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CDK.OQ - Q4 2021 CDK Global Inc Earnings Call

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OVERVIEW:

CDK reported 4Q21 revenue of \$420m and adjusted diluted EPS of \$0.66. Expects FY22 revenue to be \$1.78-1.82b and adjusted diluted EPS to be \$2.70-2.90.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Thank you for standing by, and welcome to the CDK Global, Inc. Fourth Quarter 2021 Earnings Conference Call. (Operator Instructions) As a reminder, today's program may be recorded.

And now I'd like to introduce your host for today's program, Taze Rowe, Treasurer. Please go ahead, sir.

Taze Rowe - CDK Global, Inc. - Treasurer

Thank you, and good afternoon. I'd like to welcome you to our fourth quarter fiscal 2021 earnings call. Joining me on today's call are CEO, Brian Krzanich; Chief Operating Officer, Joe Tautges; and our CFO, Eric Guerin. Following their prepared remarks, we will be taking questions. Our earnings press release was issued after the close of the market today and is posted on our Investor Relations website at investors.cdkglobal.com, where this call is being simultaneously webcast. In addition, our website includes an updated Excel schedule of supplemental financial information and a copy of our results presentation that we'll be referencing during our prepared remarks today.

Throughout today's call, we'll be discussing our continuing operations only, which do not include the international business results, which are presented as discontinued operations. Unless otherwise noted, all references to financial amounts on the call are on a non-GAAP adjusted basis. Reconciliations of the adjusted amounts to the most directly comparable GAAP amount are included in this afternoon's press release. Please note that all growth percentages refer to the year-over-year change for the period unless otherwise specified.

I would like to remind everyone that remarks during the 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 materially differ from those mentioned in the forward-looking statement.

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

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

Thank you, Taze, and thanks to everyone for joining us today. Let me start by saying how pleased I am with the financial results we achieved in fiscal 2021. We closed out the year strong, with fourth quarter revenue of \$420 million, up 12% from 2020, and EBITDA in the period was \$161

million and EPS was \$0.66. And these results met our expectations, and along with the positive trends in our underlying business metrics, show that we continue to strengthen our position with our dealer and OEM customers, which in turn sets the stage for accelerating growth.

2021 was a pivotal year for CDK. And despite the challenges of the ongoing COVID pandemic, we continued the strategic transformation of the company with the sale of our International business. Combined with the digital marketing divestiture in late 2020, this transition leaves the company laser-focused on our core North American software markets, supporting our auto and adjacency customers. And the CDK International sale also significantly strengthened our balance sheet, allowing us to reduce debt and fund the highly strategic acquisition of Roadster in the fourth quarter.

We recorded auto site growth for the tenth straight quarter, with sites up more than 1% in auto and 3% in our adjacency markets. Revenue per site was again a record for both markets, rebounding strongly from the impact of the discounts we offered in Q4 2020 to support dealers at the height of the pandemic shutdowns, but also showing solid growth versus last quarter. Fueling this growth is our ongoing determination to wake up every day and help our customers sell more vehicles -- service more vehicles and run their businesses more efficiently, and ultimately, drive the transformation of the entire automotive retail industry.

CDK has the unique opportunity to improve today's fractured industry, offering partnership built on years of understanding. We are at the heart of the ecosystem, connecting our industry at every level and investing heavily in our vision to lead the industry into the future. We are connecting dealerships to consumers with the recent acquisition of Roadster. Over the coming months, we will complete the integration of Roadster's front end into CDK's existing platform, including the ELEAD CRM. Then we're connecting employees across departments within the dealership by providing a suite of solutions that work together seamlessly, allowing them access to the best-in-class solutions like Roadster and ELEAD regardless of their DMS. And we're leveraging integrations built on our Fortellis platform to extend our capabilities.

And Fortellis continued to gain traction over the year, with more than 155 million transactions, far exceeding our goal of 100 million. We're connecting OEMs and dealers with continued advancement in our DMS solution, while our DMS sales for the year set an all-time record. Most significantly, we are connecting the industry with intelligence, enabling the transformation of data into intelligent action. And a great example of this is the new predictive service application that is in preview as part of our CDK service solution. And dealers need to increase revenues, but lack the ability to get the right intelligence from their data. And with this predictive service, a technician will easily be able to recommend the right repairs at the right time, benefiting the consumer and increasing dealer profitability.

In 2022, we will continue to invest for our customers. Though some of the heavy lifting is now behind us and our investments are already generating benefits, including better customer satisfaction, a growing customer base and stronger financial results. As a result, I'm pleased that our earnings guidance for the coming year reflects accelerating growth in both the top and bottom line. And Eric will provide more details in just a few minutes.

We've included some data from our systems in our earnings presentation, which indicates the themes and trends of 2021, largely continued into the fourth quarter. OEMs continue to face production constraints due to supply chain issues, which are resulting in tighter dealer inventory. Despite supply issues, demand remains fairly strong, and auto sales and pricing have continued to be solid for both the new and used cars. As a result, dealers have been successful in maintaining profitability. And we continue to see our dealers interested in investing those profits into consolidation, which is a tailwind for CDK, given our strong position as a strategic partner to larger, more acquisitive dealers. And we expect consolidation will remain a theme that benefits us into 2022.

Consolidation, along with strong sales and installation efforts, helped us continue our strong site count growth. We continue to see strong growth in our most strategic applications like CRM and service. And we are excited to be rolling out OnePay and Roadster to the CDK sales force as we enter 2022. These products show that we continue to help dealers modernize and improve their operations.

The automotive retail landscape is evolving faster than ever, and CDK is at the forefront of investing in its future. We're creating the customer experience models others will follow and developing powerful platforms that lead the field. And as the industry moves forward, we're confident that it will be on the infrastructure we continue to build.

Now before I pass over to Joe, I'd just like to thank all of our stakeholders, our employees, our customers and our partners, for their support and efforts this year. Despite starting the year with significant uncertainty driven by the global pandemic and associated economic challenges, we

worked together to develop and implement solutions for these challenges and continue to deliver innovation and technology improvements to support the industry. And I couldn't be prouder of what we achieved in 2021, and I really look forward to a promising 2022.

So now I'll turn it over to Joe for the business highlights.

Joseph A. Tautges - CDK Global, Inc. - COO

Thanks, Brian. As Brian said, we are pleased with the progress we made in the fourth quarter and the continued momentum we have with our customers. Brian talked about the significant investments we've made over the last 2 years, including new solutions like Roadster, enhancements to existing products and providing open integrations through the Fortellis platform. Our goal is to unify dealership departments, dealer groups, and OEMs and strengthen their connection with the consumers they serve. Our approach is resonating with our customers, and our sales team is finding dealers are receptive to increased partnership with CDK.

We also continue to focus on deeply understanding the satisfaction of our customers. Our recent Net Promoter Score results show continued positive sentiment. Our focus on being easy to do business with and investing in product support and technology has resulted in increases in NPS across all of our strategic products. The continued improvement in customer satisfaction resulted in increased retention even when compared to our strong results last quarter. When the industry thinks of dealer management systems, CDK Drive remained solidly at the forefront as the central hub that connects dealers, OEMs and consumers. Its success is evidenced by its consistent performance for existing customers and strong site growth, which drove auto sites up more than 1%.

In addition, we are excited to share that we had 6 competitive wins of dealer groups of 5-plus sites last quarter. This accomplishment can be traced to Drive's unmatched capabilities and integrations, offering the robust functionality dealers need and demand. We are also pleased that our adjacency site count continues to perform well, rising more than 3%. We saw solid revenue growth -- site growth in the quarter as well, which rebounded strongly from the fourth quarter of 2020. You'll recall, Q4 of 2020 was impacted by the onetime discounts we gave to support our dealer customers in the face of the COVID pandemic. Compared to Q3, annualized revenue per site growth of 4% in auto and 8% in adjacencies might be a better comparison to show the continued momentum we have in the business. Recurring revenue was down slightly from the third quarter among 1- to 2-site dealers, but rose nicely for 3-plus site dealers.

Beyond DMS, we continue to win in the market with key strategic applications. In addition to the strong growth in CDK Service, Doc Cloud and Cloud Connect, I am excited to say that ELEAD finished the year with more than 6,000 sites. Dealers continue to see the value of ELEAD in driving sales and service. Of course, the biggest news on the application front is our acquisition of Roadster. As Brian mentioned, dealers and OEMs are accelerating their adoption of a modern retailing experience for consumers, one that lets them start and in anywhere they choose, online or in store. Roadster brings the best user experience on the market for both the consumer-facing side online and in-store processes.

By combining our assets and capabilities, we are enabling an end-to-end omnichannel retail experience, from digital sales with Roadster, a leading CRM solution in ELEAD to the digital deal jacket, seamless document storage and signing with eSign. Our sales team is excited to have another strong asset in the portfolio and our technology team is on track with an aggressive 100-day plan to build further integrations for Roadster into the CDK core. Looking forward to 2022, I am confident our team will continue to build on 2021 and accelerate growth. The efforts we have made to drive a better customer experience and the corresponding increase in associated metrics set the table for continued growth in DMS sites and application penetration.

Let me tell you a bit about the initiatives that have me excited for the next year. On the technology side, 2022 is a year where we will focus on providing dealers the capabilities they need to improve the consumer experience. For example, we're in pilot to expand the back office functions that will enable the digital transformation of the dealers finance department. We are simplifying the navigation within the Drive sales workflow to make it easier to shepherd deals through the F&I process. And as Brian mentioned, we will be delivering the first of many built-in intelligence capabilities, beginning with predictive service. By combining advanced analytics, machine learning and historical data from thousands of repair records for vehicles, we will allow a service technician to quickly predict what components and systems have a high probability for failure. In turn, this creates increased revenue for the dealer and results in a better consumer experience.

We will also continue to optimize our customer service efforts to make sure dealers have the resources they need to run their business. Throughout 2021, we made progress in reducing call center wait times by almost half, by focusing on process improvement and making sure our teams have the information they needed to take action to support dealers. We expect that momentum to continue in 2022 and are also adding aggressive goals on reducing resolution times to further improve responsiveness.

Beyond our existing core customer base, we are also taking additional steps to help dealers on non-CDK DMS platforms through the creation of a new universal product sales team. We are stepping up efforts to sell universal products like ELEAD, Dealer IT Solutions and Roadster that can drive productivity and improved customer experience for dealers regardless of the DMS choice.

Turning to Fortellis, we continue to see adoption of the Fortellis platform as a universal open ecosystem that connects dealers and developers. CDK and other developers have been actively publishing the APIs on Fortellis. Specifically, CDK's focus has been on providing APIs to developers that help them better integrate with our core systems. The market has responded and we enter 2022 with more than 50 third-party applications in our marketplace using these APIs. It's results like this that show the power of Fortellis as a scalable, self-service technology platform that is providing dealers with new and improved choices for workflows that fit their business needs and allows them to quickly adapt to an ever-changing market.

To conclude, I'm quite pleased with CDK's progress and position as we continue to execute on our customer-first strategy and build industry-leading connectivity. We've invested heavily to improve our service and technology, and we are at an exciting point in our journey. We'll continue to innovate with new offerings, product enhancements and a focus on being the best partner possible to ensure we help dealers drive their performance.

I'll now turn it over to Eric for the financial results.

Eric Guerin - *CDK Global, Inc. - Executive VP & CFO*

Thanks, Joe, and good afternoon, everyone. As Brian and Joe mentioned, we had a solid close to the year with financial performance that met our expectations and we are positioned for accelerated growth in 2022. Let me start by walking you through our fourth quarter and fiscal year results. I'd like to remind everyone that results are for continuing operations only, and do not include the International business, which is presented as discontinued operations.

Fourth quarter revenue was \$420 million, up 12% versus last year. Subscription revenue was \$330 million, up 8% from 2020. This reflects strong growth in sites and the impact of COVID on 2020 revenue, including the discounts we provided customers last year, partially offset by revenue recognition impacts, particularly the shift of accounting for hardware under ASC 842 and modest headwinds in the partner program. Transaction revenue was \$49 million, rebounding 41% versus last year's COVID-impacted results, with strong growth in both vehicle registration and credit check volumes. If we compare 2021 transactions to 2019 to strip out COVID impacts, we still see solid growth in these businesses.

Other revenue was \$37 million, up 10% from 2020, reflecting the timing of revenue recognition for hardware sales and some improvements in the call center business. Consulting revenue continues to be challenged as the impact of COVID lingers. For the fiscal year, revenue of \$1.673 billion grew 2% versus 2020, reflecting a rebound in transactions and other revenue that offset the impact of COVID on subscription revenues.

Now turning to earnings. Fourth quarter EBITDA grew 5% to \$161 million. The positive impact of revenue growth was partially offset by the impact of higher headcount related to our strategic investments and by a \$10 million increase in incentive compensation, driven by a bonus reversal in Q4 of 2020 due to the impact of COVID on financial performance. Travel and entertainment costs also accelerated as the impact of COVID waned in the quarter, allowing more in-person interactions. Full year EBITDA was \$650 million and fell 4% due to higher employee costs, reflecting higher headcount related to our ongoing strategic investments and higher bonus attainment, partially offset by the impact of revenue growth and lower travel and entertainment costs driven by COVID.

Our effective tax rate was 26.1% in both the quarter and the full year. Earnings per share for the quarter rose 12% to \$0.66, reflecting higher EBITDA and reduced interest expense driven by debt reduction. Full year EPS fell 7% to \$2.57 due to lower EBITDA, higher depreciation and amortization expense and the higher effective tax rate, partially offset by lower interest expense. Free cash flow was solid at \$242 million for the year.

Our balance sheet remains strong at fiscal year-end. Our cash balance fell in the quarter to \$157 million, driven by our acquisition of Roadster and the repayment of our 2026 bonds. We paid dividends of \$18 million in the quarter, bringing the total to \$73 million for the year. We also repurchased \$12 million of our common stock during the fourth quarter as we restarted our share repurchase program after the announcement of the Roadster deal. As a reminder, these are the first repurchases under our plan to repurchase \$200 million to \$250 million of stock by the end of fiscal 2022.

Our net debt to adjusted EBITDA was 2.2x, up from 1.5x in the third quarter as we continue to move back towards our 2.5x to 3x target range at a measured pace that accommodates a balanced approach of investment in acquisitions to drive growth and shareholder returns. Our M&A pipeline remains strong and we expect to continue to invest in transactions that create shareholder value.

Turning to fiscal 2022. We expect revenue of \$1.78 billion to \$1.82 billion, EBITDA of \$655 million to \$685 million and EPS of \$2.70 to \$2.90 and an effective tax rate of 25.5% to 26.5%. This guidance represents growth of 8%, 3% and 9% at the midpoint for each revenue, EBITDA and EPS, with the Roadster and Square Root acquisition adding 2 to 3 points of growth in revenue, but a drag of about 1 point on earnings as we invest to ramp the businesses. Absent the impact of acquisitions, our 2022 outlook is consistent with our prior long-term guidance and reflects improvement in top line growth, in our underlying business and less required incremental investment in 2022 to achieve our customer-focused strategy.

In summary, CDK continues to make significant progress in executing its long-term strategy. That strategy helped us improve key customer metrics in 2021 to set the table for accelerated growth in 2022 and beyond. Thank you, and we will now open the line for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First question comes from the line of Josh Baer from Morgan Stanley.

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

Great. Wanted to double click on Fortellis, the transactions there stepped up dramatically. Could you give a little more context on this step-up around the use cases? And then also wondering if you could talk about any revenue associated with this.

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

Sure. Josh, I can start. This is Brian, and then I'll let Joe and Eric talk a little bit more -- they can talk a little bit more about like the absolute number of revenue and all, if you want. It's just showing continued growth. So we are continuing to write most of our APIs now into Fortellis. There's over 100 CDK APIs. And we continue to get more and more third-party APIs to join. Definitely still our #1 use case is the service repair order API.

But I want to step back for a second and kind of talk about the strategy of Fortellis and what's the value of Fortellis, and what is going to fuel growth and where will you see growth even more in the future. Our goal is to grow it. I don't know if we'll hit quite 10x this year, but we're trying to get into the 800 million to 1 billion transactions for fiscal '22. And what it allows, right, as we push more and more of our connections basically up through APIs and basically modernize our software, and this is where a lot of the investment has come. As we do acquisitions like Roadster, as we do partnerships like our CDK OnePay, what those allow us to do is integrate those products, because they're modern as well and they're API-based with their data transfers, and we can integrate them. So we built this 100-day plan for Roadster integration. You could not have done that without Fortellis. It would have been months to try and integrate something as complex as Roadster.

So that will now fuel as Roadster comes online, and it's driven through Fortellis and integrated into ELEAD and the DMS. You'll see thousands, millions of transactions coming through Roadster as we grow the OnePay application. And we have many, many other partnerships coming that will use the APIs we posted for Fortellis to allow companies to integrate. Some of those are acquisitions and some of those like OnePay are partnerships, where we have revenue share. And so when you talk about what's the profit generation of Fortellis, it really comes from a couple of

places. One, there are places like the repair order API set, where we have a lot of value, right? We do all of the warranty checks, we do all of the VIN verification. All of that stuff goes through us. We add that value, and we get paid for that repair order set of APIs.

Then there's going to be things like Roadster, where we're able to integrate acquisitions and generate something that's better combined than was separate, and generate more revenue that way. And then there are partnerships, where we'll be able to do revenue share like OnePay. And those will then allow us -- now we may not -- we're not going to charge for those APIs and the connection to Fortellis, but you get paid through another form through those rev shares of basically the credit card transactions that happened, for example, in the service space and things like that. So when you think about Fortellis, you have to think about all of these APIs, all of these new interactions, and revenue is going to come in many forms. And sometimes, like with OnePay, we won't associate it necessarily with Fortellis, but it was impossible almost to do without Fortellis. I don't know if Joe and Eric, if you guys want to add more.

Joseph A. Tautges - CDK Global, Inc. - COO

No, I think you covered it well, BK. What I would say is, Josh, you have a real business being over 100 million transactions, and we're seeing revenue come in now across multiple areas that Brian described. So we're not disclosing it separately at this point, but I would say OnePay, which is our payment modernization for dealers, went live to general release in June. So that will start out next year. And really, a lot of these plant seeds for accelerated growth as you go look beyond '22 into '23, '24. The service integration Brian discussed is our largest revenue contributor. Lyft is picking back up and doing well. So you see each of these planting seeds for future growth, now that there's a more mature ecosystem that will continue to just exponentially expand in '22.

Operator

(Operator Instructions) Our next question comes from the line of Ian Zaffino from Oppenheimer.

Mark Zhang - Oppenheimer & Co. Inc., Research Division - Associate

This is Mark, on for Ian. So I guess, like can you guys maybe give maybe a more detailed update on how Roadster has performed so far? Have you guys seen any adoption from the customers yet? And sort of should we expect more investments that are needed beyond 2022?

Joseph A. Tautges - CDK Global, Inc. - COO

Sure. Thanks for the question. And with the Roadster, we are even more excited about it now that the day we closed it, visiting customers. And just when you hear about -- you'll hear us talk about workflow and what dealers are interested in, what OEMs are interested in, how do I create a better experience to sell more cars, how do you create a better experience to service more vehicles and how do I run my dealership more efficiently. And Roadster has proven to be that final piece in our puzzle to really help modernize and really deliver a modern retailing experience for customers. And it connects through an experience that can really be quite transformational for franchise dealerships.

And I got to tell you the tech team with Mahesh and the Roadster leadership team with Andy that came on board, we have a 100-day plan that's going to be delivered in September. That will stitch together the integration where you can connect Roadster through to ELEAD, all the way through to the DMS. And you're going to see just the benefits of being able to integrate that workflow to simplify life for our dealers and create a much better customer experience. What I would say is the responsiveness from the market has been quite positive, and it's very much on track, and we have big expectations for it.

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

Mark, I'd like to add one thing to what Joe said. This is Brian. If you take a look at what happens in the car dealership now, it can take several hours for the transaction to occur. And that's genuinely not them sitting there trying to get you to sit there longer in order to get you to spend money

in some obscure way, right? It just takes that long to get all the paperwork moving from here to there and everywhere. This really -- we all know you see them on TV commercials, you talk about there's these companies that are out there. I never mention competitors' names necessarily, but the ones where you can sit in your pajamas and buy a car that shows up in your driveway. Though -- that is what Roadster will deliver in our platform.

But even more importantly for the car dealership is that it will allow people to drop out at any point because there are people who want to drop out and they still want to do a test drive, right? They want to have the experience of going there and picking up their car and getting the walk around and getting the introduction and having all the Bluetooth and all linked in, they may need help with insurance. So it's beyond what is capable in most cases or something like that. So there are various points that they may want to drop out.

What -- allowing the Roadster and CDK DMS interaction and integration to occur is you can drop out at any point and be penny perfect. You will drop out and you will be able to have everything done, you can have your prepayment of loan done, you could have all of that done. So when you show up at the dealership, let's say you want to show up, do a quick test drive and sign some paperwork and go, your financing is done, your insurance is done, your payoff is done. And all that's done and your paperwork, the 2 or 3 papers that are required by law to have a wet signature, can be done in a very quick way and you're in and out of there in 30 minutes.

And that's our goal, right, is to allow all of those. If you want to go all the way to the point where it's delivered in your driveway, you'll be able to do that. So it's to give that continuum of experience for the consumer and for the dealer to be able to provide that continuum of experience.

Joseph A. Tautges - CDK Global, Inc. - COO

Mark, there's one point that I would just add. I was thinking about your question around the investing side. And I think it's worth pointing out, when we look at 2022 through a combination of factors, Eric talked about in his section, an 8% growth at the midpoint of our guidance. And so you're seeing healthy momentum in the underlying core business as well as positive momentum from the acquisitions we're making.

Secondly, '22 is a big year of investing around -- when you look at the margin front, and you look at the EBITDA front, we are really -- given the confidence we have, given the response we're seeing, we're leaning in quite heavily in '22 to really invest behind that momentum. And so I think when you look at the total picture, I think that's worth pointing out.

Mark Zhang - Oppenheimer & Co. Inc., Research Division - Associate

Okay. Great. That's helpful. And then I guess maybe just one more. Good to see another quarter of site growth. Can you guys maybe just give a sense of how the 1 to 2 smaller deals have trended, and then how does that trend sort of relate to the larger dealers?

Joseph A. Tautges - CDK Global, Inc. - COO

Yes. Thanks, Mark. Listen, I'm so proud of the work that we've done to really drive site count improvement and grow over 1%. The work that the sales team has done with Scott Herbers and team as well as our install team and our support team have just done a great job rallying around improving sales, improving retention and really the customer experience. We talk a lot about customer experience and coming in and putting the customer at the center of everything we do is so important. We're seeing really positive momentum across the portfolio, whether you look at the 1 to 2 sites, whether you look at the 3-plus sites.

On the 1 to 2 sites, you're seeing really a flattening out of that business. And particularly, when I look at heading into next year, the revenue is really -- retention is up, highest it's been in the last several quarters. And you're seeing a flattening of that revenue. And then on the 3-plus, you're seeing an acceleration. We've got the most applications we've had penetrated into our base, because of the work that we've been able to sell through and bring the solutions that Brian has described in his prepared remarks as well as in some of the Q&A today.

So a long way of answering your question, 1 to 2 is doing -- continuing to trend better. I see it continuing to turn the corner. Our customer sentiment strength in our service and putting the customers at the first is really resonating, and we're excited.

Operator

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

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

Several questions here. As I look at your guidance, and I don't usually ask guidance questions on conference calls, but it looks like based on your margin profile, you've got a degradation of anywhere from \$24 million to \$37 million of adjusted EBITDA year-over-year versus '21 -- fiscal '21. So I guess I appreciate the fact that you're investing in the business, but if you're looking at 6.3% to 8.8% sales growth, all things being equal, given the leverage in the business model, you should have some margin expansion. So I guess the question I have, are we looking at some permanent step-up in the cost structure of the company here? Or is this all really a function of you've got a number of irons in the fire and you need to invest this year to grow it beyond?

Eric Guerin - *CDK Global, Inc. - Executive VP & CFO*

Yes. Thanks for the question. This is Eric. No, it is not, to answer your question in short, and then I'll provide you a little more detail. It is not a permanent step-up. As Joe had mentioned in his comments, we are really excited about Roadster and Square Root. And we are going to continue to invest in that business. We have this 100-day plan. We want to get off to a really good start.

As you've seen what we've done with ELEAD, we've highlighted that acquisition is up to 6,000 sites. We are really excited about Roadster and we are going to invest in '22 to make sure we get that integration complete and can really develop that experience, that end-to-end experience.

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

Okay. And then could you -- just talking about Roadster in general, if you can theoretically or possibly buy a car online totally there, does that platform give you the ability to negotiate with the dealer as well as can you trade in your car and get a value for your car to make it a completely seamless transaction?

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

This is Brian. The simple answer is yes. So I talked about making things penny perfect. And these are some of the investments we have to do, right? So some of these things are features that are available today and some of these are things that only when you integrate into the DMS can you fully go through that process. So you'll be able to agree on a price, you'll be able to get a trade-in value for your car. And there are places that do that already as well. So it's known how to do that out there.

And if there is a payoff on your car, so one of the other things that you have to be able to do is go out and get the payoff value for the car. So we're looking at being able to get that down to the penny as well. Those things are very complex, and there's very few who can do all of those things and go through the sale of a new car. And that is our end goal. Some of those are within the 100-day and some of those are 6, 9 months out. And to Eric's point, we do not plan to make this some permanent step-up. You got to realize it when you buy a company in its infancy.

And I think ELEAD is a great example, right? We've done a really good job. When we acquired ELEAD, it was sub-3,000 sites. In the 2.5 years we've owned it, we've dramatically improved the cost structure of the product, where we've got a phenomenal road map for the technology itself, and we've more than doubled the number of sites that ELEAD is on out there. And those -- that growth has been both on our DMS and agnostic to our DMS. So we'll do the same with Roadster.

Roadster, it will be more integrated into ours, but it will continue to work with other DMS as well. And so we look at it and say, okay, we're going to invest this year to get it integrated, to bring it up to do some of these technology advancements, but it is not meant to be EBITDA negative like

this. It's really meant to fuel the growth '22 -- back half of '22 and into '23 and beyond. And we will get that margin back-end alignment as we move through that.

Joseph A. Tautges - *CDK Global, Inc. - COO*

Gary, it's such a great point for me, I just really want to drive home the point BK just made. I mean when you look at ELEAD, when we bought it, the margins of that business were in the very, very low at the 10% range. And now 2 years later with 6,000 sites, it's growing double digit, its EBITDA, its gross margins are that equal to our core business and our core software profile. And that's what -- again, we're just using the same playbook there with Roadster, and I think that's the impact you're seeing in guidance. Go ahead. Sorry.

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

Okay. Does -- did Roadster have any kind of an installed base? And how are you pricing Roadster? Is it priced on transactions? Or is it just a regular subscription layered app add-on product?

Joseph A. Tautges - *CDK Global, Inc. - COO*

Yes. Roadster did have a good subscription base. When you look at the combination of Roadster and our Connected Store product, we've got over 2,000 sites. We have a very good installed base and a great opportunity. And again, when you look at ELEAD of 6,000, Roadster of 2,000, we just see a huge opportunity to connect that workflow together. What was your second question, Gary?

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

It's just how you're pricing it, Joe, is it just a subscription?

Joseph A. Tautges - *CDK Global, Inc. - COO*

It is a subscription. Yes, per site subscription.

Operator

(Operator Instructions) And this does conclude the question-and-answer session of today's program. I'd like to hand the program back to Brian Krzanich for any further remarks -- actually, we have a question from the line of Matt Pfau from William Blair.

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

Just first, I had a question on the 6 competitive wins that you cited. Just maybe some more detail on what drove that. And I know last quarter, you cited a couple customer takebacks as well. So it seems like something that you're doing with the product and customer service seems to be resonating pretty well competitively.

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

Sure. I can start and then Joe can add. This is Brian. So I would tell you the effort we started 2.5 years ago was just our whole customer focus has really resonated well with the customers and it continues to resonate well. You combine that with the -- they are already seeing the improvement in the technology and the product. And they -- whether it be Fortellis, and they're using Fortellis to extract their own data now, which has reduced

the 3 PIPs, the partner program fees for a lot of them, whether it's the ease of use of our product, all of these things are driving the NPS numbers that Joe mentioned in his remarks.

So you combine all of those and the NPS scores, you combine the improvement in the products, and then we're out there showing them the road map, whether it be the acquisition of Roadster or the integration of OnePay or the improvements we're making in ELEAD and our service application. We're out there showing them those road maps. And we now have the credibility of belief. They believe that we can deliver these, because they've seen what we've done. And I think all of those things are allowing us to both grow and maintain.

We're getting win backs because sometimes a customer wants to still try something new. We are very, call it, very supportive. We don't necessarily go in and de-install. We leave them hooked in so that if they run into issues, we tell them, look, don't worry. We're here to back you up. And we continue to follow up with them. We help them with the data transfers. So we're supportive for them. But then we're there and what we are doing is going back in, saying, "Look, here's the road map you had, the product you had here, the pricing you had. Are you sure you don't want to just turn it back on?" And it's worked really well for us. So it's all part of that. We want to do what's best for the customer, but we oftentimes think the best thing for them is to continue to use CDK. Joe, anything else?

Joseph A. Tautges - CDK Global, Inc. - COO

No, you covered it well. It's really perfect. The only other highlight I would give is '22 is a big year for us. I think that we're going to up the game another notch, both on the technology front and the service front. And we're excited that the progress and momentum that we'll create and continue to build on.

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

Got it, guys. And then just one more. I think about a month ago, Ford announced that they wanted to move more to a build-to-order model and keep less inventory on the dealer lots. Just wondering, does that have any impact on your business positively or negatively?

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

I'll start and then the others can join in. This is Brian. Yes. I mean I actually think it's positive. And the Roadster acquisitions, like we couldn't have asked for a better timing, right? Because the way to do a build-to-order, the way Roadster will work is it can take input from any source. So what will happen is, let's say, that the build-to-order happens on the OEM website, I think some of that's still to be defined. But we don't care whether it will be the OEM website or the dealer website that then talks to the OEM website to build it.

Our ability to take that input or whatever they want to build and their pricing, but then do all of the work that the dealer really has to do, right, because the OEM doesn't want to price their trade in. They don't want to go find out what their payoff is. They don't want to go figure out what the F&I requirements are. And so we'll be able through Roadster to take all of that workload and push it through very seamlessly. So for us, this is great, like the dealers are looking to us to be the problem solver and really the medium in between to really deliver how do they do this and do this within their business. So it's something that we actually think we are uniquely advantaged for.

Operator

This does conclude the question-answer session. I'd like to hand the program back to Brian for any further remarks.

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

Sure. So I just like to first thank everybody for joining the call. I really do appreciate it. It gives us a chance to describe a business that we're really excited about. And I also want to thank all the CDK employees, right? The hard work they did in 2021 really delivered results that were outstanding.

And even more importantly, it set up 2022. And 2022 is really meant to be a record and a breakthrough year. You saw our 8% top line growth. I mean that is really a number that I think is quite high in this company's history. And we are very confident moving into the year to deliver that, and very excited about it.

And we're doing that not by just increasing prices or things like that, but it's by growing share, by more penetration of our products and by delivering more and better products. And those are the ways you want to grow the business. So we're very excited about 2022. I'd like to thank you all for joining the call. I hope you have a great rest of your day, and thank you very much.

Operator

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.

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