THOMSON REUTERS

EDITED TRANSCRIPT

Q1 2019 CDK Global Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 07, 2018 / 1:30PM GMT

CORPORATE PARTICIPANTS

Brian Krzanich
Brian Patrick MacDonald *CDK Global, Inc. - President, CEO & Director*
Joseph A. Tautges *CDK Global, Inc. - Executive VP & CFO*
Katie Coleman *CDK Global, Inc. - Senior Director Finance*

CONFERENCE CALL PARTICIPANTS

Brian Lee Essex *Morgan Stanley, Research Division - Equity Analyst*
Charles Joseph Nabhan *Wells Fargo Securities, LLC, Research Division - Associate Analyst*
Ian Alton Zaffino *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*
Matthew Charles Pfau *William Blair & Company L.L.C., Research Division - Analyst*
Rayna Kumar *Evercore ISI Institutional Equities, Research Division - MD*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to CDK First Quarter 2019 Earnings Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to turn the conference over to your host, Ms. Katie Coleman, Senior Director, Investor Relations. You may begin.

Katie Coleman ***CDK Global, Inc. - Senior Director Finance***

Thank you, Bridget. Good morning, and thank you for joining us for our first quarter fiscal 2019 earnings call and webcast. Joining me on today's call are Brian MacDonald, CEO; and Joe Tautges, CFO. I would also like to welcome our incoming CEO, Brian Krzanich, who will begin today's call with some opening remarks.

Brian MacDonald will then provide an update on our core business, innovation initiatives and the recently closed acquisition of ELEAD1ONE. Joe will then take you through the details of the first quarter results and our revised guidance for fiscal 2019, including the impact of ELEAD1ONE and the adoption of ASC 606, which we have adopted on a modified retrospective basis.

A few items before we get started. Throughout today's call references to financial amounts are on a non-GAAP adjusted basis and unless otherwise noted, for purposes of comparability, we'll be presenting results 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 the call over to Brian Krzanich.

Brian Krzanich

Thank you, Katie, and good morning, everyone. And today is a special day for me as it's my first day at CDK. When I started my career as an engineer in the early '80s at Intel, just as advances in computer technology were starting to transform the world of commerce and social media, with the implementation of the cloud, I see many parallels between what I saw then and what is taking place in the automotive industry today. I'm really thrilled to join CDK at such an exciting time for both the industry and the company. CDK is in a strong position to lead the auto industry's technological transformation, which also gives us significant opportunity as we look to execute on key initiatives to accelerate top line growth. I'm excited by the opportunities we have to deliver solutions for the rapidly evolving automotive market and to partner with our customers and to continue creating lasting shareholder value.

I'm thankful for the leadership and contributions Brian MacDonald made to transform the company's operations and cost structure, which have positioned the company well for this next phase of growth. As I have been preparing to become the new CEO at CDK, I continue to be excited about the position and opportunities the company has. CDK has a leadership position in the automotive SaaS market with strong technology leadership. The automotive industry is in the midst of some of the biggest changes in its history and CDK is well positioned to provide the solutions our customers and partners will need to continue to grow in that environment.

I look forward in the coming quarter to meet with employees and customers and to connect with our investors as we execute on our growth plans. While I'll be available for Q&A, today's earnings call will be focused on the results of the quarter and the updated guidance for fiscal 2019 and I ask that you keep the questions focused on these areas.

With that, I'll hand the call over to Brian MacDonald.

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

Thanks, Brian. Good morning, everyone, and thank you for joining our call today. Before I get into the results of the quarter, I'd like to spend a moment reflecting on my tenure here at CDK and to say a word of thanks to CDK's employees.

I'm extremely proud of all this team has accomplished over the past 3 years. The transformation journey we have been on has created a new organizational structure and culture to better serve our customers. The financial profile of the company is significantly improved. We've expanded EBITDA more than $350 million, which is more than a 75% increase and we've expanded margins over 1,300 basis points to over 37%.

In addition, we have returned over $2.2 billion to shareholders, while still continuing to invest in product and innovation, including the recent acquisition of ELEAD1ONE. The company is well positioned for the next phase of the growth journey under Brian's leadership. My thanks go to the entire CDK team, which has worked tirelessly to position the company for growth. It has been a real privilege to serve as their CEO and I know they will continue to do a good job for investors and for Brian.

Now let me return to the results of the first quarter. We are pleased with our Q1 results as our core business begins to reap the benefits of the growth initiatives we've discussed over the last several quarters. Our core auto software business, composed of Retail Solutions North America and International, grew 3% year-over-year, driven by growth in both segments. Total company revenue was flat year-over-year as strength in the core business was diluted by the previously communicated headwinds we faced in advertising.

We are laser-focused on accelerating growth in our core organic business by executing on the following 4 priorities: First, accelerating our wins of new auto sites to grow our book of business; two, improving retention rates for existing auto sites; three, increasing revenue per site by optimizing our commercial offering and driving further layered applications penetration; and four, continuing the strong growth we've experienced in International.

First, I'm again proud of the results we're seeing from our new site acquisition sales team. New auto site wins continued to improve as this team delivered a double-digit increase in site wins year-over-year. While we're happy with new auto site sales, customer retention continues to be our biggest area of opportunity to achieve a more consistent site count, which is our next priority area. We have not yet fully stemmed the tide of site losses and the net result this quarter was a 13 auto site decline sequentially to 8,920 auto sites. These site losses also have a downstream impact on our layered application revenue, which makes our effort in this regard all the more important to our long-term growth.

Improving customer retention requires a multipronged approach that spans the entire customer experience from implementation to customer service and ongoing product utilization. We are hard at work on all of these fronts, including the introduction of new channels of customer support, the revitalization of our customer success team and continued use of data and analytics, all of which will help us drive progress over the next several quarters. We still expect to see variability in auto site counts during the remainder of the fiscal year.

Moving to the third priority, increasing revenue per site, we saw 5% growth in our auto revenue per site this quarter, driven by commercialization as well as increased layered application penetration. Our efforts to increase North American layered application penetration through new sales has driven robust year-over-year growth in some of our key layered application product areas, notably, sales as a CDK service and document cloud have more than doubled.

I do want to note that there are certain areas of the portfolio that haven't seen the same sales success, most notably, sales of our front office suite, which includes inventory and CRM, declined relative to last year. We're actively working to address our weakness in inventory and the acquisition of ELEAD1ONE gives us a first-rate CRM offering. We have also seen relative weakness in websites and are not seeing the ramp we expected from the OEM endorsements highlighted last year.

The speed of our implementation cycle has become increasingly important as we look to capitalize on our strong sales momentum. Our Q1 install rate for sites and layered applications combined more than doubled year-over-year, thanks to our recent efforts to dramatically improve implementation capacity. We've also further enhanced our implementations throughput by streamlining internal processes and simplifying our organizational structure, all of which contributed to the Q1 results.

We've also begun to see early success from commercialization changes in pricing and packaging, and we have introduced a new rewards program, which gives our customers more direct incentives to grow their business with CDK. The rewards program makes layered application bundling more advantageous to our dealers and it's helping to drive standardization and transparency in our contract terms. We believe this program makes our commercial offering more attractive as we grow customer lifetime value by partnering with our dealers to be their primary software vendor over the long haul.

To round out our growth priorities, number four is the continued growth in International. In Q1, we saw solid growth in the core subscription business despite the previously discussed loss of a large customer in China during Q4. Average revenue per site grew high single digits as a result of improving revenue mix and the outlook for the business remains positive.

We are also advancing on our long-term investments in innovation. The development of our Drive Flex solution continues and we're actively engaged with selected customers on testing and design of the software. We're also excited about the progress being made with Fortellis. Entrepreneurs, developers and established software companies are working to leverage the platform for approximately 70 projects. Within CDK, we are leveraging Fortellis' capabilities to make our applications better integrated and more flexible for our dealers. In the coming quarters, we are also preparing to launch the Lyft drive hailer capability to our network of almost 9,000 North American auto sites.

While we aren't expecting significant revenues from Fortellis in the near term, these advancements are pivotal to our long-term technology platform strategy.

Finally, I'd like to move on to the exciting news of our acquisition of ELEAD1ONE, one of the premier CRM software providers in the automotive vertical. As a reminder, CRM is one of our biggest growth opportunities in our layered application business, as it is a key application used by dealers to grow their business by selling and servicing more cars. It is common for franchise auto dealers to spend several thousand dollars per month for the functionality enabled by the core CRM and other related front office software depending on a dealer's specific needs. Key capabilities of ELead's software include daily sales planning, opportunity and lead tracking, Internet lead management, appointment setting and vehicle quoting.

We've owned ELead for less than 2 months and I'm pleased by the results so far. The customer response of the transaction has been positive. We've seen early sales success and the results are encouraging. The ELead employees are a great group of people with a top-notch customer-centric culture. What I've observed so far is that they are very knowledgeable about dealership needs and they bring talent and expertise that will make CDK faster and more innovative in serving our customers. ELead prides itself in maintaining a culture centered on customer retention. We will leverage that expertise and passion in this area as we look to improve our own retention metrics.

The acquisition of ELead represents clear progress towards our priorities to enhance the CDK customer experience and to invest strategically in products that help dealers sell and service more vehicles. Adding this business to our portfolio will enhance our fiscal 2019 results and will contribute to the longer-term growth targets we established on our Q4 call. Joe will walk you through the updated guidance in a minute.

Before I pass it off to Joe, I'd also like to touch on the advertising business where we previously highlighted expected weakness throughout fiscal '19. Advertising revenues declined 17%, which was within our guidance range for the year of 15% to 20%. We will continue to provide updates throughout the year as we gain more clarity on expected marketing spend levels heading into calendar year 2019.

I'll now turn the call over to Joe, and then we'll take your questions.

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

Thank you, Brian. Good morning, everyone. Before I get into my discussion on the business performance, I'd like to take a moment to thank Brian MacDonald for all he has done for CDK as well as for me personally. The contributions he has made over the past 3 years have created a solid foundation for us to grow. He has been very supportive of the initiatives to improve business performance through our use of data and analytics and improving Finance's partnership with the business. I'm also excited that we've been able to attract a CEO of Brian Krzanich's caliber and I look forward to partnering with him.

Now moving onto the quarter. Q1 results were solid, and we were pleased to begin seeing results from the many initiatives we've implemented over the last several quarters. Our sales momentum continues. However, site retention isn't meeting our expectations and remains our biggest opportunity to improve this fiscal year for our long-term growth trajectory. As I get into the results, I want to remind everyone that we have adopted ASC 606 on a modified retrospective basis. We will report each quarter's results under both ASC 606 and ASC 605 for the remainder of the fiscal year. We have included all relevant details in the earnings press release today. Because of the lack of prior year data under ASC 606, all references to year-over-year comparisons will be provided under ASC 605.

The primary differences between the 2 standards with respect to our business are: On-site software licenses and installation revenues are recorded upfront at the time of installation under ASC 606. These were previously recognized ratably over the contract period. In addition, more of our costs to obtain and fulfill contracts, including the direct sales commissions and implementation cost for service arrangements, are capitalized under ASC 606. The timing of recognizing these revenues upfront versus over time and the capitalization of the cost to obtain and fulfill contracts will be the primary drivers of the expected lower revenue and earnings under ASC 606 for fiscal 2019 and resulted in a onetime opening balance sheet adjustment of various asset and liability accounts, including taxes directly to retained earnings netting to $110 million.

Now onto the results for the quarter. On an ASC 606 basis, total company revenues were $554 million. Core auto software revenues were $489 million. EBITDA was $209 million, resulting in a margin of 37.7%. Pretax income was $160 million with a margin of 28.9%. Our effective tax rate was 25.9% and diluted earnings per share was $0.89. On an ASC 605 basis, total company revenues were $566 million or flat year-over-year on both a reported and constant-currency basis. The positive growth in core auto software was offset by the expected double-digit decline in the advertising business.

Core auto software revenues were $500 million, growing 3% on both a reported and constant-currency basis. Growth was driven by an increase in revenue per site in North America and International, the results of Progressus is now included in Retail Solutions North America and the partial quarter results from the ELead acquisition offset partially by losses.

Total company EBITDA dollars grew 10% to $211 million and margins expanded 330 basis points year-over-year to 37.4%. Margin expansion as a result of our continued revenue ramp-up in the subscription business as well as results from our business transformation program. Pretax income was $163 million as margins expanded 150 basis points year-over-year to 28.7%. Improvements to operating income were partially offset by increased interest expense.

Our effective tax rate was 25.9% for the quarter. Diluted EPS was up 30% year-over-year to $0.91. Growth was driven by the benefits from operating margin expansion, lower average share count due to buybacks and a lower tax rate, all of which were partially offset by increased interest expense.

Now turning to segment results. Under ASC 606, the Retail Solutions North America segment recorded $410 million in revenue. Pretax income was $181 million, resulting in a margin of 44.1%. Under ASC 605, our Retail Solutions North America segment revenues were $413 million, growing 3% on both a reported and constant-currency basis. Subscription revenues were up 3%, driven by high single-digit increases to revenues from 3-plus auto site groups, which was partially offset by mid-single-digit declines from 1 to 2 site groups. Transaction revenues declined 6%, primarily due to declines in credit bureau and equity mining revenues. Other revenues were up 17%, primarily due to the inclusion of a portion of the ELead business and Progressus, partially offset by lower hardware and consulting revenues.

We expect other revenue growth in the remaining quarters of this fiscal year to be similar or greater than the Q1 growth rate of 17%. North America auto sites were down 13 sequentially to 8,920 sites, which is down 1% year-over-year. Decline in auto sites continue to be driven by loss activity within 1 to 2 site groups, partially offset by site growth in the 3-plus site segment.

Pretax income was $179 million and margin expanded 360 basis points to 43.4%, primarily driven by benefits from operating leverage on subscription revenue growth and the continuation of the business transformation plan.

Moving on to International. Under ASC 606, the segment recorded $79 million in revenue. Pretax income was $19 million, resulting in a margin of 24%. Under ASC 605, International revenues were $87 million. Revenue grew 3% year-over-year or 4% on a constant-currency basis. Growth was driven primarily from increased revenue per site of 8%, partially offset by a 2% decrease in site counts year-over-year. The customer loss in China will represent a drag on the year-over-year sites through Q3. We will continue to experience some growth headwinds in the second quarter due to the customer loss and higher onetime revenues recognized in Q2 of fiscal 2018. Pretax income was $23 million as margins expanded 10 basis points to 26.4%. Margin improvements were achieved through scale on revenue growth and benefits from the transformation plan, offset by investments relating to revenue initiatives expected to impact the second half of this fiscal year.

Now, Advertising North America results. On an ASC 606 basis, the segment recorded $66 million in revenue. Pretax income was $7 million, resulting in a margin of 10.3%. Under ASC 605, advertising revenues was $66 million, a decline of 17% year-over-year. This decline was driven by reduced advertising spend across all 3 customer cares.

Pretax income came in at $7 million as margins declined 380 basis points to 10.5%. Margin compression was the result of reduced leverage on revenue and higher advertising costs. Our cash balance was $313 million, of which $244 million is held outside of the United States. Q1's free cash flow was $125 million, an increase of 15% year-over-year, primarily driven by improved earnings. We returned to $133 million to shareholders through a combination of dividends and share repurchases in the quarter and almost $482 million calendar year-to-date. We ended the quarter at 2.8x net debt to adjusted EBITDA within our previously communicated range of 2.5 to 3x leverage ratio.

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 maintain our leverage target range of 2.5 to 3x net debt to adjusted EBITDA.

Now, I'll move on to the revised guidance for fiscal 2019, which I will provide under both accounting standards. In order to provide like-for-like guidance, we're switching from guiding growth rates to providing dollar ranges.

Under ASC 606, we expect total company revenue of $2.32 billion to $2.35 billion, EBITDA of $860 million to $895 million, and EPS range of $3.70 to $3.80 and tax rate of 25% to 26%.

Moving to ASC 605. We're increasing our full year total company revenue guidance to $2.35 billion to $2.38 billion, which accounts for the acquisition of ELead.

We are also revising core auto software revenue guidance to between $2.11 billion to $2.15 billion. Note that this new guidance contemplates the inclusion of both ELead and Progressus within the Retail Solutions North America segment. We expect full year EBITDA between $880 million to $910 million. This range is largely in line with our previously communicated dollar growth target of 8% to 12%.

Please note that the previous guidance reflected an implied exit margin of 40%, which will no longer be achieved due to the dilution caused by ELead revenue mix.

We are also revising our EPS guidance to $3.80 to $3.90, down from $3.85 to $3.95 to incorporate the ELead transaction. We expect to be at the high end of our tax rate guidance range of 25% to 26%, which incorporates the full year impact of the Tax Cuts and Jobs Act.

In summary, we see positive momentum in core auto software, which will accelerate throughout the year as we continue to execute on our growth initiatives. We do have areas, such as customer retention and our digital businesses, including advertising and website, which need improvement, and we are focused on addressing these challenges. We're also excited to have ELead as part of our portfolio and the opportunity it brings to accelerate revenue growth. We are encouraged by the first quarter results and look forward to updating you on our progress next quarter.

I'll turn the call back over to the operator and we'll be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

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

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

The question would be just what you're seeing out there in the market related to new sales versus pre-owned sales, maybe you could give us an idea of maybe what you're seeing on the transaction side, any details or color surrounding that.

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

Yes. Maybe I'll start off. Brian, and then you can weigh in. From a new sales perspective, we've been very pleased with the performance we've seen in the quarter. I think we've continued to ramp up our investments in the sales team and are seeing the positive results about that. It continues to be a very competitive market out there and -- but I think our teams are doing well and it really positions us well as we look at the revenue growth that we have in Q2 to Q4 and then particularly as we exit to go towards achieving the long-term guidance we've shared on the last call. On your transaction question, what I would say is, we continue to see some pressure there. SAAR was down again this quarter and the lower volume of vehicle sales has put some pressure on declines on our transaction revenue from that perspective. Brian MacDonald, anything you would add?

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

Yes. I would just add in that, clearly, dealers are looking at an environment where SAAR has peaked and expected to kind of roll down from here. A lot of focus on the used cars side of the business and the service end of the business. A lot of focus from dealers on efficiency gains given that SAAR is rolling over. So I think that's where CDK is well positioned to bring the tools and the technology to dealers to help them to be more efficient, especially in the fixed operation part of the business.

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

Okay. And then just on the DM side. I know you gave near-term outlook. Can you give us maybe, I don't know, a 2-, 3-, 4-year outlook on your DM business? How should we be thinking about it? Will there be a call to return to growth in that business? Or -- and if so, when do we maybe see that?

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

Sure. So again, I'll start. I think when we look at it and over the last few quarters, the business has been quite volatile for sure. And so right now, we are just providing near-term guidance. We are spending a lot of time in the business to focus on diversifying the digital business as well as improve the revenue trajectory. We'll update you as we get through the year and how we think about it longer term, particularly as we start to come into the end of our fiscal year.

Operator

Our next question comes from the line of Rayna Kumar with Evercore ISI.

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

Can you talk about your progress with Drive Flex, a little bit about your migration time line and the onboarding of your customers to Drive Flex?

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

Sure. I'll start out and then Brian MacDonald, you can add in. So we're in the very early stages on Drive Flex and we're in the -- we have a handful of customers that are in the usability phase of looking at the design, the workflows. As you can appreciate, there's so many workflows that go into being able to modernize and change the DMS. And so we're encouraged by the results of our teams are making. It's one of the biggest investment areas in the R&D space that we have this year. Coming up on the year-end, where a lot of the tax forms and tax filings have got to come together and year-end financial statements will tell us a lot about the technology as we head into year-end. We'll give a broader update on the technology and such at the NADA conference in January. And it will be a phased transition thereafter that stretches into next fiscal year and beyond. So we're pleased with the progress the team is making. We're really making sure that we're being balanced and taking our time. This is critical to get right and that's the latest in Drive Flex.

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

Great. That's very helpful. In your opening remarks, you spoke about strong sales results across segments. Could you quantify the new contract bookings and backlog for us for the quarter?

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

Yes. So we don't disclose the bookings number, as you know. What I would say is, we continue to see double-digit increases and where we really have to focus, Rayna, is on the customer retention side of the equation. We've got sales momentum going and keyed just around how we continue to deliver customer success, bring Drive Flex to the market and focus on customer retention.

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

Understood. Excluding the impact of the ELEAD1ONE acquisition, would you be on target to hit your exit 40% plus adjusted EBITDA margin?

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

So yes, I mean, listen, we have a plan and we have a number of things that are in motion to, for sure, hit the 40% exit margin. There's nothing in the foundation of business that we're de-committing. There, that said, we're not providing that forward-looking guidance going forward. As you can appreciate bringing ELead in, there's a lot of moving pieces around cannibalization in our core business, around the cost of bringing an ELead business. And so going forward, we're very focused on EBITDA dollar growth. When you go look at the focus on EBITDA percent, it made a lot of sense for the company when our EBITDA margins were in the mid-20s and now that we're in the high 30s, we're focused on growing EBITDA dollar growth, which grows EPS, which creates value for shareholders.

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

Great. And just final question for me. Could you call it the revenue and earnings contribution for ELEAD1ONE in the quarter?

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

Yes. So we are not going to be disclosing any specifics around the financials of ELead. Again, given we have pieces of our legacy businesses that are cannibalized as a result of it. We bring in their business. There's -- when you look at the profit side of the equation, harmonizing our employee benefits due to the number of impacts and so we'll -- listen, they're an important part of our core automotive software business, and we really think that they're going to do great job coming in and helping us accelerate our revenue growth to get us to the revenue trajectory that we've shared that is our expectations for the longer term.

Operator

And 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, the hit on ELEAD1ONE a little bit. And so if I go back to the comments around layered applications, it sounds like one of the areas you have cited as having a bit of weakness and was in front office applications in the CRM, but then ELEAD1ONE also commented that you're pleased with that and the way that product's progressing. And it seems like that would cover a lot of those front office in the CRM application. So I guess, trying to put those 2 comments together and is ELead the solution to help improve that front office or is there something else there?

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

Yes, for sure. That's right on. So in the past, Brian and I have shared that CRM has been a weakness for us. And we went out to look at the market and look at what was the best opportunity for us to improve our position. And quite frankly, we're thrilled to have ELead as part of the CDK family. When you go look at the culture that they have around selling and retaining, they've got the best -- some of the best retention in the marketplace. They've got very strong product and it fills a very clear big need for us. When you think the CRM products from a dealer perspective, this is where they spend their time, where they make their money to sell new cars. And so we're really excited to have it into the portfolio. It really changes the conversation. It allows us, from a bundling perspective, with our customers to really make a difference. And so yes, we're excited about it and we're off to good start when you look at the last 1.5 months as having them part of the portfolio. All teams are working well together and exceeding our expectations on the sales front thus far.

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

Got it. And then on ELead. The commentary in the release is that the revenue mix of ELead is having a dilutive impact on CDK's earnings, which I guess I'm a bit surprised about because I thought ELead was mostly software revenue. So I wouldn't have expected it to have that impact. So maybe just some more detail or help me understand that comment.

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

Yes. So when we gave guidance as part of year-end, we gave it without ELead, which meant the borrowing that we did in June was focused on investment, share buyback and such. And so when you look at the -- bringing in the ELead, paying the purchase price for ELead, as well as the interest cost on that, along with -- again, we are going to do the right things around transitioning our CRM business as well as harmonizing employee benefits and such. And so the profitability of ELead, which is growing at a very nice pace, is a lower profit business than ours and when you factor in the cost of the interest as well as some of the other costs I've just outlined, you'll end up in a position that is mildly dilutive.

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

Got it. And then on the websites, maybe just some details on why the OEM endorsements that you previously received haven't had the expected impact.

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

Sure. Listen. We're excited, we've got the endorsements. And we adjust the sales cycle and lead time and to be able to unhook and switch out a website provider certainly takes a lot of effort. And so we've seen pretty good progress at the tail end of last year and we've certainly seen a slowing in the first quarter. And so all we wanted to do is just be transparent about it. It's not where we want it to be. I think it's taken us longer than we would've expected. Nonetheless, we're pleased about the endorsements and still think we have an opportunity there and continue to work it each day.

Operator

(Operator Instructions) Our next question comes from the line of Charles Nabhan with Wells Fargo.

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

I understand last quarter, you provided some long-term guidance, specifically revenue growth rates for your business. And I know that was on a pre-ELead basis, but has -- is there anything that happened this quarter that's really changed your expectations for long-term growth for the overall business?

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

Thanks for the question, Chuck (sic) [Charles]. And no, not at all. We -- when you look at the ELead transaction, it really helps support the case we laid out as part of year-end with returning to 4% to 5% revenue growth and accelerating the business as we exit this year. An important part of that is a stabilization of site count as we've spoken about and we've been very transparent about it. I think the second part is layered application and penetration and with the ELead transaction, our service product and the other suite of products we have, we think we're well positioned there. And then you will continue to hear us focus on commercialization just as we think about bundling and more consistency in our commercial practices. So no, we feel good about our 4% to 5% revenue growth rate longer term, and we have a lot of work that will be between here and there and we'll continue to keep you updated.

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

Great. And I know it's probably a little early to ask this question, but I'm going to do it anyways. Under the new leadership, can we expect the status quo to remain intact from a strategic standpoint? And I guess more specifically, I know there's a lot of uncertainty around the advertising business, that's been a drag and is expecting to be a drag in 2019. Could you maybe talk about how we should think about the leadership change from a strategic standpoint and specifically around the advertising business as well?

Brian Krzanich

Yes. This is Brian Krzanich. I'd tell you that I don't see me being a driver of any changes dramatically there. I mean, if one thing, it's just day 1 for me literally. I walked in the building a couple of hours ago. So I think it's really too early for me to have a point of view on that. But I know the team here has been working on how to best manage that portion of the business. So I'll let Joe really talk about what the team has been doing.

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

Yes. Thanks, Brian. And listen, when we look at the advertising business, we're clearly not happy with where it's at, which is why you've seen us pivot towards really focusing on core auto software around our disclosures. And we've got to address and diversify the revenue stream and fix the business. It's not where it needs to be and we look forward to updating you in future quarters on our progress there and how we think about that business. The team did meet its internal plan for the quarter, which is encouraging for us and nonetheless, the businesses I've shared in the past has shown signs of volatility and we'll continue to keep you updated in our thinking around the business in future quarters.

Operator

And our next question is from Brian Essex with Morgan Stanley.

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

I guess, Joe, could you give us a little bit of color on your European performance? Last year was quite strong with new leadership in that geography and I'm just wondering, what kind of -- was there anything in particular that impacted the performance on the International side and how we might think about the prospects for that geography going forward through the rest of this fiscal year?

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

Sure. Brian, thanks for the question. So listen, when we look at our CDKI business, we did a very good year last year. It continues to grow on a constant-currency basis this quarter, it grew 4%, a bit below where we'd like to see it. Unfortunately, as we recorded in Q4, we had a customer loss in China, that's really put a drag on the business. We have invested heavily in a number of growth initiatives out there. We reported that we did have a big win in Japan. That comes online early part of next fiscal year. So long story short, I think you'll continue to see Q2 with that business has had a lower growth rate than we had expected, just given some noise in year-over-year comparisons and the impact of this customer loss, but we do see the business in the second half, on a constant-currency basis, continue to accelerate. It is worth noting that we now face currency headwinds, and so the reported revenue number for the business will be a bit more muted, if you will. But foundationally, things continue to go well in the International business and we've got work to do, but I think we've got a good team working our growth initiatives out there.

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

Got it. And maybe just for a follow-up. At the bottom end of market, kind of the 1 to 2 store accounts, any progress there competitively? And just kind of get an update on what your efforts are there to kind of stabilize that portion of the market.

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

Sure. So when we look at it, I think it continues to be a challenge for us and the one highlight for us is, in the last couple of months, again I talked about our sales investments and us ramping up our sales teams and it's really given us more coverage, and we are seeing the best sales performance results and our store resonating more in that place from a win perspective. Still work to do on the retention front and retention continues to be a challenge for us in the 1 to 2 sites, but it's encouraging to see the momentum on the sales front in the 1 to 2 space and a lot of work to do there but we're quite focused on it.

Operator

And I'm not showing any further questions. So I'll now turn the call back over to Brian MacDonald for closing remarks.

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

In closing, let me say that I have enjoyed my many conversations with investors who follow CDK, and thank you for your views and support over the past few years while we made the transformation journey together. CDK is well positioned for continued growth under Brian's leadership. I want to thank our employees, my executive team and our customers for being a part of the CDK story with me and wish everyone continued success. Have a great day.

Operator

Ladies and gentlemen, this does conclude the program, and you may now disconnect.