooms were limited during the various state shutdowns. While many states have reopened, the fear of a second wave of infections has kept some consumers away from dealerships as they look for alternatives, more remote purchase methods.

One positive consequence of the pandemic is the pressure to accelerate the digital buying experience. While the transformation to full digital retailing may take several years under normal conditions, the pandemic has quickened the time line, and we expect dealers to continue to shift towards more digital solutions. A little later, I'll talk about how CDK is leading the digital transformation effort and how we are bringing integrated and accurate digital solutions to our dealers.

Let's move to Slide 5 of the presentation and the data on North American repair orders per service department. Following the April drop, we saw a strong recovery in the number of repair orders. While many auto showrooms had constrained on car sales, the service and repair side of most dealerships remained open. However, the recovery in May and June has somewhat tempered by several factors, including less vehicle miles being driven and various workforce and parts shortages, resulting in the quarter average down versus the previous quarter.

Going into the COVID crisis, we believe dealers were much better prepared financially than during the last industry downturn. However, as we mentioned in the last call, CDK stepped up and helped the impacted dealers during the month of April with various discounts because we believed it was the right thing to do. Normal pricing resumed after that, and Joe will talk about the financial impacts of the discounts. But I wanted to mention the positive impact and goodwill that was generated. We heard from many dealers that our actions have led to a deeper, more strategic engagement with them. And I'd like to highlight a few accomplishments that our team was able to achieve and for which I'm extremely proud. We leaned into this positive momentum and focused heavily on customer retention, which resulted in a wave of renewal activity. During the quarter, we successfully renewed over 1,200 dealers. As you know, the decision to switch a dealer's DMS, which is their mission-critical ERP system, is not something that dealers take lightly. During the last quarter, we did not expect many dealers to make this critical decision to install a DMS system until more clarity around the COVID was known. However, we actually saw site counts in North America auto increase sequentially from last quarter by 3 and year-over-year by 5. This is now 6 quarters in a row with year-over-year growth and is evidence that our strategies are working.

The site counts were impacted by COVID, and we saw a slight increase in dealer losses during the Q4 from a combination of site closures and bankruptcies. While we're watching this number closely, we believe dealers are weathering the crisis well. Q4 site counts were also impacted by the rate of installations. Given the strong backlog we had in Q4, we expect to have our installation teams fully utilized in Q1. Because of our current sales momentum, we continue to add resources to increase installation capacity.

Sales during the quarter were slower in April, but recovered along with the industry. In June, we achieved our highest sales month over the last 2 years in North America. We had great success with our CDK ELEAD CRM application. It's truly a superior product and one of the best acquisitions we've made. During the quarter, we had several key wins. One of our largest enterprise dealers agreed to install our CDK ELEAD CRM application in all of their sites to allow for more work to be done remotely and provide a better, more digitally connected customer experience. We also secured a 15-plus site competitive win and a 20-plus site win back for our ELEAD CRM solution. I couldn't be happier with the performance of this product.

In addition, our CDK Service app is a strong focus for us and an area of differentiation that is gaining momentum. We've been hard at work building an attractive subscription base and backlog. We continue to win with our proven capabilities. And during the quarter, we secured a 40-plus site win for our CDK Service application. All these customers had many options to fill their product needs, and the fact that they chose CDK is a testament to the partnership approach we take and the value we bring to the dealers every day.

Our installation and delivery teams did an outstanding job this quarter, not only were they able to quickly pivot to allow for remote installs, but they successfully completed one of the largest installation projects in several years. As I mentioned on our November call, we won a 40-plus site dealer from one of our competitors and began the phased installation process. This was a very complicated installation, and even before you layer on the COVID difficulties, yet we completed it with no schedule delays, no system downtime and no negative impacts on the dealer's business. It was one of our most successful installations, and the customer is extremely complimentary of CDK and our ability to deliver on our commitments.

And looking at our international business. The COVID pandemic has had a greater impact on our international dealers due to stricter shutdown requirements and longer delays in reopening than North America. Site losses were greatest in the U.K., Italy and the Middle East.

I wanted to spend a few minutes touching on our adjacency business. While the adjacency business is not often mentioned on our call, it's a great business that generates solid revenue and returns for the company. It's made up of 3 main categories: heavy equipment, recreation and trucking. Both heavy equipment and trucking sales and service were deemed as essential during the COVID-19 shutdown and provided some stable diversification from some of the auto-related industry risk. Like our auto data, we also track data for the adjacencies industries. And included on Slide 6 and 7 of the presentation are graphs that demonstrate our North America dealership activity for the marine and powersports industries during the first 6 months of the year. Interestingly, portions of the recreation segment had a huge bounce back in the spring with leisure activities, such as boating and off-roading, being safer alternatives compared to air travel or hotel-based vacation. During the quarter, we were able to secure a long-term renewal with one of the largest agricultural equipment dealerships in the world with over 100 sites. We also closed a key competitive win for our DMS with a 15-plus site heavy equipment dealer. Our adjacency teams continue to do a fabulous job.

I'd like to move on and provide an update on our longer-term investment strategy. The investments we've made in our core business over the last year are helping to lay a very solid foundation that's providing a long runway for growth. We've increased both our customer NPS scores and employee engagement scores and are in a great position to continue leading the industry in innovation and helping our dealers as they navigate this changing environment. And we continue to execute on the strategies that we've outlined on last year's call. I remain confident that they will deliver significant value over the long term. The capital we've allocated has been invested in Fortellis, in Drive Flex, in our business process modernization program and more recently, in our efforts to support digital retailing. So I'd like to provide an update on our progress for these key areas.

Starting with Fortellis. We're totally committed to bring a much needed platform ecosystem to the automotive industry. Fortellis has grown to become an established industry-wide network with an exchange of modern integrations in an open architecture as evidenced by the over 12 million transactions it generated this year. The team is aiming to drive that level to an 8 to 10x higher volume in 2021. We have confidence in the accelerating growth because of the 70-plus active APIs, including 35 introduced this past quarter, and our strategy to over 40 ISV partners. The momentum is great to see.

Our new CDK Repair Order API is now live and generated over 100,000 transactions with over 2 dozen software vendors signed up for the installations in more than 30 dealerships. Our modernization efforts include completing the integration through Fortellis of our CDK Service app with a non-CDK DMS to expand our agnostic market reach. We're very pleased with the progress we've achieved growing the Fortellis platform and firmly believe in its ability to benefit our dealers, OEMs and the industry for the new innovations and analytical insights that it will enable.

I spoke earlier about our data and the graphs on our industry specifics. While this data is currently very helpful to our management for looking at ongoing trends, our future strategy is to utilize this and other data for continuous development of our applications, services and insights through artificial intelligence and sophisticated data analytics. These data-driven enhancements would allow for innovative solutions, such as predictive analysis for sales and service and actionable intelligence for our dealers on how to optimize their sales and profits.

Moving on to Drive Flex. During the quarter, our Drive Flex DMS was installed in over 17 new sites, and we now have nearly 3 dozen live accounts. We have 8 OEMs on board and continue to refine the numerous workflows and integration. Our business process modernization project is making great strides, and I'm happy to report that we've completed the rollout of our new invoices to 100% of our North American customers. In addition, we've substantially reduced our invoice disputes count and quote turnaround times. All of our initiatives are leading to greater efficiency and driving improved dealer satisfaction.

One way that we've played offense during this downturn was by reallocating some capital investments to enhancing the technology needed for accelerated transformation into digital retailing that is currently happening within the automotive industry. Dealers are looking for a solution that allows omnichannel purchase options for consumers, from a digital remote buying experience to a fully in-store transaction or importantly, a seamless combination of anything in between. We continue to lead in this space with our ability to connect all the various integrations, calculations and workflows needed to provide penny-perfect accurate quoting of a unified solution, regardless of the purchase option.

In May, we announced that Connected Store, our digital online buying solution, would be available to dealers for free until December 2021. We recently launched Sign Anywhere, our new electronic remote signing solution, which enables buyers to complete a transaction without having to physically visit the dealership, and our Deal Builder Showroom app, which allows the dealer to be untethered to a physical location while still connected and able to complete deals. We also enhanced our Hailer application to integrate with our vehicle service product for the safe and remote delivery of parts and services for servicing. These are just a few examples of how we are able to pivot our investment allocation to capitalize on fast-moving trends in the industry.

We will continue to focus on our proven investment strategy as we enter our next fiscal year, and Joe will provide some additional details on this comment. However, the road ahead is difficult to predict given the ever-changing path of the COVID pandemic. The wide range of possible outcomes is holding back our ability to confidently forecast long-term outlook. When we have a greater visibility of the macro environment, we'll be in a better place to provide annual guidance. Still, we are in a great shape to continue our progress to achieve our goals of integrating and innovating across our portfolio and creating long-term growth and value for all our stakeholders. We're in a position of strength and have a unique opportunity to perform differentially even in today's challenging environment.

CDK is going through a strong execution phase of our development and how we perform in the deployment of our capital will be critical. In addition to his CFO responsibilities, Joe Tautges has played a pivotal role in driving these strategies. In June, we announced that Joe will be our new COO, a position that will continue to leverage his strong execution skills to carry out coordinated and focused strategic growth plans. I enjoy working with Joe, and I'm confident in his ability to build on our momentum and carry us forward into the future.

Now before I turn the call over to Joe, I'd like to recognize the many sacrifices our employees have made over the last 6 months. Even through all of the disruption caused by the shutdown, their dedication and our culture of innovation continued to thrive. They're a great team, and I'm very proud of their efforts and the value they've demonstrated through the crisis. I sincerely hope that 2021 will be a year that will pave the way forward to a safer world and the return of economic prosperity for everyone. The strength of our company, the talent of our hardworking people and the response of our customers as they recognize our commitment to their success gives me great confidence in the future of our business, and I look forward to continuing to deliver on our promises and updating you on the future calls.

So thank you. And now I'd like to turn the call over to Joe.

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

Thanks, Brian, and hello, everybody. Before I jump into results, I'd like to say that I'm really pleased with how the CDK team pulled together to deliver the fourth quarter results we did in the midst of facing an unprecedented crisis. In addition, as I reflect on this past year, I couldn't be prouder of the job we've all done to improve the foundational health of our relationships with our customers as well as with our employees while investing in the foundation that will allow us to grow both revenue and profit well into the future.

Before I share the financial results, given the impact COVID has had across the numbers, I think it would be really helpful for me to share my insights around 2 items. One, what was the impact that COVID had on the business in the quarter? And two, what did I see in the underlying business when you set aside all the noise? And as a reminder, any comments I make around the underlying business are directional as it is very difficult to pull out the specific impacts of installations, sales and such to truly strip out all the COVID impacts and get a view of the underlying business.

At the time of our last call, we were in the heart of the broad-based COVID shutdown. Cases were rising. We were all working remotely, many dealers' showrooms were closed and there were no discussions about reopening. We provided some details on what we thought would be the potential financial outcome if these conditions persisted through the quarter and put them in 3 main buckets: customer discounts, loss of transaction revenue and delays in work and installs. We gave a range of outcomes toward the impact from $60 million to $110 million. The good news is we've been able to perform better than our forecast as a result of the CDK team managing the total impact to roughly the very low end of the range we provided at around $60 million. These impacts were felt across different revenue categories with reduced subscription revenue as a result of customer discounts and credits as well as lower installations during the shutdown. We saw reductions in other revenue as well as on-site revenue streams, particularly related to the International business due to delays in project work. Our transaction revenue was down about $10 million, which was much better than our original estimates, and reflects the improvement in auto sales during May and June.

Now let me discuss the second item about how our underlying business performed without the impacts from COVID. I'd like to provide a few highlights on the core fundamental drivers during the quarter. When I look at the North America business, I see healthy underlying revenue growth that is roughly consistent with previous quarters. Core drivers continue to come from a combination of stabilizing site counts and growing revenue per site as a result of gains from key applications like ELEAD CRM, CDK Service and document management in addition to the benefits from more upfront recognition of certain lease revenues.

As I look at the underlying International business, we also continue to see the revenue growth that's very much in line with the year-to-date revenue growth of the business as a result of higher penetration of solutions and DMS upgrades, tempered by continued pressure on site counts. Overall, we came through the quarter relatively unscathed, and our underlying business remains robust. Our performance demonstrates the resilience of our subscription business model, and we believe that our investment strategy will continue to provide the solutions and capabilities necessary to achieve our long-term goals.

So now to summarize our fourth quarter results. Total revenues were $450 million, down 8%, with North America down 8% and International down 9%. Breaking down reported revenues into the main categories, starting with subscription revenue, we saw fourth quarter decline due to the impacts of COVID, primarily driven by a 7% decline in North America. North America auto sites were 8,951, up 5 over Q4 last year and up 3 over last quarter. We successfully kept our year-over-year site growth record going for 6 quarters in a row even with the slight rise in dealer bankruptcies during the quarter. Revenue per site in North America auto was $8,034, down 8% due to discounting, with recurring revenue down in both the 3 plus and 1 to 2 site groups.

The adjacency business continues to really be a bright spot. Sites were up 33 year-over-year primarily due to strength in the heavy equipment space and industry consolidation. Customer discounting in the recreation sector also impacted adjacency revenue per site, which was down 3%.

Our International subscription business continues to see healthy performance on an underlying basis through incremental installs of solutions to existing dealers and higher DMS revenues through migrations to our Autoline Drive product. Subscription revenue from our International segment for the quarter was driven by declines in both sites and revenue per site due to the impacts of COVID.

Turning now to the other 3 revenue categories of transactions, on-site and other. As expected, transaction revenue was down in the quarter due to lower volumes of vehicle registrations and credit checks, especially during April. As Brian mentioned, we saw a recovery in sales activity during May and June, which helped to offset some of the earlier losses. Overall transaction revenue was down 22% in the quarter. On-site revenues were impacted by declines in our International segment. Our revenue was down 5% due to delayed project revenues and lower call center business, partially offset by benefits from more upfront recognition of certain lease revenues.

To highlight some of our annual results. We ended the year with consolidated revenues of $1.96 billion, up 2% year-over-year or 3% on a constant currency basis, driven by growth in North America of 3% and flat revenues in International. Without the fourth quarter impacts of COVID that I mentioned earlier, we are quite pleased to see annual revenue would have grown around 5%.

Now turning to earnings. Fourth quarter EBITDA of $170 million was down 12% year-over-year due to COVID impacts and strategic investments partially offset by expense savings and reductions in incentive compensation. The team did a really good job of reducing discretionary spending and hiring, and we ended the fourth quarter with a margin of 37.8%. Full year EBITDA was $751 million, down 3% and was impacted by COVID as well as continued investments and the parter program transition. EBITDA margin was 38.3% for the year.

At a segment level, North America pretax earnings were $142 million for the quarter and $647 million for the full year with margins of 37.6% and 39.5%, respectively. For International, pretax earnings were $17 million, down 18% for the quarter, with a margin of 23.7%. For the year, earnings were $73 million with a 22.8% margin. Recall that we implemented a restructuring plan earlier in the quarter for the International business for which we incurred a charge of $14 million in Q4 as we completed over 2/3 of our planned changes. We expect to incur another $15 million in charges during the first half of 2021 as we complete the final actions we laid out. The purpose of the restructuring plan was to better align revenues and costs, and we expect International to achieve close to 30% EBT margins exiting fiscal year 2021.

For the total company, our effective tax rate was 25.2% for the quarter, up from 19.2% in the same period last year and 24.3% for the full year. Quarterly diluted earnings per share was $0.67, down 24%; and $3.17 for the year, down 5%.

With respect to our year-end balance sheet and liquidity position, cash was $216 million, of which $175 million was held outside of the United States. Access to liquidity remained strong with more than $700 million available on our revolving credit facility. Net debt-to-adjusted EBITDA was 3.3x, which continues to be above our 2.5 to 3.0x target. As a result, we do not anticipate any material share repurchases in 2021. Annual free cash flow was $282 million, which was lower year-over-year primarily due to litigation settlement payments in prior quarters as well as the impact of COVID on earnings. We feel very good about the level of free cash flow generated in the fourth quarter. I just want to recognize the efforts that our sales and finance teams have done to collect our outstanding receivables during the quarter to generate a strong level of free cash flow in the midst of what was a very difficult quarter. This continues to show the strength of the CDK business model and the value we deliver to our customers. During the quarter, we paid out $18.3 million in cash dividends to shareholders. We expect to continue our normal quarterly dividend payments.

Moving on now to our thoughts around 2021. We worked really hard to minimize the impacts of COVID in Q4. But the lower installs due to the shutdown in Q4 and the uncertainty across Europe and North America around how dealers will open and remain open has made it difficult for us to confidently forecast the year, let alone even the first quarter. Instead, while our general policy is not to talk about our quarterly views, we recognize that these are exceptional times. So I would like to give you some guide rails that are framing our thinking of Q1, which should help you understand what we're working to accomplish. When I think about Q1, we would expect to see continued good underlying revenue growth in the business. Reducing this growth, however, would be the impact from COVID, largely in the same 3 buckets that we previously discussed: number one, amortization from Q4's customer discounts; number two, lower transaction revenues; and three, delays in project work and installs. For the first bucket, we expect the amortization from the prior customer discounts will be lower by about $15 million in Q1 than the amount recognized in Q4.

For the second bucket, it's difficult to predict the potential revenue impacts on transactions given the current dynamics we're seeing with the unknown progress of the COVID pandemic and related economic uncertainty. For example, some states could potentially shut down again, limiting dealer showroom activity or further auto inventory shortages should production not come back to meet demand. However, as Brian mentioned, our CDK data on the auto and adjacency businesses show signs of improvement, which would help offset some of the downside risks.

For the third bucket, we expect some ongoing project work delays, particularly in the international markets, where our dealers continue to be impacted by a slower recovery, which will impact our on-site and other revenues during Q1. Also, it is unknown whether the delays in installations we experienced during Q4 due to the shutdown will continue and what impact this may have on future subscription revenue.

With respect to fiscal 2021 earnings, we continue to be very thoughtful around our cost containment efforts to prudently mitigate the negative impacts to margins associated with COVID as well as to fund our ongoing investments. Similar to last year, we expect approximately $30 million of incremental investments in fiscal year 2021 to support our technology innovations and customer-focused strategy.

As I reflect on the current results and future opportunities, I'm reminded that we are a very different company than when I joined. We've put our customers and innovation front and center. While the environment has created many challenges, I believe the combination of our CDK team, our software and our data and insights position us well for the future.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question or comment comes from the line of Ian Zaffino from Oppenheimer.

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

Very good job considering what's going on. I guess my question would be, help us, like, understand what the current environment -- maybe what you saw in the quarter or maybe what you anticipate in future quarters as it relates to maybe Drive Flex and your kind of ability to maybe implement that and grow that deeper, is that becoming maybe a substitute for your core DMS product if there's dealer pressures? Or are you getting maybe smaller dealers converting more aggressively in this environment? Maybe just any type of color you could give us surrounding that, that would be really helpful.

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

Sure. I can start and then Joe can jump in. So first, thanks for the recognition of a good quarter. It was a great quarter. And we were constantly navigating through various issues, and I think the team just adopted very well. Drive Flex continues to do very well. We will go out of the quarter at about 18 installs. We'll average between 15 and 20 installs per month as we go through the rest of this year. Our goal is to exit the year at 20-plus installs per month. We have a backlog of about 100 or so, somewhere around there, right now of installs. And it's a mix of 1 and 2 rooftop dealerships and independents. And so what we'll focus on as we go through this year is to further do integrations. What keeps us out of the bigger dealerships are some more of the application integrations and then the multisite accounting features. You have to be able to go across various OEMs. You can see we've increased the number of OEMs that are certified on the platform now, and we'll -- we should be able to finish those out as we go through this year as well. So continuing to do well, and we'll continue to focus more on the 1 and 2 rooftop and independents this year and start to migrate. What we've really done, though, is -- I don't want to have you think differently. And maybe one of these times we'll have Mahesh, our CTO, come on and actually spend some time talking to you guys about our strategy. But we actually think that a lot of the things that come from Drive Flex, the API-based structure, the micro services, the improved database, the UI/UX improvements, can be brought into Drive. And the advantage of doing that is the very, very big enterprise-class dealerships, 80 to 100 plus, those would take a long time before we could convert them to Drive Flex. And instead, we think we can bring all of those features to Drive over the next 18 to 24 months and do them in quarterly drops. So it's not a transition. So this is how we get Drive Flex-like application and usage into the Drive database at a much, much faster rate. So we'll continue to utilize Drive Flex and eventually, probably 3 to 4 years from now, the 2 codes will actually merge into 1 product.

So you're going to see this kind of -- think of it as 2 vectors coming together 4 or 5 years, 3, 4 years from now or whatever, out there in time, we're still kind of pinning that down. And they'll come together in kind of a mutual way, but they'll come together in a way that the people on Drive, who are the big users, get a lot of those usages along the way in quarterly drops. So we're really excited about the strategy we've put together around this. Drive Flex is going great. Like I said, 15 to 20 a month, and we'll continue to increase that as we go through the year. Joe, anything?

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

No, no, not much there, Brian. I think you said it well and covered it well on Drive Flex and Drive. And Ian, we look at the year and particularly fourth quarter and some of the moving pieces and just really very proud of what the team has been able to deliver.

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

Probably the other thing that I'd like to say is Drive Flex gave us a real advantage. We're able to do the Drive Flex install. It was the first one we were able to do completely remote. And so it's been quite nice, especially in an independent dealer or smaller dealers, we can do the whole thing remotely and then just send one person out to do some training, maybe 2 people at most. So we can really do it in a low contact mode, which in this kind of environment has worked quite well for some of our dealers who aren't ready to take a lot of vendors on site. So it was the first one. We've done a lot of the other ones now remote as well, ELEAD and even our Drive installations have been remote on -- in many cases. So -- but it actually was one of the first ones we're able to do, which is a real advantage.

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

Great. Great. And also, Brian, I think you mentioned the 5% growth, and I think, Joe, you may have mentioned that, too. Is that something that we should expect maybe going forward? I know obviously, there's COVID issues and stuff like that. But if you adjust all that out, is that 5% number the right growth number? Can it be higher? Should it be lower? How are you actually thinking about that 5% number as far as your adjusted growth number?

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

Sure. So I could start and Joe will add in and/or correct me. Sometimes I get ahead of myself. The COVID's the hard part, right? So if we factored out COVID, if there was no COVID in the world, Joe and I feel more and more confident in our mid-single-digit forecasts for the next few years of growth. And I'd tell you, we continue to see how we're going to do it and just prove. And things like the June sales being the best sales month in the last 2 years is just a great example, right? That's where you get the growth. Number of quarters of year-over-year site growth and all. This is where we get it. And then our confidence in the technologies that we're going to be bringing, right? The improvements we're doing in CRM, in Service, in Drive and Drive Flex, all of those things continue to give us that insight into the next few years that we can continue to grow in those mid-single digits. COVID's the big variable. So I want to take that away and say, look, that's part of why we didn't do a forecast. It's very hard to predict what's going to happen state by state and country by country. And now I'd tell you that Joe and I are spending an increasing amount of time. And part of why we did the change in moving Joe to COO is to really have him and I spend more and more time on what does it take to grow beyond that mid-single digit. How do we do either through other innovations, expanding our market, looking for all kinds of opportunities. We continue to see them, and we want to go execute on those. But the way to grow beyond that mid-single digit is by expansion of the market and the products that we offer. Joe, anything?

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

Yes, I'll add in. I liked the way Brian put it, and it's what we're focused on, Ian. I think now that we're pretty far into the transformation and we're seeing a lot of the health signs of the business improve and accelerate, I think the 3 tranches we think about it is sort of the core and the core is performing well and growing. And then there's so many organic opportunities now that are coming from the teams when you look across the portfolio, and it's just a matter of us prioritizing how we allocate capital against those and really lean into those opportunities. And now we're spending time thinking about inorganic opportunities, ones that are nice attachments into our business. And others, like Brian said, really focused on expanding the TAM with the confidence we have. So feel good about things, and I think we're in a good position to really go deliver and manage through what will be certainly a fiscal '21 that would still have some COVID impact. But beyond that, I think we're well positioned for the long term.

Operator

Our next question or comment comes from the line of David Togut from Evercore ISI.

David Mark Togut - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Can you talk about the trends you're seeing separately at the low end and the high end of the core DMS business? And specifically, are you seeing any further client attrition at the low end of the market?

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

Sure. So I can start, and once again, Joe can jump in. Yes, I mean there's certainly a difference between the high end and the low end. We saw the high end, the bigger guys, maybe they -- we knew of acquisitions they were thinking of doing pre-COVID or other strategic moves, we saw those slow down. We saw them exit from some low-performing sites, either through sales or closure. And so you saw them kind of hone their strategy, and I think they are thinking stronger. Definitely in some of the smaller sites, we -- that's where we saw more of the closures. But like I said, if you took the overall perspective of the amount of that, the number of impacted sites so far at least, it's actually better than prior downturns that we've seen. So overall, I'd say it's performing better than in the past. But definitely, you're seeing more of the closures coming from the smaller side and more of, I'll call it, the strategic decisions being done by the big guys, either through slowing down some acquisitions that were maybe deemed risky at the time or aligning their stores to the higher-performing stores. Joe, anything else?

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

No, nothing additional to add.

David Mark Togut - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Got it. And then just as a follow-on to that. You called out some reduction in price breaks over the last couple of months. Can you perhaps sort of drill down into underlying pricing trends expected in FY '21 as a whole for the core DMS business?

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

So I'll jump into that. I'll take the lead. So when I -- listen, I think there's, as Brian said, a lot of uncertainty with how things play through with COVID, whether it's into the fall and winter. And so right now, I think we're certainly planning for and approaching things as normal course of business as we drive the team forward and the business forward. That said, we'll continue to update you as we get more experience with how things unfold with recovery, whether it's in North America or International.

David Mark Togut - *Evercore ISI Institutional Equities, Research Division - Senior MD*

And just finally, if you could give an update on capital allocation priorities.

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

Sure.

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

Go ahead, Brian.

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

Go ahead, Joe. You could start for this one.

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

Yes. Listen, I think from a capital allocation priority, we're very -- we were really pleased with what happened in Q3, right? We had been paying down debt throughout the year, and we were well positioned to refinance our debt structure, and we have $700 million of borrowing capacity available. And right now, again, we're continuing to be very thoughtful around how we planned capital allocations. And our posture is our -- we're 3.3x net debt-to-adjusted EBITDA levered. We'll continue to look at buying down debt in and focus on preserving and growing free cash flow as we work through 2021. We're not planning any material share repurchases at this point, and we'll continue to maintain the dividend. And again, it's one of those areas where I think as we get more clarity around the certainty and the other side of COVID, we'll provide updated viewpoints from there. And I think that puts us in a nice position to really have flexibility should we see tuck-in inorganic opportunities or else. Anything else, Brian, you would add?

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

No, I think you said it really well, Joe. I think we have a real focus on free cash flow right now. And I think, like a lot of companies, we learned during COVID how to save money, right, in a variety of ways, just doing without things that you didn't need and a lot less travel. All of those, we've taken to the bottom line, and we're going to continue to do that. So we're not going back to "normal" from that perspective. We're trying to capture as many of those savings as we can and carry them into our plan for '21. And then the only other thing I'd add on pricing is, right now, I just -- if you look at everything, whether it's pricing or whether it's installs, in all of our operations, we're assuming that on a day-to-day basis that COVID remains in check and that there aren't further closures that impact our customers and things like that with a look that we'll constantly adapt as that comes through, if it does come through. So we're not planning any further price reductions. We're planning for a normal year, but we're ready for whatever comes around the corner.

Operator

Our next question or comment comes from the line of Matt Pfau from William Blair.

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

I wanted to first start off with the comments about the sales strength that you saw in June. And maybe you can just provide some more details on that. Sort of curious to know if what performance -- what products were performing well. And then was this coming from demand from new customers or were you also seeing good demand selling back into your existing customer base?

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

So I can start. In the future, this will be more and more Joe as he takes over a COO role, though, so this will be fun. I'd tell you that the sales were across a broad spectrum of products. The DMS was strong. CRM had a great quarter. Service continues to do quite well. So all of our fixed operations products continue to do well, some of our F&I products. And so it was really across the board for the most part. And I'd tell you that it was a mix. A lot of the layered applications, so CRM and such, were more into existing customers. So we told you one of our large enterprise customers did a very large CRM purchase and agreement with us. The DMS is mostly through either acquisition or new customers that are coming from our competition.

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

Yes. The only thing I would say is, listen, I think we've set ourselves up good for Q1 around our backlog, right? We -- some of that momentum, we have a very good backlog, whether it's the DMS, whether it's a Service application or a CRM application. I think the sales team, so proud of the work that they did in June to really get back at it even with some of the travel restrictions and shutdowns and just the relationships that we continue to build with our customers. And it's a nice blend of new and existing.

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

Got it. And I also wanted to dig into the site count for North America dealerships being up sequentially, pretty impressive given the headwinds of bankruptcies and continued implementation delays. So maybe if you can just give us some more details there. How has the gross adds maybe normalized for some of those impacts versus where you would have expected or want to be?

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

Yes. Maybe I'll start and then Brian, if that's okay, you can add in. When I look at the site count, first of all, on installs, it's actually interesting. In fourth quarter, the installation team did more installs than they did in our third quarter. And the team just did a great job adapting. And like Brian said, doing virtual installations as well as, where customers were comfortable, on-site installations. And we finished our most complex customer implementation virtually, and that just incredible marks -- remarks about the quality of our virtual installation. So COVID is certainly presenting an opportunity for how we think about our installation model and continue to improve the customer experience and deliver a more efficient, high-quality outcome.

And then I would say the second part, like you said, we had a lot of momentum coming out of Q3 and Q4 pre-COVID that we saw in the pipeline, and we expected a much higher level of installations. So that dampened a bit the quarter site count. And then as Brian mentioned and you brought up, there was a bit of a uptick in what we classify as out of business, and that was really more in the 1 to 2 dealers. And that had a big enough effect where it could have been a really positive quarter from a site count perspective. We're pleased with the positive sequential improvement, and we're just focused on delivering and coming out of the gate strong in the first quarter.

Operator

Our next question or comment comes from the line of Charles Nabhan from Wells Fargo.

Charles Joseph Nabhan - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

I wanted to dive into the earlier question about large versus small dealers in a slightly different way. It's pretty clear listening to commentary from the large public dealers that there's an emphasis on digital investment. But my question is, how ready are small- to medium-sized dealers as the market moves more towards omnichannel and digital sales? And I was just wondering if you could comment on the opportunity, the penetration levels you see there as well as maybe some specifics around the independent dealer market, which you've mentioned in the past as an opportunity.

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

Sure. I can start. I'd tell you that the smaller dealers, it's a real kind of a bipolar situation. There are some of those smaller dealers who are quite sophisticated. I know some of them who are owned by guys who have come out of private equity and a variety of really well-run 2, 3 rooftop, even 1 rooftop operations. They are actually quite prepared to move to the digital platform, and they're excited and they're moving relatively quickly. They actually can be sometimes more nimble than the big guys. And then you have the other side of the small guys that are not ready at all. This is well beyond them. What we're trying to do is continue to simplify our tool set so that it's simpler and it's easier for them to make this transition. So I think our -- onus is on us to help them get through this and be able to do that in a simplified way. And the independents are not anywhere near that space yet. And so we have to get that into Drive Flex and get that as well easier for them to do. And so that's kind of how I look at it is it's kind of a bipolar world, where there's a group that are not ready and we've got to help them and then a group that is actually quite sophisticated and very capable.

Charles Joseph Nabhan - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Got it. And as a follow-up, could you comment on whether some of the discounting on apps, such as Connected Store, has driven demand for complementary products, such as ELEAD, for example? And if so, when we could potentially see revenue -- some of that revenue materializing from demand?

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

It has. And in fact, we gave away the -- there are a couple of versions of our Connected Store, for example, even there's the basic version and then there's like a platinum version, and we give away the basic version, which is quite capable. And what we saw was actually a significant number of customers even just upselling or upgrading to the platinum version. So we see some of that going on. And then, yes, we're seeing, as people look at this, they're looking at, oh, look, I can use that. I can connect that to your ELEAD CRM, I can connect it to your Service more easily. And so we are seeing some cross-selling. It's probably -- we don't really track that as well, right? It's a little bit harder for us to always make those connections because oftentimes, they're not aligned at the same time, but you definitely see the relationship getting deeper and deeper.

And then just remember the Connected Store, the whole idea of this digital retail experience is to have a continuum. So we don't think that every buyer is going to come in and say, "Okay, I want everything to be online to the last 2 signatures. And even that, I want to try and do as remote as I can." We think people are going to want to come in to the store all along that continuum. And our product is designed and we're trying to continually improve it. So that you can drop out at any point from the online experience into the store and have everything carry through and everything be penny-perfect from that standpoint, right? So if you don't get a different price from when you are looking at your car online and then you go, "Okay, I want to walk into the store now, do a quick test drive and take it," that pricing stays constant through there. That's one of the most important things because that's all about trust, trust on the consumer side, trust of the dealer and then the dealer trusting us.

Operator

Our next question or comment comes from the line of Gary Prestopino from Barrington Research.

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

In terms of digital retailing, you mentioned the Connected Store, but you also mentioned a couple of other products that were selling -- you sold this quarter. Could you maybe just give us an idea of what kind of products that you have for digital retailing? And if not having a website business now puts you at somewhat of a competitive disadvantage for assisting dealers with digital retailing?

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

Sure. Let's just talk about digital retailing. So first, let me answer the last question first. That's probably the most simple and clear. Not having a digital marketing portion of our business is not a negative at all. In fact, if anything, it's a slight positive. It makes it -- because what you really want to do -- nobody is going to come in through one path, right? Some people are going to come in through jdpower.com or kbb.com or a dealer website or an OEM website, and you really want to be agnostic to that entry point. And so not having our own website business actually makes it easier for us to partner with third-parties, and we'll do that through Fortellis. So you want to ingest from every source and not have a competitive position necessarily from those omnichannel sources. So that's the answer to that portion of the question.

From a digital retailing standpoint, the main product is the Connected Store. There are other products people are going to want to have that are tied to the financing and insurance portion. We supply some of those or we supply connections to third-parties for those as well. There may be ties into service. Again, that tie -- let's say, you want to do some upgrades to your car and that needs to get booked into service, those all need to happen as well. And then you've heard us talk about Hailer integration. So we can -- whether your car -- whether you're buying the car or whether you're servicing the car, we took our Hailer application, which was designed towards Lyft and picking you up and dropping you off, into dropping off your car or picking up your car for either maintenance or purchase. And so that whole process now can occur through that application, and that is being done by the dealer typically. They may still use a Lyft or something to go through that, but it's not necessarily that. It's more scheduling the dealer resources. So all of those are put together into a continuum, right? You've got to bring the customer into those webs, then into the DMS, connect them into the CRM. And that's what Connected Store is doing is really doing all that through that and then allowing the various finance and insurance options for pricing of the vehicle at the end. And whether you want to do a lease or a purchase, all of that is run through Connected Store, but it has a connection to all of those other applications.

Operator

Our next question or comment comes from the line of Josh Baer from Morgan Stanley.

Joshua Phillip Baer - *Morgan Stanley, Research Division - Equity Analyst*

I just had a clarification on the investments for FY '21. The $30 million, is that above and beyond what was spent in FY '20? Or are you just highlighting that there would be another $30 million for innovation and customer-facing strategies?

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

Sure. So...

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

I'll take that one.

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

Go ahead, Joe.

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

Go on, Brian. You start this one.

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

No, no, no. Go ahead, Joe.

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

Yes. Consistent with what we've shared in the past, we've got a really good road map forward around modernizing the technology. And that's a lot around Drive Flex, around our legacy applications, around building out Fortellis. And beyond that, there are opportunities around the business process modernization program that we continue to invest in. So the $30 million is incremental that we are funding as part of our underlying business performance and incremental to the number that we incurred in 2020 and consistent with what we've shared in the past. Brian, anything else you would add?

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

No. I think that's the important thing is, when we originally gave you the 2020 forecast, we told you what the total product -- project would be, and that would occur over roughly 3 years. And this '21 number is right in line with that. And most of this spending is in headcount and engineering to really support the modernization and/or some software and consulting fees if it's going towards the ERP and some of that work. So it's really a resource-based product.

Joshua Phillip Baer - *Morgan Stanley, Research Division - Equity Analyst*

Got it. If I could sneak in. I was just wondering if you had a quick update on the CFO search, maybe in what kind of background or experience you're looking for? And then I was also wondering, for Joe in the new role, you mentioned some of the high-level growth opportunities that you'd be looking at. Wondering if any more detail or thoughts on the cost side for North America.

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

Let me start, and then Joe can add in. It's pretty difficult to replace somebody like Joe. So we've started the search now. We've got a consulting company to help us go through that search. We're looking for somebody -- automotive experience would be nice but not critical versus software, SaaS technology experience. And we're looking for people who are used to a high-growth environment and understanding how to help prioritize investments across the enterprise because that's really -- for me, I really look at the CFO as helping me do a couple of things: manage the cost, understand our revenue and how the subscription process is really playing out and then helping really prioritize based on net present value and return on invested capital, where we want to make investments and how to prioritize those. Because as an engineer, I can come up with a million ideas. I look for the CFO to really help me say, "Okay, well, this one is a really cool idea, but that one's going to never pay back to the level you really want to. This one over here, Brian, is really -- this one has a great payback, and here's how we're going to track it." I look for the CFO to really help me with those things. So those are the kinds of experience we're looking at. It's really just started. We're a couple of weeks in. We've started interviewing some people. The Board's engaged, and that's kind of where we're at right now. And then -- but in the meantime, and Joe is just -- he's still the CFO. I just want to really remind people. So we announced it. We made it very clear so that you, as an analyst and investor, don't worry that we're in good hands still with Joe and I running it.

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

Yes. And then maybe I'll just add to your second question. And first, though, Brian, I really appreciate your comments. And Brian has been a very good mentor to me and how we've really repositioned the company and improved the health of it and think about how we innovate and create such a broader opportunity for the company. And it's fun, and it really is exciting for me to get a chance to work with our teams to better understand what they face day in and day out and really lean into accelerating growth. Brian and I talked about a little bit earlier on the call, you're going to hear us continue to drill down and give more details as we go forward around the first bucket being strengthening the core. And I think we're doing very good there, but I think the best is ahead of us around site counts and continued penetration in our applications and our core business.

The second area, you asked to a little bit more details. I don't want to get ahead of ourselves, but we're thinking of different innovative ways to bring different solutions to bear through Fortellis. One partnership we've signed in the last quarter or so is a partnership with global payments and how we think about modernizing the payment process for the dealer and just making it so simple, particularly when you think about payment processing in this more virtual environment. And there's such an opportunity to continue to help solve dealership pain points and improve the customer experience. And you're going to see, I think, a lot of these things now available as we've improved the relationship with the dealer, and they're looking to us to bring ideas around improving their business.

And then the last piece that we're being very thoughtful about and very careful about that there is a number of inorganic opportunities that we look at, whether it can bolster our digital retailing position or whether it's different markets that would make sense to bring into the core business that are synergistic. We couldn't be happier with the performance of the ELEAD acquisition and what's that done to customer satisfaction of completing our portfolio of products and also to accelerating our core organic growth. So I think we're well positioned. Like Brian said, I'm very, very focused on the CFO role and helping Brian and the Board with the CFO search, and I'm excited to get a strong partner to what is a strong leadership team to really drive the next phase of this opportunity we see ahead of us.

Operator

As there are no more questions in the queue, ladies and gentlemen, I would like to thank you for your participation. This concludes our call, and you may now disconnect. Everyone, have a wonderful day.
