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CDK - Q2 2020 CDK Global Inc Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the CDK Global Second Quarter 2020 Earnings Conference Call. (Operator Instructions)

I'd now like to hand the conference over to your speaker today, Ms. Julie Schlueter, Director of Investor Relations. 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 Second Quarter Fiscal 2020 Earnings Call. Joining today's call are CDK's CEO, Brian Krzanich; and our CFO, Joe Tautges.

Throughout today's call, I would like to remind everyone that we will be discussing our continuing operations only, which do not include the digital marketing business that continues to be held for sale and presented as discontinued operations. 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 would like to remind everyone that remarks made during this conference call will contain forward-looking statements. These statements involve risks and uncertainties, including 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 that our Form 10-Q will be available tomorrow.

Next week, we will be attending NADA, the National Automobile Dealers Association show in Las Vegas. And in March, management will be at the Morgan Stanley Technology, Media and Telecom Conference in San Francisco.

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, and thanks to all of you for joining us on the call today. I'm excited to share with you our second quarter results as well as the significant progress we continue to make in further strengthening our business and building a strong subscription-based software company for the long term.

I'll start with comments on the quarterly results and then update you on our 3 key areas of focus for building a better business for today and the future. One, creating a differentiated customer experience; second, making it easier to do business with CDK; and third, modernizing our technology to bring the best-in-class software to the auto industry.

Let's start with some of the financial results for the quarter. I'm quite happy with what we've accomplished. Revenues came in ahead of expectations at $500 million, up 4% year-over-year. We earned $191 million of EBITDA and EPS of $0.80. This quarter, we continued our investments, and as I'll share in a minute, they're having a big impact on improving the health of our long-term business. The key metric to focus on regarding the health of our core business is our site count, and the CDK team performed strongly this quarter. Year-over-year auto site growth in North America was up 86 sites or about 1%. We have now seen 4 quarters in a row with year-over-year site growth and have set yet another record for total North American auto and adjacency sites.

Joe will provide more financial details in his section, but I'd like to share more insights about the things we're doing to enhance the business, starting with improving how we serve our customers and the early positive results we are seeing. How we serve our customers is critical because it's the foundation for customer satisfaction and for building the solid relationships that drive our customer retention as well as new sales.

As a reminder, the things we're doing to improve how we serve our customers are focused on increasing our installation quality, increasing the satisfaction with our customer call center support and investing in advocates and performance managers to make sure our customers are getting the maximum benefits from our software. Our message is resonating. A few quarters ago, a 10-plus site dealer canceled our service for 2 reasons. Our business practices on contract terms and our support. The CDK sales team stayed close to this dealer and shared the many things we are doing to improve.

This month, the dealer decided to cancel their contract with the other provider and signed a new 5-year contract with CDK and added 6 more incremental sites to our platform. When you look at this example, it's been such a change from when I joined the company until now. This is just one example of many where customers are looking at how we are serving them and the quality of what we're doing, and their confidence in us is growing.

On our last earnings call, I mentioned a 40-plus site dealership win for our sales team. I'd like to give you an update on the next steps with this important customer as this is a critical proof point to the industry about our ability to accomplish such a large and complex install. I'm happy to report that 2 weeks ago I was there on-site to watch the first phase of the installation, and it went live with high quality and a satisfied customer. CDK has been focusing heavily on our implementation quality to ensure a smooth conversion, install and training experience for our customers. We're very excited to move forward on the rest of the installation for this customer and many others.

We're making very good progress on creating a differentiated experience, and our customers and the entire industry are seeing the positive momentum. In addition to growing sites, North America auto DMS sales produced double-digit growth year-over-year. Losses and retention both improved. In fact, our retention rate is at the highest level over the last 9 quarters. This is especially impressive given the high number of renewals scheduled that came during this quarter. Our team has really turned the corner on implementing our customer-focused strategies, and I'm very proud to see that their hard work is paying off.

Our second area of focus is being easier to do business with. Starting with being more open and delivering more DMS-agnostic solutions. I'm quite excited about the breakthroughs our technology teams have had this quarter. The team has been busy converting more of our applications to be DMS-agnostic, mean that they can be sold to dealers that use a competitor's DMS.

I'd like to highlight 2 apps that we've recently converted. One is a service workflow product built in partnership with one of our major OEMs. The team overcame many technical hurdles and within 8 weeks was able to reengineer our application to be agnostic and available to integrate other DMSs.

A second application is CDK mobile service van. Dealers are using our software in their fully equipped van, which come to a customer's location or home to provide on-site service and repairs. This CDK mobile service van app can now be integrated with non-CDK DMS dealers. Now these are just 2 examples, and we're going full speed to make more and more of our product DMS-agnostic, expanding our addressable market as a result.

Being more open and easier to do business with includes better aligning our pricing to our value our customers place on our solutions. As we have acknowledged before, our partner program has been a source of friction with our customers. They appreciate the need to ensure data security and integrity, but they tell us that the value they place on our partner program activities is outer step with the cost. Through new approaches to packaging and pricing, we are allowing customers that participate in our rewards program to eliminate most partner program data access fees, better demonstrating value. While the transition is a headwind on the financial performance, we're being very thoughtful about our approach and believe it's the right thing to do for the long term.

I would like to share with you our progress on one final customer-facing initiative that addresses one of the biggest complaints I hear during my visits with dealers, which is about simplifying our coding, contracting, configuration, installation and billing process. As we announced in August, our business process modernization initiative is a fundamental re-architecture of our business practices. Over the next 2 years, dealers will experience a much simpler sales process with tools that show the configurability of our products and result in a much better installation experience and simple, easy-to-understand invoicing.

Currently, one of our key focus areas has been on our invoices. And I'm very happy to report that in December, we started rolling out the new invoices, which deliver a streamlined content, better descriptions and improve transparency to help dealers understand what has changed at a glance. Customers will also have easy online access where they can opt for paperless statements. We've received very positive early feedback on this critically important initiative, and our plan is to continue the invoice rollout throughout the rest of this fiscal year.

In addition, we're looking closely on our contracting process to make it quicker and simpler to buy our software and service solutions. As we look forward, enhancements to our go-to-market process will enable CDK to provide even greater results for our customers. Now all of these initiatives are helping to improve the customer experience, and we're seeing the positive results.

Now moving on to our third area of focus. We've been very busy behind the scenes modernizing our technology and infrastructure. We hired a new CTO in 2019 and have been staffing our technology group with enterprise-class software leadership. They are working on modernizing our core software, which will not only make it better for our customers and easier to use, but more cost-effective for us to fix and enhance in the future. Our strategy centers on innovation and providing software and technology that our dealers will need for the future. We will do this by driving an open and agnostic software portfolio, with a world-class DMS and applications that enhance our dealers' ability to differentiate their sales and service experience as well as efficiently operate their dealerships. As part of our push into an open ecosystem, we will continue to expand our Fortellis platform and data-driven tools to enable our customers with decision-making engines and to drive innovation across the industry.

So let's start with an update on Drive Flex. We've made a lot of development progress this quarter. The Drive Flex team is focused on 2 key areas: first, enhancing Drive Flex's functionality, usability and adding new capabilities; and second, getting more OEMs certified as we approach a broad rollout of the product. On the first item, the team has delivered significantly increased capabilities, which improve existing users experience and allow us to add more dealerships. At the end of January, the team rolled out other changes that reduced our costs and amount of time to install by almost half. On the second item, we have now completed the certification process with the big 3 OEMs, and we're working on several other manufacturers currently. These improvements give me confidence that we'll be adding more than a dozen Drive Flex customers a month by our fiscal year-end.

While our focus on expanding our DMS business establishes a strong operating system for our dealers, our Fortellis program is focused on building an industry-standard platform that enables a broad range of experiences that will benefit the entire auto ecosystem. I firmly believe that no other platform has the potential to transform the auto industry like Fortellis. We now have several APIs on Fortellis that can connect to our DMS, including the Lyft-Hailer API, and we will be demonstrating some of our newest innovations at the upcoming NADA show next week.

For Fortellis to be an industry-wide platform, you need 3 things: one, publishers to publish APIs to the platform; second, application developers to create new value-added experience; and third, customers to consume those new capabilities or experiences. Our best example of the current use case is the Lyft API and the progress we've made with our Hailer API.

CDK published the API to Fortellis. Lyft built an application in conjunction with CDK to integrate their ride-hailing service to dealers, and dealers are consuming the service. As of the end of January, we had more than 600 dealers using the service, with many more to come. When I think of the success of the Fortellis platform or any industry platform, one of the best measurements is how many transactions are going through that platform. As of this month, we expect to reach about 1 million transactions per month through Fortellis with much more coming. Fortellis is the future of a better connected experience for the auto industry, and you will see us continue to invest there.

As you can tell, we are driving a lot of positive change at CDK, but are also addressing many of the distractions that have hampered our growth, such as the digital marketing business and the transition of the partner program. The pace of our investments has been very thoughtful in terms of allocation of both our human and financial capital. The results coming in justify that we should continue to lean into our strategy, which is grounded in our conviction that the long-term outcomes for our customers, employees and shareholders are well aligned. Thus, we will continue to devote the resources necessary to move forward with our growth strategy and reaffirming our guidance numbers for revenues and EPS for the year, while lowering our EBITDA range, which Joe will describe in more detail in his remarks.

As we look to the next few quarters, we will challenge ourselves to deliver beyond our expectations. We want every dealer to be able to say that they are getting a high-quality customer experience, getting better value for their dollar and seeing how technology can help them as they adapt to the future.

On behalf of the entire management team, I'd like to thank all of our CDK employees for embracing our new values, which we launched in November and are the guide for how we should interact with our customers and one another every day. I'm extremely proud of the team's accomplishments and their shift to a growth culture. I'm very pleased with the results we have achieved in the second quarter and the progress we've made on our strategic initiatives.

With that, I will turn it over to Joe for the financial results.

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

Thank you, Brian, and good afternoon, everyone. Before I cover our Q2 results, I wanted to share my perspective on the continuing transformation we are executing at CDK and add to some of the comments Brian made in his remarks. Our top priority at CDK is providing exceptional software and services to our customers, and we expect that focus will result in increasing auto sites, selling more applications and ultimately, delivering sustained growth. We've been focused on executing on this path for the past year, and the results we are seeing are exciting. We've increased revenues for the last 5 quarters at a pace of 4% or more.

We have delivered sequential North America auto site growth the last 4 quarters and ended this quarter with growing sites by 1%, ahead of the expectations we've shared in the past. We've strengthened our application portfolio with the acquisition of ELEAD and are investing in a wide range of solutions to ensure we are well positioned to provide value-added technology to our customers as we go forward and meaningfully grow our layered application revenue.

An important part of all of this for CDK is continuing to execute on our key initiatives, which are critical to us for us to accelerate our level of performance. We've been able to make this progress as a result of disciplined investments in the areas that impact our customers and improve our technology. As we see progress in executing against our initiatives, we will continue to increase our investment, and we will continue to pull forward investments as we see opportunities to execute our transformation more quickly. Brian, the CDK leadership team and I are very focused at making CDK a sustainable, growing and attractive business for the long term.

Now moving on to our quarterly results. Q2 was another strong quarter of execution by the CDK team. The results of our investments are paying off and can be seen in our key performance metrics, starting with revenue. Consolidated revenues of $500 million for the quarter were up 4% year-over-year on an organic basis, driven by growth in North America of 3% and International of 13%. Digging deeper into North America performance, subscription revenue was up 2%.

The performance was driven by gains in key applications like Doc Cloud, ELEAD CRM and Service, plus an increase in application penetration, offset by the expected declines from the partner program transition equal to 2 points of subscription revenue. Also driving revenues in North America was growth in other revenue, which benefited from the change in accounting for hardware-as-a-service under ASC 842 partially offset by lower volumes in the call center.

Now let's double-click into the drivers of subscription growth. North America auto sites were up 1% year-over-year. We have been working hard on improving our site performance across the board and are seeing many improvements within our 1 to 2 and 3-plus site group metrics. This quarter gives us confidence that we will exit the year at greater than 1% cycle. This quarter, in the 1- to 2-site group, we are pleased to see continued positive results, including double-digit improvements in installs and the losses. While the overall site count was down low single digits year-over-year, the retention rate increased and was at the highest level over the last 5 quarters.

Within the 3-plus site group, we saw ending sites up low single digits year-over-year and improvements in installs and losses. Retention rates were also the highest in 5 quarters. Site growth in the adjacency market increased 2% year-over-year primarily due to strong growth in the heavy equipment sector from industry consolidations by existing CDK customers and expanding new locations.

Turning to revenue per site. North America auto revenue per site was up slightly at 0.3% year-over-year. The performance was driven by gains in key applications, like Doc Cloud, ELEAD CRM and Service, offset by the expected declines from the partner program transition. Adjacency revenue per site saw year-over-year increases of over 3% primarily from higher penetration of application centers.

Moving on to our International business. Second quarter revenues were up 13% year-over-year or 15% on a constant currency basis, driven by strong subscription revenue growth primarily from increases in revenue per site. International revenue growth was also benefited from the timing of certain point in time revenue that negatively impacted the prior year period. However, over the 6-month period, the impact was normalized.

Looking at the site performance. International sites were down 2% year-over-year primarily due to dealer consolidations. As a reminder, most of our international software is on a per user fee basis, not site-based, and we saw the number of users increase year-over-year. We ended the quarter with revenue per site up 11% year-over-year through incremental installs of solutions to existing dealers and higher Drive earnings.

Now to earnings. EBITDA of $191 million declined by 2% in the quarter with an EBITDA margin of 38.2%. We saw solid underlying earnings from the business for the second quarter consistent with our stated outlook for high single-digit growth. As expected, earnings growth was more than offset by the impacts from our investments, the partner program transition, FX and increases in certain general and administrative expenses.

At a segment level, North America pretax earnings were down 7% with a margin of 39.1%, down 400 basis points principally due to our strategic investments and impacts from the partner program. For International, pretax earnings were up 66% with a margin of 19.8%, up 630 basis points mainly because of earnings on higher revenues partially offset by increased employee-related costs.

For the total company, our effective tax rate was 25% and diluted earnings per share were $0.80, down 4% year-over-year. The decline in EPS was primarily driven by decreases in EBITDA as well as higher interest expense and depreciation and amortization partially offset by lower weighted average diluted shares outstanding.

Our cash balance on December 31 was $222 million, of which $200 million was held outside of the United States. Free cash flow for the first half was $113 million, which was lower year-over-year primarily driven by payments of legal settlements. Absent those payments, free cash flow grew by 11%, demonstrating the powerful cash generation of our business model.

During the quarter, we paid out $18.3 million in cash dividends to shareholders and ended with a net debt to adjusted EBITDA ratio of 3.3x, down from 3.4x last quarter. We will continue to delever over the next 2 quarters and expect to end the fiscal year approximately at the top end of our 2.5 to 3x net debt-to-adjusted EBITDA target range.

Moving on to guidance. We are reaffirming our annual guidance range for revenue of $2 billion to $2.05 billion, EPS of $3.30 to $3.50, our effective tax rate of 24% to 25% and shareholder returns of $75 million to $150 million. As we look at our spending levels in the second quarter, particularly focused on the areas of installations, customer training and sales costs, we are appropriately lowering our adjusted EBITDA guidance range to $780 million to $800 million for the full year.

Before taking your questions, I would like to highlight an item regarding the digital marketing divestiture. As we continue to refine our views of the business through the sale process, we have reduced our assessment of the fair value of the business and recorded a valuation allowance of $69 million and associated income tax valuation allowance against capital loss carryforwards of $15 million in the quarter. In terms of timing, we are making very good progress on finalizing the sale of the business, and we'll update you when this occurs.

In closing, we're continuing executing against our strategic plan, which has allowed us to strengthen the business and provide better value for our dealers. Going forward, we will maintain a disciplined and balanced approach to our capital deployment strategy and will continue to successfully execute on our investment initiatives to drive long-term growth for the benefit of our customers, employees and shareholders.

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 Ian Zaffino of Oppenheimer.

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

This is Mark on for Ian. So thanks for going through all the guidance and details, but can you guys share a bit more on the, I guess, incremental investment spend that was just announced? Sort of where the spend will, I guess, like, be allocated towards maybe what types of additional initiatives? And I guess, like, when the majority of the spend will commence aside from, I guess, like, you mentioned the upcoming quarter?

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

Sure. This is Brian. I'll start the conversation, and then I'll let Joe get you into more of the numbers and some of the other detail. What we're seeing and, hopefully, you saw from our results for the quarter and the continued growth in sites and just our overall customer satisfaction is that the investments we're making and the road maps we're out showing to our partners now around the technology investments are gathering a lot of excitement. And so we are seeing nothing but positives from this. And we're really -- this is not an incremental in that. We're going to spend more in the total sum of all these efforts. We're still targeting the same numbers that Joe and I presented about a quarter ago.

What we are going to try and to do? We are trying to do is accelerate some of the spending because of the good results we're seeing from that spend. Those spends will go in really 3 main areas. First is around what we call customer success, which is really getting the install teams to be able to do more installs. You saw the growth in sites, and so we need to be able to have more people able to do more installs because we're actually seeing incremental increase in our business growth there. There are people out doing calls on customer satisfaction to make sure the software they have bought is operating properly. They've got the right people trained, things like that. Again, that brings a lot of positives back to us.

Then the other area is in the technology modernization we've talked about, and that's everything from Fortellis through to our current drive and then our future Drive Flex product, plus CRM service, many of the land applications. We're really modernizing those, bringing a lot of the enhancements that have been -- being requested for some period of time and are actually coming to market now and bringing them up with APIs and a more modern structure. And then the last area is around that other area that is an issue for our partners is the ERP system and the ERP modernization, and we're continuing to invest there and looking for opportunities to accelerate that whenever possible.

And that's really about simplified, clearer or more clearer and simpler or smaller or shorter billing, right? No 30, 40, 50 page bills. But a very simplified billing that really shows people what they're paying for and what's changed month-to-month. And so we're accelerating as much as that as we can because the benefits are there. But we don't think the total spend is going to change much in that and that we're just really trying to go a bit faster. And then I'll let Joe talk beyond that.

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

Yes, Mark, I think Brian covered it quite well. When we look at the approach we're going through and investments, we're very focused on just continuing to improve the fundamentals and foundation of the business. And we're really seeing good momentum out of it, particularly when you look at sites for this quarter growing 1%. And when we look to the second half, you see installations in the second half, us installing more than 30% more in the second half than we did in the first half. And we really want to take advantage of the momentum and some of the opportunity and continue to build on that. So I think that covers your question.

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

Okay. Okay. That's very helpful. And then just a quick follow-up. Good to see site count continues to grow. Can you guys share -- I know you guys mentioned small dealers versus large dealers, but any more additional details of which saw more strength? How have, I guess, like, your initiatives like Drive Flex helped small dealers? And what sort of retention have you seen in each category?

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

Sure. We don't break out the absolute numbers in those 2 categories, but I'll give you a general -- this is Brian, I'll give you a general feeling, and Joe can jump in. Let me kind of try and give you the general picture. You saw we continue to grow sites and in fact, grew sites quite well. And if you remember from last quarter's earnings announcements, this was a quarter where there are quite a few renewals coming due in this quarter. So we are quite pleased with the site growth. That site growth means 2 things really occurred. One, we had better retention; and second, we did have additional new sites come on board. I'd tell you that the strength continues to be a bit stronger in those larger sites, the 3 and above, let's call it, rooftops.

We continue to see quite a bit of strength in that area. We've seen very good improvement in our renewal process and retention of customers in the smaller dealerships, those 1 and 2 rooftop dealerships. But I think we still have to do some work to get to where we're actually growing more in those smaller dealerships. That work then drives you into Drive flex. Drive Flex, if you remember, we slowed down a bit on really out trying to grow much faster in this quarter because we wanted to do some improvements in both installation, the simplification, lowering the cost, making it easier to do, and then there were some improvements that we saw in the first couple of installs that we wanted to get in before we really grew the expansion of Drive Flex.

Those things are being put in place now. Those are really then targeted Drive Flexes towards those 1 and 2 rooftop dealers and independents. We're seeing quite a bit of strength in independent dealerships, which is an area of market, remember, that we haven't really addressed in the past. We are turning on, again, our Drive Flex installs and starting to kick those in. And our goal is to exit the end of this year at a number of like 15 to 20 a month of installs of Drive Flex. And that would -- should then lead into even more growth as we go into the fiscal 2021, right? So I think July and beyond growing even faster than that. So that will be where I think we can transition to growth in those smaller sites. So strength in the high end, better retention in the lower, smaller dealerships and positioning well for Drive Flex to get the growth of those lower -- smaller dealerships.

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

Yes. And then this is Joe. Just to add to some numbers with what Brian shared. I mean you look at the dealership market and it's largely flat in terms of a site perspective. And so we're happy with the 1% growth that we produced this quarter, and there's not a lot of Drive Flex sites in there. And so when you look at the opportunity going forward and with the new -- the updated software that came out in January and the progress and the confidence we have as we exit the year installing the numbers Brian described, we're focused on investing scaling to be able to drive better performance as we head into next fiscal year.

Operator

Our next question comes from Gary Prestopino of Barrington Research.

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

Brian, that story you told about the dealership that was going to replace you actually signed up for a new system, if I recall your words correctly, and then came back to you 6 months later is fairly interesting because considering the switching cost of doing that that's just got to be an astronomical drain on the dealership. So maybe you could just dive into that a little bit more as to -- to the extent you can as to what happened there and what made -- what actually led them to come back to you.

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

Sure. I'll go into as much of it as we can, and I can't give you names, numbers and days, but...

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

No, that's fine.

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

But one of the things we do is we take every loss extremely seriously. And I'd tell you, that's one of the things we've really done well over the last year or more is really get the organization focused on retention. So when a customer leaves us now or talks about leaving us. We go in and really trying to understand what the issues are, what's the competition offering and really trying to understand are there gaps we can close. We are still, I'd say, kind of catching up. We are not proactive enough yet. In other words, really talking about people who are going to renew 6, 9 months from now and saying, what can we do now to make sure you're there?

But when somebody does leave us, we don't necessarily go in and rip everything out. We'll actually leave it there for some period of time, and we'll continue to talk to them and let them know, we're still interested in earning back their business. And that was the case in this specific example, and I think there are several examples over this quarter where we've done that. So if a customer comes back and says, "Hey, I want to turn that layered application on or I want to turn that DMS doc on." It's actually pretty easy for us to do it. We just have to go and extract the data that we're maybe missing for that period of time when they've been working with the competition, but the infrastructure and the system is all still there. And clearly, they're all trained up on it and all. So the switching costs, as you describe it, are actually fairly low from both sides because we are able to turn them back on literally within days typically.

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

Okay. That's good. And then just a couple of other quick ones. Will you have all OEM certifications completed by the end of your fiscal year or the end of calendar year this year?

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

So I said in the prepared remarks was we had big 3 done. We're now working on the other ones. I'd tell you, we'll have the majority of the, I'll call it, the larger OEMs done probably by the end of this fiscal year, but we won't have all of the OEMs done probably until the end of the calendar year. It just takes -- we have to get on their calendar. We're somewhat victims of their schedule and their timing. And so some of them just take a bit longer. But the fact that we've got the big 3 GM, Ford, FCA, that gives me a lot of confidence that the system is healthy, we know how to do it and there aren't going to be any road blocks. So it's just a matter of getting us all through the schedules now.

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

And then just 2 more quick ones. Did you say your DMS site sales, North America site sales were up double digits in the quarter?

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

Yes.

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

That wouldn't be reflected in the number of installs, right?

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

That's right. I mean there's some of that that comes in quarter. And if there's a dealer that acquired a site and we can integrate it quickly, but the majority of that is in backlog and will come online over the next 2 quarters.

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

And that is -- we talked about investing and trying to grow even at a faster rate. That is some of what we're pushing that spending towards, right, is to be able to shorten the install duration and shorten the backlog timing of that growth from a site's perspective.

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

That's all good news. And then just lastly, you said that Fortellis was doing about 1 million transactions a month or there were 1 million transactions a month going through Fortellis. Is that correct?

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

Yes, sir.

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

So are all -- let me -- can you share maybe the revenue model there? I mean is there anything you can share on the average revenue per transaction just to give us an idea of what the early success is with the overall product?

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

Sure. So we really have to go back. I don't want to answer this on a just a revenue perspective because I think that really misses the point of Fortellis and the whole partner program that we're doing, right? So if you remember the old partner program was really a direct connection and it had costs related to any extraction of data or processing of data or encryption of data and all kinds of things, we've talked about how that's been a major roadblock for our customers and, call it, retention. But Fortellis is a very different system in that it's really designed to be an open architecture from the standpoint of it uses APIs, it's modern and -- but on top of that, we've got a set structure for those APIs.

So each one of those APIs now has a spec about how they operate. Those APIs can be anything from a relatively simple data extraction. You're a dealer and you want to extract your sales data or inventory data or whatever. It's a very complex extractions, like the repair order, where you have encryption and calculations and data flowing in both directions. And so the revenue model in those is very, very different. For a simple data extraction, that revenue model is virtually nonexistent. We're really setting that up that that is the dealer's data, and that's really where the -- that friction came from in the past.

In something like a repair order, there is a fee because it has a highly complex level of calculation and integration into the DMS and encryption and things like that. And so right now, the different types of applications and the number of applications is such that it would be hard for me to give you an average revenue for these. We'll start to give that kind of information probably in the future. Right now, we're really focused on growing this ecosystem and getting more and more partners. So we talked about our partnerships that we've developed. We've talked over the last couple of quarters Cox turning our repair order.

We've got several other partnerships coming that we'll talk about at NADA. And it's really about getting partners. Remember, we said, first, you have to build the platform, then you have to go get partners, then you have to go get applications. And that's how you grow a platform like this. And so at NADA, we'll make a bunch of announcements in this space. But it's really way too early to talk about an average revenue model. So that's why I wanted to -- like that's not an answer I'm going to focus on over the next year or so.

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

No, that's fine. Impressive.

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

Yes. And that's why what you'll see us do is continue to up our disclosures. We start to get more volumes of insights and data points. So we'll be more focused on number of transactions and other relevant measures that give our investors and the outside world a view into the traction and success we're making with the platform. And Gary, unfortunately, we've got to move on to our next caller. Thank you for your time.

Operator

Our next question comes from Josh Baer of Morgan Stanley.

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

One for Brian and a couple for Joe. For Brian, have you picked up any changes from your competition as far as a response to your initiatives around customer support and innovation that's leading to the higher retention and site growth?

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

I'd say it's a competitive market. It may be getting a little bit more competitive. I think in some cases, we've talked about -- we've settled some of our lawsuits. We've talked about those on some of the other quarters. We've shown you partnerships with "some of our competitors," like Cox, where I think we're really finding that there's going to be spaces where we compete and there's going to be spaces we can work together. So in general, I'd tell you, I don't see the market any more or less competitive now than it was 6 months ago. I'd tell you, the team here is probably getting a little bit more competitive. But I haven't seen the marketplace really shift that much.

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

That's helpful. And for Joe, I'm wondering how Drive Flex will impact the financial model and maybe more so for next year, when you're at that 15 to 20 site a month install. And not asking for, like, the dollar impacts, but generally, is there a different gross margin profile for Drive Flex? Will we see any benefit to site growth if it's installs for new sites? Or if it's primarily existing sites, will we see any ARPU uplift or changes to the revenue recognition from Drive Flex?

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

Thanks for the question. When I look at -- I'll start and Brian can add in. When I look at the model with Drive Flex and our experience that we have so far we're focused on the package solution to sell to a dealer with Drive Flex and the other integrations and applications that we have as part of it. And so what I would point you to is the revenue recognition model and the pricing model is very similar to how we price our other products today in the portfolio in terms of the mechanism. And so subscription revenue very much SaaS-based, which you'd expect.

But when you look at the pricing, we've seen an opportunity to be able to deliver more value and more upside for the customers that we've sold, both saving them money as they drive better integration with the new Drive Flex platform and an opportunity for us to bring more of our solutions to market.

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

The thing that I would add is the beauty of Drive Flex is it's scalable. And so you heard us talk about that several of the early installations have actually gone into independents. And in those cases, we scaled back the complexity and the needs and all aren't nearly as high there necessarily. A dealer group that may have multiple stores that it has a lot of layered apps attached to that DMS. So the beauty of this system is that it is modern architecture that is modularized and scalable. And so as a result, when you take a look at Drive Flex, our goal is to move into new areas like the independent dealers. That's a new marketplace.

So Joe will tell you, that's a revenue growth area that's untapped right now. Then we'll also go into the existing smaller dealerships, the 2 and below dealerships that we are currently supporting but that's really how we get back to growth, in my opinion, in that space. And then over time, we'll get it into those larger dealerships as well. And so you'll see the different levels of revenue and margin as a result across those, but we expect it to be very profitable and growing in all 3 of those segments. And so when we look at an average for Drive Flex, it may be kind of skewed by the fact that there are all 3 of those segments moving, whereas if you look at Drive today, it doesn't have those independents at all, a very small percentage of the smaller guys. But when -- if you look at it against any one segment, it should be equal.

Operator

Our next question comes from Matthew Pfau, William Blair.

David Charles Robinson - *William Blair & Company L.L.C., Research Division - Associate*

This is David Robinson on for Matt. I just had a question around the ELEAD1ONE business. Were there any updates to how that's progressing relative to your expectations?

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

Sure. Actually, ELEAD continues to do well. It continues to exceed our expectations. We continue to see site growth over this quarter. The business is going quite well. We've put it on. To me, that was a great technology that we acquired, and one of the things that I'm trying to be very careful of is that we don't acquire a great technology and then let it sit idle and then become stale and eventually not a great technology. So what you're going to see, and this is some of those investments, is there were 2 layered applications that we're going to push the technology team to really do upgrades over this next 12 to 18 months, and those are going to be around our service application and ELEAD CRM. So we actually have plans to invest into that product, so that it continues to grow, and we believe we can grow at even a faster rate out into the future as we make those investments.

Operator

Our next question comes from Charles Nabhan of Wells Fargo.

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

Just a 2-part question about the auto market. I guess firstly I was wondering if you could comment on what you're seeing from -- within the U.S., what you're seeing from a financial health standpoint among your customer base. Maybe if you could speak to spending trends, what you're seeing from a consolidation standpoint. And as we think about the International market, I know you made some comments on that business, but I was wondering if you could provide some specifics around geography, where you're seeing strength and -- or weakness conversely, and if there's any new geographies than you've been penetrating over the past couple of quarters.

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

Sure. I'll start, and Brian can add. So first of all, in the U.S. auto market, NADA publishes a quite good report. The last one published was June and a new one will be coming up. But when you look at the statistics in there, while volumes in SAAR have been under pressure, the dealers have hung in there quite well. And so there's nothing really new to point out. We continue to see consolidation of dealerships and the bigger dealers seeing an opportunity to scale their operation in some of the practices more. So we continue to see a push towards revenues in the service arena. And that's why Brian talked about how do we think about the service application and the accelerated growth opportunities there.

There is a robust discussion around digital retailing and out-of-store research connected all the way through to the end, and we think we have a unique opportunity to provide a great software solution for that as we go work it. So when you look at that lens, the auto market continues to be good. And then you see the new franchise dealerships also selling more used cars. The used car market is robust and there's increases there. So on balance, I think the -- when you look at the market in aggregate, I think they're doing quite well, weathering some of the declines in overall new vehicle sales and finding other ways to bring value to their customers. And we're focused on bringing the solutions they need to make their dealerships successful.

When I look at the International space, we're really happy with the performance in the quarter with the International team. As you look at the subscription growth in the overall business growth, I think you should look at International through 6 months and see it's growing mid-single digit. There's a number of things they're doing well as they look at their base and win new business and bring solutions to customers. They're also as you saw on the site count decline, facing a number of dynamics. You see, across many areas of Europe, a lot of site consolidation, and we've been fortunate that that site consolidation has yielded increased users and existing customers of ours and have increased the rate for us.

As we look at Asia, particularly China, there continues to be pressure on that business, and we continue to watch it closely. And so I think the management team is doing a lot of the right things to look at where there's pressures and find opportunities to grow the business and delivered a solid quarter for us.

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

Got it. And if I could just sneak in a quick follow-up for Joe. I believe you mentioned there was a change in accounting that impacted the other line in RSNA. Could you possibly quantify that for us and just maybe give us a little more color around that?

THOMSON REUTERS

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

I'm not familiar with the change in accounting but I think what you're referring to is maybe lease -- we adopted ASC 842 this year, which we adopted in first quarter, second quarter will be each quarter. And I don't have the exact number. There was a footnote in the 10-Q that you can go to that will publish the exact impact of the lease accounting.

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

Got it. Okay.

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

And again, listen, when we look at the numbers of the revenue growth overall, we printed 4% organic revenue growth and if you look at it on a constant currency basis, it's 5%. And when you start to pull the part, I think what you'll find is roughly the benefit from the lease accounting transition is largely netted by the partner program transition and that all nets out in the noise, and you see the business continuing to improve on the top line.

Operator

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

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

Okay. Thank you, operator. So I just want to close with statement saying that we are very pleased on how our strategies are proving successful. I would like to, once again, just really acknowledge the entire CDK team around the world for all their hard work and dedication. It's really showing in the results. And then I'd like to thank you all on the call today, great questions to close out a great quarter. So thank you very much.

Operator

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