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<<Jeffrey P. Meuler, Analyst, Robert W. Baird & Co.>>

I’m Jeff Meuler, Baird’s information and education solutions analyst. Our next presenting company in this room is CDK Global. CDK is a global provider of automotive dealer management, marketing, and other solutions that’s in the midst of doing a very aggressive transformation and margin expansion plan. With us from the company its CEO, Brian MacDonald, as well its CFO, Al Nietzel on stage with me. And we have a member of the IR team, Jen, in the front row over here. With that, I’ll hand it over to you, Brian.

<<Brian MacDonald, Chief Executive Officer>>

Great. Good morning, everyone. I am Brian MacDonald. I have a number of slides here which I’m going to go through very quickly so that we can have some Q&A. The first slide is very important information you should read on forward-looking statements and recognize that it applies to everything that we say.

Okay. So our Company, we are a leading automotive software company, a global company. We have a highly stable business model with ratable cash flows over multiyear contracts. We are going through a large transformation which I will talk a little bit more in detail where we are increasing our margins 1,300 basis points over a period of a little less than three years. So let me say that to you again. We are going through a very aggressive transformation program where we are increasing our margins 1,300 basis points over a period of a little less than three years.

Some of the things that we are doing to achieve this – we just did a major organizational realignment, which I’ll talk about in a few minutes, and we also – we have been and we continue to be very aggressive around returning capital to shareholders and leveraging our balance sheet and cash position.

So overall, roughly two-thirds of our revenues in North America, about 15% is international, and we have roughly 20% in a digital marketing business. We have 27,000 customers. In the United States, we have roughly 40% market share. You can see here we have a lot of competitive advantages that makes our customers very sticky and that we have our contracts with customers for generally a very long time, on average often 20 years.

We are well-positioned in growing markets. Automotive sales are growing obviously. However, the predominance of our revenue is not tied to SAR. We can talk more about that later in our Q&A. Roughly 10% of our revenue is tied to transactional volume, credit checks, vehicle registration, but the predominance of our revenue is not tied to SAR, which is a very important consideration when you look at our Company.

These are our goals over the approximately three-year period that we have. So our revenue growth target is about 4% to 5%. That's a little lower than historically the Company has executed. We have EBITDA improvement targets of between $250 million to $275 million, and I will show you the detail on how we are going to get there. And as I said earlier, our adjusted EBITDA margins will grow to a target of about 35% in fiscal year 2018 from approximately 22% when we started this journey. These are the targets by our three business units, which I won't go through in detail, but you can see we have targets here by business units both on the revenue side and the margin side.

Okay. So how are we going to grow the margin 1,300 basis points over this time period? So there's a number of items here listed out that represent macro themes of what we are doing to improve the margin. One of the things that – when I became the CEO, I heard from many of investors that, hey, you guys have this big margin improvement target, but we don't really understand how you are going to do it. This is kind of a black box, so how are you going to do this?

And so I have a lot of experience with investors and I think largely a pretty good reputation with investors, and I understand investor relations pretty well. At one point in my career, I actually worked in investor relations. And so I wanted to make this easier for you to understand what are the operational things we are doing to increase the margins by 1,300 basis points over a three-year period.

So there are a number of things here operationally that we are working on, and this was in our last earnings release to help you understand our transparency. These are the dollarized amounts for each of these. So just to give you the perspective, there are eight macro groups here. Within these eight groups, there's approximately 200 projects, okay. So people are working on discrete projects in each of these buckets that will get executed over this period of time to grow the margins.

Obviously some projects are bigger than others. Many of them are interrelated. But this will show you operationally where the dollars are coming from, and we have operational metrics which we are sharing with investors. I don't think they are in this stack, but they are in some of our earnings release material that you can see, and we will update you on those quarterly. But clearly you can see where the operational improvements are coming from over this period time and how we get the margin.

One of the things that I recognized when I came into the Company was that we are a very complicated company, self-made, overly complicated. If you talk our customers – if you talk to dealers, they will tell you that CDK is overly complicated to work with at times, and so one of the things that I recognized pretty quickly was we needed to change our organizational structure in order to make the kind of margin improvements that we need to make and are represented in the deck we needed to make changes to the organizational structure.

So just to give you some examples, we had seven R&D organizations reporting into different places. We now have one global R&D organization. Why does that matter? You are an investor. You're like, okay, what does that really matter? Why that matters is so that you can get the cost efficiency and efficiency of common tools and processes across the prior – whole product suite of development and you get leverage, okay. So we had, I think, five or six sales organizations that reported into different places. We have one sales organization for the whole business in North America, which allows us to focus on customers more efficiently.

So I won't take you through the gory details of that, but needless to say we had a lot of organizational complexity, which culminated in excess complexity in our products, the way we deal with customers, the way we operate internally. So we did this organizational change pretty quickly after I became the CEO.

In terms of capital allocations, the Company has been recently aggressive since it was spun out. One of the things I heard from investors – I have talked to a lot of investors and I heard from investors that, hey, you guys could be a little bit more aggressive on share buyback. And so we've been talking about that with the board, and yesterday we actually had a board meeting yesterday. And at the conclusion of the board meeting, we announced an acceleration of our buyback program.

So the board had previously announced $1 billion buyback program, including dividends, which would be completed by the end of calendar year 2017. We announced yesterday that we are pulling that forward to the end of calendar 2016, and that reflects the confidence in our ability to execute the plan that we are executing against.

This just shows you our forecast for this year. So when the year started, we had targets to increase our margin approximately 300%. We since raised that to increase approximately 350 basis points this year. We've made good progress this year, and this is how our guidance has evolved over the year.

So back to the plot line here, we have a very solid franchise. Ratable – very ratable business, very good stickiness with our customers, and a very aggressive transformation plan to increase our margins by 1,300 basis points over a three-year period, and also an aggressive approach to returning capital to our shareholders. So, with that, we will open up for Q&A.

Q&A

<Q – Jeffrey P. Meuler>: You can either raise your hand or send questions to session1@RWBaird.com. So I'll just start. So I guess this is part of the spin playbook. For those not familiar, you are spun out of ADP. It is obviously an ambitious target. You've been operating for a long time. I guess what can you say about why now, and just culturally how are things different as a standalone company than under ADP?

<A – Brian MacDonald>: Well, I guess I would say why now? Look, I think in fairness to the Company, when the Company was part of ADP, it was hard for the Company to get capital allocated to it to restructure things that needed to be restructured or wanted to be restructured. And so as part of this transformation plan, we took a $150 million charge, which is not inconsequential.

So we are taking $150 million to do certain restructurings and certain investments to facilitate this margin improvement. And my philosophy or my experience is, when you do a spin, it is an event that allows you to reset the Company culture, to do things that may be it was hard to do before. When you do a spin, you can take the things with you culturally that you want to take with you, but you have a significant event to leave behind the things you don't want to take with you in terms of culture.

I obviously didn't work at ADP, so it's not fair for me to talk about how that's different. I will let Al say a few words on that.

<A – Alfred A. Nietzel>: I mean what clearly has happened is, after the spin, we had an opportunity to not necessarily look in the mirror, but take a very, very fresh look at how we operated and some of the areas of opportunity that could increase our financial performance in a very meaningful way. You've heard before many of you that we got some help from professionals on the outside in terms of working at the operation. There was really no area of the operation that was unturned from physical footprints to pricing opportunities to complexity within the organization.

And, frankly, we took the opportunity to reset some of the financial goals that we had as a Company and came up with what we view a balanced approach of continuing to drive revenue growth, albeit at a lower rate than our historical rate. But the opportunity to significantly expand margins in a way that – as evidenced by the actions yesterday, we feel very comfortable that we will be able to execute against the goals that we've set for ourselves.

<Q – Jeffrey P. Meuler>: Okay. And then you gave a three-year target and you gave 2016 guidance. Have you given any rough sizing in terms of margin improvement and how it falls between 2017 and 2018?

<A – Brian MacDonald>: No, we haven't done that. We will report our next quarterly result in the middle of August – mid-August. And at that time, we will give some guidance for next year.

<Q – Jeffrey P. Meuler>: Okay.

<A – Alfred A. Nietzel>: But, as I said, we went out with the first year of a transformation plan with a goal of expanding by 300 basis points of the 1,300 goal we set for ourselves. We have essentially beat that and changed because we had to absorb some one-time charges, and expectation wise you should do some of the math. And if we showed up and said that it was going to be 100 basis points increase next year, we would lose a little bit of confidence, and we've got a plan in place to be able to execute to deliver in a meaningful way.

<Q – Jeffrey P. Meuler>: Okay. And then given the magnitude of the margin improvement, just on the surface, it seems a bit surprising that your revenue target is only a couple points lower than you have historically grown. How confident are you that you can sustain that revenue growth, or is there some – what's the model of risk in it?

<A – Alfred A. Nietzel>: I think Brian had said earlier the core business has a relative stickiness to it because of its recurring nature. So – and the core business for North America, we feel confident and comfortable with the projections that we are making. We do, as everyone knows, has a digital asset that has a little bit more lumpiness with it. But on balance when you look at our international portfolio, which is doing quite well right now, when you look at our digital asset that, albeit has some difficult comps for the first nine months of the year, we feel that will get to the goals that we've set forth, and you saw it in Brian's slide.

So we feel comfortable that over the course of the next couple of years, that is the appropriate revenue trajectory, and as we exit the transformation period, our expectation, frankly, is that we would probably get back to more of our normal revenue growth rate of perhaps 6% to 8%.

<Q – Jeffrey P. Meuler>: And then there's an email question. How has the acquisition of Dealertrack by Cox impacted your business thus far?

<A – Brian MacDonald>: This is a competitive market. Every dealer is competitive, and I wouldn't say it has changed in a material way, good or bad. I mean every deal is competitive. Car dealers, as most of you know, are pretty economically focused, and so when it comes time for renewals or bidding on business, it's always an aggressive process as we go to where the different competitors are.

<Q – Jeffrey P. Meuler>: And then following the announcement last night, is there a change in thinking on financial leverage targets, and how important is it to remain investment grade?

<A – Brian MacDonald>: What I would say is – my philosophy is that our actions will determine our rating, not our rating determine our actions. And so we announced a pull forward of our buyback. We have a strong business that generates cash. We are growing our EBITDA. Two things are going on here. Our margins are expanding, which creates EBITDA dollars, and our revenue is growing.

So doing the two of those together grows our EBITDA, and then we will manage through, make sure we keep some debt capacity available for acquisitions along the way. We are in a business that acquisitions will be acquired along the way, and – but we also want to be efficient with our balance sheet. And we also want to return capital to shareholders, which is something that I would say 80% to 90% of the shareholders that I've met with over the last 45 days – and that's probably about 90 to 100 investor have largely thought that the Company could move a little faster on the capital return.

And so we listen to all our shareholders and we get input from all shareholders, and as our confidence grows and our execution of the plan, we decided to do a pull forward of our plan.

<Q – Jeffrey P. Meuler>: And in terms of the M&A, what you look for, is it mostly additional services that you sell into the base, or is there kind of like another big bucket of a solutions category that you would…

<A – Brian MacDonald>: I don't want to talk publicly about what we would like to buy or not by. Look, I think it's mostly extensions of what we do already. It's not – to be clear, we are not looking to do a transformative acquisition. We have a very good business. We are very good at what we do. We are in the technology space. So innovation at times happens outside the core, and we need to bring some of that innovation inside. So we will be very thoughtful about acquisitions.

But anything we do would be to extend what we already do or improve what we already do. It's not to be transformative, to be clear.

<Q – Jeffrey P. Meuler>: And even in your – across your businesses, the different segments have pretty different margin characteristics even on a [indiscernible] (17:49) basis. Are international margins always going to be structurally lower, and is the gap always going to be that significant in terms of the digital marketing?

<A – Brian MacDonald>: It's interesting with the international market, so, first of all, operating in those countries tend to be smaller markets, and you need to have some level of infrastructure. The dealers often tend to be smaller. So there is some built-in complexity there that makes the margin a little bit lower than North America, and quite frankly that's not abnormal in most industries and businesses based on my experience.

But one of the important things for investors to realize with our international business is we operate in countries that have significantly lower tax rates than the United States. And so when you look at those international margins, roughly speaking, the tax rate is about 10 percentage points lower than the United States. So if you look at a 20% margin international business, on an after-tax basis, which, quite frankly, is where – cash flow is generated on an after-tax basis, by the way, so you can never forget about taxes.

The international business is about 10 points higher because the tax rate is about 10 points lower. So it's equivalent that 20% – the margin business in international is equal to a 30% margin business in the United States. That's a little bit of a statement on our tax quality, too. But putting that aside, from an investor perspective, you should realize that.

The second thing is on our digital business, we buy a lot of advertising, and then we – obviously we sell that advertising. So the accounting for advertising is – has a similar effect. So you buy – I'm making up the numbers, you buy $50 million of advertising, and you resell it as part of our website business for margins. Okay, let's pretend it's 10% margin. That is not a high-margin business, per se. But – so the way that manifests itself in the P&L is you have $55 million of revenue and $50 million of COGS.

So you see, wow, that margin is pretty low, and that's because you have to do this gross up accounting. And, again, in our cases, it just happens to be a coincidence. But if you adjust it out and you really looked at the revenue on a net basis in terms of our value add, that would make our digital marketing business have margins that are about 10 percentage points higher.

Okay, so again, it's important for investors to understand these nuances that are driven by either tax rates or accounting, that those businesses while on the surface, they say, oh, they have lower margins, why are you in those businesses, or why do you do those? Number one, it's strategically important to us. But number two – the margin profile is better than what it looks like for those two reasons that I just mentioned.

<Q – Jeffrey P. Meuler>: Okay. Any audience questions? The corporate reorg, could you talk about how it impacts go to market?

<A – Brian MacDonald>: Yes, so a number of things. So number one by having a consolidated R&D organization, our goal is to really leverage our product set more effectively, both internationally as well as in North America. So, for example, we have a website business, which is a very good business, and we have a DMS business. And by having one global R&D organization, one global product management organization, we can bring those products together more seamlessly.

So we only have today one product that basically intersects between the website and DMS, and we have two separate R&D and product management organizations. Okay. Today we will have one organization. And so if you think about your experience buying a car, you start the customer journey on a website, and the way the market is moving us to do as much of the transaction as possible online, ideally finish the transaction online, go to a car dealership, spend a minimum amount of time there as possible, and pick up your car or buy the right kind of car and they will deliver it to your house for you.

And so this should all happen. How does that have to happen from a technology perspective? You have to have a journey that starts on a website, that's fully integrated with the DMS system so that it's a seamless transaction behind the tablet you are working on to do the purchase. And we have the assets to do that. We have a product today that does that, and that is a big part of why we did the reorganization because that's the way the business is moving: to have seamless integration between the digital business and the traditional business.

<Q – Jeffrey P. Meuler>: You recently had a large dealer group when? And you talked – what drove that, like why are they switching to CDK, and how many more opportunities are there like that?

<A – Alfred A. Nietzel>: That deal with the Hendrick Group was probably in the works for five years or so. Ultimately dealers choose to come our way for a variety of reasons. But, as Brian talked about, the digital journey – a good example where, as you think about the car buying experience, the journey starts online and goes to the store, and we want to the penny accuracy. We want trade-in and other elements of the deal.

So I think oftentimes, the larger players, we happen to enjoy a far greater concentration. We have eight of the top 10 large enterprise clients that have chosen CDK, and ultimately, Hendrick Group came along and is part of that ecosystem where information can be leveraged and shared and the shared digital and so forth. So that for us was a big statement, and it's a great piece of business, and we hope to enjoy a 20 plus year relationship with the Hendrick organization.

<Q – Jeffrey P. Meuler>: So since it's a multi-year endeavor like other size 1s that are in the works or…

<A – Alfred A. Nietzel>: Yes, clearly there are, not at the top 10. We, one, protect our flank, but two, as you go down to the next tier of clients, they are influential, they are regional, and we have a sales model that touches with each of those clients on a regular basis, knowing when contracts are up and whatnot. So it's a clear focus for us.

Market share, even though we have a large position here in North America and the U.S., will continue to be a key focal point for us and our Company.

<Q>: [Question Inaudible]

<A – Alfred A. Nietzel>: The best example is what we talked about with creating a seamless experience for all of us when we go buy a vehicle. The statistics suggest that people are spending 15 to 17 hours online before they ever walk into a dealership. And as you go through that digital journey – not for everyone, but for many people – they will want to do a lot of that transaction online and don't want to spend two or three hours in a dealership testing a dealing and going through the process.

So to the extent that you can do that through the Internet and through the website and automatically go into the workflow of the dealer, it becomes one process so that your experience as a dealer can be really expedited in a much better way. And that's probably one of the most significant areas of innovation that's occurring in the industry. Mobile – everything is mobile now. If you are a dealer principal, you want to see information on a mobile device no matter where you are. What was my activity today? What is in the queue and so forth? So that's another area of innovation that occurs.

<Q – Jeffrey P. Meuler>: Can you talk about the trend in terms of the number of auto dealerships in the U.S., and are you – is something that in the past was a tailwind for you becoming a headwind over the next…

<A – Alfred A. Nietzel>: I would – post 2008-2009 when there are some 3,000 dealership rooftops that closed, today we have 17.7, 17.8, depending on who you ask, rooftops. We don't see an increase or a decrease per se. It's a fairly stable ecosystem. I think what will continue to happen is there will likely be continued consolidation in the industry, while the number of rooftops won't be going up or down. The number of dealer owners will actually wind up shrinking as bigger organizations acquire stores and so forth.

That plays particularly well for us given the concentration we have in the middle of the high-end of the market.

<A – Brian MacDonald>: So what I want to add to that is – so today, in the core DMS, we have, call it, mid-40s% market share. However, because we are vectored to the largest dealers and

dealer groups, the percentage of vehicles that are sold in service through our system is higher than our market share of rooftop, which is an important aspect for investors to understand.

And then secondarily, what's important to understand is that as these larger groups – and it could be a group of 20 dealers, 30 dealers, it could be a group of 250 dealers – as they continue to consolidate and all tied with 0.2, the market continues to consolidate. As these groups consolidate, if they are on CDK today, which obviously many of them are given our market share, and they buy a group of dealers and those dealers are not on CDK, in an extremely high percent of the time, they migrate them to CDK very quickly.

So that is another way that we – how it organically gains share. As our biggest customers get bigger, we get more of a share of the rooftop, which is an important part of the growth proposition that we have.

<Q – Jeffrey P. Meuler>: And how is executive comp tied directly to the plans that you have laid out?

<A – Brian MacDonald>: The exec comp is – the long-term exec comp is tied directly to those targets. And then obviously like most companies, we have annual bonus plans which guidepost along to those plans. So I think the executive team is – the composition is tied to the achievement of the plan.

<Q – Jeffrey P. Meuler>: So is that a EBITDA number? Is it a EBITDA percentage margin?

<A – Brian MacDonald>: It's an EBITDA – I think the long-term plan, which will be disclosed in our next proxy, is tied to EBITDA percentages.

<Q – Jeffrey P. Meuler>: And then 40 seconds left, but just maybe circle back to something you said in terms of SAR relationships is the question that's coming out to me. Just where's the exposure?

<A – Brian MacDonald>: So about 10% of our business is directly tied to – I don't want to say new car SAR because it's a combination of new and used. So vehicle registration – so we have roughly 10% of our business, which is transactional in nature, which is tied to vehicle registration. Vehicle registrations happen for new and used cars to be clear, and then the second part of that is – the second part of that is our credit check business.

So when you go into a dealer and the dealer runs a bureau check on you, obviously that is somewhat tied to SAR. If SAR is higher, more people are coming into the dealers to look at cars. But, again, credit checks apply to new and used cars. So – but clearly there is some sensitivity around those businesses to the market, but it's not a direct correlation with SAR.

<<Jeffrey P. Meuler, Analyst, Robert W. Baird & Co.>>

That's all the time we have for questions in this room. Please join me in thanking Brian and Al for their presentation, and they will be available for follow-up questions in a breakout session.