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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the CDK Global Third Quarter Fiscal 2019 Earnings Call. (Operator Instructions) As a reminder, today's conference will be recorded. I'd now like to introduce your host for today's conference, Katie Coleman, Senior Director, Investor Relations.

Katie Coleman - *CDK Global, Inc. - Senior Director of Investor Relation*

Thank you. Good morning, and thank you for joining us for our Third Quarter Fiscal 2019 Earnings Call and Webcast. Joining me on today's call are Brian Krzanich, CEO; and Joe Tautges, CFO.

A few items before we get started. Throughout today's call, unless otherwise noted, all references of financial amounts are on a non-GAAP adjusted basis. And for purposes of comparability, all results and year-over-year comparisons are presented in accordance with ASC 605. Reconciliations of the adjusted amount to the most directly comparable GAAP amounts are included in this morning's press release and are available in 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-Q later today.

With that, it's my pleasure to turn the call over to Brian.

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

Thanks, Katie, and good morning, everyone. Q3 was another strong quarter with total company revenue growth of 4% and 8% revenue growth in core auto software. Within core auto software, Retail Solutions North America grew 11%, attributable to ELEAD acquisition as well as growth acceleration, driven by improvement in auto sites and key layered applications.

In our International business, Q3 revenue grew 1% year-over-year on a constant-currency basis, which is clearly not where we expected to be this year. Delays in a couple of key rollouts and in our strategic growth initiatives have contributed to the lower performance this year. Joe and I spent with time with the team this quarter, but we remain optimistic that the growth investments made this year will allow the business to reaccelerate its top line growth, in line with our previously shared long-term expectation.

Advertising revenue has continued to be a headwind on total company growth. Q3 revenue declined by 18% in the quarter, which is in line with our internal expectations and the guidance provided last quarter. We put an increased focus on the advertising area by, as you will recall, putting in place a new leader, regular reviews of the business and focused sales team to bring the performance of this business in line with expectations. We continue to focus on reducing revenue concentration in the segment, away from centralized OEM spend, toward diversified dealership advertising spends.

We have a similar focus to improve performance and diversify our website business, which is also highly concentrated with one OEM. Joe will provide additional details on this area of the business in just a few moments. We do see opportunity to grow both the advertising and website businesses over time and are actively working on these plans.

Now moving to the bottom line. We're pleased with the profit growth achieved while integrating the ELEAD business and investing in several growth-focused initiatives aimed at better serving our dealers, while also absorbing the headwinds from advertising. Q3 EBITDA and EPS grew 4% and 9% year-over-year, respectively. In a few moments, Joe will provide more insight into the specific drivers of our financial performance.

I want to now turn to some highlights from the quarter. As you will recall, a stable CDK North America auto site count is foundational to our long-term growth objectives. We're delighted to report that auto sites were up 48 sequentially and 19 year-over-year to 8,936 sites. This represents CDK's first year-over-year increase in auto sites in the last 10 quarters. This site improvement manifested due to collaboration across the entire organization. I applaud all of our teams for their hard work that led to the strong results this quarter. A stable to growing site count is dependent on sales, implementation and retention efforts.

So let me first start with sales. A new site acquisition team had their highest sales quarter of the year in Q3. We expect sales to continue to ramp, especially as Drive Flex is more broadly rolled out. We have approximately 2 dozen dealers signed up for Drive Flex that will convert from our legacy Dash product as well as brand-new conquest sites. The first Drive Flex site has been fully installed, tested and in operation now for several weeks, and we have several more sites going through installation currently. Our assessment of the market leads us to believe that there is a population of at least 50,000 retail locations globally for which Drive Flex can eventually be a viable DMS solution. And this number includes the North America franchise dealerships that we currently serve, along with other customers of our segments with similar technology needs, both inside and outside the automotive vertical. While this is an early assessment, we are growing increasingly optimistic that our unique technology assets are sufficiently versatile to transform our addressable market.

The second area to highlight is our installation team. As our sales have increased, so have our implementations. Auto site installations were up 30% year-over-year, which corresponds to the investment we made to expand our implementation capacity in late fiscal 2018. Balancing implementation resources and capacity will continue to be an important focus for us to manage the backlog.

The third area to highlight is improved retention. We saw a 50% reduction in site losses this quarter year-over-year and a 40% improvement versus the second quarter. We're changing the culture to be more customer-centric, and one example of this is the launch of our post-install transition team, or PIT team, who enhanced the new customer onboarding experience. Our existing customers, who we've expanded our support hours, will be ramping up hiring in the fourth quarter for our new customer success organization. These initiatives and the focus on the customer have been pivotal in making a difference with our dealers to continue to choose CDK.

We're committed to growing sites over time. While we may see variability quarter-to-quarter, I'm optimistic that our efforts will continue to build momentum in Q4 and beyond. Our current estimates are that we will end fiscal 2019 with a positive auto site growth year-over-year. A stable site count is just one component of our long-term growth strategy. Also pivotal to our growth are fostering deeper relationships with existing dealers and expanding our reach into non-CDK sites. Layered application sales were particularly strong this quarter, notably in our CRM, Service and Doc Cloud application areas. For example, in CRM, our product improvement and service efforts have us seeing more demand than anticipated at the time of the ELEAD acquisition. And Doc Cloud and Service continue to be strong performers, as each grew relative to Q3 fiscal 2018, which was in itself a strong quarter.

In addition to selling to existing dealers, we're also expanding our reach to an audience broader than just the CDK DMS footprint. This quarter, we sold more than 140 application units to non-CDK DMS users.

And finally, I want to finish with an update on Fortellis. We have 2 key applications coming available soon with Repair Order and Hailer, our app for dealers to hail a Lyft for their customers. Starting with Hailer, we had pilot sites using the application and have received favorable reactions from these dealers. We've prelaunched sales of this solution in select major markets, and the early feedback we're receiving reinforces our excitement for the partnership with Lyft.

We will also soon be launching a repair order API on Fortellis. This API will provide dealers, software vendors and OEMs ability to seamlessly integrate their service workflows with the CDK DMS. For example, a service check-in tablet using the repair order API through Fortellis will now be automatically create a repair order in CDK Drive for the customer at check-in. And as we head into Q4, in fiscal 2020, we're focused on continuing to build on the success we've experienced so far, transforming the way we deliver value to and interact with and ultimately grow with our dealers.

With that, I'll turn it over to Joe.

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

Thank you, Brian, and good morning, everyone. We had another good quarter, and I'm pleased with the progress made this year on several fronts.

On the top line, we saw good growth in Retail Solutions North America, offset by softness in the International and the expected headwinds in advertising. On profitability, EBITDA grew in the quarter, although growth was lower than past quarters due to dis-synergies related to the ELEAD acquisition and investments we're making in the business. I'll share more detail on these items momentarily.

In Retail Solutions North America, revenue grew double digits, delivering a strong quarter across several key indicators in the core business. In particular, we were happy with the strong sales results in sites and key applications as well as better retention, leading to the first year-over-year increase in auto sites in 2.5 years. We have also accelerated growth in the ELEAD business, both in CDK and non-CDK DMS sites, which we expect to continue being the growth driver in our application suite.

International growth were below our internal expectations, as Brian mentioned.

Advertising performance has remained a headwind to total company growth, declining 18% in the quarter. This performance was in line with our internal expectations and guidance previously shared for the segment's second-half performance.

Now onto the detailed results for the quarter. On an ASC 606 basis, total company revenues were $602 million. Core auto software revenues were $542 million. EBITDA was $222 million, resulting in a margin of 37%. Our effective tax rate was 25.7%, and diluted earnings per share was $0.98. On an ASC 605 basis, total company revenues were $601 million, equivalent to 4% and 6% growth year-over-year on a reported and constant-currency basis, respectively.

Core auto software revenues were $540 million, growing 8% and 9% on a reported and constant-currency basis, respectively. Growth was driven by revenue benefits arising from commercialization, new site and application installs and recent acquisitions. This growth was partially offset by cannibalized revenue due to the recent ELEAD acquisition and a double-digit decline in website revenue.

I want to stop and take a moment to talk about our website business before I discuss the results of the quarter. While we don't explicitly disclose revenue associated with each layered application, I can share that annual revenues associated with this business are in excess of $100 million. As you may be aware, our largest website customer is General Motors for which we are currently the sole endorsed provider of websites in the United States and Canada.

However, GM has announced its intention to move away from the sole endorsement model in these markets and toward a multi-vendor program during calendar 2019, similar to what they did earlier this fiscal year with advertising spend. We look forward to participating as one of the vendors and continuing our service to GM dealers in these programs. Depending on the final construct of the multi-vendor programs, we expect there will be changes to the services we provide today and the number of GM dealers we serve, with corresponding financial impacts that start in Q4 of this fiscal year and build as we move into fiscal 2020.

The impact from these changes and others could represent, at a minimum, 1 to 2 points of revenue growth headwind in fiscal 2020. We are actively working to retain and grow our website business, although these efforts will take time. We will provide another update on our Q4 earnings call and the implications on our fiscal 2020 guidance as we better understand the impact of the new programs.

Now back to the result of the quarter. Total company EBITDA dollars grew 4% to $218 million, and margins contracted 20 basis points year-over-year to 36.3%. Margin contraction is the result of dis-synergy arising from the ELEAD acquisition and higher incentive compensation. Our effective tax rate was 25.7% for the quarter. Diluted EPS was up 9% year-over-year to $0.95. Growth was driven by increases in operating income and lower average share count due to buybacks, which were partially offset by increased interest expense.

Now turning to segment results. Under ASC 606, the Retail Solutions North America segment recorded $451 million of revenue. Pretax income was $193 million resulting in a margin of 42.8%. Under ASC 605, our Retail Solutions North America segment revenues were $452 million, growing 11% on both a reported and constant-currency basis.

Subscription revenues were up 9%, driven by the ELEAD acquisition and mid-single-digit increases to revenues from 3-plus auto site groups, partially offset by low single-digit decline from 1 to 2 site groups and lower website revenue. Note that revenue per site growth was adversely impacted by the revenue cannibalization of the ELEAD acquisition this quarter.

Transaction revenues were up 1%. Other revenues were up 31%, primarily due to recent acquisitions, partially offset by lower consulting revenues. North America auto sites were up 48 sequentially to 8,936 sites or up 0.2% year-over-year. Growth in auto sites was largely driven by reduced site losses in our 1- to 2-site segment. This was our lowest sequential loss quarter in over 5 years in this segment of the market, as indication that Drive Flex and our focus on the customer is resonating with dealers.

Pretax income was $193 million, and margins contracted 240 basis points to 42.7%. Margin contraction was caused by a shift in revenue mix from acquisitions and higher incentive compensation, partially offset by benefits from subscription revenue growth as well as the business transformation plan.

Moving on to International. Under ASC 606, the segment recorded $91 million in revenue. Pretax income was $28 million, resulting in a margin of 30.7%. The third quarter was particularly strong in International on an ASC 606 basis, primarily due to the timing of annual renewal activity in the quarter. Revenue recognition for the on-site license component of the renewals were recorded in the period under ASC 606 versus ratably over the contract term under ASC 605.

As we look forward to Q4, we anticipate a sequential step-down in both revenue and earnings on an ASC 606 basis. Under ASC 605, International revenues were $88 million. Revenue declined 6% year-over-year on a reported basis and increased 1% on a constant-currency basis. Constant-currency growth was driven primarily by improved revenue per site, offset by declining sites and timing of certain other revenues. International sites were down 179 sequentially to 12,988 sites or down 4% year-over-year.

Year-over-year site declines were driven primarily by the previously disclosed OEM customer loss and higher loss activity in legacy products. Pretax income was $23 million as margins contracted 240 basis points to 26.8%. Margin contraction was caused by the timing of certain other revenues and investments relating to strategic growth initiatives, partially offset by scale from increased revenue per site.

Now Advertising North America results. On an ASC 606 basis, the segment recorded $60 million in revenue. Pretax income was $4 million, resulting in a margin of 7.3%. Under ASC 605, advertising revenue was $61 million, a decline of 18% year-over-year. This decline was driven primarily by reduced advertising revenue from direct OEM networks and dealer spend.

Pretax income came in at $5 million as margins contracted 630 basis points to 7.6%. Margin contraction was due to lower volume-based benefits as a result of lower revenue. Our cash balance was $307 million, of which $274 million is held outside of the United States. Year-to-date free cash flow was $270 million, a decrease of 3% year-over-year, primarily driven by timing of receivables collections and tax payments as well as capital expenditures and capitalized software investments.

We returned $89 million to shareholders through a combination of dividends and share repurchases in the quarter. We ended the quarter at 3x net debt-to-adjusted EBITDA, in line with our targeted range of 2.5 to 3x leverage ratio. We expect to continue executing our capital return program with the goal of returning $750 million to $1 billion to shareholders through a combination of dividends and share buybacks in calendar year 2019, while staying at approximately 3x net debt-to-adjusted EBITDA.

Now I'll provide an update on our guidance for the fiscal year, which we provide on an ASC 606 basis. We are maintaining our revenue guidance range of $2.32 billion to $2.35 billion. We are tightening our EBITDA dollar range to between $860 million and $875 million. We maintain our EPS guidance range for fiscal 2019 at the higher end of $3.70 to $3.80. Finally, we are maintaining our previous tax rate guidance of 25% to 26%.

The details of our guidance ranges are included in today's press release and in the Investor Relations section of our website. I'll now turn the call back over to the operator, and we'll be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Ian Zaffino with Oppenheimer.

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

Just honing in on the guidance a little bit more. The revenue guide seems to be the same, the EBITDA guide changed a little bit. Give us an idea of what's driving that. Is this more on the cost front? Is it more on a mix front? And then I have a follow-up.

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

Yes. Good morning, Ian. Thanks for the question. When we look at the guide, Q3 was particularly strong as a result of 606. And so some of it is just the seasonality of the business as you look at it. Like you said, we feel good about revenue being there, but when you look at the seasonality of 606, that drives a lower EPS in Q4. In addition, you heard Brian talk about some delays that we're experiencing in International. And that, for sure, we continue to invest both in North America and in International, but some of those delays certainly have had a bit of an impact on the bottom line as well.

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

Okay. I mean, I would have thought that the churn on the International side, it's basically you're spending the cost right now, and you're not seeing the revenues flow through. Because I would've thought that international is just naturally lower margins. You'd have sort of a favorable mix if International is a little bit weaker. But is that just the cost that you're kind of spending to support the rollout that's now been delayed?

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

Yes. And I would say, just to make sure, Ian, like the whole difference between Q3, Q4 is 606. It's just around how the treatment is handled for on-site licenses in International. And net income and revenue gets recorded largely when those are renewed, which was in our fiscal Q3. And I think this is the new normal around seasonality of the business.

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

Okay. And then congratulations on having a higher site count here. Can we just dive into that a little bit more? What was the mix there between 1 to 2 dealers or 1 to 2 sites and then maybe larger site dealerships as well?

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

Yes. I mean, listen, we're really pleased with the sites' high performance. I mean, this has been a lot of hard work by the team. And when you look at sites, it was good performance across both segments. We saw continued strength in the 3-plus segments. When you look at the 1 to 2 market, while it still had a slight decline, it was significantly better than where we've been historically. And to be honest with you, I'll let Brian add in, but just the messages and actions we're taking are resonating quite strongly with our customers and as well as rallying the company around the focus around it. And this is -- I think when you look at the number of things that we're working through, whether it's some of the comments made on websites and so forth, when this team gets around an area and focuses on it, we can deliver quite exceptionally well. And we feel really good about where sites are at and with our ability to grow them for the year. So I'll let Brian add anything else.

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

Yes. I think the only thing I would add, Ian, is I think about sites with kind of 3 buckets. As you said, kind of the smaller sites, maybe 1 -- 5 or less rooftops and then 5 and more and going all the way up to the large enterprises, and then the third bucket being acquisition of new sites or winning share from our competitors. And if you look, all 3 of those segments did very well this quarter. And so I wouldn't say any one is doing necessarily the heavy lifting versus our focus is against all 3. With the smaller sites, we're really showing them Drive Flex and beginning to show them just what's coming down the pipes from technology with the larger sites. A lot of it's around our customer success and really just providing them better support and service. And then with the new acquisition of sites is kind of the combination of all of those and the promise that CDK has of the technology.

Operator

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

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

First one, to start off, on the comments you made about the ability with Drive Flex to potentially target a broader set of potential customers, so maybe you can just help me understand, what is it about Drive Flex that's different from your prior offering that's going to enable you to target a broader set of potential customers? And then if you do decide to do this, what does the investment around that look like? Do you need to hire new sales staff? Or what other support is needed to address those customers?

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

Sure. I'll start, and then Joe can add in. The way Drive Flex was kind of architected is we have our core layer that has all of the main components of the DMS and the financial accounting and all of that. So you can think it's like modules added on top of that, that allows you to do all the other -- [desk] an offer or bring in service and those kinds of things. What Drive Flex allows us to do is really we can defeature or feature and add as we go through. So when we looked at this, what we saw was an ability to grow very quickly. The other thing is because it's all based in the cloud, being able to do an installation remotely, to some extent, especially with a more simplified installation, we're able to do more of the work remotely all based in the cloud, which allows us to access more customers. So when we talk about 50,000, I'd say there's 20,000 dealers that are the traditional dealers that we have talked about, the large franchise dealers. There's an additional, say, 20,000 or so independent dealers that are accessible with, Drive Flex. They typically need a slightly more defeatured solution, and we're able to do that with a relatively low investment or reengineering effort, and we can approach those through the cloud, as I described. And then there's an additional set of dealers that are both broader across

North America, talking about Canada and Mexico and places like that, plus going into other areas like recreation truck, large truck, any items like that, that really allows us to go into a broader market there. And the flexibility of Drive Flex by it's to architecture, and the fact that it's cloud-based allows us to do that from an engineering standpoint with a relatively low investment. We think from a sales standpoint, it will require some investment, but the investment's not going to be equal to the franchise dealer type of market because we're able to do a lot of this over the phone or with the same resources we have in those locations. So there will be some additional resources to go after these larger markets, but increasing the TAM by that number, we think, is a significant improvement in our ability to grow the company.

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

Yes. And then the only thing I would add is just when you look at the investment, I mean, we're quite excited about how fast Drive Flex has taken up with almost 2 dozen. We did have our second go live just in the last day or 2 a second a dealer. And so we are sizing the investment. The good news is there's plenty of opportunity, and we see an opportunity to really accelerate their growth here. And so our forecast contemplates some portion of that investment, but we will update you, as part of our year-end earnings, as we look at growing sites on a more accelerated base and investing in the business and just looking at those trade-offs.

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

Great. And then just last one for me. On the advertising and website business, you mentioned that eventually, you think those businesses have the potential to get back to growth. Maybe just help me understand, what sort of factors are needed there to grow those businesses? It seems like website is moving just in general more away from exclusive providers to multisource providers. So are there OEMs that you can get on the repurchasing list? Or what's the plan there to help grow that business?

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

Sure. I'll start, and then Joe could add. We talked about it in the prepared remarks that we've added additional resources and really focused the leadership in this space. One of the things we've done as a company is kind of spread those resources out across many organizations. And I'd say the organization didn't have quite the focus that I wanted to have it have. So we're bringing that back together, putting it -- the leadership together for this to really drive. We're expanding across additional OEMs. We're already in talks with several OEMs about expanding beyond. So there was just too much revenue concentration with one OEM. We're continuing the work with GM on this business. So we want to retain -- even though they're going in to choice, our goal is to retain as many of those customers as we can with great service and great technology. There are some investments we're going to make in the technology. I wouldn't say they're huge, but there's some improvements we can do to make our ease-of-use and kind of user interface a bit more friendly. And then we're going to go beyond, I'd say, the OEM market into kind of the local marketing groups that dealerships have in local areas that, again, kind of gets us to the next tier, but allows us to expand the available market as well. And so we think when we can get through those and kind of get over the hump of what's going to happen in the GM transition, we can grow this back again, but there will be a transition period that we go through next year.

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

Yes. The only thing I would add is when we look at it, this will take us the next year, the work-through. I think both the advertising and website programs have gone through quite a lot of change, and the team here has done a very nice job of working through that. Nonetheless, anytime you have that level of concentration, particularly within one segment, it's going to take us, just like Brian said, some time to work through. And we continue to do that in a productive way at the same point in time, just to be clear about as we think about the impact it could have for next year.

Operator

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

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

A couple of questions. I didn't get the core software sales in North America and across the enterprise. What was that percentage up this quarter?

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

We don't disclose the specific sales number, but it is up high single digits.

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

Oh, okay. All right then. Where exactly is your website revenue book? Is it in advertising or is it in the Retail Solutions?

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

The website revenue is within RSNA.

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

Okay. And then in terms of with GM giving dealers choices, what -- how does that work through the channel? I mean, you basically -- you've got the website of the dealer right now. Does GM then channel co-op advertising or co-op assistance to other providers, and that would might give the incentive for a dealer to deconvert?

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

Yes. I'll start, and then others can add. So right now, yes, there's co-op dollars on the sole endorsed arrangement. I think as you look at the RFP going forward, there is a different contemplation of services and website solution that's been asked to be provided by the vendors they've asked to participate. So we're in early stages, Gary. I don't know how we it will end or what the economic construct of it will be. What I would tell you is that GM's taken a very similar approach with websites as it did with advertising, open up to multi-vendors, let the companies come in and participate. And quite frankly, we think we faired quite well in the advertising with the multi-vendor program, and our website's just going through that. So we'll update you more. It's still very early, and we're working it. And we, as we say, continue to be the sole endorsed provider. Nonetheless, we'll share more updates as we get closer to Q4 and we start to see how this plays out.

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

Okay. And then 2 more questions. Where -- what OEMs have endorsed you for Drive Flex at this point?

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

Currently, it's -- the only one that we've completed still is GM. We're going through a couple of other vendors or OEMs currently.

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

Okay. And when do you think you'd get your main OEMs -- the OEMs that you want on that endorsement list?

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

Sure. So we're still targeting roughly towards the end of calendar 2019 for getting the major OEMs completed. We're adding in now the ability, like I said, to go after the independents and some work in Canada as well, so actually adding to our workload. But our plan is still to get the major OEMs done by roughly the end of calendar 2019.

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

Okay. And then the last question I have. In terms of the average monthly revenue per site, is that mainly a function of ELEADs and additional layered application sales? I would assume that that's what's driving that number.

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

Yes, that's right, Gary. And don't forget, I think this quarter versus last quarter, we did decide that there were certain charges that we charged related to the data services for that business and now that we own it, effective January 1, those charges went away to our customers. And so...

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

Specifically around ELEAD.

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

Specifically around ELEAD. And so you'll see that that's had impact on the slower site growth in the quarter year-over-year. But you're right. The contributing factors, we continue to see good penetration, particularly in Doc Cloud as well as Service and as well as adding ELEAD.

Operator

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

Jonathan Lee - *Morgan Stanley, Research Division - Research Associate*

This is Jonathan on for Brian. Brian, this one's for you. Now that you've been with CDK for about 6 months and you've had sort of time to dig into it, what is the opportunity you see before you in the near term and in the longer term?

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

Sure, Brian (sic) [Jonathan]. I'd tell you it hasn't changed dramatically. I mean, I guess, I've done enough research prior to coming to CDK that -- and the model that I had coming in has only probably increased both in detail and scope of what's available. And that's really around and what you -- and you heard it in our prepared remarks today that we can turn the site loss, right? So we talked about 10 quarters of site loss being turned around in this quarter. We're really proud of the team. It's, as you said, 6 months. We' made some big announcements at NADA. And the teams worked really hard, and all 3 segments really improved, both small sites, larger sites and site acquisitions relative to our competition. Joe and I talked about we think we can continue to grow that. We then identified expansive TAM by going into the independent market, and we've already made progress in that space. And then the conversion to Drive Flex and expansion of our layered apps into -- beyond CDK DMS sites will allow us to, I believe, continue to grow the company quite nicely over the next few years. And then the headwinds that -- we've talked about it this earnings are ones that, I think, were visible coming into the company, mainly that some of the layered apps, some of the applications needed more engineering focus. I think the teams pivoted well. You saw an announcement this morning of our new CTO, Mahesh, comes with a lot of really good industry experience. I'm excited to have him join the company. And then I think that website and advertising is an area where we really just had to get the right leaders in place, kind of recoalesce the team and get growth mindset back in there. We'll have to work through the GM headwinds. We had too much singular OEM focus or concentration, but we'll work through that over the next year, and I'm confident the team can make good progress there as well. So -- but I'd tell you it's the same major concepts that I had coming in, but I think we've actually found more opportunity. I'd tell you that the independents wasn't on my list. Understanding what opportunities are in Canada and other International markets wasn't quite clear to me coming in. And so it was much better than what I anticipated.

Operator

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

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

Sure. I'd just like to thank you all for joining us this morning. As I've said in the prepared remarks, and then -- and you hopefully came across with Joe and I's responses in the questions, we're really happy with the results this quarter. And we're seeing positive signs that we believe that we're very clearly indicating that we're on a path for sustainably delivering strong revenue and earnings growth.

I look forward to providing you more updates as we go through the next quarter and complete 2019 fiscal year. So everybody, have a great day, and thank you very much for coming.

Operator

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