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CDK.OQ - Q1 2022 CDK Global Inc Earnings Call

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OVERVIEW:

Co. reported 1Q22 revenue of $440m and non-GAAP adjusted EPS from continuing operations of $0.77. Expects FY22 revenue to be $1.78-1.82b and non-GAAP adjusted EPS from continuing operations to be $2.70-2.90.

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PRESENTATION

Operator

Thank you for standing by, and welcome to the Q1 2022 CDK Global, Inc. Earnings Conference Call.

(Operator Instructions)

As a reminder, today's conference call is being recorded. I would now like to turn the conference to your host, Mr. Reuben Diego, Vice President of Investor Relations. Please go ahead, sir.

Reuben Gallegos - *CDK Global, Inc. - VP, Investor Relations*

Thank you, and good afternoon. I'd like to welcome you to our first quarter fiscal '22 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'll 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 investor.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 will be referencing during our prepared remarks. Throughout today's call, we will 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 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 our growth percentages refer to the year-over-year change for that period, unless otherwise specified.

I would 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's my pleasure to turn the call over to Brian.

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

Thank you, Reuben, and thanks to everyone for joining the call today. CDK is off to a strong start to fiscal 2022 with revenue growth of 6%, EBITDA of $170 million and EPS of $0.77 per share, and I'm pleased with these results, which met our expectations despite a modest slowdown in the transactions business, driven by inventory shortages in the auto market. Joe and Eric will give more color on the customer environment and financial performance in a few minutes.

Our ability to excel in 2022 demonstrates that CDK has become a fundamentally different company than it was just a few years ago. We've been focused on making investments that strengthen our core business, including significant improvements to our customer service and technology. We've been steadily transforming ourselves into the market-leading strategic software partner for the automotive industry. And we're connecting the industry end-to-end and creating a digital, modern-retailing process that rivals with anyone else can bring to the market. And we're seeing the benefits of those investments, with strong Net Promoter Scores up 30 points since 2019 and 11 straight quarters of DMS site growth. And the improvement in these underlying metrics is now more visible in our financial results with notable growth in core business.

This improvement in the core business has given us an opportunity to collaborate with dealers and OEMs to drive the ongoing transformation of the automotive retail industry. Last month, we hosted CDK Connect, a customer-focused industry event that highlighted our recent technology wins. We are pleased to have the opportunity to bring together dealers, OEMs and software developers and share the latest technical advancements we've made at CDK. At the event, we demonstrated exciting new advancements in a variety of workflows, including service and back office functions.

And Joe will go into more detail, but I especially want to highlight that we've completed our 100-day plan to integrate Roadster into our core systems, including Elead CRM. And the result is an end-to-end digital workflow that drives high consumer satisfaction while also enabling improved efficiency in the dealership.

We accomplished much of this by leveraging our investments in the Fortellis platform. The modern API architecture, Fortellis, accelerates interconnection within the industry ecosystem at a pace that isn't possible on legacy platforms. Without the new capabilities we've built, the Roadster integration would have taken 2x to 3x longer to complete. It's the key to providing more innovation to our customers or from CDK and from independent software vendors who continue to add applications to the platform. We now have more than 75 applications live on Fortellis and generated more than 100 million transactions in this quarter alone. Exciting applications like predictive service and CDK OnePay leverage this platform to introduce and innovate around new capabilities that are solving real problems for our customers. And we expect growth and innovation to continue in the quarters to come.

We're pleased to announce our acquisition of Salty in the quarter. And as I mentioned, we are bringing all the technology together to allow dealers to deliver a frictionless process for consumers in purchasing their vehicles, whether they want to complete the transaction from their living room or start research at home and then visit the dealership, truly delivering a seamless omnichannel experience. But we're not stopping there. Our vision is to create an integrated experience for all aspects of car buying and owning. This begins with our entrance into insurance space with the acquisition of Salty.

Our dealers deliver millions of new and used vehicles each year, and every one of those vehicles needs insurance. And Salty leverages data and innovated technology to integrate insurance offerings into a dealer's existing process, opening an entirely new TAM of approximately $1 billion for both dealers and CDK. The dealers are excited by the opportunity, and I'm pleased to welcome Salty's team to the CDK family.

While we're excited about our work for the dealer body, we continue to believe CDK is well positioned to serve as a bridge between the dealers and OEM. A massive amount of data passes through CDK systems daily. Our ability to help our customers unlock the power of this data using Neuron is enormously valuable to both OEMs and dealers as it provides critically important insights to help improve vehicle performance and quality of service. CDK's position of an intersection of data flow across the industry, allows us to develop solutions that benefit the broader ecosystem. And we're working on a number of initiatives on this front.

CDK is uniquely suited to safely and securely provide access to these solutions through branded and white label applications. In the last quarter, we worked with a select group of OEMs to ramp-up real-time inventory reporting. We also signed a data sharing agreement with one major OEM, come and build data; and continue to grow access to connected vehicle data with a number of OEMs via Fortellis. And this data will help us offer new and improved products to our dealers to help them sell and service more vehicles.

To summarize, CDK has pivoted its business dramatically in recent years. We're uniquely positioned at the heart of the automotive ecosystem to connect our industry. And through our technology, we unite dealership employees, dealer locations, software developers and OEMs, improving their business efficiency while enhancing consumer experience. And through these connections that we can share expertise and facilitate collaboration for the benefit of everyone.

Now before I pass things over to Joe, I'd like to thank our employees, our customers and our partners for helping get our fiscal year off to such a great start. We're pleased with the accelerating growth in the core business and our positioning for the remainder of 2022.

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

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

Thanks, Brian, and welcome, everyone, to the call. As Brian said, we are excited about CDK's outlook for 2022 and the strong start we have had versus the plan we set for the year. We were pleased with the uptick in customer adoption of Roadster that began following the completion of the technical integration into the platform in September. Our underlying metrics and financial results show that our focus on service and technology is working for our customers.

I'll go into some of the underlying customer metrics in a few minutes. But first, as we have for the last several quarters, we've included a few charts with data we are seeing in the automotive industry. We also provided a few slides that cover market trends, how we are positioned to lead the creation of a unified digital buying experience for dealerships and the platform architecture we have built in support of this vision.

Overall, the industry is holding up reasonably well, but auto inventories are at record lows. Our data reflects these conditions with a modest reduction in sales and credit transactions per dealership. As B.K. has mentioned, we saw associated headwinds in our transactions business driven by these inventory challenges, and believe the trend could continue throughout the remainder of the fiscal year. We will continue to monitor this space closely.

On the flip side, lower inventories have increased realized prices, so dealer profits has been resilient. Dealership consolidation continued last quarter with several very large deals announced in recent months. CDK has been a net beneficiary of this consolidation, which we expect to continue in coming quarters we believe that some of this consolidation is happening as a response to the challenges from the rapidly changing retail sales environment where automotive customers are seeking a smooth digital buying experience they found in other consumer retail models. Dealers will have to reach an economy of scale that allows them to make necessary investments to enable this type of digital experience for customers in all 50 states. We believe we are the only option available with an end-to-end solution that can enable this vision.

Now I'll turn to some of our highlights for the quarter. The combination of consolidation, strong sales efforts driving competitive wins and continued healthy retention have resulted in notable site growth in Q1. Auto sites were up 1.6% and reached the highest level since 2017, while adjacency sites grew 4% and hit another all-time high. We had continued strength in winning business with auto sites that have more than 5 to 10 locations with 3 competitive wins in the quarter.

Revenue per site grew to record levels for both auto and adjacencies. Auto revenue per site grew 7%, with 2 points of growth contributed by the Roadster acquisition. Revenue per site benefited from higher application penetration. Revenue from 3-plus site dealers was up double digits, with 2 points growth attributable to Roadster, while revenue from 1 to 2 site dealers fell slightly. Adjacencies revenue per site was strong, growing 7%. We had notable sales wins across our strategic applications with particular adoption of Elead, CDK Service, Doc Cloud and Cloud Connect. Highlights include wins in 25-plus site groups for both Roadster and CDK Service. And the new universal product team that we discussed last quarter is gaining traction with Elead and now Roadster in non-CDK DMS sites.

Earlier, Brian mentioned our CDK Connect event last month, where we were able to layout our vision and share key initiatives to our customers and partners. We touch every part of the automotive retail ecosystem, and we work with all stakeholders. Our software is used in some fashion across more than 12,000 dealerships. This level of engagement is a tremendous asset. At this event, we highlighted the Roadster integrations that now allow for the total digitization of the sales process. This provides a modern, flexible buying experience that meets the needs of a wide variety of consumers. It also improves the efficiency in the dealership by capturing and sharing data across a variety of tools used to optimize the selling process. We have also merged our Roadster Elead engineering teams, which will enable us to build a continuous purchasing workflow, which will allow our customers to target transaction times below 1 hour. Our customers are excited by this seamless solution and the potential for significant efficiency improvements in their sales process.

CDK Connect also highlighted new tools that target specific revenue and cost opportunities using the power of data and improved workflows. Predictive service, leveraging the Neuron platform, can drive increased service revenue opportunities by helping technicians efficiently analyze the vehicles' service needs. And our new accounting workflow can simplify back-office functions within the dealership to enhance productivity. We will continue to rollout new capabilities in the coming quarters that will make a difference for our customers.

And our acquisition of Salty opens a new opportunity for the CDK and dealers and shows how the new CDK is helping dealers navigate a changing marketplace and build new profit pools. By rethinking the consumer journey altogether, we can help consumers accomplish more through dealers, significantly deepening the relationship and increasing customer lifetime value. Insurance is one of the most obvious parts of the car buying process that is ripe for disruption, and we're helping dealers become the disruptor for change.

As Brian mentioned, Salty opens a large new total addressable market for both dealers and CDK. Salty combines data, technology and process integration to streamline the insurance quote process that fits seamlessly into the vehicle sales process. An integrated process and a strong panel of insurance partners maximizes the chance that customers will accept the quote and ultimately buy new insurance. Commissions on insurance originations and renewals will over time, while a strong recurring revenue stream for both CDK and dealers.

To conclude, I'm proud of the progress we've made over my years at CDK and how we are positioned for 2022. Investments in technology and service have strengthened our core business and allowed us to pivot the opportunities to add more value to dealers and OEMs.

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

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

Thanks, Joe, and good afternoon, everyone. As Brian and Joe mentioned, we had a nice start in 2022 that puts us on track for the year.

Let me start by walking you through our first quarter results before discussing the outlook for the remainder of 2022. 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.

First quarter revenue was $440 million, up 6% versus last year. Revenue includes $10 million from acquisitions. Core revenue growth, excluding the impact of the acquisitions, was 4%. Subscription revenue was $345 million, up 7% from 2021. This reflects growth in core DMS and applications and the impact of acquisitions, partially offset by the impact of ASC 842 lease accounting, which shifts a portion of revenues from certain products out of subscription revenue to other revenue.

Transaction revenue was $43 million, down 3% versus 2021, driven by lower vehicle registrations revenue as vehicle sales were impacted by supply chain disruptions. Other revenue was $52 million, up 14%, reflecting higher hardware sales and revenue timing under ASC 842 lease accounting standards.

Now turning to earnings. First quarter EBITDA grew 2% to $170 million. Higher EBITDA was driven by income on higher revenue, partially offset by higher employee costs for investment-related headcount increases and the impact of annual merit compensation increases, which took effect in the quarter. Travel and entertainment expenses were also higher.

Our effective tax rate was 23.9% in the quarter. The tax rate in the period benefited from a one-time net tax benefit from the expiration of statute of limitations related to certain international transfer pricing matters. Earnings per share for the quarter rose 22% to $0.77, primarily reflecting reduced interest expense driven by debt reduction and the lower tax rate in the quarter. Free cash flow was $44 million, down from $72 million last year. Higher incentive compensation payments in 2022 contributed to the reduction in free cash flow. We paid dividends of $18 million in the quarter and we also repurchased $88 million of our common stock, bringing us to $100 million of repurchases since we restarted the program late last year. We continue to expect to repurchase $200 million to $250 million of stock by the end of fiscal 2022.

Our balance sheet remains strong with net debt to adjusted EBITDA at 2.3x, still slightly below our target of 2.5 to 3x. We expect to get back into the target range next quarter when our financials reflect the closing of the Salty acquisition as well as additional expected share repurchases.

Now turning to guidance. We are maintaining our fiscal 2022 guidance with 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%.

As Brian and Joe mentioned, we do see headwinds in the transaction business based on lower dealer inventories, but we expect to offset the impact with solid performance in the remainder of the business, including ongoing contributions from Roadster. With respect to quarterly growth cadence, similar to last year, we expect revenue to be flat to slightly lower sequentially in Q2 compared to Q1, with the normal seasonal slowdown in the transaction revenue before we see revenue acceleration in the second half. Similar to Q1, year-over-year EBITDA growth will remain muted in Q2 as cost savings initiatives in 2021 create more difficult comparisons for the first half of 2022 before an expected second half acceleration.

In summary, we had a solid start to the year and are on track to meet our financial targets while continuing to invest to support our customers and drive innovation. I'm proud of the execution in Q1 and look forward to accelerating growth as we move through 2022. Thank you.

And we will now open the line for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from Matt Pfau from William Blair.

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

I wanted to first ask on the commentary around the transactional component. So I mean, the supply chain challenges have been out there for a while. Are they just sort of worsening relative to what you expected on the last earnings call? And then when you think about the remainder of your fiscal '22, are you expecting improvements in terms of inventory levels, or are you sort of thinking that we're going to be about the same as what you saw in the first quarter?

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

So this is Brian. I can start, and then I'll let Eric and Joe voice-in. First, you should just remember like roughly 10-ish percent, maybe even a little bit less of our business is transaction oriented mostly around things like registration and credit checks. And so whether you're selling a new or a used car, you still have many of those types of transactions.

So we saw a slight decrease, but less than what you saw. So we saw like 2% to 3% decrease in transactions, whereas I think if you looked at sales of new cars and all, it's down quite a bit more than that beyond 10%, 10% to 15%. We don't see that really changing as we go through the rest of at least this fiscal year. We think both will kind of stay where they're at. I don't see inventories at the dealerships getting a lot better.

And if you listen to the OEM calls that have happened so far, they're not seeing it either. And our relative rate of impact by transaction shouldn't change abruptly as we go through the year either. Joe or Eric, anything else?

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

Yes. The only thing I would add is we've spent a lot of time, Matt, around data collection. And if you look at Slide 17 in our posted earnings presentation, it actually shows you the month-by-month trend the month of September got quite a bit worse for the automotive market, large.

So if you say over 50% of people sales go through our software in our system, selecting that data, looking at it, September was as low as what you saw during COVID shutdown. And so like Brian said, our business model is very resilient and performing quite well. With all that said, and dealers are managing it well, but certainly continues to be a headwind.

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

Understood. Got it. So the offset to that, then obviously, it seems like the subscription side of your business has maybe been performing a bit ahead of your expectations. Any areas specifically you would call out that have been better so far than what you expected?

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

Yes. I mean I think in general, again, if you look at our revenue per site, it's continued to increase now. And a lot of that there's Elead, service, both of those two are really the big drivers, the bigger drivers of that revenue per site and our overall growth. That and, we just continue -- there's 2 other factors that have gone probably a little bit better than what we had anticipated originally, which is just new DMS sales continues to go well and then our retention.

So our retention is at the highest level I can remember at, it's between 96% and 97%. So the whole work we've done on NPS scores, customer satisfaction, improving our products, all of that's paying off in phenomenal retention. And that has actually continued to be a little bit better than we even forecast. And I think we're always a little paranoid per se of making sure that we're always cautious and always trying to support the customer better. And so we probably forecasted a little bit lower, but it's continued to do well as well. So those two products and then just overall retention and new DMS acquisitions.

Operator

Our next question comes from Gary Prestopino of Barrington Research.

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

Joe, can you go through some of those statistics that you cited. You said -- let me just repeat it. At 5 to 10-point locations dealerships, you had 3 competitive wins. Is that correct?

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

Yes. Overall, we saw a very good quarter continuing the trend of what we've seen, which is progress in winning competitive sales is across the spectrum, but especially in those larger, more complex multi-dealer sites. And as Brian just talked about in the comment to Matt, we are just excited about the subscription growth acceleration. When you look at site growth, we're at 1.6% growth this quarter, and we just continue to see really good momentum there.

And as you look at revenue per site and applications, and you could see the wins and the installs. Our installs were up over 50% for the DMS year-over-year, Q1 over Q1. So we're seeing a lot of good momentum continuing to pick up in the core subscription part of our business.

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

Okay. And that's all great news. And then the revenue per site was up 7% and then revenue and 3 plus sites was double digits, up double digits. Is that correct?

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

Yes, that's correct.

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

Okay. And then just with Fortellis, you had a 600% increase in transactions, and you have 30 applications that are now integrated into Fortellis. Is that correct?

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

That is correct.

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

Yes, that's correct.

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

Okay. I know that everybody is trying to get an idea of what that is going to impact -- how that's going to impact your revenue. But is having Fortellis there and having those integrated into Fortellis that has to make it a lot easier to sell the layered applications for the dealerships because doesn't every dealership have access to Fortellis. And therefore, it becomes 1 point of connection to get to all of these apps, is that a correct statement or understanding of how Fortellis works?

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

Yes, no. So Fortellis is an API layer that allows, as we create APIs off our own DMS or off Elead or off Roadster or other applications, allows data to move in and out and oftentimes have some form of algorithm or calculation process against it. And then it also allows third parties to post the same -- their APIs. So maybe you build an insurance app or parts inventory management application or whatever.

You want to be able to move data in and out of a dealership, you can do that. And then car dealers can write can pull data through those APIs and calculate what they're selling on a per day per user or whatever basis. So it doesn't necessarily allow you, if you're a dealer and you want to download or you want to install our service application. Fortellis doesn't necessarily help you do that. What it does do, though, is that it enhances the value of our service application because there will be APIs that you can access at a low or no cost that allows you to look at your parts inventory, the amount of work that went through each bay, things like that, that they use them to understand their business better.

The way we make money, I just want to make sure we get to that because that's always the root of the question is, wait, what is this thing doing? And how is it adding value? There's really a few ways we add value and make money in Fortellis. It is not a replacement for the old 3PA fees and things like that. It is actually a completely different way to think about how data moves within our platforms.

Most of the applications are free. There are some like our service API that Xtime uses and Cox, for example, if they -- if somebody uses Xtime in a our DMS, there is quite a bit of calculation and management that we do on our end of the data that flows in and out of the DMS, and we charge for those types of APIs. And then the thing that I really want you to understand is, Joe mentioned in his statement that he -- we met all of our 100-day integrations of Roadster. And if you look at Salty, we've already integrated much of the Salty application into our software and our ability to really enhance what Salty can do. All of that's done because of the power of Fortellis and the strength of those APIs. So it's allowing us to accelerate these acquisitions and these new businesses. And those new businesses could be through acquisition.

I could also list you a host of partnerships like the CDK OnePay with Global Payments. We have several others in the works where those APIs in the whole Fortellis platform allows us to do that quite quickly, quite efficiently and then allows us to make money that way. Those I actually believe are going to be worth way more than the transaction fees that we do get out of the data flow that will still happen. But like these integrations and the ability to partner at a much quicker level is going to be worth quite a bit more over the time period.

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

If I then just could add a couple of comments, B.K., to add to what you had said, Gary, we obviously talk about the competitive landscape. And if you look at what we're doing versus what others are doing, others are taking a very -- the new competitors come into the space, take a very OEM-centric view of the world and create this walled-garden approach, which has consequences for dealers who want flexibility. And so the part that's so important for Fortellis, as Brian was saying, is just our open and agnostic approach is resonating with dealers to encompass into an experience that puts the consumer at the heart of it rather than have to have them pick or, if you will, be part of sort of the more siloed-technology approach.

Operator

Our next question comes from Ian Zaffino of Oppenheimer.

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

Okay. Can you tell me what the dealer count did for the under 3 dealers? Was that up, down or flat?

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

It is. I'll go. So it's largely stabilized. It's down slightly. I would tell you it's at or a bit better than, I think, what we see the market performing at. Certainly, when you look year-over-year, you see it down a bit. That's largely due to out-of-business sites or just general consolidation. And then secondly, when you look at it sequentially, the business has largely flattened.

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

Okay. Perfect. And then as we look at kind of guidance and investments, are we like good on the investment side is the integration of Salty going to maybe increase investment or are we kind of stable as far as what we talked about and what we should expect?

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

That's a good question. Salty will not increase our investment level. And I think in general, we're comfortable at this level of investment right now. And I've always -- little cautious I tell you, and it will never go up. But with everything we see right now with all of our plans that we have in place right now, we're very comfortable.

We'll actually see -- we committed that we would see improvements in efficiency. We're already beginning to see those. For the most part, we're translating those efficiencies into just moving faster on more products. And so we are able to do more with the same, and we don't see a need to increase with any significance our investment level.

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

Okay. Perfect. And then a final question. Fortellis is doing very well. Is there a plan to disclose to us what revenue contributions might be or what we should expect kind of going forward? Or maybe even how large this opportunity could be? Because it sounds very exciting. It seems that all the KPIs are moving in the right direction. But I guess we're kind of looking for the rubber to hit the road already.

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

Yes. I don't think you'll see us break out the revenue because then that we basically asked to -- we have to make it a segment, right? And there's all kinds of other rules and regulations. Eric can talk to you more about those. And I just think once you do it, you're doing it for life. I can tell you, again, make sure you understand that there's multiple ways. We're not making money just through transactions with Fortellis. Part of the reason, our retention rates and part of the reason, we're getting wins in DMS, and we're getting some of the small dealer wins, and we've stabilized the small dealers is through Fortellis and making data available more easily. There's a bunch of tools that we provide for the dealer to be able to extract their own data at a very easy and convenient ways.

There are transaction fees for some of the products. They're totally when we add significant value. And then we make -- I'd argue a ton of money through partnerships and integrations of acquisitions at a much, much faster rate and a much deeper integration that was not possible before Fortellis. And so that's the comment that Joe made is that because we're open and because we're agnostic, dealers are more satisfied, dealers are more happy with our retention and acquisition wins are up.

We are making money through transactions, but we make even multiples of that through those integrations and being able to acquire and partner with companies much faster and much lower cost and much simpler and we're at a much deeper level. And so it would be always hard to calculate what the real revenue of Fortellis is. So if you took a look at Salty, and you didn't have Fortellis. You took a look at Roadster, and you didn't have Fortellis. Instead of a 100-day plan or a 60-day plan like we had on Salty. You'd be talking months, if not quarters, in order to integrate those things and get the same results. And so that's the real value to me that will always be hard to give you an exact number on anyway.

Operator

(Operator Instructions)

Our next question comes from Josh Baer, Morgan Stanley.

Jian Huang - *Morgan Stanley, Research Division - Research Associate*

This is Bob Huang from Morgan Stanley, filling in for Josh. Maybe we can start with the insurance entity. Given that we're in a somewhat temporary competitive auto insurance market, can you maybe talk about, one, your fee structure with Salty and the carriers? Is it like a flat fee structure or is it a percent on premium -- is it a percentage of premium? What is that number? And also, number two, if the auto premiums were increase as in the competitive environment kind of dies down, would you see additional revenue tailwind from this relationship, or does the competitive environment kind of ease this holding away?

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

Thanks for your questions, and thanks for joining us today. So on Salty, we're really excited. It opens up a $2 billion -- multibillion dollar incremental TAM for us. And when you look at it, it really resonates with dealers.

It's an opportunity when we work with our dealers, they just want to create a better end consumer buying experience. And with Salty provides so much value is the tech integration Brian's described with Fortellis, just creates this seamless experience for consumers to really benchmark. Are they getting a great deal on their insurance? And if they want to bind insurance at the moment of purchase, they can do it within minutes, right at the dealership and with very, very strong insurance carriers. Yes, we've talked about Progressive, we've talked about Travelers, and we have a very full lineup of insurance carriers.

I think we have a unique opportunity to bring that across our base of business. We won't get into all the details to disclose terms of fee structure. I think it's -- the structure of it is very similar to a brokerage relationship, right? We are connecting that in to really provide an opportunity for insurance carriers to connect with the consumer, and that provides a brokerage commission as part of binding the insurance. And so I'd leave at that level for you. And I think those rates are traditionally aligned with what you see other brokerage agents achieve. So our perspective, it's all about a better guest or consumer experience for the dealership, integration in to really modernize the entire journey of buying a vehicle, right?

When you say about how we're pivoting the company, it is really about transforming how a car has bought, including all the elements of it, insurance being the case in this situation.

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

So Joe, just one thing, Bob, but for the one thing about the fee structure. The one thing I'd add to Joe's comment is one thing that's a little unique is that we share a portion of our commission with the dealer. So the dealer is incentivized in this whole process. And so they want to see this business grow. This is a -- so again, the integration of Salty into our DMS, that automates the process flow. So it's seamless, both to the consumer and to the dealer and the dealer is incentivized because they're getting a percentage of this as well. And so as we grow, they grow. And that's a very interesting business model that we think the more of those that we can find, those will be the ones that really can propel us into the future. And then, yes, sure, if markets become less competitive and insurance rates went up, ours is based on a percentage, so our percentage would go up.

But we're really focused right now on providing a value to the consumer, but then incentivizes them to be interested and hence, our business grows at a faster rate.

Jian Huang - *Morgan Stanley, Research Division - Research Associate*

Okay. That's very helpful. So for other question, you added another 45 auto DMS sites quarter-on-quarter. Can you maybe just talk about the strength in that business, and maybe directionally where you think this is going forward? And how would you characterize the results in different market segments, your small dealer size, the larger dealer size? And apologies if that was asked earlier, so.

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

Yes, I think there's a lot of positivity across the board. I think the team is really working well together. The technology team, the marketing team, the sales team, the implementation team, the customer care teams that when you look at how we're performing right now, I think we're hitting on all cylinders, quite frankly. When you look at the market dynamics, you really are seeing an acceleration of consolidation in the automotive dealership marketplace.

And that consolidation is really some of the largest dealers consuming some of the midsized dealers and some of the midsized dealers consuming some of the smaller dealers. And I would just tell you, we've experienced substantial growth, both year-over-year as well as we're starting to see that growth really accelerate sequentially around these consolidations.

If you recall, we over-indexed to the larger dealers. So those who are multi-rooftop 3 plus. The consolidation that's happening and that we expect to continue to happen is really a quite nice tailwind for our business model. And so yes, I think you're right for calling out the 45-site sequential growth. We will continue to see that perform pretty consistently as we go forward. Clearly, there's some quarters that ebb and flow here and there.

But nonetheless, we're seeing record retention. We're seeing great sales wins. Seeing our customers who are bigger buying, consolidating, and we are the strategic partner connector, if you will, between OEM, the dealer and all the consolidation and our business is benefiting from that. And you really see a clean quarter print with mid- to higher single-digit growth that we keep pushing for.

Operator

(Operator Instructions)

I'm showing no further questions at this time. I'd like to turn the call back over to Brian Krzanich for any closing remarks.

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

Thanks, operator. I would just like to first thank everyone for attending this conference. Those were great questions.

We're, as we said, really excited about our business. I think this quarter really represents the start of 2022 with right on our target and our forecast, as Eric mentioned. And so I'd just like to leave with thanking all of the CDK employees, right, who continue to do a great job. Even as COVID has continued to play a factor, the team has continued to accelerate our improvements and our growth. Sales team is strong. Just overall, the whole organization is doing great. So thank you, and we'll see you all next quarter.

Operator

Ladies and gentlemen, this does conclude today's conference. Thank you all for participating. You may now disconnect. Have a great day.
