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# EDITED TRANSCRIPT

## CA - Q4 2012 CA, Inc. Earnings Conference Call

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**OVERVIEW:**

CA reported FY12 revenue of $4.81b and GAAP diluted EPS of $1.90. 4Q12 total revenue was $1.2b and GAAP diluted EPS was $0.45. Expects FY13 reported revenues to be $4.85-4.95b and reported GAAP diluted EPS to be $2.07-2.14.

## CORPORATE PARTICIPANTS

**Kelsey Doherty** *CA Technologies - SVP IR*

**Bill McCracken** *CA Technologies - CEO*

**Rich Beckert** *CA Technologies - SVP and CFO*

## CONFERENCE CALL PARTICIPANTS

**Aaron Schwartz** *Jefferies & Co. - Analyst*

**Walter Pritchard** *Citigroup - Analyst*

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

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

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

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

## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and welcome to the CA Technologies fourth-quarter and full-year fiscal 2012 conference call. At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session and instructions will be given at that time. (Operator Instructions). As a reminder, this conference is being recorded. I would now like to introduce our host for today, Ms. Kelsey Doherty, Senior Vice President of Investor Relations. Ma'am, please go ahead.

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**Kelsey Doherty** - *CA Technologies - SVP IR*

Thank you, and good afternoon everyone. Welcome to CA Technologies' fourth-quarter and full fiscal-year 2012 earnings call. Joining me today are Bill McCracken, our Chief Executive Officer, and Rich Beckert, our Chief Financial Officer. These prepared comments were previously recorded. This conference call is being broadcast on Thursday, May 10, 2012, over the telephone and the internet. The information shared in this call is effective as of today's date and will not be updated.

All content is the property of CA Technologies, and is protected by US and international copyright law, and may not be reproduced or transcribed in any way without the express written consent of CA Technologies. We consider your continued participation in this call as consent to our recording. During this call, non-GAAP financial measures will be discussed. Reconciliations to the most directly comparable GAAP financial measures are included in 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 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.

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

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**Bill McCracken** - *CA Technologies - CEO*

Thanks, Kelsey, and good afternoon to everyone. Thank you for joining us. I'll start this afternoon with a brief overview of our full-year and fourth-quarter performance. I'll then update you on fiscal 2013 priorities, which will provide details of full-year performance, the quarter and guidance for fiscal 2013, and then we'll take questions.

Nearly three years ago, we set a strategy aimed at helping customers gain the most from their existing IT investments, while at the same time, benefiting from new technologies and business services that deliver a competitive advantage. We made a series of strategic acquisitions and significant investments and development to produce a portfolio of solutions and services that leverage our heritage in IT management. We also continue to invest in new routes to market and enhance our presence in geographies with growth opportunities around the world. Our fiscal 2012 results reflect progress against our strategic goals. For the full fiscal year, revenue grew 7% in constant currency and 9% as reported. Five points of this growth in constant currency was organic, while two points of this growth came from acquisitions.

Our non-GAAP operating margin was 34%. This includes significant investment in the future of our business. Our non-GAAP tax rate was 31% at the low end of our expectations in January. Non-GAAP earnings per share grew 13% in constant currency and 18% as reported, and finally, cash flow from operations grew 6% in constant currency and 9% as reported. During the year, we provided segmented financials, sold our internet security business, acquired ITKO, a leading provider of service virtualization and base technologies, a consultancy focused on the management of IT assets, drove return on investments in growth markets led by Latin America and Asia Pacific, announced a return of $2.5 billion in capital to our shareholders through fiscal year 2014. And we finished fiscal 2012 by delivering a solid fourth quarter.

Year-over-year, revenue was up 6% in constant currency and 5% as reported. Non-GAAP operating margin was 32%. Non-GAAP EPS grew 10% in constant currency and 17% as reported. Finally, cash flow from operations was up 20% in constant currency and 22% as reported. We paid our first quarterly dividend of $0.25, in line with the annual dividend rate of $1 per year we announced in January, when we increased the dividend five-fold. We also launched a $500 million accelerated share repurchase program, under which we immediately received approximately 15 million shares of our common stock. This program will continue into our first quarter and the final number of shares purchased will be trued up based on the average price of stock over the life of the program. Upon completion of the accelerated share repurchase, CA Technologies will have approximately $1 billion in stock repurchase authorization available through fiscal 2014.

We accomplished a great deal in fiscal 2012, but we know there was more we can do. To expand product penetration, to continue to improve our results in EMEA where full-year revenue was down slightly in constant currency year-over-year, and to accelerate performance of acquisitions we have made over the last few years. We see a significant opportunity to expand our market reach and grow our business by penetrating new customer segments with new solutions. There are several key components to our plans. The first component is market segmentation. We are executing our market segmentation initiative, deploying approximately 300 incremental new quota-carrying sales reps. Approximately one-third of those resources are new to CA Technologies, while the balance are a reallocation of existing internal resources.

We are selling new products in three customer segments. First, large existing enterprises, where we get approximately 80% of our revenue today. The market opportunity focuses on improving renewal yields and driving revenue growth through increased account penetration. Second, large new enterprises. While this market segment includes more than 4,500 potential new customers, we are initially focusing on 1,000 customers selected based on CA Technologies' current geographical and vertical strength. We are landing with our most differentiated offerings and expanding through upselling complementary products. Finally, we continued to build our presence in the growth market.

For us, the growth market consists of companies with revenue between $300 million and $2 billion, and in fast-growing geographies like Latin America and Asia. These customers are looking for integrated offerings that are easy to install and use and have a rapid ROI. We are reaching this market with a combination of teleprospecting, inside sales, and partner routes to market. Offering them technology like our public and private cloud automation solutions and Nimsoft. Targeting these large, new and growth market customer segments more than doubles our total addressable market, and we believe will accelerate our new solution sales in new accounts across all of the geographies.

Examples of fourth quarter successes include a record number of competitive displacements on the mainframe, including Duke Energy. More than 50 new customers in our security business including American Express and [Sinha] Card in Korea. Just under half of these customers were new to

CA Technologies. Our security solutions protect the identities of over 150 million users worldwide. Just over 60 new customers added to virtualization automation, including Toyota Financial Services and Fuji Xerox Taiwan, and just under 100 new customers added to Nimsoft.

Turning to the second component of our 2013 plan, we continue to align our organization to better support these new routes to market, reflect our reporting segments, and streamline our business. For example, in the fourth quarter, we aligned our business, both internal business units and some operational functions, to more closely reflect our products and go-to-market strategy. We appointed a Chief Marketing Officer and consolidated our marketing functions into one organization, and we continued to enhance our global partner program, which we launched more than a year ago, to help partners evolve their businesses and adopt new service delivery models. We are partnering with Mahindra Satyam and Tech Mahindra, an Indian-based systems integrator and service provider, leveraging CA Technologies' broad technology portfolio to provide IT solutions to key vertical markets such as telco and financial services. Fujitsu, which will incorporate Nimsoft IT management as a service, monitoring and service desk solutions on its Fujitsu cloud portfolio. Cisco and NetApp, which have fully validated CA Automation Suite for data centers for their FlexPod offering, VCE, has which certified 12 CA Technologies software products to run on Vblock infrastructure platforms.

And we have also enhanced our alliances program with major consultancies. With PWC, we are delivering joint solution offerings with products like Service Assurance and Service Virtualization, specifically targeting the financial services and healthcare verticals. With Deloitte, we are delivering joint offerings with our Identity Access Management solutions for the healthcare vertical. All of this is being done to support our market segmentation, increase our speed of execution, drive our performance costs, and improve productivity and efficiency.

Finally, in addition to our broad portfolio of on-premise software solutions, we continue to invest in our integrated SaaS platform strategy that we discussed at CA World in November. These solutions provide customers scalability, combined with simplicity and include our monitoring and service desk solutions from Nimsoft. We are confident this approach will appeal both to our growth market customers, who prefer a flexible consumption model, as well as to our traditional large enterprise customers who can quickly adopt new functionality to complement their on premise capability. In fiscal '13, we will continue to focus on expanding our operating margin through improved execution, increased efficiency, and continuing to build sales momentum. And with that, I will turn the call over to Rich for a closer look at the fourth quarter and full year.

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**Rich Beckert** - *CA Technologies - SVP and CFO*

Thank you, Bill. Please note that all growth rates are year-over-year unless otherwise indicated. I'll start by running through the details of our full year financial performance. Revenue was $4.81 billion, up 7% in constant currency, and 9% as reported. Full fiscal year '12 results benefited from two points of growth from the large IT outsourcer deal booked in the fourth quarter of fiscal '11, and one point of mainframe growth from a single license payment received last quarter that will not reoccur in fiscal '13.

Non-GAAP operating expense was $3.17 billion, up 7% in constant currency and 8% as reported. Non-GAAP operating margin was 34%. Non-GAAP diluted earnings per share was $2.27, up 13% in constant currency and 18% as reported. And finally, cash flow from operations was $1.5 billion, up 6% in constant currency and 9% as reported. On a GAAP basis, our operating margin also improved one percentage point to 29% and our diluted EPS was $1.90, up 14% in constant currency and 19% as reported.

Now, for the fourth-quarter details. Total revenue was $1.2 billion, and grew 6% in constant currency and 5% as reported. Four points of this constant currency growth was organic, while two points came from acquisitions. This also includes $21 million in products that were newly eligible for up-front revenue recognition in the third quarter of this year. From a segment perspective, mainframe solution revenue was $629 million, up 2% in constant currency and 1% as reported. Our enterprise solutions revenue was $466 million, up 10% in constant currency and as reported. Services revenue was $93 million, up 15% in constant currency and 13% as reported. Underlying our results for the quarter, total new capacity and new product sales were up low single digits.

In Mainframe Solutions, new product sales for the quarter were up more than 50%, driven by the competitive replacement and adoption of our Chorus product line. Capacity sales were down in the mid-teens. Quarter-to-quarter capacity will fluctuate driven by the nature of our customers in our underlying renewals portfolio. For the full year, capacity sales were flat. Enterprise Solutions new product sales were up low single digits.

We saw growth in identity and access management, and virtualization and automation. This was offset by Service Assurance. Underneath these Service Assurance results, we saw growth in application performance management that was offset by infrastructure monitoring. Finally, new service engagements were up more than 30% year-over-year. Our renewal yield for the quarter was in the low 90% range. The fiscal 2012 renewal portfolio came in slightly better than the 15% year-over-year decline we had expected at the end of January. As a reminder, in the fourth quarter of fiscal 2011, we closed a $500 million IT outsourcer deal, which made for a challenging year-over-year comparison. We currently expect the 2013 renewal portfolio to be down single digits year-over-year. For modeling purposes, please note that the first quarter 2013 renewals are expected to be a trough for the year.

Looking at the revenue backlog. Current revenue backlog at the fiscal year end was $3.7 billion, up 1% in constant currency, and flat as reported. Total revenue backlog at fiscal year end was $8.5 billion, down 2% in constant currency and 3% as reported. This decline was due to the IT outsourcer deal signed in the fourth quarter of fiscal '11 and the increase in bookings attributable to software fees and other. From a non-GAAP perspective, non-GAAP operating income before interest and tax was $377 million up 1% in constant currency and 6% as reported. For the quarter, our non-GAAP operating margin was 32%.

Operating margin for Mainframe Solutions was 56%. Our full fiscal year operating margin for Mainframe Solutions was 56% compared to 54% last fiscal year. Operating margins for Enterprise Solutions was 5%. This was primarily due to investment in acquisitions and development. Our full fiscal year operating margins for Enterprise Solutions was 8%, flat with last year. Finally, operating margins for services was 6%. Our full fiscal year operating margin for services was 6% compared to 5% last year.

Non-GAAP diluted earnings per share was $0.56 up 10% in constant currency and 17% as reported, including a year-over-year $0.03 tail wind from currency. For the fourth quarter, our non-GAAP tax rate was 28%, compared to 29% for the fourth quarter of fiscal 2011. Our full-year non-GAAP tax rate was 31%, compared to 32% last fiscal year. We continue to see year-over-year benefits from efforts to improve our approach to taxes. Cash flow from operations in the quarter was $776 million up 20% in constant currency and 22% as reported.

Single installment payments were $208 million in the fourth quarter, compared to $176 million in the previous period. For the year, single installment payments were down $479 million for fiscal year '12 compared to $542 million in fiscal year '11. Total billings backlog at fiscal year end of $4.84 billion was down 5% in constant currency and 7% as reported. Similar to the dynamics underlying revenue backlog, this year-over-year decline was driven by the IT outsourcing deal signed in the fourth quarter of fiscal '11 and the increase in bookings attributed to software fees and other. We ended the quarter with approximately $1.24 billion in net cash.

Moving to the fourth-quarter GAAP results. Fourth-quarter operating margin was 25%. GAAP operating income before interest and tax was $301 million, down 1% in constant currency and up 1% as reported. GAAP diluted earnings per share was $0.45, up 19% in constant currency and 22% as reported. Our effective GAAP tax rate for the fourth quarter of fiscal 2012 was 27%, compared to 35% for the fourth quarter of fiscal 2011. Our full year GAAP tax rate was 31%, compared to 32% last year.

Now let me turn to our fiscal 2013 guidance. As has been our practice, guidance is based upon exchange rate of the last day of the proceeding quarter, or for this quarter, March 31, 2012. This includes a partial hedge of operating income. Guidance is the following. Total revenue growth is expected to be 2% to 4% in constant currency. This translates to reported revenue of $4.85 billion to $4.95 billion. Non-GAAP diluted earnings per share growth in constant currency is expected to be in the range of 9% to 12%. This translates to reported non-GAAP diluted earnings per share of $2.45 to $2.53. GAAP diluted earnings per share growth in constant currency is expected to be in the range of 10% to 14%. This translates to reported GAAP diluted earnings per share of $2.07 to $2.14.

We expect that cash flow from operations will grow at 4% to 6% in constant currency. This translates to reported cash flow from operations of $1.56 billion to $1.59 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 30% to 31% in this fiscal year. At the end of the year, we expect approximately 448 million shares outstanding and the weighted average diluted share count of approximately 461 million shares. We expect our non-GAAP operating margins to be 35% for fiscal year 2013. And now, I'll turn the call back over to Bill.

**Bill McCracken** - *CA Technologies - CEO*

Thanks, Rich. Looking back, fiscal 2012 was a year that further demonstrated CA Technologies' commitment to consistently delivering innovative solutions and services to our customers, solid revenue and earnings growth, and attractive sustainable returns to CA Technologies' shareholders. In fiscal 2013, we will continue to focus on improving and consistent execution, expanding our penetration in large existing enterprises, and winning new accounts in large new enterprises and growth markets. We will also continue to follow a strategy that thoughtfully balances investments in the business to fuel growth with a return of cash to our shareholders. Customer success and financial performance do not happen by chance. Our people are the heart of who we are as a Company, the value we bring to our customers, and the ultimate key to our success. Thank you to all of our employees for your hard work and continued dedication to CA Technologies. You are CA Technologies. And with that, Kelsey, let me turn it back to you.

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**Kelsey Doherty** - *CA Technologies - SVP IR*

Thank you, Bill. As the Operator is polling for questions, I would like to inform you CA Technologies is presenting at the JPMorgan Technology, Media and Telecom conference on May 16 in Boston, the Barclays Capital Global Tech Conference on May 23 in New York City, and the Cowen and Company Technology Media and Telecom conference on May 30 in New York City. 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). Our first question comes from the line of Aaron Schwartz from Jefferies.

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**Aaron Schwartz** - *Jefferies & Co. - Analyst*

Good afternoon. I had a question on the revenue backlog and how you envision this going forward. And the question is that if you are seeing an increase up front or perpetual deals, and I think you have talked about a trend of where duration should come down over the next year or two. It seems like that could create a situation where backlog could shrink because of these two items. And I just wanted to get your thoughts on the model, longer-term, with some of these moving parts in the model.

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**Rich Beckert** - *CA Technologies - SVP and CFO*

Aaron, this is Rich, how are you? Just a quick note. Yes revenue backlog in total is slightly down. You can see that in current we are up. It comes from a couple of things. If you recall, we had the large system integrator last year that drives about three points of that current when you look at it from a year-over-year. And you do need to recall going all the way back to last July, we will have a tail wind this year as we come through our portfolio into fiscal year 2014, which will then turn around and become a strong tail wind for us. So you'll see the backlog burn down and then as we go out over time it will start to rebuild.

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**Aaron Schwartz** - *Jefferies & Co. - Analyst*

Okay, that's helpful. And then the second question I had is, you talked in the commentary about a desire to accelerate the performance of acquisitions, and I just wanted to see if you could put that in context, because I know you've made a number of changes here in the market segmentation, et cetera. Is the commentary about accelerating the performance of acquisitions now just sort of executing on a lot of the changes you've made here, or are there still changes to come?

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**Bill McCracken** - *CA Technologies - CEO*

Aaron, a couple points I'd make. First is that we are getting good return off the acquisitions we have made and particularly, they've contributed to the ES portion of our business, where we think we grew ahead of the market last year. And as we look forward, as we said at the end of the third quarter too, we're looking to spend about $1 billion a year in development as well as acquisitions going forward in this year, and so we think there will be tuck-in kinds of things that we do, but there's a lot of development coming out of it and products that come out of our development as well.

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**Kelsey Doherty** - *CA Technologies - SVP IR*

Great. Next question, please?

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**Operator**

Thank you. Our next question comes from the line of Walter Pritchard from Citigroup.

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**Walter Pritchard** - *Citigroup - Analyst*

Two questions. First one on the mainframe side. You mentioned displacements and highlighted Chorus and a few things and I guess we've failed to hear anybody in the market talk about seeing weakness or being displaced, and I'm just wondering who you think that share is coming from? Is it larger players, is it smaller players, any color there?

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**Bill McCracken** - *CA Technologies - CEO*

It's really coming across-the-board. As far as the mainframe is concerned. I think last year we did discuss with you, we had about 18 of those conversions last year, we had 60 this year, so that also I think plays into the large new enterprises we talk about, with the segmentation in focusing on that. And then the other very important piece is we invested in the mainframe now about a year and a half ago and talked to you about Chorus and we are seeing an uptake in the Chorus installs on that, so we think that's adding to the mainframe growth as well.

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**Walter Pritchard** - *Citigroup - Analyst*

Got it and maybe a question for Rich. On the up front revenue, we're actually seeing most of your peers go the other way and they are obviously aren't in the situation where you are where they are almost 100% ratable, but we're seeing more business go that way. And I'm wondering, your move in this direction, do you think it's winning you more business because in general I think it's actually a less predictable model and when you get to go back to the customer, you don't get to renew them in the larger contract. I'm just wondering, what are you seeing as the positive offsets of a business where there's just more up front with less visibility?

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**Rich Beckert** - *CA Technologies - SVP and CFO*

So remember inside of the SFO line we have our SaaS business and our SaaS business year-over-year has grown quite a bit and actually drove one full point of growth. So then you also have the perpetual business that's in there that you just spoke of, so it is a combination of both. The way we go to market, if you'll recall the license and trailing maintenance is different than how you actually record your revenue, which would be a ratable business model. So from a pricing standpoint, it does -- we go to market actually in all three ways, we have where we rent, where we have a license up front, and we have a SaaS business. So we go to market with what makes sense most for our competition and our customers.

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**Walter Pritchard** - *Citigroup - Analyst*

And do you think you win business because is that actually helping you win business? Is there anything you can point to in terms of numbers that you've seen so far as that conversion started?

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**Rich Beckert** - *CA Technologies - SVP and CFO*

Selling outside of the renewal cycle, it absolutely allows us to generate a little bit of a price premium. But that being said, really the customer and competition will dictate how we go to market more so than how we recognize our revenue.

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**Walter Pritchard** - *Citigroup - Analyst*

Okay, great, thanks.

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**Operator**

Thank you. Our next question comes from the line of Michael Turits from Raymond James.

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

Hi guys. Very strong quarter on bookings, and I think you came in with bookings ending up being down 5% for the year, whereas I think you said you expected your portfolio to be down. Wasn't quite clear what happened. I know you had one large deal that it sounds like you didn't expect. How big was that large European deal? Was that a deal that was outside the original renewal portfolio for next year, so we have this year instead, so if you could just help us with those mechanics, it would be great.

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**Rich Beckert** - *CA Technologies - SVP and CFO*

We don't, as you know, we don't, we're getting a little feedback so if you can mute your phone while I talk, Mike?

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

Okay.

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**Rich Beckert** - *CA Technologies - SVP and CFO*

So what you'll find is we have the one large transaction that was outside of the renewal cycle in Europe, but as you know, we won't talk about the size of those deals. That actually was a great win for CA. It allowed us to demonstrate our broad portfolio, and it allowed for the customer who had some capacity needs, it allowed us to be able to close on that a little sooner than it was anticipated, so as you said we had anticipated a lower year-over-year compare, and we were able to fill some of that in. It was a good win for both us and the customer.

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**Kelsey Doherty** - *CA Technologies - SVP IR*

Great, Michael. I know you're on mute. Do you have a follow-up?

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

Yes, sure. Thanks. It looks like you got almost a point of margin expansion in the next year that can you break down where it's coming from? Is that mostly because you're coming off having made some acquisitions? I guess I'm trying to get to A, how you plan to do it and then B, how sustainable that is going forward.

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**Rich Beckert** - *CA Technologies - SVP and CFO*

Okay, sure. So we're very confident in our 100 basis points of margin expansion next year. As you see when you go through the different segments, you can see the mainframe had a very strong year, enterprise solutions was flat year-over-year, so we expect to see those margins continue to expand. But the investments that we did in Q4 and the first half of the year are starting to pay dividends in places like Asia. As Bill talked about earlier, when we talked about moving the 200 people that were overlays into direct sales, that helps with the sales productivity. So although the total dollars being spent in sales and marketing were flat year-over-year, the productivity improves from that standpoint. G & A we picked up almost a point year-over-year and we expect to see that continue to see that improve so it really comes down to if we're going to continue to execute on our differences.

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**Bill McCracken** - *CA Technologies - CEO*

Michael, maybe you can put it on mute again. We're getting feedback if you would. I would also recall for you that we said in July and we affirmed that today, the 37% margin is where we're going to be in 2015, and when you play that through, that says the margins holding to advancing in the mainframe area, but you start going to the high teens in the ES area, so we're committed to that 35 this quarter, 37 in 2015.

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**Operator**

Thank you, our next question comes from the line of Mark Moerdler from Sanford Bernstein.

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

So Rich, a couple quick questions. The first one is, I guess in general, not just you, on the enterprise sales, with Cisco's not-great statements yesterday, in terms of the enterprise business, what's the sense in terms of pipeline, et cetera, in terms of your enterprise deals?

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**Rich Beckert** - *CA Technologies - SVP and CFO*

What was the last part of that, what about the enterprise deals?

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

Get a sense in terms of the -- how you feel in terms of -- are you seeing any weakness in enterprise, in terms of either the US or international, in terms of ongoing into the next year in terms of the pipeline, et cetera?

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**Bill McCracken** - *CA Technologies - CEO*

Yes, Mike, we see pipeline building, especially in the growth geographies, AP, and Latin America, but I think I would repeat what we said last quarter, and that is, we see a balanced environment out there. Growth in our area, as it is indicated by the industry in the mainframe and probably in the flat to 1% and in the ES area probably in the 5 to 7% area. We're not seeing substantial changes as far as decision times are concerned, those types of things. I think we saw that flow through pretty much this quarter, as we did last quarter.

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

Second quick follow-up to Rich. In terms of the cash, how much is now onshore versus offshore, how are you tracking that in order to be able to do delivery of the cash back to shareholders?

**Rich Beckert** - *CA Technologies - SVP and CFO*

So 36% of that is US, about $1 billion, so we're actually sitting pretty well. As you saw, our Q4 was very strong results, and as you can see, we're pretty content with the 4% to 6% guidance that we gave for CFFO for next year.

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

Okay, perfect. Thank you.

**Operator**

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

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

Two really quick ones. First just on the revenue guidance for next year, could you just talk maybe qualitatively about what that implies for the international business? Does the international business have to get back to at least sort of flat year-over-year growth for that to be possible? And then I guess secondly, understanding that there's a lot of moving pieces with this, but when you guys talk about your longer term margin guidance, most of the deals you're going to do in the enterprise side are going to be dilutive to some degree, so are you giving us, is there potential for you to outperform, and then the deals will bring you back to those levels, or if you make acquisitions and you're talking about $1 billion, would those be potentially -- would you have to reset sort of the margin guide depending on those deals? Thanks.

**Bill McCracken** - *CA Technologies - CEO*

Let me come back, Kirk, on a couple points. What I said on the $1 billion is development and acquisitions, so and then as we've said in the past, we're usually in the $600 million range for development, so that was that $1 billion on that. On the international business, particularly, we saw improvement in both Asia Pacific and Latin America. We've talked about Latin America before, that it's running strong as a geography, it's running strong for us.

We saw growth this quarter in Asia as well, too. Now obviously, we know what the macro-economics are in EMEA. We saw as we reported last quarter a flattening of our business in EMEA and we think that we clearly have the right management in place there and that as we move through this year we'll see an improving environment there but it will be back-end loaded as we get through that. So I think that gives you pretty good -- and I'm going to throw it to Rich for the second part of the question.

**Rich Beckert** - *CA Technologies - SVP and CFO*

Kirk, the way I would look at this if you looked at our fiscal year 2012 growth of seven points, we had two of those from the large system integrator that we did last year. We had one non-recurring from the mainframe and then we had two points through acquisitive growth and two points of organic. In fiscal year 2013, what you'll see is we're going to grow the 2% to 4%, which says we're going to grow with or faster than the market, just the weighting of how we go. And just again, clarification as Bill had said. We spend almost $670 million in development a year, so to give you an idea out of that $1 billion that we talked about. Does that clear that for you?

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

Yes. That's helpful, thank you.

**Kelsey Doherty** - *CA Technologies - SVP IR*

This will be the final question, please?

**Operator**

Our final question comes from the line of John DiFucci from JPMorgan.

**Kelsey Doherty** - *CA Technologies - SVP IR*

Hi, John. Are you on mute?

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

Oh, I'm sorry. Can you hear me now? Good thing I'm a technology analyst. (laughter) Bill, that was really helpful going through the market segmentation and how you're focusing the sales force in different segments but can you just address exactly how these, how people are being compensated? And it sounds like you have more people or maybe less people focused on renewals, and we talked about that before, but can you, is that the case and are more people today now being compensated entirely after just going after new business?

**Bill McCracken** - *CA Technologies - CEO*

Yes, John, you're on some good points. We've talked about this in the past with you and agreed with you and we're talking about that now for several quarters, so let me try to split it out. It is in the three segment areas. One of the things we did in the area of what would include the renewals on the existing large enterprises, which is about 80% of our revenue, we've delayered a lot of the support folks and other sales support kind of folks that we had in there. A lot of those folks now have been applied in the segment that is the large new enterprises that will be driving that. That by design then, improves productivity both in the large existing accounts, but as you look at the large new, we're also doing that through partnering, so the productivity there is better than the model that we've had.

And you ask about the compensation piece. On the large new enterprises, we've taken a bit of a different track there with that, in that we put a two-year plan in place for our sales reps there to give them the opportunity to build the relationship with the customer, where we land with a very high-tech offering, which we have, like an ITKO, unique in the industry and then spread out from there. The compensation on the large existing is similar to what it was before, but the productivity changes and then a lot of the new resource we've talked about, the 300 we've talked about for the last couple quarters, has been deployed and that's going after the 7,000 accounts from growth that are from $300 million to $2 billion and that is telecapability, along with partner capability, and some direct, so the productivity piece there is substantially different than what the other three parts are. Let me stop and see if you have another question with respect to that.

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

No, that was it. That's actually helpful, Bill. So, and it's understandable that at least people focused on enterprise accounts, especially those accounts that as of yet have not been productive, or are going to need some time to develop those relationships. But it also sort of begs a second question for Rich. Rich, in your prepared remarks you said the enterprise solution, the profit margins, they were down, we saw that, but you said that was primarily due to sort of the acquisition integration, I think. I guess was it also due to some of what Bill's talking about here, and will we continue to see those margins somewhat suppressed? Listen, the overall margins were actually really good this quarter, it was great to see, but should our expectations for the ES business be for margins, be somewhat suppressed for a couple quarters anyway, or maybe even a few quarters?

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**Rich Beckert** - *CA Technologies - SVP and CFO*

So the way I would put it into a couple bullets for you. Q4 clearly has seasonality that gets pushed into that, which tamps down the margin growth. But inside of that, we also had ITKO, so it makes it for a difficult compare year-over-year. And then the last part of that is as we grow out of the product cycle, either new product which is what we've had invested in some of the areas, or as Bill just described, the build out of the sales team, that should, in the back half of the year into the following year, you'll start to see that from a revenue growth rate. So the margin expansion, we're very confident in the 35% for next year and you heard Bill talk about the 37% as we go out over time. So we think we're on track for that. It's just the rate and pace for us to continue to invest like we did. As we started to talk about this into June where we're going to move the 300 folks and now you see them they are all quoted, they are out in the field and they are starting to sell, as we speak, so that's just our pay off in the back half of the year.

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

Okay, good and it's good to hear you start to talk about things like 37% but I'm still waiting for you guys to talk about things with a 4 handle on it but I don't want to push you too hard. One last question for Rich. Rich, you put up a it slide during the analyst day back in July and it showed, you didn't have I don't think, numbers on it, but it was something with the renewal portfolio, and I know you said the renewal portfolio will be down next year but can you just remind us again when we should expect that, and this is just a timing issue. We all know that but in our models, can you just sort of remind us when you would expect that to reverse?

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**Rich Beckert** - *CA Technologies - SVP and CFO*

Sure. So just to go back at that time frame, we had talked about 2012 being down 20% and then we had told you we had refreshed that down to 15% and we actually closed better than that even in fiscal 2012 so we're saying now, fiscal year 2013, it will be down single digits, and then it starts to come back in 2014 and 2015. So the reason why we're seeing single digits is I don't want to put the number out, but I did and then have to walk it down, because we will have like the large company in Europe last quarter who decided they wanted to go early, and so that number will move around. They don't move out. They tend to move in.

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**Bill McCracken** - *CA Technologies - CEO*

Okay so let me wrap up, if I can. As we look at this year with our organic guidance of 2% to 4% revenue, we think we hold and gain share, especially as we look at the ES marketplace. It's going to be done through three primary things. One, we're going to pay close attention to our segment marketing, operations, and performance and we'll see that grow in its performance as we go through the back end of the year.

We're going to continue to focus on our margin improvement. We are committed to the 35% margin for this year and as I said, that will put us on the track to move to the 37% we committed for 2015. And then we're going to keep continued focus on the EMEA improvements, as I talked about earlier in the call, and continue our growth from the geographies, both AP and LA. So thank you for joining us today, and look forward to talking to you in the future. Thanks a lot.

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**Operator**

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

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