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CDK - Q4 2018 CDK Global Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to CDK Global's Fourth Quarter and Fiscal 2018 Earnings Call. (Operator Instructions) As a reminder, today's conference may be recorded.

I'd now like to introduce your host for today's conference, Katie Coleman. Ma'am, please go ahead.

Katie Coleman

Thank you. Good morning, and thank you for joining us for the CDK Global Fiscal 2018 Earnings Call and Webcast. Joining me on today's call are Brian MacDonald, CEO; and Joe Tautges, CFO.

Brian will begin today's call with some of the highlights from fiscal 2018 and an update on the innovations we are making for future growth, followed by an update on our revenue growth initiatives and an overview of our financial results. Joe will then take you through the details of the fourth quarter and full year results and our guidance for fiscal 2019. He will also share the growth outlook for fiscal 2020 and beyond.

As a reminder, references to financial amounts are on an adjusted basis, unless otherwise noted. 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. Additionally, commentary today and the guidance we provide are under prior accounting standard, ASC 605.

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 this week.

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

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

Thanks, Katie. Good morning, everyone, and thank you for joining our call today. Fiscal 2018 was quite a year for CDK, and I want to start off by thanking all of our employees, customers and partners for making it a success in a number of areas.

To recap some of the highlights from 2018, we really continued our product renaissance with new innovations like Fortellis and Drive Flex. We completed the acquisitions of Dashboard Dealership Enterprises and Progressus and delivered a record sales year for both sites and layered applications, all while growing earnings per share over 25%.

To be clear, I'm not happy with where revenue growth is for the company, although we can still be proud of what we've been able to accomplish during the year.

As I'll discuss on this call, we feel very good about our momentum and are making the necessary investments to accelerate growth going forward. Our revenue growth initiatives can be summarized in 3 categories: first, investing in innovation and continuing our product renaissance; second, investing in the core operations of the business to stabilize and grow our site count while delivering layered applications software that enables dealers to sell and service more vehicles more efficiently; and third, investing in M&A and partnerships.

Within the first category, we highlighted several areas last quarter that we are investing in to bring new innovations to market, and I'll provide an update on a few of them. We've had an incredible response to the launch of Fortellis Automotive Commerce Exchange. Specifically, we have over 100 companies and 300 developer users registered to develop on the platform. We're also excited to announce a strategic partnership with Lyft that will enable dealers to deliver added value and convenience for their customers while allowing dealers to reduce cost and improve their margins on service transactions.

Today, dealers carry costs associated with loaner fleets, courtesy vans, rental cars and the labor associated with maintaining these programs that provide additional convenience for customers utilizing service in a dealership. The average dealer/loaner car costs the dealer approximately $30 per day, and dealers struggle with utilization consistency. Dealers who use ridesharing services like Lyft to replace these programs are able to save thousands of dollars per month and improve customer satisfaction while doing so.

The Lyft Concierge API will be published through Fortellis for CDK to consume, enabling dealers to eliminate manual double entry and ensuring that the warranty claim expense for the cost of the ride is not missed, an issue that dealers struggle with today.

The partnership with Lyft is just one of the many opportunities we are working on right now to deliver on our commitment of being an enabler of automotive commerce, so dealers can connect better with customers, sell and service more cars and operate more efficiently.

We're also seeing building momentum for our Connected Store offering, which is the foundation for the digital transformation of the car-buying process. Our offering enables dealers to move towards a quote anywhere, transact anywhere model and allows customers to complete the entire end-to-end car-buying process online. This offering will be viable across multiple channels, seamlessly facilitating online and in-store activities across multiple brands, helping dealers deliver a more efficient and enjoyable experience for their customers.

We're also making progress with Drive Flex and the integration into the strategic alliance between Open Dealer Exchange and RouteOne that we discussed last quarter. We will continue to update you as we make progress and reach key milestones in the future.

Now moving on to the category of investment and update in our core operations. Starting in fiscal 2018, we segmented our North America sales team into a new site acquisition team and a growers team responsible for managing existing accounts. This change has had a significant impact on our efforts to stabilize and grow our auto site count.

The new site acquisition team had a strong year, increasing new site wins by almost 30%, while delivering sequential improvement in the number of wins in each of the last 3 quarters. Meanwhile, our growers have been focused on -- focusing on delivering improved customer experiences, and we have retooled our retention strategy and usage of data and analytics to enable us to be much more targeted in our efforts to renew accounts, win back customers and identify solutions that will help dealers the most.

I'm pleased to report that the results of these efforts of these 2 teams has led to auto site growth of 16 sites sequentially this quarter and is a testament to the differentiated value that we provide.

In addition to the site performance, we've seen strong results from layered application software sales driven by our growers team. The investments we've made into several of our strategic

(technical difficulty)

are resonating with our dealer customers, including our service offering and our digitization of document management as well as others. This quarter, we signed one of our largest customers for our service-layered application that we'll roll out over the coming quarters. Our backlog of to-be-installed layered applications is up considerably across many of our core products.

This sales momentum has compelled us to increase our installation capacity by 30% as we discussed last quarter. This increased capacity resulted in more than twice the number of installs in the fourth quarter versus the prior year. In the short term, this is a cost drag for us but will be beneficial long term.

On the customer service side, we have seen significant improvement in our support statistics on a year-over-year basis. Over the past 2 years, we have been focused on improving our response times, and I'm pleased to say that chat responses are handled, on average, in a minute or less. In fiscal 2018, we put emphasis on improving resolution speed and have seen a greater than 60% improvement in this metric year-over-year. We are committed to delivering even greater customer satisfaction, and we'll launch additional channels of support this year to complement our existing portfolio of services.

Our efforts targeting at improving sales effectiveness and increasing installation capacity delivered to sequential site growth we saw on the fourth quarter. I want to be clear that growing site is a work-in process, and we expect to see some variability in both the sequential and year-over-year growth each quarter in fiscal 2019, while our customer experience, sales and implementation investments materialize.

Finally, in the third category, our revenue growth initiatives, we will continue to drive growth through M&A and partnership activity. The 2 acquisitions we made in fiscal 2018 are great assets and have exceeded our initial expectations. In the 7 months since we have acquired Dashboard Dealership Enterprise, we sold more units than we've acquired. We are pleased with the early results and potential new opportunities that the Progressus platform brings CDK as well. We're 1 quarter in, and the team is off to a strong start, exceeding our original sales and financial expectations. Now that we own the platform, we think there is real opportunity here to partner with our dealers to deliver more targeted and value-added services across social media platforms.

As we've previously announced, we have agreed to acquire ELEAD1ONE, a leading provider of integrated CRM, marketing, call center and service solutions. CRM solutions have become the norm in automotive retail, enabling dealers to drive their customer engagement and their business results, especially as the automotive retail experience is further digitized.

While the auto CRM marketplace is highly competitive with a number of vendors available, both auto specific as well as horizontal providers, ELEAD1ONE differentiates themselves through strong account management and their simple-to-use platform. The combination of our 2 companies will make us faster and more innovative in serving our customers and in delivering an outstanding experience to dealers.

The acquisition is pending approval by the FTC and will not be included in our guidance today. Once closed, we expect the acquisition to be mildly dilutive to fiscal 2019 and accretive to fiscal 2020 earnings on an adjusted basis, excluding the amortization of acquired intangible assets.

Now for a summary of our financial performance this year. We exceeded our 3-year business transformation plan adjusted EBITDA margin of 35% and dollar growth target of $250 million to $275 million, originally set at the end of fiscal 2015.

Fiscal 2018 adjusted EBITDA margin was 35.9%, and on a full year basis, we have expanded margins 1,300 basis points since fiscal 2015. EBITDA dollars have expanded $355 million or 77% since fiscal 2015 to $817 million this year.

Now I want to take a minute and reflect on this improvement. We overachieved on these targets while improving customer service and sales effectiveness while continuing to make investments in our product and innovation. Let me repeat that. We overachieved on these targets while improving customer service and sales effectiveness while continuing to make investments in our product and innovation. This is a testament to the quality of the leadership team and all the employees of CDK.

Diluted earnings per share grew 27% to $3.26. We've returned more than $2.2 billion to shareholders since 2015, including $185 million of share repurchases in the fourth quarter. Revenue growth for the year was 2%. And as I said earlier, we have the right momentum to drive improved growth going forward given our sales momentum in our current backlog.

We continue to face challenges in our advertising segment and are disappointed with the financial results from that business. We missed our internal expectations for the year, and we've made changes to the organization and increased investments to improve the business. One of the areas to address is the concentration of revenue from a small number of customers. We have a number of initiatives in place focused on diversifying our advertising revenue streams, including making enhancements to our ad tech program -- platform. However, revenue in fiscal 2019 is expected to decline 15% to 20% until these benefits materialize. Joe will provide more details of the quarter and full year results as well as fiscal 2019 guidance and longer-term outlook in a few minutes.

As we look forward to fiscal 2019 and beyond, we are committed to our purpose of being an enabler of automotive commerce. Over the last several months, I, along with my leadership team, have been reviewing and analyzing the organization structure on how we can best deliver on our initiatives to accelerate growth. We've made a number of changes, which are designed to reduce complexity and to deliver improved customer experiences while allowing us to invest in areas of the business that will drive growth.

Fiscal 2019 is a pivotal year for us. We have the structure and the team in place and the strategies and initiatives underway that are necessary to achieve our long-term financial goals. We are excited for what this year holds for us, and we thank you for joining us on this journey.

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

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

Thank you, Brian. I'm pleased to review our fiscal fourth quarter and full year 2018 results with you today. I will also provide guidance for fiscal 2019 as well as a framework for a long-term financial growth goals of CDK.

As I look back on my first year we CDK, a lot of the aspects of the business that were appealing to me when I decided to join still hold true now. The majority of the business is subscription-based, delivering strong free cash flow. And as I've shared several times in the past, there is a wealth of data available that we are leveraging in new ways every day to improve business performance. The data we have allows us to better understand the pockets of the portfolio that need to be addressed from retention of sites and applications to characteristics of our customers and where to direct our sales efforts in a more targeted fashion to internal instrumentation on how the finance team is able to partner with the business to improve performance.

As Brian discussed, our top priority is to accelerate revenue growth. We are taking the same disciplined approach we used to deliver the transformation plan results to drive our revenue initiatives. That structure, combined with leveraging data and analysis, will help us to accelerate growth.

What has also become much clearer to me is that we fundamentally have 2 businesses with different financial characteristics. 85% of our business, Retail Solutions North America and International, is delivering core auto software to dealerships that enable automotive commerce. The core auto software business is highly recurring in nature. The vast majority of the revenues are subscription-based with long-term contracts, delivering EBITDA margins in the mid-40s and strong free cash flows.

Advertising built upon our ad tech platform is concentrated in a small number of key customers, including General Motors, and growth can be a bit more varied based on the timing and budgeted spend levels for the year. The business generally has no long-term spending commitments. In addition, the margin profile is much lower than the core auto software business with EBITDA margins in the low teens. As we move forward, we will refer to core auto software separate from the advertising results.

Now let me begin with the financial highlights from the fourth quarter and fiscal 2018. Fourth quarter revenue grew 1% but was flat on a constant-currency basis. For the full year, revenue grew 2% or 1% on a constant-currency basis. We continue to benefit from foreign exchange rate fluctuations, primarily in the euro, pound and Canadian dollar.

Core auto software revenues grew 1% in the quarter and 3% for the year. Retail Solutions North America revenue declined 1% in the quarter due to lower transaction and other revenue, offset by subscription revenue growth.

Subscription revenue grew 2% in the quarter driven by average revenue per site growth of 5%, somewhat offset by the impact from a lower site count and lower onetime and non-DMS revenues. Recurring revenue from 3-plus auto site groups grew high single digits, which was offset by mid-single digit declines from 1- to 2-site groups. For the year, subscription revenue grew 4%.

Transaction revenue declined by 9% for the quarter and for the year primarily due to dropped point solutions and impacting the fourth quarter, the accounting change related to certain revenues that reported on a net basis that we disclosed last quarter.

Other revenue declined by 20% in the quarter and 12% for the year primarily due to lower hardware revenue relative to the hardware replacement program in fiscal 2017.

We were pleased to see the sequential auto site growth of 16 sites this quarter and believe we are taking the right actions to improve our site count performance from what we experienced in fiscal 2018.

On a year-over-year basis, auto sites were down 2% due to declines in 1- to 2-site groups offset by growth in groups of 3 or more sites consistent with prior quarters.

Adjacency sites grew 2%, and websites grew 1% as a result of new OEM endorsement sites going live.

Fourth quarter International revenue grew 13% or 6% on a constant-currency basis driven by average revenue per site growth of 7%. Sites declined by 2% due to a customer loss in China. For the year, International revenue grew 14% or 7% on a constant-currency basis.

Moving on to advertising. Revenue for the fourth quarter declined 3% driven by lower OEM and local marketing association revenue, offset by growth in dealer spend. On a full year basis, advertising revenue declined 1%. We expect to see additional reductions in fiscal 2019, which we'll cover in more detail in a few minutes.

Turning to earnings. EBITDA dollars grew 15%, while margins expanded 450 basis points to 36.8% in the fourth quarter. On a full year basis, EBITDA dollars grew 14%, and margins expanded 380 basis points to 35.9%.

The quarter's margin expansion is a result of subscription revenue growth in the core auto software as well as benefits from our transformation program and lower incentive compensation. These benefits were somewhat offset by the growth-focused investments implementation, customer service and sales that were added in the quarter.

Pretax margins expanded 300 basis points in the quarter and 180 basis points for the year, primarily due to EBITDA growth, partially offset with higher interest expense and depreciation and amortization.

Core auto software margins expanded 410 basis points to 40.8% in the fourth quarter and 400 basis points to 39.6% for the year.

Retail Solutions North America margins expanded 420 basis points in the fourth quarter and 440 basis points for the year. Margin expansion was driven by benefits from the transformation plan and sale from subscription revenue growth as well as lower incentive compensation, somewhat offset by the investments into implementation, customer service and sales in the fourth quarter.

International margins expanded 530 basis points in the fourth quarter and 340 basis points for the year, primarily driven by scale from revenue growth and benefits from the transformation plan and lower incentive compensation.

Advertising margins declined 630 basis points in the fourth quarter and 220 basis points for the year due to reduced leverage on revenue and the timing of media spend in the quarter.

Our effective tax rate was 28.6% for the quarter and 29.1% for the year. Diluted earnings per share grew 38% to $0.87 in the fourth quarter and grew 27% to $3.26 for the year, driven by earnings growth, a lower tax rate and lower average share count.

Our cash balance was $804 million, of which $262 million was held outside of the United States. Full year free cash flow was $375 million, an increase of 11% year-over-year.

We returned $205 million to shareholders through a combination of dividends and share repurchases in the quarter and almost $350 million calendar year-to-date. We ended the quarter at 2.2x net debt to adjusted EBITDA and continue to target a 2.5 to 3x leverage ratio. The acquisition of ELEAD1ONE will put us solidly in that range.

Now let's move on to the guidance for fiscal 2019, which is provided under the ASC 605 accounting standard. Strategic acquisitions will be a key element of our growth strategy going forward. This will drive more noncash expense associated with acquisition activities and does not directly reflect the performance from our underlying operations. So beginning with fiscal 2019, we will adjust for amortization of acquired intangible assets within our calculations of certain measures as described in our non-GAAP financial measures section of the press release.

As with our other adjustments, this will enhance the measures we use for decision-making and business evaluation, including evaluating operating performance period to period in relative to our peers.

Our guidance today includes these adjustments to fiscal 2018 for purposes of calculating and presenting the fiscal 2019 guidance. Included in our website tables are these quarterly adjustments for your reference. We expect total revenue growth of minus 1% to positive 1% on both a reported and constant-currency basis, including the impact of advertising revenue declines of 15% to 20%. Core auto software growth will be 2% to 3% for the year. We expect this revenue growth to improve sequentially each quarter driven by sales momentum, a strong backlog and increased implementation capacity and investments into the business. Keep in mind that it takes time for this activity to materialize in our results. Growth in the first quarter is likely to be similar to what we saw in the fourth quarter.

Specific to Retail Solutions North America, we faced a number of revenue growth headwinds in the transaction and other revenue lines in fiscal 2018 that peaked in the fourth quarter. In fiscal 2019, we expect mid-single-digit declines in these revenues due to 3% to 4% lower SAAR impacting transaction revenue and lower consulting revenues impacting other revenue.

While we are not pleased with the outlook for advertising revenue this year, this is our lowest margin business, and we have a number of initiatives underway to diversify this revenue stream. These initiatives will take time to be realized.

We expect EBITDA dollar growth of 8% to 12% and an EBITDA margin range of 39% to 40% for the full year from the combination of leverage on revenue growth and cost efficiencies delivered by our transformational plan.

Based on the additional opportunities we identified to further improve our cost structure, our 2019 guidance assumes a $50 million increase to the business transformation plan cost, comprising a combination of restructuring and other business transformation expenses for a total lifetime program cost of $300 million.

The incremental cost savings will allow us to fund approximately $25 million of in-year spending for the investment areas Brian noted earlier while maintaining our target of 40% EBITDA margin in the fourth quarter. We expect earnings per share of $3.85 to $3.95, an increase of 15% to 18% year-over-year, excluding amortization of acquired intangible assets.

Echoing our comments on our revenue, first quarter earnings results will be similar to what we delivered in Q4 and will ramp throughout the year with revenue growth. We anticipate our tax rate to be 25% to 26% for the fiscal year, which incorporates the full year impact of the Tax Cuts and Jobs Act.

We will continue to execute 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 years 2018 and 2019 and making our leverage target range of 2.5 to 3x net debt to adjusted EBITDA.

As of July 1, 2018, we have adopted ASC 2014-09, Revenue from Contracts with Customers, using the modified retrospective transition method. We will not recast historical information, and we'll report financial results in fiscal 2019 under both the new and old accounting standards for the transition year. We expect to recognize less revenue primarily due to the change in timing of revenue recognition related to on-site software licenses, which is partially offset by the ability to capitalize more cost to obtain and fulfill our contracts.

Our assessment for fiscal 2019 is ongoing and subject to finalization, and therefore, we will not provide guidance on the impact at this time.

As we come to the end of achieving our long-term financial goals shared in 2015, we are updating our expectations for the business for 2020 and beyond. Improving the revenue trajectory is key to driving EBITDA and EPS growth. We are committed to delivering on the following growth framework: targeted revenue growth of 4% to 5% driven by a combination of growing revenue per site and increased layered application penetration and stabilization of the auto site count; EBITDA growth of 8% to 12% through a combination of leverage on revenue growth and continuous productivity in our operations; and earnings per share growth of 15% to 20% driven by a combination of earnings growth and continued share buyback.

We are working to schedule an investor roadshow to discuss the long-term financial outlook in more detail, so please stay tuned for more information coming in the next few weeks.

In closing, it is important to reflect on where CDK is at almost 4 years post in. We have fundamentally improved the cost structure and have a strong foundation to scale and grow from. We have made improvements to our customer service, management routines and the utilization of data and analytics that will guide us going forward. We have a lot of work ahead of us to deliver on the long-term growth aspirations we've shared today, and we look forward to updating you on the progress each quarter.

With that, Brian and I are happy to take your questions.

QUESTIONS AND ANSWERS

Operator

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

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

This is Mark Zhang for Ian. Just, I guess, like to start off on the 2019 revenue guidance, I know you guys provided good details and colors. But I'm just wondering why, number one, is this all sort of, I guess, like organic? Or is there anything else that will -- that's a negative 1 to -- or like 1% decline to a 1% growth guidance?

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

Mark, thank you for the question. And they are one and the same. It's both organic and as reported guidance, there's really no delta between the 2 for the year.

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

Okay. Got you. And then, I guess, just weakness is basically around advertising and RSNA. Is there any, I guess, like additional details you guys could provide in terms of, I guess, site count and from organic growth there as well?

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

Yes. So when we look at the revenue guidance, we're really pleased with where the core auto software business is headed. I think the International team has done a nice job growing. We've got the right backlog in RSNA that we're in process of installing. And really, when you look at it, we've been pretty transparent over the last couple of quarters on some of the headwinds we're facing in advertising. And when you look at the decline there, it's really a result of some pullback on spending from 1 OEM and some of our lower-margin businesses. And so I think we've tried to give more transparency as we share the numbers around how core auto software is performing versus advertising, and we're doing a number of things in the advertising business to improve the revenue situation there.

Operator

Our next question comes from Rayna Kumar with Evercore ISI.

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

Can you talk about the trends you're seeing both in the low end and the high end of the core DMS business? Are you seeing any further client attrition at the low end? And at the high end, are you seeing any new competitive entrants?

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

Rayna, it's Brian MacDonald. I think what we've seen is pretty similar to what we have been seeing. Our weaknesses are primarily in the low end of the market. We continue to grow dealer count in the 3-plus rooftop market and to grow our revenue in the 3-plus dealership market, so it's fairly consistent with the trends we've had recently. You will have noted that we grew sites sequentially from Q3 to Q4 by 16 sites, so we're really happy with that and the work that we've done in both retaining sites as well as winning new customers.

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

Understood. Could you talk a little bit about the underlying assumptions for your FY '20 and beyond guidance? What kind of revenue growth do you expect by segment going forward?

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

Yes. So I'm not going to get into the details when you think about it from segment. I think what I would tell you, we've been pretty open with the revenue trajectory that we see in the International business, performing in the 6% to 8% growth-type range. And then when you look at RSNA, I think you see that returning to a good growth profile as we drive layered application penetrations, see site stabilization and then just see more stability in the advertising business. So when you put together the pieces, 4% to 5% is where we feel comfortable with. And as you start to look at how the revenue ramps based on the backlog that we have and looking at 2019, we feel good about the trajectory that we're exiting at given the actions that we've taken.

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

That's very helpful. When do you expect to complete the migration of customers on to Drive Flex from your legacy products?

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

Yes. Rayna, it's Brian here. For competitive reasons, we're not going to talk in any specifics about Drive Flex and our plans for the product. We'll speak about that as we gain momentum in the market.

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

Understood. Just 1 final question from me. Does your FY '19 guidance include the impact of acquisitions?

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

It does not include the impact of acquisitions. What is does include, just to remind you, is we did do a borrowing in the middle of June in contemplation for the transaction. And so when you look at some of the -- we've said Q1 performance would look a lot like Q4. That contemplates us carrying the interest expense then until we're able to close the deal.

Operator

Our next question comes from Matt Pfau with William Blair.

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

I wanted to dig in a little bit on the advertising business. And I guess, first of all, I'm sure you're limited in terms of what you can say, but if you can give us any more detail in what you mean by diversifying the advertising revenue streams and what that might entail. And then, as a follow-up on that will be, I guess, maybe why it makes sense to continue to have advertising as part of the business? Maybe you just kind of remind us of the strategic rationale there.

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

Matt, it's Brian. So really, we're tied to 1 OEM. As you -- as most people know, our business is heavily tied to one OEM and their dealer network, and really, the opportunity for us in this business is to diversify to other brands and have deeper penetration in dealer groups that have multiple brands. And so we've really, over the last 6 to 9 months, invested in our ad tech to be able to be more agnostic to all brands and really start to put a sales channel in place for that. So that's really the diversification opportunity. The way I think about the advertising business, it's obviously a key part of what dealers do and OEMs do. It's -- as Joe said, it's a low-margin business. It's a noncontracted revenue, in most cases, or no minimum revenue, in most cases. Quite frankly, it puts us in a different conversation, the dealership and historically, has been an avenue of growth for the company, albeit really tied to 1 OEM. And so I think the challenge for us now is to diversify the business beyond the historical base that it grew in, which, again, is largely tied to 1 OEM.

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

Got it. And then maybe if you can just, Brian, give us an update on what you're seeing with Drive Flex in terms of the recession in the market, both to the improved functionality and then different pricing model that you implemented with that product?

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

Yes. We see good interest in the marketplace. It's early days, but we see good interest in the marketplace. We've also been very successful winning new business by separating our team into hunters and growers. So we've been very happy with our wins of new DMS sites coming on to our core drive platform. We've been very happy with our increase in installation capacity. I think Joe mentioned, we're investing $25 million annually into a higher implementation expense because we've been very successful selling new Drive DMS locations as well as layered app penetration. So outside of Drive Flex in the low end, we're really happy with the progress on new drive sites, and that's -- it was a big help in growing our site count, 16 units sequentially, and then we have very good layered app penetration. So we had a really strong -- as we mentioned in my prepared remarks, really strong Q4 sales momentum. We have a very good backlog of products, and we're very confident about the installation capacity going forward and how we start to turn the revenue line around.

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

Great. And just one last one for me. I just wanted to follow up on a comment made during the prepared remarks about strategic acquisitions being a key growth driver going forward, and CDK has historically been an inquisitive company. So just trying to sort of parse out is, is this a change in strategy in capital allocation? Or is it just more of a continuation of what CDK has done historically?

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

Yes. I think, maybe I'll start, and Brian can add. We've had a really good year with Dealer Dashboard and Progressus in finding the right assets in the marketplace that are additive to our portfolio where we can really leverage our distribution. Now adding on ELEAD1ONE, which again, will be very helpful in terms of the solution and capability that they bring into the portfolio, as we think about returning to the right level of revenue growth profile that we think we can achieve. It's leveraging all of our assets, including our balance sheet, to be able to bring the right assets into the portfolio. We just wanted to be clear about that.

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

Yes. What I would add to that, Matt, when I came into the company in 2016, early calendar year 2016, our, really, acquisition activities slowed in 2016. And in the 2017, as we were going through the transformation and we had to get the right foundation in place to do acquisitions, we had a lot of wood to chop internally. Starting about a year ago, we started to get more focused on a couple of key acquisitions. And with the new management team in place and the foundation in place and quite frankly, we've been very happy in exceeding our own expectations around both of the acquisitions that we've done and the early trajectory of those. We're really excited to complete the ELEADS transaction, and that's what we're wanting to make sure that investors understand that we like these tuck-in acquisitions, and we've been pretty successful with the recent ones we've done.

Operator

Our next question comes from Tim Willi with Wells Fargo.

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

A question of competition, I guess, just thinking about the longer-term guidance. As you've discussed, you develop product, you're developing products, you've acquired products. Do you feel like there's a growing gap between yourself and maybe other competitors where the level of investments or capital has limited durability to acquire? Is that, at all, in play when you think about organic growth, and then, obviously, the benefit of the change of the sales structure?

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

Yes, I think -- I mean, clearly, we've been investing in innovation, Tim, and I think Fortellis is a really good example of that. I think we're the natural company to bring a platform to the market for the auto industry. And I think our recent announcement of our partnership with Lyft is a validation of that to have a Silicon Valley unicorn. Be one of the early adopters of the Fortellis platform, I think, is a real proof point for both the idea of Fortellis as well as the execution of Fortellis. And it really fits together with our strategy being an enabler of automotive commerce. So what we're doing with Lyft and what we'll do with others, leveraging Fortellis, will enable dealers to be more efficient in their operations and sell more cars. So I think that the advantage that we have is we have a large installed base. We have great relationships with dealers, and we're bringing innovations to the market, whether it's Fortellis, Drive Flex, Connected Store, our partnership with RouteOne and OD. So I think there's a lot of innovation that we brought to the market over the last year that we continue to bring. And I think some of the other companies may not have the financial wherewithal to make those types of investments or the technical capabilities to make those types of investments. So I think we're in a pretty good place to grow the revenue in a way that Joe described in our guidance over the coming years through both investments that we made in our core products, some key tuck-in acquisitions, commercialization and packaging of our products. And so I think we feel pretty good about being able to get the company back to a 4% to 5% grower. Once we kind of take this downdraft in advertising this year, we think we're positioned to grow the company across the board.

Operator

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

Brian Lee Essex - *Morgan Stanley, Research Division - Equity Analyst*

Maybe, Joe, I was wondering if you could speak to -- just kind of thinking about longer-term growth. And as you think about some of the efforts that you made over the past -- or the team has made over the past few years to drive revenue per site growth of 5% on the subscription side, how much of that has been transformation-driven layered apps bundling and so forth? And how might that change going forward, as we think about the underlying support for your long-term guidance?

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

Yes, thanks for the question, Brian. And as I think about the foundational elements of -- and I presume you're talking more about the RSNA business, given the progress we've seen, particularly in the second half of the year around penetration of layered applications, I think you'll see better performance, call it, 1 to 2 points of revenue growth coming from our layered application penetration. And as we measure that metric, it improves the quality of the innovations around that, bringing more products into the portfolio that we can penetrate. There's -- there continues to be a real opportunity there, and we're capitalizing that. The second part, I would say, is we are pleased with the sequential site growth of 16 sites in the quarter. I think there's a number of things. Technology is 1 leg of the stool that is driving the -- that will drive the stabilization. But really, just the metric-ing as well as working collaboratively across the channel within, really, to create 1 CDK approach to doing it across the implementation, sales and our account teams has been in a real success. And so we will -- as we noted in the script, we'll see some ups and downs there based on the quarter. By March, probably, I think, we're headed on the right trajectory, and that will improve the revenue growth trajectory. And then the last component is what we refer to as commercialization and just bundling, packaging and everything and how we look at, how we go to market with a customer will also contribute. So I think there's a number of pieces that we've put in place over the last year that take time to show the results, given you've got to install the layered applications, given that the sites are starting to show signs of improving. But we're confident we're on the right path.

Brian Lee Essex - *Morgan Stanley, Research Division - Equity Analyst*

Got it. That's super helpful. So it sounds like, maybe going forward, you're looking at, maybe a transition from fixed the business to increase revenue-generating opportunities with regard to the business? And I guess, on that point, in terms of ELEADS, maybe a little bit of -- and maybe the recent acquisitions that you've recently kind of brought on to the platform, how are you sourcing those acquisitions? How do you think about them? And I guess, how should we kind of view the strategy for M&A going forward? What kind of targets you're going to have for bringing new businesses under the platform?

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

Yes. Brian, it's Brian MacDonald here. I mean, largely, what we do is we look at maybe some gaps in our portfolio. And then we really focus on, is it something that we want to build out or buy? Obviously, if we're going to buy, then what's available in the marketplace? What are the best assets? We also look at the innovation that's happening in the marketplace and really seeing which innovations are getting momentum that would fit into our core strategy. It's a pretty big ecosystem. The automotive ecosystem is pretty big. I -- ourselves, we have over, I think, 375 partners, driving almost 500 applications between our partner programs, so the ecosystem is very large. And there's a lot of innovation taking place every day as the auto market continues to innovate, so we stay pretty close to that through our dealers and OEMs and our own knowledge base. And then, we make calls on whether we want to build out our own product set or acquire. So largely, how we go about doing it. We like these tuck-in acquisitions. We think we've got a great sales channel, a great sales team. So we really like these tuck-in acquisitions where it's complementary to our product base. We can put it in the toolkit of our salespeople, and they can go and sell it. So these tuck-ins work very well for us. And occasionally, we'll do something larger like ELEADS where we made the decision to buy a modern CRM versus continuing to invest and innovate with our own CRM.

Brian Lee Essex - *Morgan Stanley, Research Division - Equity Analyst*

And is it -- I guess, is there a -- is it a different conversation as you look to your installed base to kind of upgrade on to the unified platform and increase the penetration of layered apps versus buying marketing tools and CRM solutions? Is that a different conversation? Or is it -- does it kind of weave into each other in terms of how these dealerships look at incremental spending on the platform?

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

Yes. I think, largely, I think that the dealers are happy to see us have this expanded product set. I mean, dealers prefer to deal with less vendors, not more. We're an open enabler, so we allow other parties have dealers want to choice, allow other parties to connect with us through our partner program. But a lot of times, dealers prefer to deal with less vendors, not more. And so they're happy to see us investing in our products and services, and the dealer calls and the feedback that we've gotten post acquisition of ELEADS have been very positive. Dealers were really happy to see us going through the process to own that property. And so that's what I would say, largely, I mean, dealers are -- generally prefer deals with less vendors, not more, simplifies their business, support issues, installation issues, overall relationship. I think, dealers prefer to work with less vendors, not more.

Operator

And I'm not showing any further questions in queue at this time. I'd like to turn the call back to Mr. McDonald for closing remarks.

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

Thank you for joining us this morning. We have great momentum heading into fiscal year 2019, and we are committed to accelerating revenue growth, investing strategically in our products and enhancing customer satisfaction. I look forward to speaking with you soon. Have a great day.

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.