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CA - Q1 2014 CA, Inc. Earnings Conference Call

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## OVERVIEW:

CA reported 1Q14 total revenue of \$1.1b, GAAP diluted EPS of \$0.73. Expects FY14 reported revenue to be \$4.39-4.48b and GAAP diluted EPS to be \$1.81-1.91.



## CORPORATE PARTICIPANTS

**Kelsey Turcotte** *CA, Inc. - IR*

**Mike Gregoire** *CA, Inc. - CEO*

**Rich Beckert** *CA, Inc. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Walter Pritchard** *Citigroup - Analyst*

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

**Mark Moerdler** *Sanford C. Bernstein & Company, Inc. - Analyst*

**Matt Williams** *Evercore Partners - Analyst*

**Aaron Schwartz** *Jefferies & Company - Analyst*

**Abhey Lamba** *Mizuho Securities - Analyst*

## PRESENTATION

### Operator

Good day ladies and gentlemen, and thank you for your patience. You have joined the CA Technologies first quarter 2014 earnings conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will be given at that time.

(Operator Instructions)

As a reminder, this conference may be recorded. I would now like to turn the call over to your host, Miss Kelsey Turcotte. Ma'am, you may begin.

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### **Kelsey Turcotte** - *CA, Inc. - IR*

Thank you and good afternoon, everyone. Welcome to CA Technologies' first quarter fiscal year 2014 earnings call. Joining me today are Mike Gregoire, our Chief Executive Officer; and Rich Beckert, our Chief Financial Officer. Mike and Rich will offer some prepared remarks, and then we will open up the call for a Q&A session.

These prepared comments were previously recorded, and this conference call is being broadcast on Wednesday, July 24, 2013 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. Reconciliation to the most directly comparable GAAP financial measures are included in our 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 [www.CA.com/invest](http://www.CA.com/invest).

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. Please note that our second quarter quiet period begins at the close of business on September 13, 2013.



Before I turn the call over, I would like to highlight that, for modeling purposes, our year-over-year currency headwind on revenue guidance is expected to be roughly 2 points for the full year. In addition, starting in the first quarter of fiscal '14, the measure of segment expenses and segment profit was revised to treat all costs of internal software development, a segment expense in the period the costs are incurred. As a result, the Company will add back capitalized internal software costs and exclude the amortization of internally developed software costs previously capitalized from segment expenses.

Prior period segment expense and segment profit information have been revised to prevent segment profit and expense on a consistent basis as reflected in the 8-K we filed today and in our supplemental financial package, both of which are available on our website at [www.CA.com/invest](http://www.CA.com/invest). Also in fiscal '14, the Company will exclude costs relating to the FY2014 board-approved rebalancing initiative announced in May from its segment expenses on segment profit.

With that, let me turn the call over to Mike.

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**Mike Gregoire** - CA, Inc. - CEO

Thanks Kelsey, and thanks for joining us this afternoon.

I am pleased with our performance in the first quarter and the start we made to fiscal '14. We did better than expected on the revenue line, new product and capacity sales grew high single digits as reported. In addition, we capitalized on organizational efficiencies and expense management. These include headcount and personnel related expenses, primarily in our sales organization, and improvements in G&A. CFFO came in as expected, reflecting the cash tax rebalancing and capitalized development items we discussed in May. We also received a favorable resolution of the US tax matter which contributed to a \$0.41 improvement in GAAP EPS and a \$0.14 improvement in non-GAAP EPS.

One of our primary focuses is to grow Enterprise Solutions, and to do that, we need to accelerate the rate and pace of new customer acquisitions outside the renewal. One of the indicators of our progress is new customer additions. Over the last 12 months, we added more than 460 new logos to Enterprise Solutions, and we saw acceleration in new customer adds from Q4 to Q1.

When we look at our Growth Enterprise customers where we have the most greenfield opportunities, we see a much smaller transaction size relative to the existing Enterprise business. This reflects our land and expand strategy across the portfolio from Application Delivery to our SaaS solutions. We will continue to add differentiated solutions to the portfolio with acquisitions like Nolio and Layer 7 as well as increase our focus on organic development that delivers technology with SaaS characteristics of easy to use, easy to install and easy to sell. Over time, we expect these investments to drive top line growth.

SaaS technology is a critical component to CA's future. This was clear in Q1 with one of our flagship products -- Clarity on Demand -- that had made the transition to SaaS. Though on a small base, Clarity on Demand's new product sales more than doubled year over year. Equally as important as the numbers we reported this afternoon are initiatives we are pursuing to improve future results across the portfolio.

To start, the approximately \$150 million rebalancing we announced in May is coming along according to plan. We concluded more than half of our facilities consolidations for the fiscal year and actioned approximately three quarters of our global headcount reduction. By year-end, we expect headcount to be roughly flat compared to where we started in fiscal 2014. We are actively recruiting engineering talent with the skills to increase the rate and pace of organic development, drive more effective product marketing and regeneration, as well as evolve our sales effectiveness.

As I made clear during my May investor briefing, I believe that the key to improving performance across the portfolio will be product differentiation. That is why my initial focus over the last six months has been on research and development. And we're starting to see evidence of our efforts in momentum created by the Company's adoption of a more centralized and collaborative development model. In fact, during the first quarter we introduced the latest version of Application Performance Management, with companies like Starwood Hotels and Bed Bath and Beyond using our integrated application behavior analytics. Nimsoft Service Desk, our next-generation SaaS-based service management. Our solution, which was purchased by customers like Boston Financial Data Services, BOC Fullerton Community Bank in China, UniConverse in Korea, and Fujitsu UK, features quick time to implementation, ease-of-use, social collaboration and mobile user interfaces.



Cloud Minder. After a highly competitive process, Wipro signed a strategic partnership with CA to provide hosting services in EMEA. This SaaS security offering unifies identity management, single sign-on, and advanced authentication in a single platform for managing cloud and non-cloud applications. Our new Mobile Device Management solution secures and manages mobile users and devices. We are beginning to see the pipeline build and closed a \$9 million-plus transaction in Q1.

And finally, Chorus, our next-generation mainframe management platform, where we added infrastructure management to our database management security and storage family of technologies. Customers like SCANA Corporation use Chorus to increase efficiency and grow next-generation mainframe skills.

Highlights of innovative technology we expect to release in the balance of the fiscal year are as follows. Clarity Playbook. Playbook is a strategic planning management product for CIOs and top business executives that connects a company's comprehensive IT production portfolio to top-level corporate strategy in a single mobile interface. Nimsoft Monitor, our SaaS technology featuring modern development platforms and architectures which will allow customers to download, install, start monitoring thousands of elements in less than an hour. And we'll extend our mobile family of solutions to include mobile application management.

To more efficiently and effectively deliver this technology to our customers, we need to accelerate our marketing capabilities. As a result, we recently announced that Lauren Flaherty will be joining CA next month. Coming from Juniper Networks, Lauren brings years of business and marketing expertise to CA Technologies. She has a proven track record of success as well as a deep insight into the technology industry; and more importantly, how to achieve our top three goals in marketing -- effective, efficient, and impactful lead regeneration; product marketing to increase our competitive advantage; and global brand management. Best-in-class marketing is critical to increasing sales velocity, sales efficiency, and expanding our total addressable market outside of renewals -- all of which will be necessary to accelerating CA Technologies' performance.

Now I will turn the call over to Rich to review our first-quarter financials and full-year guidance. Thank you very much.

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**Rich Beckert - CA, Inc. - CFO**

Thank you, Mike.

Before we get started with the quarter review, let me remind you that all comparisons are year-over-year and in constant currency unless otherwise indicated. In addition, last year's Q1 was positively affected by an IP transaction which closed during the quarter. This transaction provided incremental \$35 million to operating income and cash flow from operations, 3 points of GAAP and non-GAAP operating margin, and \$0.05 to GAAP and non-GAAP EPS.

This afternoon, I'm going to focus my comments on the key business drivers and performance indicators for the quarter. The balance of our financial details can be found in our supplemental and press release. As Mike said, we had good growth in renewals this quarter due to a higher dollar value of scheduled contract renewals as compared to fiscal 2013. We also had several renewals which closed prior to the scheduled expiration dates. I'm not concerned with the timing of these transactions, as we preserve the value of our maintenance stream, and we sold both Mainframe and ES new products into these renewals.

Our renewal yield was in the mid 90% range. Please note we expect the renewal yield will fluctuate quarter to quarter. Over time, we expect it will average around 90%. We now expect renewals will be more evenly distributed between Q1 and Q2 than outlined in May. We also continue to expect fiscal '14 renewals as compared to fiscal '13 to be up high single digits, excluding the large customer in the second half of the year, and back-half loaded as we previously indicated.

Q1 total revenue was \$1.1 billion, down 1%. Mainframe declined 1%, Enterprise Solutions declined 3%, and Services grew 8%. Within these results, total new product and capacity sales were up high single digits as reported. Mainframe benefited from the inventory of renewals heavily weighted towards this segment. Capacity grew more than 20% as reported, while Mainframe new product sales grew more than 70% as reported. Enterprise Solutions new product sales were roughly flat as reported. New Services engagements were up approximately 20% as reported. From a balance

sheet perspective, current revenue backlog was down 2%. This reflects last year's sales performance and the headwinds created by the increased renewals scheduled for the second half of fiscal '14.

As we look to the balance of the year, particularly the back half of fiscal '14, we expect a large inventory of contracts that will renew to reverse the downward trend we have seen in the revenue backlog. The volume of Q1 renewals that closed earlier than anticipated was not large enough to have a material effect on the revenue backlog. From an expense perspective, operating margins reflected typical seasonality of commissions as well as year-over-year headcount reductions. In addition, our overall GAAP margin was negatively affected by approximately \$120 million of expenses associated with the rebalancing. Q1 non-GAAP operating margin was 38%, while GAAP operating margin was 20%. For the segments, Mainframe was 61%, Enterprise Solutions was 10%, and finally, Services was 8%.

Q1 non-GAAP diluted earnings per share was \$0.78, up 25%. GAAP diluted earnings per share was \$0.73, up 47%. Our non-GAAP tax rate was 14%, while our GAAP tax rate was negative 54%. This reflects completion of the examination of our federal income tax returns for fiscal year 2005, 2006, and 2007. Finally, cash flow from operations for the quarter was \$11 million as expected.

In addition to the difficult year-over-year compare resulting from last year's \$35 million IP transaction, Q1 CFFO was affected by items we outlined during our investor presentation in May. Let me walk you through the year-over-year changes. \$74 million incremental cash taxes. Fiscal '14 rebalancing payments of \$23 million, and a reduction of capitalized software development of \$11 million. When normalized for these items, CFFO would have been in line with Q1 historical averages. We also saw a year-over-year decrease in single installment payments of approximately \$70 million, \$53 million in Q1 fiscal '14 compared to \$123 million in the prior-year. Regarding our rebalancing -- while we have exited people at the rate of pace we initially anticipated, some of the payments expected to hit in Q1 moved to Q2.

For the full year, we continue to expect a total of over \$100 million in payments. The Company also expects to receive cash refunds related to the previously mentioned completion of the IRS appeals of approximately \$70 million by the end of the second quarter of fiscal 2014. Current Billings backlog is down 4%, again reflecting the same dynamics we saw in the revenue backlog. We ended Q1 with approximately \$1 billion in net cash; we paid \$114 million in dividend; and repurchased approximately 2 million shares for approximately \$53 million. We are authorized to repurchase an additional \$452 million of common stock for fiscal 2014.

Turning to guidance, which we reconfirmed this afternoon -- guidance is based upon exchange rates at the last day of the preceding quarter -- for this quarter, June 30, 2013. This includes a partial hedge of operating income. Total revenue is expected to be in the range of negative 4% to negative 2% in constant currency. This translates to reported revenue of \$4.39 billion to \$4.48 billion. Non-GAAP diluted earnings per share growth is expected to be in the range of 16% to 20% in constant currency. This translates to reported non-GAAP diluted earnings per share of \$2.90 to \$3.

GAAP diluted earnings per share is expected to be in the range of negative 11% to negative 6% in constant currency. This translates to reported GAAP diluted earnings per share of \$1.81 to \$1.91. Cash flow from operations is expected to be in the range of negative 30% to negative 24% in constant currency. This translates to reported cash flow of operations of \$960 million to \$1.04 billion.

Guidance does not include the effect of any future material acquisitions. Underlying this guidance, we expect our GAAP and non-GAAP tax rate to be 14%. At the end of the year, we expect approximately 437 million shares outstanding and a weighted average diluted share count of approximately 446 million shares. We continue to expect our non-GAAP operating margin to be 36% for fiscal year 2014.

And now I will turn the call back over to Kelsey, and we will take your questions.

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**Kelsey Turcotte** - CA, Inc. - IR

Thank you, Rich.

As the operator is polling for questions, I would like to inform you that CA Technologies is presenting at Oppenheimer's 16th Annual Technology, Internet and Communications conference in Boston on August 13; Citi's 2013 Global Technology Conference in New York City on September 4; and the Raymond James European Investors North American Equities conference in London on September 10.



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

My pleasure.

(Operator Instructions)

Walter Pritchard, Citigroup.

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### Walter Pritchard - Citigroup - Analyst

Congrats on a great quarter. The first question was about the renewal rate strength. It seems like the mid 90% range was higher than the historical averages. Curious what has really strengthened in the number.

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### Rich Beckert - CA, Inc. - CFO

This is Rich. We are pleased with the renewal yield in the mid 90%. We have had it there before. Over on average, it will tend to be around 90%. In this particular quarter, the things that are great about that as well is -- what you also see, we had a low single installment which allowed us to really leverage the transactions that we had.

You heard us talk about transactions that were Q1 and a couple in Q2, Q3 or whatever, and we're very selective as to which ones we brought forward that the customers wanted. And you can see from the results that they really positioned us nicely for the rest of the year. The only thing I would say was the mix was a little bit different than normal. It was a little heavier towards Mainframe, and you see that show up in the Mainframe results. Again, very strong results for the Mainframe and a little less in ES, and it's really just a statement of what the portfolio was as we had to renew it in the quarter.

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### Walter Pritchard - Citigroup - Analyst

Mike, you talked about SaaS being the driver going forward. And cited some strength in one of the product areas. I'm wondering when you're thinking about breaking out that revenue line.

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### Mike Gregoire - CA, Inc. - CEO

We have segment reporting right now that breaks out Mainframe and Enterprise, and I think there is no discussion on changing that segment reporting. Is there something specific I can try and answer for you?

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### Walter Pritchard - Citigroup - Analyst

Trying to get more of a sense of overall strength in Cloud revenue as opposed to picking out one or two specific products each quarter.

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**Mike Gregoire** - CA, Inc. - CEO

Sure. We are early days in this. It is hard to break it out and have it meaningful, but the thing that I saw that you would see in any kind of SaaS company that you are covering is new customer logos. And this is something that quite clearly hasn't been a priority for the Company in previous years, and our ability to add as many net new customer logos as we did and the acceleration of those logos from Q4, which is traditionally the biggest quarter for the Company, and into Q1 gives me some confidence that the sales force is starting to understand the importance of getting out there and meeting net new customers and talking about our whole portfolio. But the way to do that is with our SaaS solutions.

The SaaS solutions are easier to implement. And they're definitely easier to use, and they are easier to sell. The awkward part of that is they are smaller transactions. You don't really get to see that move the revenue needle in the short period of time, but if you take a look at any company that is scaled in SaaS, they start off with a mezzanine type transaction, and that transaction works and it grows from departmental to countrywide, to global. If you're doing a really good job at that, you're trusted to add more solutions, so this is the beginning of the flywheel. We are definitely in early days, but it was really nice to see -- it was something I was definitely looking for. And I was really happy with the sales team, their ability to make that happen.

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**Walter Pritchard** - Citigroup - Analyst

All right, thank you.

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**Operator**

Phil Winslow, Credit Suisse.

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**Unidentified Participant** - - Analyst

[Rajesh] for Phil. Could you talk a little bit more about the Mainframe pricing environment throughout the quarter?

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**Rich Beckert** - CA, Inc. - CFO

Sure, this is Rich again. I think what we are seeing, and I think you saw it in the results, the Mainframe with our competition, we are actually poised fairly well, so there is some disruption in the marketplace. I think with the announcements we had made earlier in the year at CA World, they are really starting to pay dividends, and we're seeing some impressive numbers being put up on CA Chorus. And from the renewals, you're seeing that we're getting a good renewal yield, which is what we want.

It's the right balance for us keeping our maintenance stream going and introducing new products. And this is the first quarter in a while you saw decent capacity, and again, the capacity number is a little misleading. It's a small number right in Q1, and it was a little heavily weighted toward Mainframe products in those renewals. But we had a high-capacity rate for us. Overall, I would say it was a very solid quarter for Mainframe.

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**Unidentified Participant** - - Analyst

Great, thank you.

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**Operator**

John DiFucci, JPMorgan.



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

Thank you. I have a question for Mike and a follow-up for Rich. At CA World, you laid out a plan to continue to do what CA has always done for your customers in managing data centers. You also provided -- but also for CA to provide other things the customers are asking you for, things around mobility, Big Data, SaaS and Cloud. The question is on one of those areas, and it's mobility, I was surprised to see so soon a transaction of this size, \$9 million that you mentioned. This is a relatively new area for CA, it's not something I've thought of associated CA with, and I'm assuming customers haven't always thought of that either. Why would a customer -- maybe can walk us through that a little bit, how did that customer come to the conclusion that they wanted to choose CA, and for such a large deal to do something like mobility management or something? I assume it was competitive field, but that -- I am surprised to see it so soon.

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**Mike Gregoire** - *CA, Inc. - CEO*

You reference my speech at CA World, and if you remember what I said in my speech, I talked about mobility. CA has been managing PCs and devices for years -- hundreds of thousands of them. And when you think of managing mobile, it is not something we have not done before. As the world is starting to think of all these different mobile devices in a heterogeneous environment, there is nobody that has managed most heterogeneous devices than CA. It's a core competency of ours.

Being able to extend what a customer is currently doing in managing their own infrastructure and devices that they currently have and adding onto the phenomenon of bring your own devices to work, and makes an awful lot of sense. And when you think about a transaction that size, it is going to be at a very large company that is looking for stability, they're looking for a global rollout, they are looking for a company that will continue to invest in that particular domain. And if you look at our product road map for mobile application development, mobile device management, we're adding mobile applications onto that platform on the road map for the end of this year. This is a very competitive situation, and as we showed our product and what we are able to do with that, coupled with our track record of managing large-scale heterogeneous devices, we were a very good fit. Is that helpful, John?

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

That is very helpful Mike, thank you for going through that. And Rich, thanks for the cash flow detail and pulling out some different parts of that. I have another question on cash flow. What was the negative -- there's a negative [\$330 million] contribution due to a decrease in taxes payable. Is that part of the special charge this quarter? That was something like \$70 million-something. Can you explain that line a little bit?

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**Rich Beckert** - *CA, Inc. - CFO*

How about if I -- this will be helpful. If you think of the incremental cash taxes that we paid in order to do the catch-up that we talked about back in May, that is \$74 million. The other thing we talked about is the IP assignment that we did last year was \$35 million that we did last year that we did not repeat. And the rebalancing, that's a \$27 million hit in the quarter. We had told you it would be a little bit larger. We're happy with the number of folks that left the Company, but the payments slid into the next quarter, so we are on track.

The collections were slightly lower, cap debt was slightly lower, so all in all, you add all that up and it's about \$200 million of change. The last piece, John, from a cash flow standpoint is we did by design do a little less in Q1 on the single installment payments of about \$70 million. Between all those things, you can see why our cash would be slightly down. We are on track exactly where we thought we would be from what we had said about the reversal of the accrual. Just to refresh people's memory, that was \$235 million we had estimated. It actually came in at \$221 million. The net benefit, if you will deal, that drove that rate down.

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

That one line, the taxes payable line, did you end up paying taxes that were previously due?



**Rich Beckert** - CA, Inc. - CFO

Correct, there's both inside of that.

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

Okay great. Thanks a lot guys.

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**Operator**

Thank you. Mark Moerdler, Sanford Bernstein.

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**Mark Moerdler** - Sanford C. Bernstein & Company, Inc. - Analyst

Two quick questions. The first one is the margin improvement that we saw this quarter in the Mainframe and Services and margin compression in Enterprise, should we expect this to continue as a trend for the next few quarters? Is this driven out of rebalancing? And then I've got a question on the capacity.

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**Rich Beckert** - CA, Inc. - CFO

Sure. As we had said earlier, our margin for the year will be 36% in total. What you also have to recall from an ES standpoint, the \$35 million IP transaction all was in ES last year, and to the total Company, that was a 3 point change. And then you have the natural -- in Q1 as later, the biggest thing that drives that is commission payments. But you also have marketing investments and other things that tend to be skewed towards the back half of the year.

We're very comfortable with where we are with guidance, we are definitely on track. The Mainframe benefited from what we had already talked about, a strong quarter, and you will see that flow through the year. The SaaS -- the Services is in line, but as you can see, if you look back over the last couple of years, we're doing a much better job as a Company making sure our utilization rates are correct. We think we are in a very solid place for the full-year.

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**Mark Moerdler** - Sanford C. Bernstein & Company, Inc. - Analyst

Perfect. Second is -- capacity is up, but the Mainframe revenue itself is down. You see this is -- both of these continuing trend that renewals are going to be -- even though they're going to be bigger, there's maybe pricing discounts or whatever driving that?

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**Mike Gregoire** - CA, Inc. - CEO

That is just a statement of the ratability of those transactions. They all happen in the last few weeks of the quarter, so you get a few days worth of revenue. What you see over time if you look at the revenue backlog, you can see sequentially it actually got smaller. And as we said earlier, the revenue backlog will turn around for the Company in the back half of the year. Again, you will have a similar issue going on where a lot of transactions will happen in Q3 or Q4. The amount of revenue that shows up in those quarters is very small.

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**Mark Moerdler** - Sanford C. Bernstein & Company, Inc. - Analyst

I appreciate it, thanks.

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**Operator**

Kirk Materne, Evercore Partners.

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**Matt Williams - Evercore Partners - Analyst**

Hi, good afternoon. It's matt williams in for Kirk. One quick question from us. Wondering if you could discuss a little bit your position in terms of helping customers manage their private cloud environments. VMware appeared to show a pretty nice jump in its fee cloud offerings in the last quarter, and just wanted to get your comments on how you see your opportunity and competitive position in that market. Thanks.

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**Mike Gregoire - CA, Inc. - CEO**

Great question. Pretty much across all of our portfolio s applicable to a private cloud. The area that we see the most traction is in security. We have cloud-based product called Cloud Minder that is all encompassing and manages identities and manages a whole portfolio of security solutions both on premise because a lot of these private clouds still have an on premise security component. And having the ability to manage the cloud and the on premise piece from one development console is extraordinarily attractive. And the other thing is we had a huge transaction in APJ this quarter that was for a cloud-based vendor selling our Cloud Minder product. This is an area where we think we are very competitive, and pretty much across the portfolio.

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**Matt Williams - Evercore Partners - Analyst**

Great, thanks so much.

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**Operator**

Aaron Schwartz, Jefferies.

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**Aaron Schwartz - Jefferies & Company - Analyst**

Hi, good afternoon. I had two quick questions. First on the sales on the go to market side. I believe you collapsed two segments, correct me if I'm wrong. I think it was the large new Enterprise and the Growth segment, think you collapsed that into one. Is that complete, or are there still some sort of operational changes that have to occur? And the second question I have is longer-term, but you have talked about developing easier to stand up or lighter-weight products, and I'm wondering what the impact that will have on your Services business over time. Is there less dependency on services as you see a mix shift to those products, or is that unrelated to the overall model? Thanks.

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**Mike Gregoire - CA, Inc. - CEO**

Once again, great questions. With respect to collapsing markets, the Company had three distinct markets that we were serving, which meant three distinct management teams and three distinct overheads that were associated with those management teams. And after running that model for a very short period of time, it was clear that the buying patterns were really bifurcated into customers that are existing customers that have big solutions with us, and we need to be selling them more solutions, and customers that have a very little footprint with us or no footprint all, and the way they buy is different. Separating out those two was just a more economical model. We're definitely finished with that transition in the sales force.

Make no mistake about it, we are continuing to evaluate our sales force. We took \$100 million of expense out of our sales force for this year. We're getting more efficient, we're getting more focused, and we're getting more directed at when we deploy sales resources and how we deploy those

sales resources. So I see us making evolutionary changes to the sales force based on tangible evidence of what works with respect to our solution portfolio, and that's one of the reasons why you've seen the net new customer additions happen this quarter. We are able to focus and pivot on a very big Mainframe renewal portfolio that we are able to execute, and I thought it was extraordinarily well.

The other thing I think that the sales force did primarily because of good execution and some of the organizational structure is they were extraordinarily disciplined in what got sold into renewals. If you take a look at the renewal portfolio, we've been very careful with some of our new flagship products, not allowing those to get put into the renewal without being -- charging the kind of premium that is required. I was really happy with some of the execution of our sales force in that particular domain this quarter. With respect to Services, we have a big portfolio. If you take a look at how many Service professionals that are required on a global basis, we're constantly using staff augmentation or third parties to do that kind of work.

The kind of work want our service professional to me migrating to, is the architectural work. How should the solution be architect in the context of your business, in the higher value services. Plain core implementation services, that's probably going to get decelerated over time if we do a really good job, which I think we will, on our product engineering. At the end of the day, I think it is going to be the right mix of services doing the right thing to add the most amount of customer value. Is that helpful?

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**Aaron Schwartz** - *Jefferies & Company - Analyst*

That is, thank you very much.

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**Operator**

(Operator Instructions)

Abhey Lamba, Mizuho Securities.

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**Abhey Lamba** - *Mizuho Securities - Analyst*

Thanks. Rich, could you talk a little bit about drivers behind really strong bookings growth here? Were there any renewals that moved from future quarters into this one, or is this better pricing or more products you added there?

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**Rich Beckert** - *CA, Inc. - CFO*

As we had said in the prepared remarks, what you will see is Q1 and Q2 smoothed out slightly, so there were some transactions that were due to close in Q2. A little bit out of Q3 and Q4, but predominantly out of Q2. If you go back to what we had said in May, it's a little bit smoother between those quarters. Overall, as Mike had said, we are pleased with the pricing levels that we had in the quarter. The reason for the big surge year-over-year is really just the portfolio that is due to renew as we had talked about earlier.

A year ago was the lowest quarter in the five years if you went back over the last five years. We expected to be up quarter over quarter. We expect to be up year-over-year excluding the large outsourcing agreement, which comes due at the end of the fourth quarter. We will be up -- we should be up all year long on our bookings. And as long as we can focus like we have in Q1, I think you will continue to see that revenue backlog billed as the year progresses.

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**Abhey Lamba** - *Mizuho Securities - Analyst*

Thanks and Mike, you touched upon it briefly. You're not adding a lot of your key products into these contacts with customers. Can you talk a little bit more about your success in selling outside of the renewal cycle? Are there any other successes on that front that you can talk about?



**Mike Gregoire** - CA, Inc. - CEO

Yes, that is an area that we are still working on. We did all right this quarter, but I still think there is room for improvement. Our portfolio this quarter was so Mainframe dominated. It dwarfed a lot of the performance of the Enterprise solution arena. This is an area where I think that we can make things happen.

But we did have some very large deals. We did the -- one of the questions that was asked earlier is in mobile device management was a very large outside the renewal transaction. And we also did a very large security deal that was outside of the renewal cycle, but I'd like to be here talking about not a handful of transactions. I'd like to be talking about dozens of transactions. This in there where we do have to get better, and it's definitely a focus of our sales team.

**Abhey Lamba** - Mizuho Securities - Analyst

Thanks.

**Mike Gregoire** - CA, Inc. - CEO

With that, I want to thank everybody for taking the time for our call. I was really happy with Q1. We have an awful lot of work to do here at CA, but we have a very committed team ready to make that happen, and we look forward to keeping this momentum up going into Q2. Thank you very much.

**Operator**

Thank you sir, and thank you ladies and gentlemen for your participation. That does conclude your program. You may disconnect your lines at this time. Have a great day.

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