FINAL TRANSCRIPT

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CA - Q2 2012 CA Inc Earnings Conference Call

Event Date/Time: Oct. 26. 2011 / 9:00PM GMT

THOMSON REUTERS

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PRESENTATION

Operator

Good day, ladies and gentlemen and thank you for standing by. Welcome to the CA Technologies second-quarter 2012 earnings conference call. Today's call is being recorded. At this time, I would like to turn the call over to Ms. Kelsey Doherty, Senior Vice President of Investor Relations. Please go ahead, ma'am.

Kelsey Doherty - *CA Inc - SVP IR*

Thank you, and good afternoon, everyone. Welcome to CA Technologies' second-quarter fiscal 2012 earnings call. Joining me today are Bill McCracken, our Chief Executive Officer, and Rich Beckert, our Chief Financial Officer. Bill will open the call with an overview of our second quarter and execution priorities for the remainder of fiscal year 2012, then Rich will provide more detail behind our results and full-year fiscal 2012 guidance. Bill will return to conclude, and we will take your questions.

As a reminder, this conference call is being broadcast on Wednesday, October 26, 2011, over the telephone and the Internet. The information shared in this call is effective as of today's date, and will not be updated. All content is the property of CA Technologies, and is protected by US and international copyright law, and may not be reproduced or transcribed in any way without the express written consent of CA Technologies. We consider your continued participation in this call as consent to our recording.

During this call, non-GAAP financial measures will be discussed. Reconciliations to the most directly-comparable GAAP financial measures are included in the earnings release, which was filed on form 8-K earlier today as well as in our supplemental earnings materials, all of which are available on our website at investor.CA.com. Today's discussion will include forward-looking statements subject to risks and uncertainties and actual results could differ materially from these forward-looking statements. Please refer to our SEC filings for a detailed discussion of potential risk. And with that, let me turn the call over to Bill.

Bill McCracken - *CA Inc - CEO*

Thanks, Kelsey, and good afternoon to everyone. I would like to start this afternoon with a summary of our second-quarter results, an update to our full-year guidance and a review of our execution priorities for the back half of the year. In the second quarter, we continued to expand our top line and improve our bottom line. As a reminder, our second-quarter results reflect investments in the business, including a $44 million charge for our workforce reduction to better align CA Technologies' resources with our market opportunity. We are investing in new technologies and acquiring new customers.

During the quarter, revenue grew 5% in constant currency and 10% as reported. Just over 3 points of this constant currency growth was organic. Mainframe Solutions grew 2% in constant currency, and 7% as reported, while our Enterprise Solutions grew 9% in constant currency and 14% as reported. Including the $44 million expense, non-GAAP earnings per share decreased 1% in constant currency, and increased 6%, as reported. Cash flow from operations grew 37% in constant currency, and 47% as reported. And finally, current revenue backlog, a good indicator of our expected subscription and maintenance revenue growth, grew 3% in constant currency and 4% as reported.

Full-year guidance provided this afternoon factors in both our operational performance for the first half of the year, including new product sales which did not meet our expectations and a cautious view on macroeconomic conditions. Revenue is now expected to grow 5% to 6% in constant currency, updated from 6% to 8%. This is in line with our multi-year guidance of mid single digit growth through fiscal 2015. We were also able to bring up the bottom end of our non-GAAP earnings per share guidance range, the result of ongoing expense controls and share repurchases. Non-GAAP earnings per share is now expected to grow 7% to 10% in constant currency, updated from 6% to 10%.

We are reaffirming expectations for cash flow from operations and are committed to maintaining our 34% non-GAAP operating margin expectations for the full year. As our multi-year guidance of 100 basis points of margin expansion over the next 3 years indicates, we carefully balance a need to invest in the future with operational improvement. With respect to our capital structure, we accelerated our repurchase program, buying approximately $200 million worth of shares during the quarter. We also purchased an incremental $48 million worth of shares between October 1st and last Friday. Management and the Board of Directors continue to evaluate ways to optimize our balance sheet, while maintaining the financial flexibility we need to build our business and enhance our competitive positioning.

As we said at our Analyst Day in July, our focus is business execution and management of the full range of our assets, including talent, intellectual property and financial resources to enhance our competitive position and drive total shareholder return. While we delivered a balanced performance in the first half of the year, there are areas where I am not satisfied yet. Essentially, it is about driving new product sales and improving sales productivity. This plays out in 3 ways. Expanding our product penetration, improving execution in EMEA, and driving consistent performance out of our acquisitions. Each of these actions is designed to better address the demand we see in the market, and accelerate new product sales.

As our guidance indicates, we expect to make these mid-year adjustments within our current fiscal year 2012 expense plan. First, while we are improving our ability to sell the value of our software outside the renewal process, particularly to our 1,000 largest accounts, it is clear that there is demand for our solutions that we do not reach today. As we have said, the next step for CA Technologies is acquisition of new customers.

Since the beginning of the year, we have been focused on expanding the reach of our sales force. As part of this effort, beginning in the third quarter, we are rebalancing our sales force to add approximately 300 new quota-carrying sales reps. These incremental reps will be dedicated to and compensated for selling new products to new customers.

Second, EMEA continues to be work in progress, made more challenging by the macroeconomic climate. Our new EMEA President and regional executive, Marco Comastri, is establishing a platform from which we can grow. We have added resources to his team to bring more discipline to our renewals process and pipeline management, which we spoke about last quarter. At the same time, we are remapping our EMEA sales coverage, favoring countries with the most resilient IT spending, and where we can profitably acquire new customers. All of these changes are designed to accelerate new product sales and improve account penetration.

Finally, we remain focused on driving performance of our acquired technology. We saw some good momentum in the second quarter. Nimsoft added 65 new logos. Arcot currently has more than 160 million identities under management. Base Technologies, our public sector services acquisition, delivered its largest booking quarter to date. And AppLogic closed its largest 7-figure transaction to date.

Despite these successes we know we need to do more, particularly outside the US. In addition to the new quota-carrying reps we continue to invest the equivalent of 5 points of enterprise solution segment margin to build out our indirect sales channel, SaaS capabilities and international presence. And, we are seeing traction in accounts like JBS in Japan and Peer 1 hosting in Canada, both of which bought Nimsoft during the quarter. I continue to hear firsthand from customers and partners like these that the opportunity we see in the market is there.

During the quarter, I traveled extensively, visiting with customers and partners around the world. In addition to dozens of 1-on-1 meetings, we hosted customers at CIO events in Asia, and partners representing almost every route to market in EMEA. They confirmed that they are looking to CA Technologies to manage their IT across technology platforms and environments, drive the implementation of new technology, and help them gain greater value from their existing IT investments. Helping our customers achieve these goals is the basis of our strategy, and fundamental to our success going forward. Now, let me turn the call over to Rich.

Rich Beckert - *CA Inc - SVP and CFO*

Thank you, Bill. Turning to our second-quarter results. Please note that our growth rates are year-over-year unless otherwise indicated and all results are from continuing operations. Total revenue for the quarter was $1.2 billion and grew 5% in constant currency and 10% as reported. This includes a positive foreign exchange impact of approximately $50 million. From a segment perspective, Mainframe Solutions revenue was $655 million, up 2% in constant currency, and 7% as reported. Our Enterprise Solutions revenue for the fiscal second quarter was $449 million, up 9% in constant currency, and 14% as reported. Services revenue was $96 million in the second quarter, up 16% in constant currency and 22% as reported.

Underlying these results, total new capacity and product sales were down high single digits. In Mainframe, new capacity sales more than doubled, while new product sales were down approximately 10%, the new IBM mainframe is bringing increased attention to the platform and should serve as a slow, steady tailwind to CA Technologies. Enterprise Solution's new product sales were down just over 20%, this was largely driven by a difficult year-over-year compare and shorter duration of maintenance associated with our new product sales.

Service Assurance and Virtualization and Automation declined. While Identity and Access Management grew. As Bill said, we are taking action to improve new product sales. Finally, service engagements grew sequentially and year-over-year.

On the renewal side, second-quarter renewals came in better than we had anticipated in July, down approximately 5% year-over-year, not 35%. This advantage was primarily driven by timing, including a large government contract which renewed a quarter early. We had good renewal pricing this quarter. Our renewal yield was in the low 90s and we did not see material change in duration. We now expect the 2012 renewal portfolio to be down approximately 15% year-over-year. For modeling purposes, please note that our fourth-quarter 2012 renewals face a significant headwind due to more than $500 million System Integrator contracts signed last year in our fiscal fourth quarter.

Looking at revenue backlog. Current revenue backlog was $3.5 billion, up 3% in constant currency and 4% as reported. Total revenue backlog was $8.1 billion, up 4% in constant currency, and as reported. From a non-GAAP perspective, non-GAAP operating income before interest and taxes was $378 million, down 7% in constant currency, and 2% as reported. For the quarter, our non-GAAP operating margin was 32%, including $44 million of expense related to our second-quarter workforce reduction of 400 employees. Excluding these expenses, our non-GAAP operating margin was 35%.

Operating margin for the Mainframe Solution was 53%, 56% excluding the workforce reduction. Operating margins for the Enterprise Solution was 6%. 10% excluding the workforce reduction. This includes 5 points of continued investment in building out our indirect sales channel, SaaS capabilities, and international presence. Finally, operating margins for services was 4%, 5% excluding the workforce reduction.

Non-GAAP diluted earnings per share was $0.51, down 1% in constant currency, and up 6% as reported including a year-over-year $0.03 tailwind from currency. This quarter, EPS benefited from operational improvements, as well as our stock repurchase program, which accelerated during the quarter, partially offset by the $44 million workforce reduction which equates to $0.06. Our effective non-GAAP tax rate for the second quarter of 2012 was 31.5%.

Turning to cash flow from operations in the quarter, which was $190 million, up 37% in constant currency and 47% as reported. Cash flow was driven by the top line growth and year-over-year decrease in cash taxes. Single installment payments were $100 million in the second quarter, compared to $124 million in the second quarter of fiscal 2011. Total billings backlog of $5 billion was up 8% in constant currency and 7% as recorded. DSOs were essentially flat year-over-year.

Moving to the second quarter GAAP results. Second-quarter operating margin before interest and tax was 28%, GAAP operating income was $333 million, down 6% in constant currency and up 10% as reported, and GAAP diluted earnings per share was $0.47, down 7% in constant currency, and up 9% as reported. Our effective GAAP tax rate for the second quarter was 27.8%.

Now, moving to the balance sheet. We ended the quarter with approximately $1 billion in net cash. Between July 1st and October 21st, we purchased approximately 12 million shares of stock for a total of approximately $248 million. This leaves approximately $384 million available under our current authorization.

Now let me turn to guidance. As has been our practice, guidance is based on September 30th exchange rates, includes a partial hedge of operating income and updates our expectations for share count. As Bill mentioned in his remarks, the revised guidance this afternoon reflects first-half under performance in new product sales and a cautious view of the global macroeconomic environment.

Guidance is the following. Total revenue growth is now expected to be in the range of 5 to 6% in constant currency. This translates to reported revenue of $4.7 billion to $4.8 billion. Non-GAAP diluted earnings per share growth in constant currency is now expected to be in the range of 7% to 10%. This translates to reported non-GAAP diluted earnings per share of $2.13 to $2.18. GAAP diluted earnings per share growth in constant currency is now expected to be in the range of 6% to 9%. This translates to reported GAAP diluted earnings per share of $1.78 to $1.83.

Cash flow from operations is expected to grow at 3% to 5% in constant currency. This translates to reported cash from operations of $1.44 billion to $1.47 billion. Underlying this guidance we expect our GAAP and non-GAAP tax rate to be 31% to 32% in this fiscal year. At the end of the year, we expect approximately 478 million shares outstanding and a weighted average diluted share count of approximately 491 million shares. We expect our non-GAAP operating margin to be 34% for fiscal year 2012, and now I'll turn the call back over to Bill.

Bill McCracken - *CA Inc - CEO*

Thanks, Rich. The CA Technologies team is very focused on delivering a strong finish to the back half of fiscal year 2012. While we remain convinced that our strategic direction is the right one, I am mindful of making the right choices to maximize total shareholder return. As we told you at Analyst Day in July, this is an ongoing process, one that we expect to update you on during our fiscal fourth quarter. Our principles are basic, continue to grow healthy core businesses, invest in strategic opportunities to position CA Technologies for the future, continue to shrink or disinvest non-core businesses, and return cash to shareholders.

On November 13, we will kick off CA World in Las Vegas. This is our annual user conference, where we expect to host about 5,000 customers and partners. During World, we plan to share our strategic direction and the new products announcements. We hope to see you there. And with that, I will turn the call back to Kelsey, and we will take your questions.

Kelsey Doherty - *CA Inc - SVP IR*

Thank you, Bill. As the operator is polling for questions, I would like to inform you that CA Technologies is presenting at the Wells Fargo Technology Media and Telecom conference in New York City on Tuesday, November 8th, and the Credit Suisse 2011 annual technology conference in Scottsdale, Arizona on Wednesday, November 30th. As Bill mentioned, CA World starts on November 13th in Las Vegas. If you're interested in attending please contact me or Amy Fitzgerald in the Investor Relations departments. In the interest of time, please limit yourself to 2 questions. Operator, please open the call for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Our first question comes from the line of John DiFucci from JPMorgan.

John DiFucci - *JPMorgan Chase & Co. - Analyst*

Thank you. Bill, in the prepared remarks here, I think you said Enterprise Solutions product sales were down little over 20%, either you or Rich might have said it. I realize it's a difficult comp, and you mentioned that. But also you said they're shorter duration of contracts. Even though the bookings duration was actually up slightly year-over-year, and I know this probably goes back to what you're talking about with the new business. I guess, just you talked a lot about that but I'm just curious as to why you think the new product sales were weaker than you thought they would be, and I guess if you could address it just, not just from within CA but your perception of the macro environment.

Bill McCracken - *CA Inc - CEO*

I'm going to have Rich go through some of the key points, John, that you mentioned on duration, those kind of things.

Rich Beckert - *CA Inc - SVP and CFO*

This is Rich. How are you?

John DiFucci - *JPMorgan Chase & Co. - Analyst*

Hey, Rich.

Rich Beckert - *CA Inc - SVP and CFO*

On the shorter duration question, those are standalone transactions so done outside of the ELA. What we saw in the quarter was we actually our license was slightly up but the actual duration, normally they're more in the 3-year, it was slightly down, about 20% down on the maintenance side of that, so that says several months shorter, just on an average. You're correct on the overall renewal portfolio, which we were happy with a mid-90 or I should say low 90 renewal rate, they were slightly up, about a tenth of a year. Call that 2 months on average.

I think we're happy to see both those. Clearly we're not happy to see the overall renewal -- the overall new licenses could have been done at a little higher rate, but the license count itself we're happy with the maintenance stream being a little shorter. That happens when you're outside of renewal. Renewals tend to be a little longer in the tail because there are a lot more products that are included inside of that.

Bill McCracken - *CA Inc - CEO*

Go ahead. Do you want to follow up there first?

John DiFucci - *JPMorgan Chase & Co. - Analyst*

Yes, I'm sorry. That sort of implies that you were happy with the new business license sales but it also -- which doesn't -- I think reading and listening to what you're saying, that was an area that you would have liked to have done better and I'm not sure why new business would be shorter than normal. Seems like a shorter than it normally ism or what you normally would have expected for those maintenance contracts.

Rich Beckert - *CA Inc - SVP and CFO*

That's a good question. The reason why is these tend to be single product transactions as opposed to multiple product transactions. When you have multiple product transactions, they tend to go 3-plus years. When they're single product they can absolutely go 1 and a trailing 1 or 2 years of maintenance. All we're saying is we saw more in the 2-year range than the 3-year range. Your overall question, are we happy, if we were delighted, guidance would have stayed where it was, but we're bringing it back down through the first half, we can see the licenses are tracking okay.

Bill McCracken - *CA Inc - CEO*

So John, to follow up then I think on the thrust of what you're asking about and also the back end of what you asked about, we see strong demand for our new products. And that's why we focused on the one piece that I talked about in my prepared remarks, and that is, that demand is there. Frankly, we're not reaching it. We're moving to the second phase of our sales coverage that we talked about on Investor Day in July, where we're moving now, a sales organization that's looking strictly at new products in new accounts and that's what they'll be paid on.

So that focus is there so that in fact we reach that opportunity, because clearly, what we saw in this quarter, when we got there, we got the new orders on the new sales side. And so the demand is there. We believe that the next phase of improving our sales productivity, that's a move we need to make, and that will drive we believe the new sales in that because we see the demand when we go there.

John DiFucci - *JPMorgan Chase & Co. - Analyst*

If I could, on my follow-up, can you just tell us I guess, Rich, how much you got in cash from upfront collections or sometimes you call them single installment payments?

Rich Beckert - *CA Inc - SVP and CFO*

It was around $100 million that was lower than last year by -- I think last year was $124 million, John. So through the first half, we're actually tracking a little bit lighter than normal. So the fact that we're at 37% is a good -- up 37% is a good place to be through the first half of the year. Just be mindful, we did not change our overall guidance on CFFO. So we still see CFFO coming in the 5% to 7% range.

John DiFucci - *JPMorgan Chase & Co. - Analyst*

Okay. Thanks a lot, guys.

Operator

Thank you. And our next question comes from the line of Kirk Materne of Evercore Partners.

Kirk Materne - *Evercore Partners - Analyst*

Thanks very much. I guess, Rich, maybe just a question around the adjustment to guidance or -- I guess I'm just trying to get a sense on when you look at the adjustment, I guess how much of that was you all not expecting to get some of the improvements you may have thought you would get from a sales productivity standpoint? I guess are you expecting things to sort of remain the way they were in the second quarter. Are you expecting them to get better? I guess I'm trying to get a sense on how do you see some of these -- I guess some of the positive moves that you guys are trying to put in place impacting the sales trends in the back half of the year.

Rich Beckert - *CA Inc - SVP and CFO*

Sure. Hi, Kirk. So the small headwinds we see in the overall macro environment is a piece of it. But the CA EMEA, sales transformation is still in progress and it's still heading a little slower rate than maybe we had hoped. The acquisitions outside of the Americas, where the Americas are actually doing very well, and that's a lot of what you heard Bill talk about, it's still gaining traction and we would like to see that at a faster level. But through the first half, we had anticipated the Enterprise Solutions to be in the low teens and right now as you saw they came in around 9% of constant currency and with our model, which is so ratable, it kind of says that we need to bring ourselves down to the 5% to 6%.

Kelsey Doherty - *CA Inc - SVP IR*

Great. Next question, please?

Operator

Thank you. Our next question comes from the line of Phil Winslow of Credit Suisse.

Sitikantha Panigrahi - *Credit Suisse - Analyst*

Hi, guys. This is Siti Panigrahi for Phil Winslow. I had just 1 question. Have you seen any verticals that stand out in this quarter from a strength or weakness perspective?

Bill McCracken - *CA Inc - CEO*

Say that again, if you would, Phil, I'm sorry.

Sitikantha Panigrahi - *Credit Suisse - Analyst*

Have you seen any verticals that stand out in this quarter from a strength or weakness perspective?

Rich Beckert - *CA Inc - SVP and CFO*

We actually have -- thus is Rich. We actually had a good quarter with the government. So that was a transaction that was due to mature next quarter, and both parties thought it was good to do it in 2Q, so I would say we were happy with our government. So that's a particular vertical that we saw.

Bill McCracken - *CA Inc - CEO*

And the financial remains strong as well, especially in the new growth geographies. So I think that from our perspective shows from a vertical point of view that the demand's still hanging in there. It varies by geography, but in the growing geographies we saw strength in the financials as well.

Sitikantha Panigrahi - *Credit Suisse - Analyst*

Thank you.

Kelsey Doherty - *CA Inc - SVP IR*

Next question, please?

Operator

Next question comes from Mark Moerdler of Sanford C Bernstein & Company.

Mark Moerdler - *Sanford C. Bernstein & Co. - Analyst*

Hello. Got 2 questions for you. The first one is 1, can we get a little more clarity, from what I understand you're planning on adding headcount on sales, and approximately 300 people. Are those going to be dedicated predominantly to the new product areas, or are those going to be overall quota-carrying? The second question is relating to operating expenses or I should say it's -- given that operating expenses are up -- before interest and taxes were up 11% constant currency and 10% as reported, but operating income before interest and taxes were down 6% in constant currency, but up 10% as reported. That was in the write-up. So 6% down and 10% up. Is that driven by the layout of where the income is? What should we figure in terms of modeling of how that's being done if the currency's changed.

Bill McCracken - *CA Inc - CEO*

Okay, Mark, so I'm going to take the sales force and the quota pieces that you asked about and then we'll have Rich take you through the expense side. It is a dedicated sales force to new products in new mid-range accounts. And they will be compensated just for that, and they'll be quoted just for that.

And the reason we're doing that, the second half of the transition that we talked about when we were in July, talking about how we wanted to improve our sales productivity, an encouraging thing about the quarter was we saw the demand there when we got there, but we frankly didn't get there as much as we want to. That's why we're deploying that resource and that is contained within the expenses we had for the year. Let me throw the rest of that over to Rich.

Rich Beckert - *CA Inc - SVP and CFO*

I think the easiest thing, this will tie back to table 7 which will allow you to -- if you see we're up $118 million year-over-year, FX was about 4% of that.

Mark Moerdler - *Sanford C. Bernstein & Co. - Analyst*

Right.

Rich Beckert - *CA Inc - SVP and CFO*

We also had acquisitions inside of there of about 4%. We talked about the workforce reduction which was 6%. So if you look at our organic operations, it was only about 2% of that. So part of the reason why we were able to hold, even though we had our revenue top line come down and you saw the rest of our metrics in line, it is in anticipation of that, we've been doing a lot of things to curtail the operations, so we think we're on the right path in order for us to deliver on our metrics.

Mark Moerdler - *Sanford C. Bernstein & Co. - Analyst*

It's cost cutting's going on in there. Okay. Thank you.

Kelsey Doherty - *CA Inc - SVP IR*

Thanks, Mark. Next question, please?

Operator

Thank you. Our next question comes from the line of Scott Zeller from Needham & Company.

Scott Zeller - *Needham & Company - Analyst*

Thank you. I have a question about the reorg of coverage for Europe. Could you tell us if this is a brand-new plan for reorganization of coverage, and if so, had that been factored into guidance previously, or is that in today's guidance? Can you just give some color on that?

Bill McCracken - *CA Inc - CEO*

I'll talk to you a little bit about the dedicated force and some of the resource we put in there and I'll ask Rich to talk a little about the guidance piece, Scott. So 2 things. First is, the deployment of the dedicated resource to go after new products and new accounts. That's a worldwide initiative, and so it's North America, EMEA, AP, Latin America, and so that's new additional, and it's a transition I spoke about a minute ago. In addition to that in Europe, with Marco on the ground there, asking the kinds of questions he is, looking at the things he's looking at, we deployed additional resource there from the whole process of how we are selling the value into the accounts, and the things that we do to sell the solutions into the accounts to give more discipline around that, you may recall in previous quarters we said that in fact we hadn't shifted there as fast in EMEA as we had in North America. We put additional resource and skills in place, which we said we were going to do. We did that, and that's in place to do that. Rich, take the rest.

Rich Beckert - *CA Inc - SVP and CFO*

As far as you asked the question was that in guidance. When we set our plan for EMEA, we did have them growing at a much lower rate than the other geographies. They are coming in a little bit slower than that, but it's not the majority of the reason why have we moved guidance from where it was before, down to the 5% to 6% range. That being said, the 300 or so folks that Bill's referring to, a large part of that will have to do with us getting the acquisitions up and running and getting traction outside of the Americas, and that is really where part of the focus is, so we'll see that come back in the very back half of the year which in our ratable model doesn't drive a lot of revenue.

Bill McCracken - *CA Inc - CEO*

It's probably worth a final comment on that, Scott, in that the action that we've taken on the deployment of the dedicated sales force affects new products and new accounts. It affects EMEA coming up, and as Rich just pointed out, it also affects the penetration of the acquisitions that we made in the last year as well, too. So with the 1 move that we've made here on the continued deployment of that, we're really affecting 3 very important areas of our business.

Scott Zeller - *Needham & Company - Analyst*

Just to clarify and follow up, when will that new plan be in effect on the ground in Europe?

Bill McCracken - *CA Inc - CEO*

We are in the process of doing it right now.

Scott Zeller - *Needham & Company - Analyst*

Okay. Thank you.

Kelsey Doherty - *CA Inc - SVP IR*

Thanks, Scott.

Operator

Thank you, and our next question comes from the line of James Wesman from Raymond James.

James Wesman - *Raymond James - Analyst*

Hey, guys it's James Wesman sitting in for Michael Turits. Question on Mainframe. Where do you feel we are in the renewal cycle, and have you seen any changes in price in your competition, particularly against IBM?

Rich Beckert - *CA Inc - SVP and CFO*

Hi, this is Rich. I think I'd say 2 things. If you'd go back to our Analyst Day in July, what you saw our renewal cycle we are -- this year and next will be the lows, and then it starts to rebuild again in fiscal year 2014. That being said, what you will also see is the renewal yield that we received at the 93% says that we don't really -- there's always -- it's a very competitive marketplace, but at a low 90s, we feel pretty good about the fact that we're getting the right price that we're looking for.

About a year ago, we put a new price action in place and we're seeing that as we come up for renewals. So, we're not getting that kind of price pressure either. There is -- over time, there will be a tailwind with the new Z box, so we should see that. Remember, that cycles through our business on a slower rate than the hardware comes out. And that will also give us a positive lift, as we go forward.

Bill McCracken - *CA Inc - CEO*

Okay. So just 1 comment about that. And that is that what we do see is that we had said before, that we see a tailwind coming out the mainframe replacement cycle. We continue to see that. Rich mentioned that we had capacity up double in the quarter. That continued. New sales there, as well too, took us back to the plus side on the mainframe. So we see that continuing for us, and it gives us the right trend.

Kelsey Doherty - *CA Inc - SVP IR*

Do we have any last questions?

Operator

(Operator Instructions). We'll pause 1 moment for any final questions. We do have another question now from the line of Walter Pritchard from Citi.

Ken Wong - *Citigroup - Analyst*

Hi, this is Ken Wong for Walter Pritchard. Last -- I think last earnings Bill, you guys indicated that macro wasn't much of an issue and it was purely execution. Just wondering this quarter, are you guys seeing anything different in terms of macro, and how has that played into your outlook?

Bill McCracken - *CA Inc - CEO*

Ken, what I said I think the last quarter was that the changes that we needed to make in EMEA really were the most important things for us to focus on and that really wasn't being significantly affected in the macroeconomic environment. That is true. It was true, and it's still true and that's where Marco's focused. However, as you look at the macroeconomic environment as it exists in the marketplace now, we wanted to be cautious and prudent in the way we dealt with that going into the guidance and that's the way we levered it in.

Ken Wong - *Citigroup - Analyst*

Okay. Great. Thanks, guys.

Rich Beckert - *CA Inc - SVP and CFO*

This is Rich. I just want to say 1 thing. When I answered John, I had given him the year-over-year growth rate when he was asking about cash flow. And it really should be 3% to 5%. I had given him the year-over-year, 5% to 7%. It's really 3% to 5% is what we're calling for guidance.

Bill McCracken - *CA Inc - CEO*

Okay. Well, with that, let me wrap. I think there's really 3 key points that I'd make as we wrap up today. We're going to continue to balance our performance across our broad portfolio of products and solutions, and drive quarterly performance with that. We're focused each quarter in moving to the next phase. This quarter, it's sales deployment. It's EMEA execution, and it's AP and LA investment results and we've seen some trends in LA and AP that our investments there are beginning to return to us.

And then frankly to wrap up, we're confident in the second-half performance and looking forward to wrap this year up. Thanks to all of you for joining us. And we'll talk to you again.

Operator

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