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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the CDK Global Q4 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call may be recorded.

I would now like to turn the conference over to Katie Coleman. Ma'am, you may begin.

Katie Coleman

Thank you. Good morning, and thank you for joining us for our fiscal 2017 earnings call and webcast. Presenting on today's call will be Brian MacDonald, CDK's CEO; and Lee Brunz, our Interim CFO. Brian will begin today's call with an overview of our results, followed by some highlights for the quarter. Lee will then take you through the details of the full year and fourth quarter results, then provide our guidance for fiscal 2018.

A few items before we get started. Throughout today's call, references to financial amounts are on an adjusted basis, unless otherwise noted. Reconciliations of the adjusted amount to the most directly comparable U.S. GAAP amounts are included in this morning's press release and are available on the Investor Relations section of our website.

I would also like to remind everyone that remarks made during this conference call will contain forward-looking statements. These statements involve risks and uncertainties, including the risks 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 filing our Form 10-K in the next few weeks.

With that, I'll now turn the call over to Brian.

Brian Patrick MacDonald - *CDK Global, Inc. - CEO, President & Director*

Thank you, Katie. Good morning, everyone, and thank you for joining us this morning. Before I get started, I'd like to welcome Joe Tautges, who is joining us for the call today. Joe, as you know, is our incoming CFO, pending the filing of our 10-K. I'm really happy to welcome Joe for this call. And he's here working with the team. And we're very excited to have him I'd also like to thank Lee Brunz for assuming the role of CFO during this critical year-end period.

Today, I will discuss our fiscal 2017 results, provide you an update on our business transformation plan, discuss some key sales wins in the quarter and then update you on recent developments at CDK related to our pending acquisition of Auto/Mate and other regulatory and legal matters.

Fourth quarter results capped off a solid year. Fiscal 2017 revenues grew 5%, or 6% on a constant currency basis, which was at the top end of our guided range. EBITDA margin for the year increased 550 basis points to 32.1%. And EBITDA dollars grew 27%. We also had strong free cash flow of $337 million versus $256 million last year, a 32% increase.

Now let me move over and talk about our transformation plan. Lee will provide more details on the quarter, full year and next year's guidance in a few minutes. But first, I want to update you on our transformation plan. As you can see from our ongoing margin expansion, our transformation continues to make solid progress and delivered benefits of approximately $110 million in fiscal 2017.

First, I'd like to highlight the success of the MoveUp! work stream in reducing software versions. During the fourth quarter, we had a stretch target to get below 500 versions. I'm happy to say we exceeded that target, as software versions ended the quarter below 400, down from a starting point of over 1,500. We have made great strides in reducing complexity in the organization and expect further progress in fiscal 2018.

Switching now to workforce efficiency and footprint, where we also showed tremendous progress in the quarter. We closed 7 facilities and have closed 20 facilities to date, exceeding our original target to close 18 facilities by the end of fiscal '18, and we've completed this a year early. So we are now -- we've now completed all of the facility closures that we had planned as part of fueling for growth.

I'd also like to highlight some early wins we're seeing in the streamline implementation work stream. In recent months, under new leadership, we have refocused our efforts on being more profit-oriented. We took a step back and redefined how we measure the efficiency of our installation efforts, then focused on profit to drive improvement in those measures. Over the past 6 months, the team has been able to reduce cycle times measured by sales to installed time in several key product areas by 40%. Reducing cycle times is a win for our customers as well as for us, as it enabled us to accelerate revenue. This is an example of how we are changing our culture to drive improvement in our customer experience as well as our financial results. Based on these and other efforts, we're anticipating $80 million to $90 million in savings from our transformation plan for fiscal 2018 as we close in on our $300 million target. I am confident in our ability to achieve that target based on the results, so far.

Now switching to sales. I'd like to highlight a couple of events from the current quarter. First, we made great progress in the rollout of our next-gen websites. We've migrated approximately 5,000 websites and continue to have great feedback from our dealer and OEMs customers.

With respect to OEMs, we are highly confident that we will be able to announce a major OEM website endorsement in the first quarter. Based on these efforts, we expect solid website growth in the fiscal year.

Also in the quarter, we renewed over 800 DMS sites to long-term contracts. Renewal in the auto segment, we've represented approximately 8% of CDK auto sites. And many of these renewals came with new layered applications.

Our investments in our products and improving the customer experience are resonating with our customers, allowing us to maintain and expand our long-term relationships.

Lastly, before Lee provides more details on our financial results, I'd like to give you an update on a few regulatory and legal matters. In May, we announced our intention to acquire Auto/Mate, a provider of Dealer Management Systems focused on smaller dealerships. As part of the Hart-Scott-Rodino review, the Federal Trade Commission has requested additional information. This second request is a standard part of the regulatory process. And CDK is cooperating fully with the FTC staff to provide the information necessary for approval. As a result of the ongoing regulatory review, we now anticipate the closing of the transaction in the second or third fiscal quarter, rather than this summer, as originally expected.

I'd also like to provide an update on some legal and regulatory matters relating to the ways we provide access and integration with our systems for third parties. As reported, we are involved in 2 lawsuits alleging that CDK and Reynolds & Reynolds have entered into anticompetitive agreements related to DMS access and security practice. Last week, the court issued a preliminary injunction in the suit filed by Authenticom, allowing them to continue unauthorized access to our systems for certain dealers and for certain data. While the full scope of the preliminary injunction still needs to be worked out, we are disappointed with the decision and intend to appeal it to the Seventh Circuit and to seek a stay of the preliminary injunction. We will continue to contest the claims in both lawsuits vigorously. And we believe that the cases are without merit.

As you have seen disclosed in our 10-K when we file it, we have also received an inquiry from the Federal Trade Commission relating primarily to the alleged anticompetitive agreements. We are responding to the inquiry and look forward to addressing the FTC's questions. We continue to believe that our agreements with customers and vendors, and the manner which we provide access and integration with our DMS, enhances the value of our systems by improving both security and reliability for our customers. We will keep you informed of any material developments as they incur throughout the year.

In order to provide clarity on our underlying operating performance, going forward, we intend to adjusted earnings to our expenses related to these matters. Lee will provide more detail on fourth quarter results and fiscal 2018 guidance.

Importantly, these matters have not and will not distract us from implementing our plans and achieving our targets. And I want you to know that the entire organization is focused on exceeding expectations for our customers, meeting our financial goals and continuously improving.

I will now turn it over to Lee to take you through our financial results.

Lee J. Brunz - *CDK Global, Inc. - Executive VP, General Counsel, Secretary & Interim CFO*

Thanks, Brian, and good morning, everyone. As usual, our financial comments for the quarter, as well as our fiscal 2018 guidance, will largely be on an adjusted non-GAAP basis. Reconciliations between these adjusted results and the most directly comparable GAAP results can be found in the schedules accompanying our earnings release.

Fiscal 2017 revenues grew 5% or 6% on a constant currency basis. We continued to face some headwinds from foreign exchange rate fluctuations, primary against the British pound. Revenues for our Retail Solutions North America segment grew 5%. Increased average revenue per DMS customer site was the driver of this growth with revenue from DMS site penetration and transactions basically flat.

While total DMS sites were up year-over-year, we saw a decline in automotive sites driven by continued losses, primarily amongst smaller footprint dealers. The number of customer websites grew 4% year-over-year, as new wins have more than offset residual declines from certain OEM program changes.

For Advertising North America, revenues grew 10% led by higher OEM-driven local advertising spend. For CDK International, revenues were down 1%, entirely due to unfavorable exchange rates, but grew 5% on a constant currency basis, primarily from increased revenue per DMS customer site due to additional users. Site counts also continued to increase on a year-over-year basis.

All 3 of our segments posted strong pretax margin expansion for the year, primarily driven by our transformation efforts. Retail Solutions North America delivered 630 basis points, which also included leverage from increased revenues. Advertising delivered 460 basis points and international delivered 450 basis points, which also included leverage on local currency revenue growth.

Total CDK EBITDA margin expanded 550 basis points year-over-year to 32.1%, primarily due to benefits from our transformation plan as well as strength in the business and operating leverage on revenue growth.

Diluted EPS grew 40% to $2.43 per share, reflecting strong earnings, plus the benefits of a lower share count driven by our return of capital plan. As you saw in our release, we had $13.1 million of tax benefit due to the adoption of the new stock comp standard.

Our cash balance was $726.1 million, of which approximately $284 million is held outside the U.S.

Now a brief review of our fourth quarter results. Fourth quarter revenues grew 4%, or 5% on a constant currency basis. Foreign exchange headwinds were primarily against the British pound. Our Retail Solutions North America segment revenues grew 5%, 6% on a constant currency basis. Increased average revenue per DMS customer site was the primary driver of this growth. Transaction revenue was down slightly driven by lower credit check transaction revenue. And other revenue was up driven by higher consulting fees and other onetime items in the quarter.

Advertising North America revenues grew 1% driven by higher OEM-driven local advertising spend. As we discussed last quarter, we anticipated a slowdown in growth relating to strong comps as we lapped significant budget increases from early 2016, coupled with delays in certain OEM-funded programs.

CDK International revenues grew 3%, 7% on a constant currency basis, primarily from increased revenue per DMS customer site due to additional users.

Moving onto segment pretax margin expansion. Retail Solutions North America delivered 480 basis points, advertising delivered 370 basis points and international delivered 460 basis points.

Total CDK EBITDA margin for the quarter expanded 390 basis points year-over-year to 32.3%, primarily due to benefits from our transformation plan as well as strength in the business and operating leverage on revenue growth.

Diluted EPS grew 12% to $0.55 per share, reflecting strong earnings, plus the benefits of a lower share count driven by our return of capital plan. As expected, we had $12.2 million of additional stock comp expense in the quarter. The increase was primarily driven by performance achievement tied to the probability that we will achieve our fiscal 2018 margin target of 35%. The impact of the new accounting standard for stock comp on tax expense was $1 million in the quarter.

Also in the quarter, we executed on a $350 million accelerated share repurchase that will terminate in the first quarter. We've returned approximately $390 million to shareholders in the first half of the calendar year, well on our way to our target of returning $750 million to $1 billion in each calendar year from 2017 to 2019.

Moving on to guidance for fiscal 2018. The year-over-year comparisons are again on an adjusted basis. As Brian indicated, CDK expects to incur additional legal expenses in connection with the 2 lawsuits and the FTC inquiry. These expenses, in addition to acquisition and integration costs associated with the Auto/Mate acquisition, will be reflected as adjustments in our non-GAAP reconciliations.

With respect to the preliminary injunction that Brian mentioned, the business impacts, as we currently see them, will be limited and are anticipated in the guidance we are providing today. Also in order to better reflect our underlying operations, we will be adjusting earnings per share to exclude the impact of stock-based compensation starting in fiscal 2018.

For this fiscal year, we expect revenue to grow approximately 4% to 5%. Based on current rates, we don't expect an impact from foreign exchange rates. We expect earnings per share of $2.90 to $3, an increase of 13% to 17% versus a comparably calculated fiscal 2017 number. We expect EBITDA to grow 13% to 16%. And we are raising our previously communicated EBITDA margin target of 35% to an EBITDA margin range of 35% to 36%. Revenue growth and margin expansion are expected to pick up later in the fiscal year. This guidance includes $80 million to $90 million of incremental EBITDA from our transformation plan. These benefits will be achieved steadily over the fiscal year.

The effective tax rate for fiscal 2018 is anticipated to be 35% to 36% compared with 34.2% in fiscal '17. We also expect future share repurchases, including the settlement of our May ASR, as we move toward our leverage targets of 2.5 to 3x net debt to adjusted EBITDA.

There are a number of factors that are impacting comparison between our 2018 guidance and 2017 earnings. We've included a bridge of the impacts on EPS in our chart package on our Investor Relations website.

First, we want to highlight the impact associated with our decision to exclude stock-based compensation from net earnings starting with fiscal 2018. Our 2017 earnings per share recast on this basis would have been $0.14 higher. And we consider this to be appropriate comparison for our

2018 guidance. From that level, you'll see we get nice growth from core operations, plus the benefits of our transformation plan and return of capital activities. These are only partially offset by higher interest expense and a higher anticipated tax rate.

We also want to highlight increased investments, which includes anticipated onetime implementation cost associated with new -- with the new revenue recognition accounting standards. As we've previously disclosed, CDK will be adopting the new accounting standard for revenue recognition in fiscal 2019. To prepare for this change in accounting, we established a cross-functional implementation team in fiscal 2017 to evaluate the impact of the new standard and plan for necessary business process and IT system changes to be implemented during fiscal 2018. In fiscal 2017, we incurred $6 million of expense related to this implementation. And we expect to incur cost of $15 million to $18 million in fiscal 2018. This expense is recorded in the other segment. We also see an increase in depreciation in fiscal 2018, driven primarily by some of the transformation and data center investments we've made over the last 2 years. The net impact of these moving parts drives 15% EPS growth at the midpoint.

With that, I'll turn it back to the operator, and Brian and I will be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Brian Essex of Morgan Stanley.

Ivan Pierre Holman - *Morgan Stanley, Research Division - Research Associate*

This is Ivan Holman pinch hitting for Brian. Maybe when we think about the CFO transition, could you help us understand how this might change your views around capital allocation versus reinvestment in the business? Any color on that would be very helpful.

Brian Patrick MacDonald - *CDK Global, Inc. - CEO, President & Director*

Yes, Ivan, we've gone through a lot of work over the last year and a half. I mean, we came out of the ADP as an investment-grade company, reevaluated that and determined that we didn't -- given the ratability of our cash flows and nature of our business that we didn't need to be an investment-grade company. That was a nice-to-have. So we've, obviously, moved the capital structure in a more shareholder-friendly manner. And clearly, shareholders have seen the benefit of that through the capital return that we've done largely through share repurchase. But we've also increased our dividend over the time. We've set forth leverage targets to get to 2.5 to 3x EBITDA. As the leverage target, we're migrating in that direction. We have more room to go. We have -- so we have an increased leverage ratio followed by pretty differentiated EBITDA dollar growth. As we just reported, we grew our EBITDA dollars 27% last year. So when you're doing that and increasing the leverage capacity, you create a lot of debt capacity, which we can use for both capital return to shareholders as well as investments, including M&A. So I feel pretty good that the company has a lot of financial flexibility to make acquisitions that are strategically sound and financially viable. And we continue to be pretty aggressive on share return, capital return, given, again, our differentiated EBITDA growth and margin growth. So I think we have a lot of flexibility. We have a new set of eyes here with Joe. But I -- in the short term, I don't anticipate any policy changes. I think Joe will be digging in with the management team on how we make the operations more efficient. And how we drive our transformation plan will be really Joe's primary objective on the finance side. And we continually look at financial policy, but we've spent a lot of time over the last year, 1.5 years on financial policy. You got a lot of input from our shareholders. And I think we're in a pretty good place on financial policy.

Operator

Our next question comes from the line of Ian Zaffino of Oppenheimer.

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

What type of contribution are you assuming for the Auto/Mate acquisition? I'm just trying to get a sense of organic growth versus inorganic. And then maybe if you could maybe breakdown what you think as far as market growth, share growth and pricing.

Brian Patrick MacDonald - *CDK Global, Inc. - CEO, President & Director*

Yes. I think, Ian, it's approximately a $20 million company, so that's sort of the revenue side of it as you think about revenue growth. When we close the deal, we'll talk a little bit more about the financial profile. But given the kind of revenue of the company, it's not a huge financial impact to our profitability. I think the key thing for us is strategically, we think it's a good product for the low end of the market and allows us to compete more effectively in the low end of the market, and that's the driving factor. It's obviously a transaction that makes financial sense. But it's also pretty important in our product portfolio for the low end of the market.

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

And then can you just walk us through -- so ex Auto/Mate in the revenue guidance growth rate, what's -- I guess, that will then all be organic. So what would be the -- maybe mix between, like, wallet share, market growth, pricing, et cetera?

Brian Patrick MacDonald - *CDK Global, Inc. - CEO, President & Director*

Yes. I think -- I mean, our guidance is 4 to 5. I think we'll grow a little bit above that. We'll grow above that in advertising. We'll grow above that in international. And the traditional business will grow a little bit less than that. So that's sort of the mix of the 3 reportable segments. 2 of them should grow above that kind of 4 to 5. And the core North America business will grow a little bit below. Advertising, it's really a mix of picking up new customers, the same for international. I think, for the traditional business, it's -- it'll be increasing our penetration on layered apps. I don't see our site count changing significantly up or down. And so I think our growth in the core North America business is really about penetrating with our layered applications and -- including websites. And as I said in the script of this morning, we're highly confident that we're going to get a major OEM endorsement for websites in Q1. And that will position us well to grow our website count over the next 12 months and take share in the website part of the market, which then allows us to grow advertising and other services. So that's how I think about the growth coming this year.

Operator

Our next question comes from the line of Matthew Pfau of William Blair.

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

First, wanted to start out on the international segment. Brian, it looked like it was some nice growth there this quarter. Wondering what was behind that. What drove the nice result there this quarter?

Lee J. Brunz - *CDK Global, Inc. - Executive VP, General Counsel, Secretary & Interim CFO*

Yes. Matthew, the growth on the international side is a combination of increased site count, but also driven largely by increased number of users per site. So that's the primary driver there.

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

Okay. Was it strength in any particular area that you saw that drove that? Or...

Brian Patrick MacDonald - *CDK Global, Inc. - CEO, President & Director*

No, I think it's kind of overall. I mean, our business internationally is heavily weighted to the -- to Western Europe and, obviously, the U.K. market, in particular. So we had pretty good success in the U.K. market, a pretty good success in the Middle East with some very large customers in the Middle East. And we've had some good rollouts there. Much like the U.S., in international, we're -- we -- we're represented extremely well in the largest groups on the continent in the U.K., in the Middle East. And so we saw some of those customers taking the new -- our new product, standing it up, increasing users, getting the rollouts done. We had some backlog that we got installed in Q4, so that helped. So overall, it's a very similar story. We're very well represented internationally with the largest auto groups just like we are in North America.

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

Got it. And then wanted to dig in a bit to the OEM potential endorsement that you expect to announce here in the first quarter. Maybe if you could just talk about what are the drivers of that. Is it the next-gen website or something else that's sort of driving the potential agreement with this OEM?

Brian Patrick MacDonald - *CDK Global, Inc. - CEO, President & Director*

Yes. I think -- I mean, we have next-generation platform, which we think is the most competitive, the best platform. It's responsive. I think it's the best platform in the market. We obviously have very strong OEM relationships. I think what's also helps us is the -- when the OEMs look at their retail footprint and our penetration in their retail footprint, given our representation in the largest groups and things that OEMs want to do over time between the digital world, the website world and the DMS that runs the dealership, we're best suited to do that given our footprint penetration in the dealer body. So I think that the combination of our product and our OEM relationships and our relationships with dealers and how we can really help connect the dots between the dealers and the OEMs better than any other company in this industry, given our footprint and our products, we -- we're fundamentally better suited to connect all the dots between websites, other digital attributes and the operations of a dealership with their DMS.

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

Got it. And last one for me. Just wanted to touch on -- the North America DMS segment, some of the site losses that you're seeing at the smaller dealerships. Maybe you can just talk about what the plan is there going forward to help reverse that trend. Is it maybe the Auto/Mate acquisition going to be what helps you plug that hole? And then in terms of -- you do have a product down there that would have, I assume, some overlap with Auto/Mate, so maybe what the plan would be once that acquisition is completed between your current smaller dealership, DMS and then the Auto/Mate product suite.

Brian Patrick MacDonald - *CDK Global, Inc. - CEO, President & Director*

Yes. So Auto/Mate, Matt, is clearly a strategic solution to some of the losses that we've had in the low end of the market. So that's clearly our strategic solution for that part of the market. And as Lee said, we hope to be able to close that transaction in our -- in the next few quarters. It won't happen over the summer. We have a lot of tactical things that we're doing. We're not losing these sites kind of willy-nilly. We have lots of tactical things that we're working on to manage through that. And then fundamentally, we have -- as you mentioned, we have a product in that part of the market. And we've told our customers -- our dealer consumers that use that product that our plan would be to migrate them to Auto/Mate in a time frame that's convenient for them and with minimal disruption and cost to them. And so our feedback from those customers has been quite positive. And they're, in most cases, eagerly awaiting for us to own the Auto/Mate property and to migrate over in a nondisruptive way for them. So that's kind of our plan there and what we've communicated to the dealers.

Operator

(Operator Instructions) Our next question comes from the line of Tim Willi of Wells Fargo.

Timothy Wayne Willi - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

Two questions. One was just on sort of the dealer, I guess, mood, if you will. I know there's been a lot of concern in the marketplace about the trajectory of SAAR and what that might mean for dealer spending, et cetera. Could you just about any sort of dots or anecdotal color you're getting from the sales force or direct interactions with user groups, et cetera, about either spending plans and their resiliency around the SAAR number?

Brian Patrick MacDonald - *CDK Global, Inc. - CEO, President & Director*

Yes. So Tim, let me first remind everybody that at CDK, approximately 8% of our revenue is tied to SAAR and transaction volume. Most of our revenue, as you know, is contracted long-term revenue that's not tied to SAAR or transaction volume. But your question around the dealer mood. I mean, what I would say is it's been pretty evident for the last 3 to 6 months that there was a slowdown coming in the SAAR. The predominance of dealers have been around for a while, so they've been through slowdowns and downturns before. So they have been starting to prepare for that. And -- but what we've seen, I mean, quite frankly, we had a very strong sales quarter in Q4. And we've seen that our sales team, exceeded by a pretty healthy margin, their sales targets for the quarter, which, I think to me, is a good proof point that dealers are focused on how do they sell more cars, how they service them better, how they run their operations more efficiently. And ultimately, that's what our products do, right? Our products do one of those 3 things: help dealers sell more cars, run their service operations more efficiently and run their overall operations more efficiently. So I think the fact that we saw very good sales in the quarter tells me 2 things: one, that the dealers aren't panicking about spending, but they're spending money on ways that are going to improve their operations and their profitability, which is the reason that this company exists, is to help dealers do that. So I think the mood -- I probably met with 150 dealers over the last few months. And I'd say that everyone knows there's a slowdown coming. They're preparing for it. And they've been through it before. And there's no sense of panic. I think it's just a question of, okay, slowdown is coming, how big will it be, how deep will it be, how long will it last. But there's no sense of panic. And I think our sales results and our successes in the marketplace are proving that out.

Lee J. Brunz - *CDK Global, Inc. - Executive VP, General Counsel, Secretary & Interim CFO*

And Tim, I think to Brian's point, the drop in SAAR over the last 6 months or so is -- it's less than 1% on a retail side. The estimate is all coming from the fleet sales. And then on the retail side, in addition, the mix of vehicles that are being sold, more SUVs and crossovers and light trucks, is resulting in higher margins, frankly, for our customers. So they're weathering it quite well.

Operator

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

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

Well, Brian, when you were going through your narrative, you mentioned something about renewables and I couldn't get -- write it down quickly enough. So could you just repeat what you said about the renewals that you did in the quarter or the year?

Brian Patrick MacDonald - *CDK Global, Inc. - CEO, President & Director*

Yes. We did -- in the fourth quarter, we did 800 renewals, which is about 8% of our customer base, so we had very successful renewal quarter with our dealers. And we felt pretty good about that.

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

Okay. In terms of reducing the cycle times, can you -- in the streamline implementation, can you maybe tell us how that is helping you sell your layered apps because, obviously, your revenue per dealer is -- or per site is going up? Is that streamlining that you're doing, is that having a big kick to the sales of these layered apps because you're able to get them in quicker?

Brian Patrick MacDonald - *CDK Global, Inc. - CEO, President & Director*

Yes, I would say -- Gary, I would say it definitely helps us. It also helps us on the back end because quite frankly, if it takes too long for us to install a layered app, at times, the dealer will decide that maybe they don't want it at -- after some period of time or maybe there's personnel change in the dealership. And so it's really -- I think there's benefit of us selling layered apps upfront. But the real opportunity for us is to: one, get to revenue faster; get the product in the dealer, so they get the benefit of the product better because they're only buying the product because they see a benefit in it; and then the third part of it is that we have a -- we have fallout after we sell a product. We have fallout where if it doesn't get installed in a certain period of time, the dealer decides because of personnel change or whatever, they decide that they don't want the product. And so we think there's opportunities as well by getting the product installed faster that we have less fallout at the back end. So I -- from my prior lives, I know that if you can get things installed faster that -- I know intuitively the sales people will sell it better. The customers are more receptive because they can get better. It's an important factor to the OEM. A lot of times, when the OEM wants to do a product -- endorser a product and get it rolled out, being able to get it rolled out in a reasonable time frame is also important to an OEM. So it's sort of like good health all around by improving this. And as I said in the call, we hired a new leader for this area. He's done some great things, hired some you people, reorganized. And we're really seeing really tremendous benefits in the short period of time. And we're -- I'm very optimistic about the improvements we can make in this area and what that will mean for our customers and our sales people and our time to revenue after we sell a product.

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

Okay, that's good. And then with these layered apps, I think there was 3 or 4 that were really driving the boat here. But have you introduced any newer layered apps that are starting to get incrementally add to this revenue per dealer -- revenue per site over the last year?

Brian Patrick MacDonald - *CDK Global, Inc. - CEO, President & Director*

Well, I think our CDK service product, it's -- we didn't introduced it, per se, in the last year. But I think we've gotten very good traction with that product. We have an OEM-endorsed version of the product. I mean, that product is now in over 20% of our DMS customers have that product. It's very -- it's a very economically rewarding product for a dealer. So that's one that we're very proud of. And we see a lot of upside with that, especially as SAAR slows and more focus gets put on at the dealership, dealerships making money in service, having a tool like that to help drive profitability and efficiency in the service end of a dealership is really important. So we're seeing a lot of interest in that product. And we've had good success of that over the last year. Our next-gen websites, we're really excited about our growth in websites over the next couple of years, given the product we have. As I mentioned, we're highly confident that we're going to have a major OEM endorsement in Q1 to announce. And we're -- we have a lot of interest from other OEMs around our next-generation website platform, which is responsive and best-in-class in the market. So we're -- we see a good upside on the website side, which is, in essence, another layered app.

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

Okay. And then the big thing with this OEM endorsement, is that the -- one of the bigger issue there besides they're endorsing your product, is they will then throw some co-app advertising to the dealers to take the websites?

Brian Patrick MacDonald - *CDK Global, Inc. - CEO, President & Director*

Yes. I mean, generally, on the website side of the business, dealers are precluded from working with the website provider, unless you're endorsed by the manufacturer. The manufacturer typically wants to limit the number of website providers, so they can manage the brand experience and have ease of rollout of campaigns and changes. So it's normal that an OEM either has one major website provider as we are to General Motors or an OEM has 2 or 3 primary website providers. So it's really critical to get the endorsement, so that you can be in the pool of websites that are available to dealers. And in a number of cases, the OEM will put some co-op money behind that as well. So this is what we're confident in is that a major OEM that we have not been a participant in their website program, that we will become a participant in their website program.

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

Okay. And then just lastly on the advertising side, intuitively, with sluggish vehicle sales growth, the buzzword around the industry has been well with digital advertising, more dealers -- more OEMs are going to throw money at that. And so I'm wondering, what -- where is the sluggishness on the advertising side? Is it the OEM level, Tier 1, Tier 2 or Tier 3? Or is it just all the way across the board?

Brian Patrick MacDonald - *CDK Global, Inc. - CEO, President & Director*

Yes, we've had -- I mean, we had a tough -- in Q4, I mean, we had a tough rollover because we had -- in Q4 of '16, we had a very big advertising quarter, specifically around some OEM business. So quite frankly, that's a pretty tough rollover. If you look year-over-year, our advertising revenue is up 10%, which we're pretty happy with. Our margins are up very, very nicely year-over-year, really happy with that. Little bit of -- a little bit of sluggishness at the OEM side. We're really happy with the business we're doing with local marketing associations, which are collectives of dealers. We're having good success there. And then we're really focused on trying to grow the dealer-specific level advertising business. As you said, Gary, there's clearly a secular shift away from newspapers and television advertising to digital. And we think we're very well positioned to participate with that. Again, given our DMS footprint and how we can connect all the dots between the website and the dealer operations and what the OEM is trying to accomplish, we're very well positioned to connect all those dots, better positioned than anybody else in the market. And with the secular move in that -- in secular move away from traditional advertising to digital advertising, we think that's a good business for us that can grow above the company average for the next number of years.

Operator

I'm showing no further questions at this time. I would like to turn the conference back over to Brian MacDonald, CEO, for closing remarks.

Brian Patrick MacDonald - *CDK Global, Inc. - CEO, President & Director*

Thank you, everyone. We really appreciate you joining us this morning. Our ongoing transformation continues as planned and is generating positive financial and customer experience outcomes. We will continue to focus on exceeding expectations for our customers, meeting our goals and continuously improving. Thank you, and have a great day.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect. Everyone, have a great day.
