

# FINAL TRANSCRIPT

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**CA - Q4 2011 CA Inc Earnings Conference Call**

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May. 12. 2011 / 9:00PM, CA - Q4 2011 CA Inc Earnings Conference Call

## CORPORATE PARTICIPANTS

**Kelsey Doherty**  
*CA, Inc. - SVP of IR*

**Bill McCracken**  
*CA, Inc. - CEO*

**Nancy Cooper**  
*CA, Inc. - EVP and CFO*

**David Dobson**  
*CA, Inc. - EVP and Group Executive, Customer Solutions Group*

**George Fischer**  
*CA, Inc. - EVP and Group Executive, Worldwide Sales and Operations*

## CONFERENCE CALL PARTICIPANTS

**Philip Rueppel**  
*Wells Fargo Securities - Analyst*

**Shaul Eyal**  
*Oppenheimer & Co. - Analyst*

**Michael Turits**  
*Raymond James & Associates - Analyst*

**John DiFucci**  
*JPMorgan - Analyst*

**Walter Pritchard**  
*Citigroup - Analyst*

**Gregg Moskowitz**  
*Cowen and Company - Analyst*

**Matt Hedberg**  
*RBC Capital Markets - Analyst*

**Derek Bingham**  
*Goldman Sachs - Analyst*

**Kirk Materne**  
*Evercore Partners - Analyst*

**Kevin Buttigieg**  
*FTN Equity Capital Markets - Analyst*

## PRESENTATION

### Operator

Good day, everyone, and welcome to the CA Technologies' fourth-quarter and full-year 2011 earnings conference call. Today's call is being recorded.

At this time, I would like to turn the call over to Kelsey Doherty, Senior Vice President of Investor Relations. Please go ahead, ma'am.



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**Kelsey Doherty** - CA, Inc. - SVP of IR

Thank you and good afternoon, everyone. Welcome to CA Technologies' fourth-quarter and full-year fiscal 2011 earnings call.

Joining me today are Bill McCracken, our Chief Executive Officer, and Nancy Cooper, our Chief Financial Officer. Also on the call and available to answer questions are David Dobson, our Executive Vice President and Group Executive, Customer Solutions Group; and George Fischer, Executive Vice President and Group Executive, Worldwide Sales and Operations.

Bill will open the call with an overview of the quarter and the year. Then Nancy will review our fourth-quarter results and provide details of our 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 Thursday, May 12, 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 U.S. 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. Please note all non-GAAP operating measures are being reported, excluding share-based compensation expense. Prior-period non-GAAP metrics also reflect this change for comparative purposes.

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 risks.

So, with that, let me turn the call over to Bill.

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**Bill McCracken** - CA, Inc. - CEO

Thanks, Kelsey, and good afternoon to everyone. Thank you for joining us.

Before we begin, and as you may have read in the press release this afternoon, Nancy Cooper is retiring. I expect to announce her replacement very soon, and she has agreed to stay in her role until I have announced her replacement. On behalf of the CA Technologies team, I thank Nancy for her continued service and her contributions.

And now, let me review our results and outlook. As we said at the beginning of the year, fiscal year 2011 was both a growth and an investment year. These investments have driven strength and improvements in many areas. We set out to accomplish a great deal this year, and we did what we set out to do.

We also had some challenges -- in some products and in EMEA. We are addressing them head on, and are still making good overall progress as a company. And the guidance we are providing this afternoon shows that we expect fiscal year 2012 to be even stronger than 2011.

Our strategy is the right one and it's working -- that is focusing on mainframe, distributed, cloud and Software as a Service solutions. Our vendor-agnostic approach is what customers tell me they need and are buying. No one else can claim the breadth of our solutions. We are investing in geographic expansion and in new account acquisition through business partners. Both are gaining traction.

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In fact, just last week, we announced a strategic initiative with VCE, the Virtual Computing Environment Company. In addition, CA Technologies was named by HP as a Strategic AllianceOne Partner. Our two companies will work together on expanding routes to market and joint development projects. More details will be made available in the coming weeks.

Last week, we also hosted more than 130 executives from 98 partner organizations worldwide at our Partner Summit in New York City. And what I'm hearing from our partners is they see a new level of commitment and focus on our mutual success.

We have effectively integrated our acquisitions and we are now investing in them to accelerate growth. For example, during the fourth quarter, we invested an incremental \$14 million or \$0.02 of earnings per share. This included almost doubling the number of employees at Nimsoft and integrating new technologies. We combined Inteq service desk with Nimsoft monitoring, which has created the first integrated IT management as a service solution, called Nimsoft Unified Manager.

We are also rationalizing our business, including this afternoon's announcement that we've reached an agreement to sell our Internet Security business to Udata Partners. These actions further focus our resources on areas of strategic importance to CA Technologies.

In addition, our focus on improving our management systems have given us the ability to address business opportunities more quickly than even a year ago. This improved execution ability translated into financial results in fiscal year 2011.

Let me summarize our full-year results from continuing operations, all of which are within our guidance ranges. Revenue was \$4.4 billion and grew 5% in constant currency and 5% as reported. Approximately half of this revenue growth was organic. We held full-year non-GAAP operating margins flat, while we made significant investments in the business -- especially in the last quarter.

We grew our non-GAAP earnings per share to \$1.92, up 13% in constant currency and 12% as reported. Cash flow was \$1.4 billion -- up 3% in constant currency and 3% as reported. Fiscal year 2011 cash flow benefited from lower year-over-year cash taxes, offset by investments related to our acquisitions. Finally, total revenue backlog reached a record \$8.8 billion, up 6% in constant currency and 8% as reported. Our current revenue backlog grew 5% in constant currency and 7% as reported.

We believe -- as we've stated all year -- that current revenue backlog is a positive indicator of our future revenue growth and lays the foundation for fiscal 2012. In fact, our outlook for fiscal 2012 shows even greater revenue growth than last year. We expect revenue to grow 6% to 8% in constant currency.

We are committed to holding non-GAAP operating margins at 34%, while investing more in emerging enterprises and markets this year than last. We expect non-GAAP earnings per share to grow 6% to 10% in constant currency. Cash flow is expected to grow 3% to 5% in constant currency, reflecting investments in emerging enterprises and markets. In addition, our Board authorized an incremental \$500 million share repurchase, bringing the total available for repurchase to approximately \$700 million. We have also announced a 25% increase in our quarterly dividend rate.

And finally, we are in the process of reorganizing our internal management reporting and will change our segment disclosure in the first quarter of fiscal year 2012. This will provide better visibility to our business and the progress we are making against our strategy.

From a full-year new product perspective, total new product sales and mainframe capacity increased in the low single digits. I am confident we can do better. Within this, however, we grew our distributed new product portfolio more than 15% year-over-year. This was led by double-digit growth in new product sales of Service Assurance -- including Nimsoft, Virtualization and Service Automation, and Service Portfolio Management -- while Identity and Access Management, including Arcot, grew high single-digits. These are the areas of our strategic focus for our Company.

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This growth in distributed new product sales was offset by Mainframe new product and capacity sales, which were down approximately 25%. Mainframe performance is linked to the size and customer mix in our renewal portfolio, which fluctuates quarter-to-quarter and year-to-year. As you know, our renewals were back-end loaded in fiscal 2011, and in the fourth quarter, capacity grew 50% year-over-year -- the highest amount in 15 quarters.

We are also beginning to see success with our new competitive Replacement Program, which launched in the second quarter, closing over 15 replacements in the last nine months of the year. In fiscal year 2012, we are continuing to focus on delivering new innovation, strengthening our sales coverage model, and making it even easier for customers to move to our full portfolio of solutions.

This afternoon, we are pleased to announce the addition of Peter Griffiths, who will be joining us at the end of May to lead our Technology and Development group. Peter brings extensive software development and business management expertise from his roles at IBM, Cognos, and Relational Matters. Peter will drive initiatives to enhance our product positioning and thought leadership in the technology community.

From a geographic perspective, full-year North American revenue grew 7% year-over-year in constant currency, while EMEA's growth is not as strong as we would like. We knew that a turnaround in this region was going to be slow, but is going slower than I had expected, and I am not satisfied with that.

As we mentioned last quarter, we are investing in EMEA, changing the go-to-market model, and building new channel relationships. These are long-term initiatives and will take quarters -- not months. I am convinced we have the right personnel in place and are focused on the right priorities -- accelerating new product sales and accessing new accounts.

On the positive side, our fourth quarter renewal yield in EMEA was in line with other regions. However, the renewal portfolio was much lighter in fiscal 2011 than the previous year, and will be again next year. And, we did not leverage newly acquired technologies as successfully as we did in other regions. As I said, we met the company-wide growth targets we indicated at the beginning of the year in spite of the weakness in EMEA. And I am confident that the changes that we made last year were the right ones and they will work.

And now, let me turn the call to Nancy to provide more detail.

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**Nancy Cooper** - CA, Inc. - EVP and CFO

Thank you, Bill. As Bill mentioned, we announced an agreement to sell our Internet Security Business. This is reflected as discontinued operations in this afternoon's financial results. To help you understand the effect of our discontinued operations, a table is available at [investor.ca.com](http://investor.ca.com) for fiscal years 2011, 2010, and 2009.

The incremental adjustments for the Internet Security Business full-year fiscal 2011 are the following. Revenue was reduced by \$83 million; operating income decreased by \$15 million; earnings per share decreased by \$0.02; and cash flow decreased by \$4 million. For the fourth quarter, revenue was reduced by \$18 million; operating income decreased by \$1 million; and earnings per share and cash flow effects were not material.

Selling our Internet Security Business is the right thing to do to align our portfolio to our strategy. And we will continue to look for opportunities to rationalize and focus our resources.

Now, let us turn to the fourth-quarter results. Please note that all our growth rates are year-over-year unless otherwise indicated, and all results are from continuing operations.

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During the quarter, we closed a five-year renewal deal for approximately \$500 million with a large, global IT outsourcer. Total new product sales and mainframe capacity grew low double-digits. Fourth-quarter underperformance in EMEA and softness in Japan were offset by growth in each of our other regions.

Distributed new product sales grew mid-single digits. Driving this, Service Assurance, including Nimsoft, grew low-double digits. Virtualization and Service Automation new sales grew mid-double digits. Service Portfolio Management grew mid-teens, while Identity and Access Management, including Arcot, sales were flat. Mainframe capacity grew 50%, driven in part by two large public sector transactions.

As always, the size and timing of the underlying renewal portfolio fluctuates, but we do expect the new IBM mainframe to be a slow, steady tailwind as we cycle through these renewals. We experienced a double-digit decline in mainframe new product sales, which Bill discussed. Excluding the large, global IT outsourcer deal we closed in the fourth quarter, renewals were down approximately 15% -- more than the 10% we had anticipated at the outset of fiscal 2011. This was primarily due to timing, including a large transaction of over \$100 million, which we chose to close in the first quarter of fiscal 2012 instead of the fourth quarter of fiscal 2011.

Given that we closed a large, global IT outsourcer renewal in fiscal year 2011, we currently expect our fiscal 2012 renewal portfolio to be down approximately 20% year-over-year, and down approximately 15% year-over-year in the first quarter. However, we do not focus on the year-over-year comparisons of bookings, as they are not indicative of the overall health of our business. We manage the aggregate renewal portfolio to optimize the renewal yield, which was in the low-90% range this quarter.

Even with the expected decrease in renewals, we are confident that this is the portfolio we need to achieve our fiscal year 2012 revenue guidance of 6% to 8% in constant currency. We do focus on current revenue backlog, which was \$3.7 billion, up 5% in constant currency and 7% as reported. With our highly ratable model, this is another reason we are confident in our fiscal year 2012 revenue guidance.

Turning to revenue, total revenue for the quarter was \$1.1 billion, and grew 4% in constant currency and 5% as reported. This includes a positive foreign exchange impact of approximately \$12 million. In constant currency, revenue grew 5% in North America, while International revenue grew 2%.

Subscription and Maintenance revenue was \$970 million, up 2% in constant currency and 3% as reported. Revenue from Professional Services was \$82 million, up 6% in constant currency and 9% as reported. Revenue from software fees and other was \$76 million, up 30% in constant currency and 29% as reported.

Now let me turn to the remainder of the income statement, starting with our non-GAAP results. Please note that our fiscal year 2010 fourth-quarter included \$50 million in non-recurring restructuring expense.

Non-GAAP operating income before interest and taxes was \$356 million, up 28% in constant currency and 26% as reported. For the quarter, our non-GAAP operating margin was 32% compared to 26% in fiscal 2010. Non-GAAP diluted earnings per share was \$0.48, up 33% in constant currency and 30% as reported, including a \$0.01 headwind from currency. Our effective non-GAAP tax rate for the fourth quarter of 2011 was 29%, compared to 28% for the fiscal fourth quarter of 2010. Our full-year effective non-GAAP tax rate was 32%, compared to 34% last year. We continue to refine our tax structure and are pleased with the progress we are making.

Turning to cash flow from operations in the quarter, which was \$634 million, up 1% in constant currency and flat as reported. Cash flow was positively affected by a decrease of approximately \$70 million in cash taxes. Single installment payments were \$176 million in fiscal 2011, compared to \$182 million in the fourth quarter of fiscal 2010.

Total billings backlog of \$5.2 billion was up 11% in constant currency and 14% as reported. DSOs were down year-over-year.



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Turning to both fourth-quarter and full-year GAAP results -- fourth-quarter GAAP operating margin was 27%. GAAP operating income was \$299 million, up 29% in constant currency and 29% as reported. GAAP earnings per diluted common share was \$0.37, up 90% in constant currency and 95% as reported.

Full-year GAAP operating margin was 28%. Full-year GAAP operating income was \$1.3 billion, up 3% in constant currency and 2% as reported, while full-year GAAP earnings per diluted common share was \$1.60, up 12% in constant currency and 10% as reported. Our effective GAAP tax rate for the fourth quarter of 2011 was 35%, compared to 54% for the fiscal fourth-quarter of 2010. Our full-year GAAP tax rate was 32%, compared to 34% last year.

Now, moving to the balance sheet. We ended the quarter with approximately \$3.2 billion in cash, cash equivalents, and marketable securities, and \$1.6 billion of total debt, bringing our net cash position to over \$1.6 billion. During the fourth fiscal quarter, we purchased approximately 2 million shares of stock for a total of 48 million. Between April 1 and May 6, we accelerated our program, purchasing an incremental 3 million shares of stock for a total of 68 million.

Turning to guidance. As been our practice, guidance is based upon March 31st exchange rates and includes a partial hedge of operating income. I would like to highlight that the large, global IT outsourcer deal we signed in the fourth quarter renewed the last of our "old business model" contracts. As a result, we will record incremental revenue from the newly signed contract, but not incremental cash flow as we look at 2012.

Guidance is the following. Total revenue growth is expected to be in the range of 6% to 8% in constant currency. This translates to reported revenue of \$4.8 billion to \$4.9 billion. Non-GAAP diluted earnings per share growth in constant currency is expected to be in the range of 6% to 10%. This translates to reported non-GAAP diluted earnings per share of \$2.12 to \$2.19. GAAP diluted earnings per share growth in constant currency is expected to be in the range of 6% to 11%. This translates to reported GAAP diluted earnings per share of \$1.79 to \$1.86.

Cash flow from operations is expected to grow at 3% to 5% in constant currency. This translates to reported cash flow from operations of [\$1.47 billion] to \$1.50 billion. Underlying this guidance, we expect our GAAP and non-GAAP tax rate to be 31% to 32% in this fiscal year, a flat to 1 point improvement over fiscal year 2011. At the end of the year, we expect approximately 492 million shares outstanding and a weighted average diluted share count of approximately 499 million shares.

Finally, we are committed to holding our non-GAAP operating margin at 34%, which is the combination of improving margins in our core businesses, while continuing to make significant investments in our emerging enterprise and emerging market businesses.

With that, I will turn the call back over to Bill.

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**Bill McCracken** - CA, Inc. - CEO

Thanks, Nancy. And now, let me wrap up.

First, I would like to thank our worldwide team for strong performance against the very tough objectives. We made the progress this year we projected, but there is more to do. We grew. We are guiding to grow more. We will continue to invest. We are going to return more cash to shareholders. We will provide better visibility starting with the first quarter. And we are going to continue to focus on execution.

Before I turn the call back to Kelsey, I would like to invite you to attend CA Technologies' Investor Day at the Palace Hotel in New York City at 8 a.m. on Friday, July 29. We look forward to talking with you in more detail about our strategy, our solutions, our go-to-market, our segmented results, and update on our long-term financial outlook.

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And, with that, Kelsey.

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**Kelsey Doherty** - CA, Inc. - SVP of IR

Thank you, Bill. As the Operator is polling for questions, I would like to inform you that CA Technologies is presenting at the JPMorgan Technology, Media and Telecom Conference on Tuesday, May 17, and the Cowen and Company Technology, Media and Telecom Conference on Thursday, June 2.

In the interest of time, please limit yourself to two questions. Operator, please open the call for questions.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions). Philip Rueppel, Wells Fargo Securities.

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**Philip Rueppel** - Wells Fargo Securities - Analyst

Great. Thanks for taking my questions. I guess qualitatively, my question is really around the mainframe business, just trying to sort through the renewable -- the 50 million -- or the 50% increase in capacity. I assume that included some of the big IT services contracts.

But could you talk about the new product weakness there? Is that an anomaly? Is that something that's going to bounce around from quarter-to-quarter? Just give us some color around that overall business. Thanks.

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**Bill McCracken** - CA, Inc. - CEO

Okay, Phil, it's Bill. I'll give you some comments, then I'm going to ask David Dobson to comment as well.

First point is, it did not include any of the contract that you mentioned -- the \$500 million contract. That was the old renewable portfolio. So it did not include that.

We think we did see some pause at the beginning of the year in the mainframe, especially as it related to the capacity side. And I think the market did, as well. And so there was some slowing there. But as we came into the fourth quarter, we did see a significant uplift on that. However, even as we talk about that, one of the things you need to recall or remember is that, while that capacity growth is growing off of may be the Z Series in production, it's buffered somewhat by our renewable portfolio.

Let me stop there, though, and turn it to David to cover a couple of more things.

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**David Dobson** - CA, Inc. - EVP and Group Executive, Customer Solutions Group

Thanks, Bill. Yes, Phil, as Bill said, I'll pick up just by indicating, first and foremost, we continue to innovate around this platform, and we were very encouraged what we saw last September with the new platform announcement. Our investments continue to reinforce to us that this is a platform that will play an important role going forward. So with our mainframe software manager, our first role, of course, we're encouraged by our competitiveness in the marketplace.



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As Bill commented, our new product sales around the mainframe were and are impacted by the available renewal portfolio, which was lower in FY '11. With that said, we saw strong capacity, which I think is encouraging for what we're seeing. We saw some large transactions during the year. And importantly, we're starting to see momentum in our competitive win-back program. We had 15 competitive replacements where we went in and replaced our competitors across the board with our mainframe technology.

So, I would tell you that we're confident in our competitive position on mainframe. We held pricing as we move into FY '12.

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**Kelsey Doherty** - CA, Inc. - SVP of IR

Great. Phil, do you have another question?

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**Philip Rueppel** - Wells Fargo Securities - Analyst

Yes. Just in terms of-- you mentioned that FY '12 will also be a year of investment leading to flattish margins. Are you anticipating significant M&A in that type of guidance? Last year, you had mentioned that you were targeting \$300 million to \$500 million in acquisitions. Should we assume the same for next year?

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**Nancy Cooper** - CA, Inc. - EVP and CFO

Yes, Phil. You should assume the same range, \$300 million to \$500 million. The fiscal year '12 doesn't include any future material M&A, and our guidance does show our balanced approach at driving topline growth while maintaining margins.

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**Kelsey Doherty** - CA, Inc. - SVP of IR

Great. Next question, please.

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**Operator**

Shaul Eyal, Oppenheimer and Company.

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**Shaul Eyal** - Oppenheimer & Co. - Analyst

A quick question on my end. Bill, so you're making some investments in the emerging enterprises, some new geographies. At the same time, maintaining 34% operating margin for fiscal '12. Can you shed some more color into those emerging enterprise on the one hand? And what specific geographies you guys are focusing on?

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**Bill McCracken** - CA, Inc. - CEO

Well, I'll comment a little bit, Shaul, then ask Nancy to as well. But the investments that we've been making are really designed to go at the geographies as well as the midmarket accounts. And we're beginning now to see good traction with respect to those, that contributed to our growth this past year, that allowed us to get to the 5% revenue growth, which is what we target on the high side. And it's a major part of our outlook along with our revenue backlog, as we move into this year, that pushes our growth in the 6% to 8% range.

Nancy, can you add --?

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**Nancy Cooper** - CA, Inc. - EVP and CFO

Sure. Shaul, I think it goes with what I mentioned a couple of minutes before. We're really feeling our balanced approach driving the top line while maintaining margins. And we're very encouraged with -- we have new leaders in Asia and Japan. And we've actually, really, I think, have done a very fine job of balancing our investments by investing more in those areas; and harvesting, so to speak, in other places, one of which you saw in our Internet Security business. And we're very committed to do this in a balanced fashion to maintain the 34%.

**Shaul Eyal** - Oppenheimer & Co. - Analyst

All right. Thank you (multiple speakers) --

**Kelsey Doherty** - CA, Inc. - SVP of IR

(multiple speakers) Great. Thanks, Shaul. Do you have another question?

**Shaul Eyal** - Oppenheimer & Co. - Analyst

No, I'm fine. Thank you.

**Kelsey Doherty** - CA, Inc. - SVP of IR

Thank you. (multiple speakers)

**Operator**

Michael Turits, Raymond James.

**Michael Turits** - Raymond James & Associates - Analyst

My questions are about the impact of the outsourcer deal on both revenue and cash flows. So, because old business model go into new business model. But what's the impacts of -- incremental impact of the revenue at this -- that \$500 million over five years in bookings, I think that's about \$100 million incremental impact in revenue.

And also, what's the incremental impact on cash flow? I assume it was bringing in a certain amount of cash flow per year. Is it now bringing in more or less cash flow than it was per year and by how much?

**Nancy Cooper** - CA, Inc. - EVP and CFO

Michael, I must applaud you on your accuracy. It's really -- it's about what you said, a couple points of revenue growth. And actually, that cash flow -- the anomaly of the old business model, we were getting all the cash flow and we were not getting the revenue. So this is really the end of the imbalance between revenue and cash. They're back in balance. But what was very encouraging about this deal is we now have in the deal a much better opportunity of additional revenue in the future for new customers and new products.

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**Michael Turits** - *Raymond James & Associates - Analyst*

Okay. (multiple speakers) Yes, so just to be -- just for clarification, so, a couple of points of revenue growth, I'm assuming that's about \$100 million a year of incremental revenue. And then you didn't answer -- what is the incremental impact on cash flow? Is it more or less cash flow per year (multiple speakers) than it was back in March?

**Nancy Cooper** - *CA, Inc. - EVP and CFO*

(multiple speakers) Michael, actually, it's really the same amount of cash flow, which is really a fine renewal.

**Michael Turits** - *Raymond James & Associates - Analyst*

Okay, so it's neutral to cash flow?

**Nancy Cooper** - *CA, Inc. - EVP and CFO*

Yes.

**Michael Turits** - *Raymond James & Associates - Analyst*

Did I use up my questions?

**Kelsey Doherty** - *CA, Inc. - SVP of IR*

Yes -- one more, Michael. Go ahead.

**Michael Turits** - *Raymond James & Associates - Analyst*

(laughter) Okay. It's hard to tell. And then I guess, so what should I think of as -- both the cash flow looked a little bit light for this year relative to guidance; and then the cash flow growth is below the earnings growth for next year. So what's the reasons for both of those?

**Nancy Cooper** - *CA, Inc. - EVP and CFO*

Sure. Michael, think of it, really, there's three major points. Both fiscal year '11 and fiscal year '12 were really investment years. And so what you see is the buildup and disbursements as we really decide those areas, as you heard Bill mentioned, emerging markets, emerging enterprises, were really quite great opportunities. And you heard him mention what's going on in Nimsoft. And so that will continue in fiscal year '12 and we believe that's absolutely the right thing to do.

The second -- you saw, in fiscal year '11, improved cash taxes. We are quite encouraged by our ability to reduce our effective tax rate. This means, over time, this will translate into lower cash taxes, but that will be delayed and it will be lumpy, as you saw in both fiscal year '11 and we'll see in fiscal year '12.

We are encouraged in fiscal year '11. We were able to defer taxes, which is always a good thing. In fiscal year '12, we'll have a little bit more cash taxes, but over the long-term, we believe our cash taxes will be a very positive tailwind for CFFO after fiscal year '12. And the last thing is the point I just mentioned on the old business model, that though we're getting more revenue, the cash stays about the same.



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So you put all those three points together and we believe we have very strong facts for the years going out. And that is why we're confident and increasing our commitment to share repurchase in dividends, which we announced today.

**Michael Turits** - *Raymond James & Associates - Analyst*

Okay. (multiple speakers) Thank you.

**Nancy Cooper** - *CA, Inc. - EVP and CFO*

So, Michael, if you're still open, I wanted to make sure you were okay.

**Michael Turits** - *Raymond James & Associates - Analyst*

Yes, I'm good. Thank you. I'll follow-up later.

**Nancy Cooper** - *CA, Inc. - EVP and CFO*

Okay. Great. Thanks.

**Kelsey Doherty** - *CA, Inc. - SVP of IR*

Move on to next question, please.

**Operator**

John DiFucci, JPMorgan.

**John DiFucci** - *JPMorgan - Analyst*

First of all, I'd just like to say, Nancy, it's been a pleasure working with you. And I think I speak for most of the people, or everybody on the call, that we truly wish you the best in your next endeavor.

**Nancy Cooper** - *CA, Inc. - EVP and CFO*

Thank you. That's so nice, John.

**John DiFucci** - *JPMorgan - Analyst*

My question -- it's good to hear the renewal yield is back to above 90%. And thanks for sharing that info, Nancy, on that large deal that closed at the beginning of this quarter. That helps us understand some things too.

But really, new business seems to be -- have really slowed momentum this quarter. And it doesn't look like it's just the mainframe. And I was wondering, George, if you could address what's going on. I mean, it looks like international really -- I mean, obviously, has some issues, but is it all just that?

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**Bill McCracken** - CA, Inc. - CEO

Go ahead, George.

**George Fischer** - CA, Inc. - EVP and Group Executive, Worldwide Sales and Operations

Yes, sure. Well, we are -- obviously, we had still noted some of the regions in EMEA did not execute the way that we wanted them. At the same time, we've experienced significant new product growth through the quarter and through the year. So we're quite pleased with where the pipelines are going and where we executed with Service Assurance. We continue to be a category leader.

As David mentioned, on the mainframe, we see capacity improving. We also see many competitive replacements. So in particular, the price points, the renewal yield, very solid -- we put a lot of work into those. But at EMEA in particular, we've been making changes, as Bill noted, over the last year. We've made the right changes and now we're adding resources to take advantage of new customer opportunities and this expansion of the channel.

**Bill McCracken** - CA, Inc. - CEO

And John, the international revenue was up about twice what EMEA was. And so those investments we've made there are paying off. And what we're seeing, too, worldwide, which is very encouraging for us, is a lot of this new technology is being installed in those geographies. And so when you look at where what we call may be the rest of the world is, with EMEA out -- North America, and the rest of the international, the growth that we had in revenue, as well as the other measures that we look at, were all beyond our guidance for the full year for the Company.

So it's really an affirmation of the fact that the strategy is right and the customers are buying it. So it's showing very strong.

**John DiFucci** - JPMorgan - Analyst

Yes, but George, you said new product revenues were up. I mean, they were up -- I mean, I think most of that that being up was because you didn't have those products, because then you bought these companies this year and you sold it this year. I don't know -- is that what most of what you're talking about? Just sort of like an organic growth or --?

**George Fischer** - CA, Inc. - EVP and Group Executive, Worldwide Sales and Operations

Well, I'm talking about two -- the technologies that are selling in the stand-alone environments, outside of the renewal inventory, are getting traction and growing. In particular, another encouraging sign, the deal sizes are increasing. Also, the average deal size and services for our virtualization business are also increasing.

So I'm getting traction with all the new products that we released last year, and continue to see an expansion where we have, for example, what we've been doing with Arcot and our security products, where those are increasing the pipelines and getting a lot of activity. So -- also, you see in AP, where we're getting Service Assurance traction with net [QOS] and Wylie and those products, where not too long ago, those were not familiar products to that region.

**Bill McCracken** - CA, Inc. - CEO

John, let me add a couple of points. One is that with the renewal portfolio where it was, the new sales is what added in to where we got to with our growth at the 5% level. So the new sales are driving hard there. That's offset by the mainframe capacity piece, because the first three quarters of last year were down, as we saw that pause there. Now, that jumped up in the fourth quarter,

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but what it shows is, when you get into the numbers in detail, that in fact, the new products are selling. That's what pushed us to the 5% growth.

It's also what's pushing us to the 6% to 8% growth that we're talking about for this year. So the thing that's factoring it down that's camouflaging how that growth is coming through is that mainframe capacity piece.

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**John DiFucci** - JPMorgan - Analyst

Okay. And if I could, Kelsey, just -- because that was all one topic, even though I'm sorry there were a couple of questions in there.

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**Kelsey Doherty** - CA, Inc. - SVP of IR

That's all right. Go ahead, John.

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**Bill McCracken** - CA, Inc. - CEO

I'm sorry, John.

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**John DiFucci** - JPMorgan - Analyst

Just because this is a question that I get often asked, Bill, you say you're going to -- it's good to see you're increasing your share buyback, you're increasing your dividend. I mean that's -- shareholders like to see that. But you're holding your non-GAAP operating margin constant into next year. And you talk a lot about investing for growth, but you really haven't shown much and it really hasn't helped your stock at all.

So -- and I know you don't just run the business just for the stock price. I mean, you're thinking about shareholders. But is there any serious consideration at CA to focusing more on efficiency than on growth? Because today it seems like the balance is more toward the growth side.

And I often -- and I have asked you this personally before, but I'd like to ask you to address it publicly -- why can't you do both? Why can't you increase the margins and grow next year?

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**Bill McCracken** - CA, Inc. - CEO

Okay, John, there's a couple of things. You're on a very good and important point for us. And this is one we spend a lot of time on ourselves, because it's the decisions we make on how we really need to run this Company taking it forward.

There's about two points of margin that's tied up in the acquisitions piece, last year and this year. So we're driving efficiencies in this business as we do that.

The other thing is, as we've increased these sales and new products, as you always see in new sales and new technologies entering, they come in at a little bit less margin. And so that works in and it works through as you go in time. But I think we all expect and do see that those new sales do, in fact, affect the margin piece as we build this new technology.

That's one of the reasons why we really made the announcement -- you mentioned the buyback and the dividend increases, because we've got a great deal of confidence, and return that to the shareholders. But then the second thing that we announced here, I think is very important, that's why we're going to do the segmentation starting with the first quarter. It's going to give

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you a better look inside this Company so that you can see what we're seeing. Because it's not apparent to you now, you'll start seeing it in the first quarter.

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**Kelsey Doherty** - CA, Inc. - SVP of IR

Great, thanks. Next question, please.

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**Operator**

Walter Pritchard, Citi.

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**Walter Pritchard** - Citigroup - Analyst

I'm wondering -- you talked about the guidance in achieving at or above the guidance. But one area I noticed, the operating cash flow for the year and for the quarter seemed a little bit light to us. I think you raised that number mid-year from 1.3 to 1.45 up to 1.4 to 1.475. And I'm just wondering, what was the source of the weakness there in the operating cash flow line?

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**Nancy Cooper** - CA, Inc. - EVP and CFO

I think it -- Walter, hi. It's Nancy. It is really what Bill articulated in his remarks, which is basically performance in EMEA and performance in a couple of our -- in our mainframe. And then we did make the comment when I was talking about the renewal base in the fourth quarter, that one transaction, we decided to move it out to the first quarter, because we actually worked out a better arrangement for the customer and for us. And that was a decision that also moved out cash.

So you can see we're running this really for a longer-term basis of what are the right things to do, with the yield on the renewal base being very important to us. And we're addressing the areas where we believe we have weakness and can improve.

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**Walter Pritchard** - Citigroup - Analyst

Great, Nancy. And it's also been great working with you as well. And then just a question maybe for George or for David Dobson.

Just -- you talked about competitive displacements. I guess I note your largest stand-alone independent mainframe competitor [BMC's] doing pretty well in mainframe and there's not obvious share losses there. And I guess we don't see all the players report their numbers separately, but I guess, if you could give us a little bit more color on where you think you're picking up share in the mainframe space?

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**David Dobson** - CA, Inc. - EVP and Group Executive, Customer Solutions Group

Yes, Walter. Hi, it's David Dobson. We actually launched, in the first half of last year, a competitive replacement program. And we saw 15 competitive replacements where we replaced competitors. Not just one competitor but a few of our competitors across the board. And our view is that is really is just starting to gain traction now as we move into the market.

And fundamentally, we think that's because of the competitive nature of our platform. We continue to invest in our new mainframe software manager applications, our course roles; we announced our [DV2] role towards the end of last year. And we've got two more roles we're going to introduce into the marketplace in FY '12. And we're pretty confident that as those roles get into the marketplace in the second half of FY '12, we'll continue to pick up momentum.

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So we're seeing success, a lot of it's driven by the available renewal platform -- the renewal portfolio. And we'll continue to be competitive in that space. We expect that we will grow at or above the market in FY '12.

**Kelsey Doherty** - CA, Inc. - SVP of IR

Great. Thanks. Next question, please.

**Operator**

Greg Moskowitz, Cowen.

**Gregg Moskowitz** - Cowen and Company - Analyst

Thank you. And Nancy, I'll echo John and Walter's comments. This was your biggest renewal quarter since the mainframe price increase went into effect last July. Just wondering, anecdotally, how your discussions on pricing with customers has gone over the past few months?

**Nancy Cooper** - CA, Inc. - EVP and CFO

Sure. We're very encouraged by having a renewal yield in the low 90%. And that 5% price action, we see a couple of points of improvement coming out of that. As you know, many of our customers have contracted price protection, so it takes a couple of cycles. But we're very encouraged.

**Gregg Moskowitz** - Cowen and Company - Analyst

Okay. And then just following on Michael's question earlier about -- how much of an increase in cash taxes, Nancy, are you budgeting for fiscal '12? And then also, how much of your fiscal '12 revenue growth is coming from recent M&A? Thanks.

**Nancy Cooper** - CA, Inc. - EVP and CFO

Our cash taxes basically, we're able to defer a payment out of fourth quarter, which you heard about, the \$70 million we deferred out. So that's kind of an easy, Simple Simon way of saying what got thrown into next year. And you asked -- please, Gregg, about guidance. About two points of our guidance comes from acquisitions. Was that your question?

**Gregg Moskowitz** - Cowen and Company - Analyst

It is. Thank you.

**Nancy Cooper** - CA, Inc. - EVP and CFO

Thank you.

**Kelsey Doherty** - CA, Inc. - SVP of IR

Thanks, Gregg. Next question, please.



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**Operator**

Matt Hedberg, RBC Capital Markets.

**Matt Hedberg** - RBC Capital Markets - Analyst

Thanks, guys. Nancy, I believe you talked about linearity for -- or overall renewals for the year down 20%. And I believe you said down [15%] in Q1. Can you kind of just talk to us about the linearities throughout the year? I mean, should we expect a slow improvement throughout the year with another big ramp in Q4 of fiscal year '12?

**Nancy Cooper** - CA, Inc. - EVP and CFO

Sure, Matt. You know, you've got to remember, we have a very large global outsourcing deal in the fourth quarter of fiscal year '11, so you've got to be mindful of that. And we just mentioned the first quarter is down 15%. So that is really -- the global outsourcer is a major factor.

The other thing I'd ask you to think about is we did a lot of five or more year renewals in fiscal year '08 and '09. So basically, we've changed the shape of our available renewal inventory and moved it out into more the fiscal year '14 and out timeframe.

More than that, I learned last year that I can't guide to each quarter. Because we are managing these renewal portfolios to good transactions for our customers at appropriate yields, renewal yields for ourselves. And that will move renewals either in, because the customer wants it; or out, because it's better for us to negotiate that way. We are highly encouraged by our revenue backlog, which has a 6% growth and a 5% constant currency growth in the current portion.

**Matt Hedberg** - RBC Capital Markets - Analyst

That's great. And then (multiple speakers) -- yes. And then people have been asking for new segment metrics for a while, Nancy. I guess I'm wondering, is it going to be distributed mainframe revenue and then margins and maybe a license number? Can you kind of give us a sneak peak of what to expect?

**Nancy Cooper** - CA, Inc. - EVP and CFO

I'm not sure I could give a sneak peak, but I think there's some basics that you could probably get.

**Kelsey Doherty** - CA, Inc. - SVP of IR

Great. Thanks. Next question, please.

**Operator**

Derek Bingham, Goldman Sachs.

**Derek Bingham** - Goldman Sachs - Analyst

Nancy, my thanks to you as well and congratulations on outlasting the old business model. (laughter) You deserve a break, I think, after a job well-done there.



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My question, one, on the margins. I just want to make sure I heard it right. Is it correct that there's a couple of points of residual dilution in FY '12 from M&A that you've already done?

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**Nancy Cooper** - CA, Inc. - EVP and CFO

Yes, that's correct. The way to think about this, Derek, is this -- we do carry a couple of points in from our acquisitions. And then you heard, I think, on the call, we have made a conscious decision to invest in these emerging markets, emerging enterprise, and we're also developing new routes to market. So those are kind of the factors in it. And we're very encouraged that we have this opportunity for growth and balance margins.

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**Derek Bingham** - Goldman Sachs - Analyst

Got it. Okay. And then my other one is, just thinking about if you could give us a teaser on what you think the mix of mainframe versus distributed revenues are going to be by the time you get through next year? I know it's kind of been gradually -- been shifting towards that distributed portfolio. This year, could we see that kind of get to 50/50 or maybe even tip towards distributed?

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**Nancy Cooper** - CA, Inc. - EVP and CFO

With the varying growth rates for those segments, that would be a fast tip, Derek. I would really ask you to wait until our first quarter where we're going to really call this out. And as you know, this has been a multi-year voyage in terms of getting the information so that we can talk about it. And we're really quite encouraged that we're going to be able to do that at the end of first quarter.

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**Derek Bingham** - Goldman Sachs - Analyst

Okay, fantastic. Thanks.

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**Kelsey Doherty** - CA, Inc. - SVP of IR

Great. Next question, please.

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**Operator**

Kirk Materne, Evercore Partners.

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**Kirk Materne** - Evercore Partners - Analyst

I'll add my thanks to Nancy as well, and best of luck going forward. I guess, my only question I had was, is there any change in terms of your outlook on M&A over the next 12 months versus, say, 12 months ago? You've obviously done a number of successful deals that added a lot in terms of new product to the portfolio. I guess with the increased buyback as well as the increased dividend yields, just any thoughts on your view on M&A today versus maybe 12 months ago? Thanks.

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**Bill McCracken** - CA, Inc. - CEO

Okay. Kirk, good question, too, because it's one of the things we focus on. And I think when we look at what we were able to do last year and how that has really added the technology, along with our current products that we've been able to get those integrated, it has allowed us to grow into new technology areas.

The thing you should expect is a similar kind of approach, and that is, our acquisitions are small, tuck-in acquisitions. It adds the technology as we want it. It also, frankly, makes the integration much simpler. And when you look at all that we did last year, we got that where we want it, you continue on with that to add content around it. But it is a very manageable area for us to add significant technology as we drive forward.

And Nancy, maybe you want to comment on some of the other points there.

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**Nancy Cooper** - CA, Inc. - EVP and CFO

Sure. So, Kirk, we are -- we gave the \$300 million to \$500 million. We're also very encouraged, we ended the year with \$3.2 billion of cash. And you can see, we've guided -- we can do the \$300 million to \$500 million, and lots of cash, and we've already bought \$68 million of shares between April 1 and May 6. So, if you generate that much cash, you can (technical difficulty).

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**Kirk Materne** - Evercore Partners - Analyst

Thanks very much.

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**Nancy Cooper** - CA, Inc. - EVP and CFO

Thank you.

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**Kelsey Doherty** - CA, Inc. - SVP of IR

Thank you, Kirk. We'll move on. Kevin, you're the last one.

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**Operator**

And we'll open Kevin Buttigieg's line from Collins Stewart.

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**Kevin Buttigieg** - FTN Equity Capital Markets - Analyst

Just back to growth and from new initiatives in the quarter, you mentioned that the distributed new products sales grew mid-single digits, double digits in a lot of the newer product categories. So what -- I guess product categories were pulling growth down and what was the reason behind that?

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**Bill McCracken** - CA, Inc. - CEO

Well, actually, you know, the single-digit growth was the Security and Arcot pieces. The double-digit pieces that you said, were Service Assurance, PPM and others. And so the big thing that really levered on the thing is the point that I made with John DiFucci, and that's the mainframe capacity piece that pulls that down, because of what it did for the entire year.

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And then the EMEA impact. And I'll repeat it, because it's probably worth repeating -- when we take a look at what we now call rest-of-the-world with EMEA out, and whether you look at PNCV, new sales, even total bookings -- which we don't look at that much, because we look at revenue backlog -- all of those measures are in double-digit around the rest of the world with EMEA pulled out.

So it demonstrates that, in fact, that strategy is selling and it's selling in the double-digit area. So two things -- mainframe and EMEA are the big pieces that make this a little bit harder to see. That's why, frankly, we're looking forward to the opportunity in July and at the end of the quarter, to take you through the segmentation. It will allow you to see better what's going on inside our Company.

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**Kevin Buttigieg** - FTN Equity Capital Markets - Analyst

Well, just to clarify, though, the script mentioned distributed new product sales grew mid-single digits. I understand what you're saying about the mainframe drag on new product sales, but you had specifically -- unless I heard you wrong, or unless that specifically applied to just the EMEA region -- but that's really what I was referring to, the specific comment about distributed new product sales having grown in the mid-single digits, despite the double-digit growth in some of those newer product categories. Am I mistaken, or --?

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**Bill McCracken** - CA, Inc. - CEO

Well, if I'm understanding you, Kevin, I mean, we said that the Service Assurance, including themselves, grew in the low double digits; the Virtualization and Service Automation new sales grew in the mid-double digits; and then the Service Portfolio Management grew mid-teens. And then the Security and Arcot sales were up slightly in that timeframe.

So when you average those all together, you get that number. But what it says is that the new stuff that we're stowing into this is driving strong. But the average is what gives you the mid-single digit.

Does that help, Kevin?

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**Kevin Buttigieg** - FTN Equity Capital Markets - Analyst

Yes. That's fine. Okay.

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**Kelsey Doherty** - CA, Inc. - SVP of IR

Great. Thanks. That's our last question. Bill, would you like to wrap up?

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**Bill McCracken** - CA, Inc. - CEO

Yes, I would. Let me just thank everybody. We were pleased with the year. We were able to do what we set out to do. And we're looking to do even stronger as we go into this year. So we look forward to getting with you at the end of the next quarter, and particularly look forward to seeing all of you on July 29. And thanks for hooking up with us.

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**Operator**

Ladies and gentlemen, that does conclude our conference call for today. Again, thank you for your participation.

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