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PRESENTATION

Operator

Ladies and Gentlemen, thank you for standing by, and welcome to the CDK's Third Quarter Fiscal 2020 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions) I would now like to hand the conference over to your speaker today, Julie Schlueter, CDK Global Inc.'s Director of Investor Relations. Thank you. Please go ahead, ma'am.

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

Thank you, and good afternoon. I'd like to welcome you to CDK's Third Quarter Fiscal 2020 Earnings Call. Joining me remotely on today's call are CEO, Brian Krzanich; and CFO, Joe Tautges. Throughout today's call, we will be discussing our continuing operations only, which do not include the Digital Marketing Business, which during the third quarter was classified as held for sale and presented as discontinued operations. Joe will provide more details about the recent completion of the sale.

Unless otherwise noted, all references to financial amounts 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 and are available in the Investor Relations section of our website.

I'd like to remind everyone that remarks made during this conference call will contain forward-looking statements. These statements involve risks and uncertainties, including the ongoing impact of the COVID-19 pandemic.

As detailed in our filings with the SEC, which could cause actual results to differ materially from those set forth in the forward-looking statements.

And finally, we anticipate that our Form 10-Q will be available tomorrow. Given the current circumstances, we are not planning any face-to-face investor outreach at this time, but we will continue to engage with investors by phone.

I'd like to remind everyone that we've provided an earnings presentation on our IR website that we will be referencing occasionally during our remarks. 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. I'd like to start by expressing my hope that all of you, your families and colleagues are safe and healthy during this time of unprecedented disruption. I'd normally begin our call with the quarterly financial results. But I'd like to leave that for Joe this quarter and skip right to our update on the COVID-19 situation. I'm extremely proud of CDK's efforts to help our customers and to do our part during this crisis. We really stepped up and are doing the right things to support our dealers. Many of whom are

small and medium-sized businesses. We immediately launched our COVID Task Force in the first week of March to ensure the safety of our employees and customers. And we've been meeting regularly to navigate the best course of action to assist our dealers during this time. Not only have we offered discounted and free software, but we've provided products and support to help them to virtually sell vehicles, to connect remotely to our DMS and to provide for more social distancing in their service base.

As you know, our dealers play a critical role in keeping the world's transportation system up and running safely during this crisis. Because our software is integral to their operations with about $500 billion of automotive commerce flowing through our CDK system each year. We are keenly aware of the important role we play. I believe it is our duty and responsibility to continuously support our customers in a safe and effective manner, while balancing the needs of our operations and of our stakeholders. How long COVID-19 and the economic downturn will continue to impact our customers and in turn CDK is unknown, but I'd like to be as transparent as possible and to share with you what I'm thinking about and what data and triggers we'll use to make decisions about future action.

To understand the impact that COVID-19 has had on the U.S. auto market and to really dig into how those impacts will affect our business, I spent a lot of time looking closely at our internal data to get insights into what's happening real-time to our customers. As a reminder, the automotive commerce transactions flowing through CDK is roughly equal to 2% of GDP.

Our data services group has developed aggregated data sets, an analysis on trends across our installed base. While this does not represent the entire market, it provides CDK with important insights, including daily updates around certain trends, like auto sales and service department repair orders. Posted in our earnings presentation today are 2 charts that, I think, you will find interesting and insightful to really understand the trends we are seeing. When I look at the first chart on sales per dealer, there was a quite significant drop-off in sales in mid-March as the threat of COVID-19 pandemic became impaired. We then saw that what we are hopeful is a bottoming out in the first week or 2 of April. As you can see in the past few weeks, there has been a modest reversal, which may be a start on the path to recovery.

The second chart we shared is data around the number of repair orders per service department.

As a reminder, these shops get treated as essential services and most have remained open during the shutdown. While they have faced declines, dealers still have been able to complete quite a few service repairs. Again, you see a similar story as bottoming out and modest reversal. We're following these trends very closely and I'm finding the data very useful in my decision-making. As we pivot CDK to leverage the wealth of data that we have to help our customers and the industry more broadly, I look forward to publishing and sharing more of these insights with you in the future. We want to support the industry as we see these trends evolve through the crisis. And we are committed to being proactive by partnering with our dealers to help them through this difficult period.

Over the past few months, my executive team and I have worked tirelessly to determine the best course of action to address the challenges our dealers are facing while balancing the needs of our employees and stakeholders. In March, we announced offers to discount several of our products.

In North America, for the month of April, this included all of our layered applications for free, along with 25% off the DMS. We see opportunities during this time to focus on helping all dealers, including those that may not yet be CDK customers. We extended our discounts and offers to all dealers and believe these actions will assist in easing some of their financial burden during this difficult period. As you can imagine, the responses we received from dealers have been tremendous.

A copy of the letter I sent to our customers is available on our website. Also in this letter was my commitment to forgo all, but $1 of my salary and cash bonus for this year. I'd also like to tell you about some of the other things we're doing to support our customers. Several of our products have been instrumental to our dealers' operations during this time. Such as our CDK service product and customer remote DMS access. We pivoted very quickly to make sure that dealers, employees who needed access to the DMS for critical operations like payroll or accounting could do so remotely.

We've recently announced enhancement to our Connected Store software, that enables dealers to create and work mobile deals from anywhere and allows customers to pencil their first quote directly from their own devices.

On the CDK service side, we've added the Hailer option to allow for touchless vehicle pickup and delivery to a customer's home. Also, our customer support teams guided dealers in the use of our CDK payroll plus software to gather the required monthly payroll amounts needed to apply for the SBA's Paycheck Protection Program, which provides financial assistance to help small businesses retaining employees during this time. These are just some of the many products and services that we are offering to help dealers with selling vehicles online, running their critical service operation and supporting their employees.

To provide dealers with training support, we refreshed our comprehensive customer training program, including our online CDK University, which now features more than 600 free online training courses and virtual instructor-led classes. Our call center support teams quickly mobilized to move the entire operation over to working from home with no disruption in service. And in fact, we are delivering service levels of 95% on call response times, up from 83% in January.

In addition to that, our customer effort score, which asks that CDK make it easy to get your problems solved, is at 95%, which is our highest score to date. Our supply chain for networking equipment, printers and telephony is secure with sufficient capacity to meet our requirements.

To meet the needs of our dealers for our DMS and layered application products, we've implemented many innovative installation procedures to ensure the safety of our customers and our employees. We've done installs of our DMS and applications on a fully remote basis and have received positive feedback from several dealers on the experience. We're being very sensitive to the needs of each dealer and putting them at the heart of the decision about whether to conduct the installation work on-site or not. Understandably, not all dealers are ready at this time, and in some cases, we've been asked to push back installations to a later date to meet a dealer's need. However, we continue to see site growth overall even given the current situation.

In Q3, auto sites in North America were up by 12 sites on a year-over-year basis, our fifth quarter in a row. During Q3, we announced a long-term renewal with Berkshire Hathaway Automotive, an enterprise account with dealerships across 10 states. In addition, our success in gaining new key sales and earning back customers continued during the quarter with an 18-plus site competitive win, which includes additions of our Document Cloud, CDK Inspect and Cloud Connect applications. We had a 25-plus site dealer scheduled to leave us in April, who signed back up for over 60 months and added our ELEAD CRM to all of their sites. We also had a 30-plus site ELEAD customer who returned after several months on a different product. We've worked hard over the past year to become more of a true partner with our dealers, and I'm very proud of what we've accomplished.

Looking forward, I'd like to talk about some of the impacts that COVID-19 may have on our business in the near future and the steps we're taking to address them. While a rapid recovery in the economy could produce a quick rebound in activity for dealers, we could also see significant downside risk if the shutdown is protracting. I sincerely hope that our actions and those of others, including the government support, can provide some needed relief to help many dealers bridge this difficult period. But we know that the length of the shutdown will ultimately determine the severity they face. Given these unknowns, we have prudently lowered our annual guidance. Joe will provide more details about guidance in his remarks. But I'd like to walk you through some of the ways that CDK is being very thoughtful about our spending and capital allocation during this time. The team is doing a great job at looking at every penny we spend. We're managing our cash and have taken the right steps to improve our liquidity. I'll let Joe provide more details, but we are tracking daily receipts to stay ahead of the curve and have reduced our discretionary spending. We've also looked at our strategic investment spending. I've talked about these investments in the past, but I'd like to provide my thoughts on their importance. While COVID-19 is the elephant in the room. At the moment, we cannot lose sight of our strategic goals, and we expect to emerge from this disruption in a better position to achieve the improvements we've promised our dealers, employees and shareholders while still being prudent and sensitive to the tragedies that surround us.

I believe it's important to continue to invest in the business, and I'd like to provide a quick update on some of the key focus areas.

As you know, our business process modernization is a long-term project, which includes implementing a new ERP system, delivering less complex invoices for our customers and standardizing several practices to make CDK easier to work with. During this time of working remotely with restricted travel, we've been very busy at continuing and even accelerating many of these initiatives. Our new simplified invoices continue to roll out as planned and are now available to over half our customers. Delivering on the promise of Drive Flex, our new modern DMS is now more important than ever to the industry, and we have continued to invest in several enhancements.

As of Q3, we have a total of 5 OEM certified and around 2 dozen installations with over 100 sales to date. While working from home, our team has been improving our installation and migration efficiency through increased automation and validation. And I'm happy to report that we've developed and completed our first fully virtual Flex install that went live in mid-April.

Other key improvements we've been working on include the integration of Flex with our CDK ELEAD CRM, enhanced usability and new features for technician payroll and vehicle costing. We're also continuing to make progress on the developments of Fortellis, with 38 APIs and 7 million transactions to date. Not surprisingly, the ramp in the number of transactions and our rollout of the new repair order API has slowed somewhat during the COVID shutdown. But we have many new exciting things that we accomplished during the third quarter and are currently in the works that I'd like to share with you. We announced our partnership with Microsoft to integrate GitHub and Power Apps into Fortellis and to connect with Microsoft's automotive community. These integrations are focused on making it easier to build APIs and apps on Fortellis by leveraging Microsoft's industry-leading developer utilities. We also announced at NADA, the formation of our advisory council, that's really made up of representatives from technology, automotive OEMs and dealers and dealer association reps. All focused on helping us grow our industry's open and agnostic capabilities on Fortellis.

In the quarter, we continued to drive API development and deployment with 2 notable examples with major OEMs. We are incorporating a major OEM's connected car information through Fortellis to provide greater insights for dealers using CDK service, improving the customer service experience. We have also contracted with a major OEM to develop an inventory API that allows the OEM to see in near real-time changes to dealer inventories and to provide them with insights into their dealer inventory needs.

I'd like to end by talking about our employees. We've closed just about all of our offices worldwide and have been working remotely to keep our operations going through this difficult time. I'm extremely proud of the hard work and success the team has achieved. And on behalf of the entire management team and the CDK Board, I would like to thank them all for their efforts and contributions. Now more than ever, I'm glad that our strategy of being easier to work with has allowed us to partner with our dealers to determine the best solutions for them and CDK. The strong engagements we have with our dealers has grown even more during this crisis, and we have a solid foundation in place to emerge greater than ever. And we continue to monitor the situation in our markets. And are committed to staying nimble and supporting our dealers, our partners, our shareholders and employees as we move through this crisis together.

And with that, I'd like to turn the call over to Joe.

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

Thanks, Brian. Good afternoon, everyone, and thank you so much for joining us today. We know that these are very challenging times, and we truly appreciate your ongoing interest and support. We are pleased with our results for the quarter amidst this difficult global health crisis. We've been very focused on supporting our customers and employees, while being very diligent in managing our cost structure and our liquidity. Despite the building COVID-19 headwinds in the back half of March, we generated total revenue of $516 million in Q3, which was 3% growth on a reported basis and 4% growth on a constant currency basis. Much of the momentum we saw building in the first half of the fiscal year continued into Q3. While the auto industry has been very impacted by COVID-19, we've seen the resiliency of our dealers as they rally their teams to perform the best they can.

Our CDK software is critical in supporting our dealers to be successful as they perform their essential service of keeping cars on the road and selling new vehicles. To put it in perspective, the week of April 13, we fielded more than 15,000 interactions from our dealers into our call center to help keep their dealerships running.

Before we get into the details of the quarter, in light of the current environment, I want to take a step back and provide some perspective on a few areas. First, let's discuss our customer base and the nature of our revenue streams. From a North America standpoint, which is more than 80% of our revenues. CDK's customer base has always over-indexed to the larger dealers. As of the end of our third quarter, dealers having 3-plus sites represented more than 75% of our customer site count base. Also, we have long-term relationships with nearly all of our 30,000 global dealers in the form of multiyear recurring revenue streams. As a result, when you look at our business mix, about 80% of our annual revenue is in recurring subscription-based business. While we are not immune in this environment to the impact from lower transaction volumes, due to lower auto sales or to lower onetime revenue in our International business. Our weighting toward larger dealers and subscription nature of our products provides us with some level of stability in our revenues, profitability and our free cash flow. We do place significant value on the long-term relationships we have with our dealers, which is why we are providing meaningful discounts to our customers in our fiscal Q4. I will cover the impact of these discounts in my guidance section.

Second, I wanted to cover the actions we are taking to preserve our profitability, cash flow and liquidity given the current environment. The CDK leadership team took quick, decisive action in early March as we saw the COVID-19 situation developing. Roughly 2/3 of our costs are in labor-related expenses. We have largely reduced all hiring to the few critical roles that need to be filled. We are also cutting contractor and other outside services spending where possible without reducing our service to customers.

As we look to capital expenditures, we've deferred all nonessential spending until we get better clarity on the economy reopening. We also focused on ensuring we have more than enough liquidity as we manage through this crisis. We recently renegotiated our bank credit agreements to allow for additional borrowing capacity under the revolving credit facility. All in all, we have a lot going on, but the CDK team has risen to the challenge to keep us strong and to have us emerge from this in a better position.

With that as a backdrop, let me turn to the highlights of our third quarter.

Despite the impacts of COVID-19, we were able to deliver solid results for Q3. We ended our third quarter with consolidated revenues of $516 million, up 3% year-over-year, driven by growth in North America of 4%, offset by a 1% drop in International. For the quarter, subscription revenue increased 3% year-over-year. Looking deeper into subscription revenue by region, North America revenue was up 2%, while International was up nearly 9%. In our North America segment, Q3 subscription performance was driven by gains from upgrades to Doc Cloud and ELEAD CRM conversions from legacy products, offset by the expected declines from the partner program transition.

North America auto sites were up by 12 over Q3 last year. This represents the fifth quarter in a row with year-over-year site growth and is reflective of our ongoing efforts to put dealers first and make it easier for them to work with CDK.

Turning to revenue per site. North America auto revenue per site was up 4% year-over-year, driven by gain in key applications like Doc Cloud, ELEAD CRM and service, offset by the expected declines from the partner program transition. As Brian mentioned, new sales won during the quarter continued to be strong with key gains in DMS and Doc Cloud products.

Drilling down one more level to size of dealer group within the 3-plus site group, we saw recurring revenue up mid-single digits year-over-year, with recurring revenue for the 1 to 2 site group down low single digits. Subscription revenue from our International segment for the quarter was up 9% year-over-year, driven by increases in revenue per site. International sites were down 1% year-over-year and for the next few quarters, we expect this number to be further pressured by additional site reductions, primarily in China.

We ended the quarter with strong revenue per site, up 8% year-over-year through incremental installs of solutions to existing dealers and higher DMS revenues.

Turning now to the other 3 revenue categories of transactions, on-site and other. The transactions category contains products that are most directly tied to changes in vehicle sales activity as they consist primarily of fees for vehicle registrations and credit check services. These are offered only in our North America segment and are about 7% of our Q3 revenue. As you would expect, the COVID-19 shutdown that began in mid-March caused a decrease in our transaction revenues, with a 3% decline year-over-year. Revenues within the on-site category come primarily from DMS products that are installed on the dealer's premises as opposed to hosted services and are more common in our International business. The on-site category represented 3% of our total revenues and for the quarter decreased 41% year-over-year, primarily due to lower license volume.

The final revenue category is other, which is a mix of products, such as consulting, hardware-as-a-service, forms and our marketing call center business. Generally, there is some seasonality in our third quarter in this category due to additional forms needed by dealers for tax filing purposes. While not directly tied to vehicle sales, revenue from some products within the other category may be impacted during periods of economic stress. Other revenues represented 12% of total revenue for the quarter and were up 25%, primarily due to benefits from the change in accounting for hardware-as-a-service under ASC 842, partially offset by lower volumes in the marketing call center.

Now turning to earnings. Third quarter EBITDA of $202 million was essentially flat year-over-year with a margin of 39.1%. Earnings from revenue growth were offset by headwinds from our investments and the partner program transition. At a segment level, North America pretax earnings were down 2%, with a margin of 40.8%, down 270 basis points, principally due to the same reasons. For International, pretax earnings were down 13%, with a margin of 27.1%, down 360 basis points, mainly because of higher labor expenses and lower revenues.

In an effort to improve margins and generate appropriate returns, we approved a restructuring plan in late April for our International business. We expect this to successfully reduce costs and improve margins within our CDKI segment beginning in fiscal year 2021. The restructuring expenses related to this program are expected to be approximately $30 million. These expenses will be included as an adjustment to our non-GAAP financial measures and have been considered in our fiscal 2020 guidance.

For the total company, our effective tax rate was 22%, down from 26% in the same period last year due to $3.2 million of tax benefit related to execution of various tax planning items implemented in the quarter. Diluted earnings per share were $0.92, up 6% year-over-year. The increase in EPS was primarily driven by lower weighted average diluted shares outstanding versus last year and a lower tax rate.

I'd like to spend some time discussing our liquidity position. Our cash balance on March 31 was $285 million, of which $211 million was held outside of the United States. Most of the foreign cash is liquid and accessible to meet funding needs globally, given that we removed the assertion that foreign earnings are indefinitely reinvested as of March 31, 2020, making them available for repatriation.

We also maintain a $750 million revolving credit facility with our banks, $100 million of which is drawn, which together with our cash balance, provide ample liquidity. We recently amended our revolving credit facility and term loans to increase the maximum allowable leverage ratio through the second quarter of fiscal 2022, to provide access to additional borrowing capacity to protect against the impacts of COVID-19.

Our balance sheet remains strong with net debt to adjusted EBITDA of 3.2x. This remains above our target range of 2.5x to 3x, but is down from 3.3x at the end of Q2. As a reminder, our next debt maturity is in fiscal 2022. During the quarter, we paid out $18.2 million in cash dividends to shareholders. Year-to-date free cash flow was $211 million, which was lower year-over-year, primarily due to litigation settlement payments in prior quarters. I'd like to pause here and talk about the current situation given the COVID-19 pandemic.

As Brian mentioned, due to the significant uncertainty within this environment, we decided it was prudent to lower our annual guidance to provide for a wider range of possible outcomes. Our new annual revenue guidance is now $1.915 billion to $1.965 billion. We expect EBITDA of $705 million to $745 million and EPS of $2.85 to $3.20. We are actively monitoring the situation closely, and I'd like to share some insight about the factors that we took into consideration in determining this guidance. The way I think about the COVID impacts on our business are the following 3 buckets:

First, the customer discounts that we offered or will offer during Q4, will result in lower Q4 revenue of $20 million to $40 million, which represents about half of the total discount, with the remaining impact recognized over the next 2 years as a result of ASC 606. Second, we are experiencing some delays in our installation schedules as well as some lower onetime customization work in our International segment.

We expect the impact of the delays in Q4 to be approximately $20 million to $30 million.

Lastly, as I mentioned earlier, the majority of our transaction revenues are impacted by changes in vehicle sales volumes. We expect lower vehicle sales in Q4 and as a result, lower revenues of approximately $20 million to $40 million.

As I mentioned earlier, we took immediate action to reduce expenses as we saw revenue decline materializing. The benefits of the expense reductions will be partially offset by lower capitalization of our installation teams as a result of lower fourth quarter installations.

We expect to continue our normal quarterly dividend payments, but have suspended share buybacks for Q4. Planning for these potential near-term headwinds is part of our ongoing and thoughtful approach to financial decisions and capital allocation, and we intend to remain focused on exercising prudent expense and investment discipline to ensure we meet the critical needs of our employees, customers and shareholders.

We believe we are well positioned to navigate through this crisis should the situation last for an extended period of time and that our strong recurring revenue model will continue to provide us with a stable foundation.

Before taking your questions, I'd like to end with a brief comment on the sale of our Digital Marketing Business, which was completed on April 21. Given current market factors, including the impacts of COVID-19, we reevaluated the fair value of the Digital Marketing Business and recorded an allowance of $26 million in Q3. We are happy that we could get this transaction done in the timeline that we did so that we can continue to focus on our core software business.

We wish to thank all of the employees of the Digital Marketing Business for their hard work and dedication through this transition. 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 comes from the line of Ian Zaffino from Oppenheimer.

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

Maybe just help us understand the -- sorry, maybe you can help us understand the path to recovery here as far as the dealers that have been taking or have been given the free apps and the 3 other offerings that you've given, how easy it will be to maybe migrate them back to becoming full paying customers? And then do you expect some to just maybe just drop off and maybe not reopen as far as attrition of dealership sites?

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

Sure. This is Brian. Ian, I can start, and Joe can add some color. They all know. It was in the customer letter, and we've talked to many of them that this was a temporary solution to help them through this troubled time. For us -- I think for us, the industry for the U.S. and our international sites, it's important to keep as many of these dealers functional and in business as we can during these times. So we don't see an issue of converting back to just the normal pricing as different states and all open. And that's why when Joe and I forecasted, we forecasted as best we could, assuming a certain number of states opening and the rate at which that will all happen.

And then I think the second part of your question was, are we seeing a decline in the number of dealerships? Well, I'd tell you, so far we haven't. I think it's early. Most of that are in the conserving cash stage and you see from the data that they're doing fairly well from a service appointment standpoint flowing through the system. So there is still cash flow coming in. And so we haven't seen any dramatic change in the number of dealerships or the number going out of business or anything like that.

Operator

Our next question 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 ask on the pipeline, and maybe you can just give some more detail on how that has been impacted by COVID-19. And I guess what I'm wondering is, is there a difference in impact in the pipeline in terms of new customers that are in there and then cross-sell within the -- into the existing base of customers?

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

Sure. This is Brian again. I can start, and then Joe can add color if he wants. I'd tell you, you heard from the prepared remarks that we really went out and focused as soon as this whole pandemic kicked in on doing 2 things. One, tracking to any dealer who had left or said they were going to leave in the near future and offer them opportunities to come back and stay with us and avoid a transition. So we've been doing that, you've seen we've been reasonably successful.

The same time we moved because dealers didn't, in some cases, want us to come into their shops to do installations like we normally would. So we've implemented virtual installation capability on almost all of our products now.

So everything from layered applications like ELEAD through the DMS, you even saw Drive Flex is now able to do a virtual implementation. We do see, though, that there is a decrease in the ability to get in front of dealers and actually sit down and have a discussion about conversion and sales.

And so we are still selling, we're selling pretty well. You heard the pipeline, but it is a bit lower than what we would normally forecast for a quarter like Q4, but we're encouraged because there's a lot of dealers saying, "Look, these are great ideas. These are great opportunities. I just need to focus on my cash flow and keeping my business healthy and any other fixed operations I can do. And so let's talk after the opening." So we have a pretty good queue in the pipeline out into the future.

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

Yes. And Matt, the only thing I would add is there's some opportunities that have come into the pipeline as well, just some meaningful sized ones where customers have looked at our focus of partnering with dealers and look for opportunities to build more integration. And so there's certainly some positivity out there. And I think Brian summarized it well that there certainly is a bit of delay on the DMS side. But all in all, I think the teams are doing the best we can.

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

Got it. And last one for me. A lot of dealers have sort of scrambled here to try to sell more cars online. And if we sort of assume that perhaps some of this sticks the post the pandemic, any impact there that you foresee on your business positively or negatively?

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

Yes. So I actually agree with you, Matt, but I think as we look across all industries, not just the automotive industry, but many of them. Some of things that are occurring around remote work and remote access and all are going to stick with us, right? And also some of our behaviors like cleanliness and personal behavior. So I think, yes, some of that will stick. Actually, really good news. Today, we are announcing that we will be offering for free, our full digital retail capability, which when you combine it with ELEAD, it gives you penny-perfect pricing on remote deals, let you do the full thing online, the full purchase online. All you have to do, depending on the state, is the car would be delivered to your house and there might be 2 signatures or a few signatures that you have to do by law in person. You also saw we had adapted our Hailer app, so we can schedule equipments. Our Hailer was originally scheduled for Lyft to be able to pick people up and drop people off.

Now it's -- the dealer will come pick up your car or drop off your car. But the fact that we're going to go deliver a free to the dealer, full digital retail applications. We believe it's going to stick, and we want to be the market leader and really show our dealers that we're there for them. So by providing it free, we think it really becomes an asset for them. And I do think that will result, remain after this pandemic goes back to semi normal.

Operator

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

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

I appreciate all the color, and I hope everyone is doing safe, doing well. I was hoping you could give us some color around your underlying economic -- underlying assumptions for the year in terms of SAAR as well as your sensitivity, the sensitivity of transaction revenue to fluctuations in SAAR as well as any movements in the used vehicle market as well?

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

Sure. Chuck, good to hear from you. I'll start out and Brian can add in. When we look at transaction revenue, it's about 7% of our revenue as of this quarter. And the pasture we've taken is we've had a pretty good view into April transaction. And as Brian talked about, you can see some of the data we've published in our earnings presentation, and we're really looking at that and not trying to add more drug on to it more, just looking at that, if that continues into May, June, that is sort of what's been contemplated into our guidance range. And so not really a SAAR prediction, but more what did we see in April and carry that forward to May, June.

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

Okay. Okay. And as a follow-up, I wanted to get a little color around the International business. Specifically, you had alluded to some restructuring activities as well as some pressure coming out of China. So if any color you could provide on those 2 areas, specifically your exposure to China and what you're seeing, any positives or negatives across your markets internationally?

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

Sure. I'll start and then maybe Brian can add in. So Brian and I had spent some time over the last several months pre-COVID with the leadership team in the International and really diving deep into to the business. It's a very good business and has a strong building subscription base. And -- but when we look at the margin profile, we saw opportunity and really what you heard from me and my remarks today is we have taken action to realize that opportunity really to -- we think the business can perform at a 30% type margin return profile and that will build into the estimates. As far as China goes, there's just -- we thought it was prudent as we go look at user counts and site counts going forward, there will be a bit more pressure just given all that China as well as the world has gone through and there's this visibility that we have, that there certainly will be a bit of reduction over the next several quarters around the sites in the International business really attributed more to China. Brian, anything you would add?

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

Right. Yes. No, the only -- I would read that as us aligning the margin. And Joe mentioned, it was we were working this with the leader of that group, but well prior to really the COVID actions that have taken place and aligning to how do we get the margins to where we really want it to be. And in that, you always have to align investments and where you've placed that. And so what you're seeing is just us realizing that we think fairly quickly, we can make good margin improvement in that business and that's really what this is targeted towards.

Operator

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

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

On customer success and retention. Last quarter, I think you talked about retention at a 9 quarter high. Just wondering if you could comment on how retention has been trending recently, maybe in the first couple of months of the quarter and then more recently into the end of March and April?

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

Sure. I can start, and Joe can jump in. This is Brian. I'd tell you, retention has actually strengthened as we've come into this -- the whole COVID pandemic, we were doing well in the beginning of the year, as we mentioned. And as we've gone into the pandemic, we've actually seen the actions we took of giving dealer discounts, going and talking to even dealers who had plan to leave. In the prepared remarks, we talked about a couple of dealers who had prepared -- planned to leave and we were able to pull them back. Large dealerships, both on the DMS and the CRM side. So we're continuing to improve from a retention standpoint. Joe, anything?

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

Yes. No, nothing really to add. I think when we look at the retention rates continue to be very strong and particularly the 3-plus site segment.

We did see the timing of some losses in the 1 to 2 segment time from December to January. But all in all, I think we right now are performing quite well from a retention perspective.

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

Got it. That's helpful. And then kind of like putting all these pieces together around the actions you've taken in the COVID Task Force, the discounts, the free software. In this customer focus, like how do you think you emerge from the current crisis from a competitive standpoint? I don't know if you can comment on how your response or your traction may or may not differ from your peers through this.

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

Yes. I don't -- I'm not going to talk too much about my peers, partly -- I mean, there's probably work going on that I'm not completely observant, too, on their side. So wouldn't be fair. I think from our side, I think we believe we'll emerge stronger. One, the dealers really look at this as we've been there to help. Both in the discounts and free software we've given. The notification that's going out today that will do the full digital retail solution, which we think is one of the best-in-class solutions in the industry, which will go in for free and be a part of the DMS and the CRM solution. And then equally as important to me is, during this time, and Joe mentioned it in his remarks, we've done a great job of conserving our spending and cash. But at the same time, we haven't stopped investing in the technology. So the improvements we're doing in Drive Flex, the improvements we're doing in our base drive products, our CRM, our service application and even the road map we have for the digital retailing solution to include more F&I capability and more website capability.

All of those things, we believe, both technically from the products we're producing, operationally, I think we'll be more efficient. And some of these things are going to stick with us. Some of our spending, we -- I think will -- the reductions will stay and will actually emerge better. And then from a customer standpoint, I think we are doing better with them. And as Joe mentioned, the majority of our customers are the larger dealerships. And so they're going to emerge well from this, and we're going to emerge well with them. So I think we're well positioned. And relative to our competitors, it's just -- you guys probably have as much or more insight as I do.

Operator

Our next question comes from the line of Rayna Kumar from Evercore ISI.

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

Can you go into a little bit more detail as to what needs to happen to get to the high end of your guidance versus your low end of your updated 2020 guidance? If you have any early thoughts on how FY '21 would go up, that would be very helpful.

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

Sure. Thanks, Rayna. I'll start out. When you say high end. So let's call high end, the lower performance. So if you were to describe it as lower end of revenue guidance and lower end of EBITDA guidance, you would have -- to get to that perspective, you'd have to see the shutdown continue to last very similar to the way it was in early April throughout May and June. And really not see much improvement at all in transaction performance in terms of dealerships being able to sell vehicles and being able to service vehicles.

I think as long as we can continue to see continued improvement and dealers reopening and economies reopening, we feel comfortable within the guidance range, particularly in the midpoint, to deliver on the fourth quarter. As it relates to next 2021, just can't comment as you can appreciate right now. Too many uncertainties, moving factors. But what I would tell you is we feel really good about how we're managing the fourth quarter. We had a lot of momentum coming into pre-COVID time, a lot of momentum in the pipeline. We have a good backlog. I think now in COVID, we've done the right actions on the cost front. We're doing the right things to partner with our customers. And like Brian said on the last question, I'm confident we'll reemerge stronger along with our dealer partners.

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

Great. It's very helpful. And if you can help us better understand your investment strategy during this time versus cost takeout, what investments do you plan on prioritizing in this environment? And then separately, if you can go into a little bit more detail on your cost structure as in how much is fixed versus variable lease?

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

So maybe I can start with the investment, Joe, and then you can go through all the rest of that details. I'd tell you that our investments are really focused on a couple of areas. One is on our modernization of our ERP system, which really then goes back to billing. And if you talk to our customers, our billing, the complexity of our billing, the clarity of our billing, the accuracy of our billing wasn't up to par, and that was an area we committed to fix. We talked about the number of customers who are now receiving their new simplified billing system. We've got very positive feedback. That is a program that's going to go on for a while still. And so we're going to continue to invest. And as Joe said, the partners we've had have been great and actually continue to work with us, but at a lowered fee. And so we've actually been able to do better for less in that space.

The other place we're going to continue to invest during this time is in the technology. So we have slowed down some of the hiring of new people, but we absolutely continue to really build out our road map for the technology. You saw the growth in Fortellis, we've gone from 1 million transactions to now 7 million. Our goal is to exit the year at a very high clip of transactions going through Fortellis. You saw the 38 APIs. So we're investing in Fortellis. We're investing in Drive Flex. We're investing in our Drive product. We're investing in ELEAD CRM to make those products better, more capable, build in data structures. Build in artificial intelligence at the beginning of at least that capability. So that's the other area we're going to really continue to invest in. And we're doing some other investments in things like our HR system internally and all but that's most of it. And then I'll let Joe talk about the cost reductions and how that fits in with our overall spending structure.

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

Sure. Thanks, Brian. And so listen, Rayna, when we look -- Brian had talked about us monitoring things daily. So we have daily dashboards, cash receipts and cash disbursements on spending, the team has done a fantastic job of really staying very instrumented into managing the strength of our balance sheet and our liquidity. So Brian and I will always watch that closely and be prepared to adjust course if we needed to. I think you asked also how much is fixed? When you look at our cost structure, 2/3 of our cost is labor. And it's been really important as we're pivoting to the new CDK we share with the employees, we haven't reduced or furloughed any employees, and it's -- the employee team has really rallied around us and been very appreciative and continue to work on the programs Brian just described or clean up backlog of outstanding customer questions, and we just continue to do everything we can to come out of this stronger and so 2/3 is labor, 1/3 is nonlabor. And really, what gives us comfort is we're really pleased with the new bank deal we negotiated. We have a very strong liquidity position and think we can successfully navigate this.

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

And the only thing I would add to what Joe said, just to give you a little bit more. We asked or commented earlier, what will stick even after COVID? I think this daily looking at our receipts and our spending and our looking at all of the different ways we're spending money, being more efficient, I think that will stick. We will be a better company as a result of this. The other thing that's been interesting is the teams partly just the way they work. And then partly, I think our commitment to the team of -- we're going to try and work through this, at least through the end of May with no layoffs or furloughs. The team has been very committed there. I'm saying, okay, we've got to get a lot done. We're actually seeing perhaps even more efficiency and productivity out of the team, even though the majority of the team is working from home. So it's been quite interesting that the culture has really come and risen above this pandemic and we're doing quite well from that standpoint.

Operator

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

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

Brian, on some of these charts that you gave on the data trends through April 21, is that the latest data you have April 21 from your system? I'd just be interested to see what your thoughts are for the 2 weeks after the 21st of April?

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

We get data pretty regularly. We just -- we get actually data feed every day. Some of the way the data gets into our system, depending on the data source, some of it has to go through the OEM. Some of it has to go through some other third parties. So it tends to get a little bit lumpy. You can actually see it a bit in that data. So we took 2-week-old data because we knew that data had most of it flowed through. If you take a look at what's happened in the last 2 weeks, we've continued to see that upward trend at about the same rate. So we're continuing to see things get better. It's not a spike up or an exponential curve, but it is getting better. And you see it's both better in the repair orders, which is the service appointments and the actual sales through the system. And you can see that as states start to open up. I know many states allow now car sales, if not in the store, you have to do it out in the lot and limit the number of people and things like that. So we're starting to see that. That plus the OEM deals that are out there. It's really not a bad time to buy a car if you are in the market.

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

Sure. And then just going through some of the things you talked about, you now have 5 OEMs certified for Drive Flex, right? Is that correct?

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

Yes, sir. Yes, sir.

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

And then you also said, I think you said you had 100 sales or conversions in the quarter. Is that correct?

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

We have 100 sales in backlog. So they're sitting there waiting for install. If you remember from last quarter, we took some time off on the installs to make some improvements. We wanted to make it more efficient. We wanted to do some things that lower the cost of both the installation and the support and get some better integration. So we're working through those. And the installations are -- we still plan to try and exit the year at something on the order of 15-plus a month.

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

Okay. And then beyond the discount programs that you -- I guess you announced last month, and then you're talking about the digital retailing. There's nothing else out there currently public that you guys have announced, but are you contemplating further discounts for some of your dealer base?

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

Nothing on a wide spread. I mean, every time we go into -- we do a contract or try and win a new deal, there's always a certain level of negotiation and sometimes it's in discounts or additional services and things like that. But there's no wide spread, additional ones that we're doing. And instead, what we're really focusing on is how do we work with the dealers to grow out into the future. That's why this digital retailing one, we think is very important. This is one of the things that's going to stick, right? People are going to want to do more online. And this really lets you do penny-perfect, especially if it's through ELEADs and the CRM, you can do very accurate and get everything done, your financing, everything quoted for you. And so the deal is done then.

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

Yes. I just wanted to ask you about that because there's a lot of players in that market doing this. I mean, you're working in conjunction with the dealer's website capabilities, correct? And funneling data and some capabilities there, because when you sold your advertising business, you don't have websites anymore, right?

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

Yes. And so -- and that's why the advantage of pulling it through the DMS and then ELEAD CRM really gives us the advantage. No one person is going to have all of the pieces to put together. There -- every one is going to have to have it as a partnership. So you're right, we have to have partnerships with multiple websites, right? Some of them OEM websites, some of them third-party websites, some of them dealer websites. You have to have a variety of F&I partners. You have to have all of those partners lined up, and then -- and that's one of the things we're really focused on, it's growing the number of those partners. But yes, nobody is going to be able to do that solely on their own. You have to have a partnership.

Operator

As there are no more questions, I would like to thank you for your participation. This concludes our call, and you may now disconnect.