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CA - Q4 2013 CA, Inc. Earnings Conference Call

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OVERVIEW:

CA reported 4Q13 non-GAAP EPS of $0.68.

CORPORATE PARTICIPANTS

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

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CONFERENCE CALL PARTICIPANTS

Michael Turits *Raymond James & Associates - Analyst*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Please direct your attention to the forward-looking statement on the screen at this time. Good afternoon, ladies and gentlemen, please welcome Senior Vice President, Investor Relations, Kelsey Turcotte.

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

Good afternoon, everybody. Thank you very much for coming. We know many of you are just hitting the tail end of a really busy earnings season so we appreciate your leaving your desks and coming here to join us this afternoon and we appreciate your support of the Company. What we wanted to cover this afternoon, here is the high-level agenda, we are going to start with Rich Beckert. He's going to give you a view of our fourth quarter and full-year fiscal '13 results then give your financial guidance for 2014. Then Mike will come up and talk a little bit about his game plan for the coming year and give his view on some of the announcements we made this afternoon. And then Rich will come back and give you some of the details from a financial perspective that underline our 2014 guidance.

And we will then turn it over for Q&A. We're hoping to accomplish all of this by about 6.00, and then we invite those of you who have time to stay to join us for a cocktail. You'll have an opportunity to talk to both Rich and to Mike and to again have the opportunity to see some of the technology that you will hear us talk about this afternoon. My one favor to ask of you for those of you who have cell phones if you could just put them on silence we would really appreciate that. And without any further ado I would like to invite Rich Beckert, our Chief Financial Officer, up to speak with you.

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

Hello everyone. Let's just jump right into fiscal year '13 overview. A couple things. We had a tough economic undercurrent for the full-year. And we had a low renewal portfolio for the year. And we also had, especially the first half, we changed around a lot of the sales force. By changing around the sales force it was disruptive in the first half but we actually have more sales people on the ground now starting FY '14 than we did a year ago. That is a positive. Even though we had that headwind, we were able to expand our non-GAAP margin by two points to 36%.

You will see when Mike talks we have made a lot of progress in restructuring ourselves and we feel pretty good about what we were able to do with our expense control. With that said we still had difficulty selling outside of the renewal cycle and you'll see in Q4 we also still had sporadic success. We were okay in Q3 and I would tell you we are only okay in Q4 in the emerging geographies. Both North America and EMEA had sporadic success depending on the regions. We were also able though through all of this to increase what I would consider a leading edge capital allocation by buying back 500 million shares, $500 million rather and delivering on $1 per share dividend.

If you look at the results, you can see that we were down minus 2%. We have a 3% headwind going into next year on our revenue backlog. You can also see though we had a pretty good -- compared to our revised guidance, strong EPS, up 15% year-over-year. Inside of that there is 5% to a one-time tax benefit that we were able to get from the IRS. If you back that out, at 10% we're at the high end of guidance. Cash flow came in exactly where we had anticipated. And as we have been saying all year we had a strong Q4 last year, we had a strong Q3 this year, so this is exactly where we thought we would be. We are very selective as to how and what type of transactions we do as far as single installment payments, so we're content with where that landed for the year.

Q4. Q4 top line continued to be something of a struggle in certain parts of the world. I would say we were making progress, if you see the pipeline and things like that are building. But with the macro economy, we still saw some transactions that fell out of the quarter into fiscal year '14. When you work your way down to our ability to control cost, you can see that at $0.68, it's actually pretty healthy. There's $0.11 inside of that number though for tax, but even still it's a pretty healthy number on retracting revenues.

So let's, some color. I would tell you it's, two different things are going on. The renewal portfolio behaved exactly how we had anticipated. What you see is they renewal portfolio was a little bit better than we had said. We thought it would be about 10%. We had one large transaction with the federal government that allowed us to actually grow this quarter. That's the first time we've seen growth in multiple quarters. You also see the renewal yield in the low 90%s which is about where we really want it. You can see that the mainframe capacity, which is something that gives us a tailwind, was flat for the quarter. You are starting to see the benefit of the mainframe for us.

The flip side to that is what I just alluded to earlier. It is the standalone transactions outside of the renewal performed poorly in certain parts of the world. I would say that the good news is we had strength in certain product lines. And we continue to see certain product lines build momentum. Mike will get up and talk to you about a lot of the progress that we have made and we feel pretty good going forward.

Let me just talk about the segments. Inside the segments what you see, you see the Mainframe behaving basically how we thought it would be. The minus 1% in the quarter. If you look at the prior quarter, you remember that was the hard compare year-over-year, so the full-year is down although normalized, it's about where we thought it should land. You can see the expansion of the margin in the quarter.

You can then move down to Enterprise Solutions. Enterprise Solutions is a different story. This is the slowing down of the flywheel by not selling inside or outside of the renewal and you can see in the quarter we were down to minus 6%. Although we did an okay job controlling costs and we were able to expand our margin year-over-year for the full-year you can see that we are not satisfied with the results we have top line statement in ES segment.

Services performed again as anticipated, the expansion of the margin there is really just timing of costs. We always anticipate our margins should be in the mid-single digits. What does that mean for fiscal year '14 guidance? And there is a lot going on here, so as we talk through this I will come back up later on and I'll unlayer it in more detail. What you will see, first of all, the minus 3% revenue in constant currency for the current period is minus 3% We are plus or minus around that. We expand to 36% and the reason why I say expand to 36%, even though it is flat year-over-year, is there was about a point last year of a benefit that we were able to receive from an IP transaction that we had. So when you look at our other operations, we are continuing to streamline ourselves to have 36% coming out of the operations. The non-GAAP diluted earnings and the GAAP diluted earnings, there is a little bit of a change going forward.

And I will walk you through that on the next slide. And you can see that it will flow down through CFFO. The only other point I want to make on this slide is that we just were told today by the IRS that we also will win a favorable settlement for some back years, it will be a one-time thing, it is not reflected here because they have only told us that we won the settlement. They didn't tell us how much we won. When we know what that is we will reflect that, it might be as soon as by the time we file the K on Friday, if not it will be a subsequent event on the 8-K. That being said, our CFFO looks like it's down substantially year-over-year but there is a story behind that.

Here's what it is. First thing that we are going to talk about is our cap dev. This will be last year that we have 100% of our business going through the cap dev. Mike will get up and talk about a lot of things we are working on with agile development, and what you will see is as we move to agile, we are going to have much less going to the balance sheet. It's really statement of it going from CFFO to CFFI. The one time charge you see in taxes, we have been able to streamline our methodology in taxes so that historically, and I will show you a slide on that, we would pay some of the portion of our cash taxes the following year.

In fiscal '14 we will pay our fiscal '13 taxes that we had due plus all our fiscal '14 taxes. It is a one-time event, and the last part that Mike and I will both share is the rebalancing. We're rebalancing between people and facilities and it's a one-time event. If you were to put those back into '14 our cash would actually grow and we put '15 up here just so people see over time we have a low single-digit growth rate. With that, I will turn it over to Mike.

Mike Gregoire - *CA, Inc. - CEO*

Thanks Rich. Good afternoon and I welcome you as well to taking time out of your day. I know it is a crazy earnings season and a lot is going on in our industry in particular, but in general. Today oddly enough is my fourth month anniversary. I started on the seventh of January. So I'm absolutely four months into this job. And I want to share with you my observations and the process that I used to help understand CA and take a look at where CA is and where I think it fits into the marketplace and the areas I think we can improve and the areas where I think we can grow.

The first thing I did when I came to CA is I wanted to focus on three specific areas to learn the Company. First, talking to customers. I have talked to our largest customers, I have talked to customers that have a very small footprint with us. I have talked to customers that are small, in the $200 million to $300 million range. I've talked to customers in multiple countries, and I was really trying to understand what do they think of our sales deployment model.

What do they think of our account team? What do they think of our products? What do they think about us as a differentiating Company? Do they look upon us as just a Mainframe Company? Do they understand the products that we have? And what problems do they have today that they need solved that they don't really see a good partner with? And then lastly is, how do you think of CA in the context of that partnership? And got an awful lot of feedback.

Secondly, I spent an incredible amount of time with our products groups. And I will walk you through some of my learnings in those product groups, but the real question I was asking is, how do we differentiate? Why CA from a product perspective? How do we build products? How do we acquire criterias for building products? And how do we look at products that are not currently built and should be built 18 and 24 months out. And what is our innovation curve within the Company?

And then lastly the employees. CA is a Company that has a very strong culture. I wanted to embrace that culture, understand that culture, understand the parts of that culture that make the Company great. Understand the parts of that culture that might be dated or artifacts of the past and get in the way of growth. Part of that culture is our sales culture. We have a very strong sales culture in this Company. I wanted to understand what they thought of our products, what they thought of our customers. What they thought is required to do business faster. And what do they do? Are they helpers? Are they achievers? And where is the mix? What is the ratio of quota carrying people to people that help sell?

This took all four months and it's been an extraordinary learning curve for me. I still feel I have a lot to learn. But a few things that I can take away of being here for four months. This is a Company that has an awful lot of assets and an awful lot of potential. This is a Company that knows more about managing infrastructure, applications and security than any other Company. But it begs the question, why does it have such a hard time growing? When you take a look and ask three fundamental questions, it helps you understand the context of CA and the ability for it to grow.

First of all, embracing new models. We have an extraordinarily enviable customer base. Are we taking advantage of that customer base and being able to move them off of older products onto new releases? Are we truly being a differentiated partner, giving them new technologies? These are areas that you have to answer that question. The answer to that question is absolutely you should be able to do that.

Secondly, innovation. How do we think about innovation? How do we put innovation into our products? How do we develop? Are we using modern software techniques? Do we understand software as a service? Do we understand the cloud, do we understand hybrid clouds, do we know what big data is? Do we have an opinion on mobility? Do we have an opinion on modern user interfaces? Do we understand the expectation of consumer driven applications? These are all things that have to be wielded into our innovation engine and have to be into all of our products.

And lastly is new customers. This is an area that has been a very difficult struggle for CA. Is selling new and existing products to net new customers. When you start peeling back the layers of the onion trying to answer these questions, it really shows the true potential of this Company if we're willing to make some fundamental changes in how we operate.

Now, the three things that I've been driving with the executive management team and the staff, and I have tell you I've got zero resistance in the Company as I've been driving these themes, is innovation, execution and speed. I want to talk about what all three of these things mean to CA. This is our mantra going forward. Innovation is building highly differentiated products and acquiring products and then adding our own organic engineering to it. It's not enough for us just to buy a product, stick it into the sales engine or try to cram it into a renewal. You have to have a vision of what you are going to do with that acquisition and what are you intrinsically going to add to it? Buying something nowadays and think you are going to run it better and engineer it better, that is a fool's errand. Most of these companies, they innovate pretty fast and if you take look at how they are run, there might be some improvements in operations, but not enough to make the acquisition worthwhile. You have got to have a vision of what you are going to do with that and it comes down to having organic engineering.

This is going to be a big focus for our Company. We will be known as a great engineering Company. Execution is really simple to say and difficult to do. But fundamentally it is saying what you are going to do and then doing it. This is an area where we have some room to improve for sure. There's a lot of things that we say we're going to do and then our ability to follow through on it becomes muted for a variety of reasons, but at the end of the day, nobody cares. If you say you are going to do something, we have to have the reputation for making it happen.

And then speed is not just about going faster. It's more about critical thinking to decide what to do and being the first to get there before another Company does it or waiting for some other organization in the Company to do it for you. This is an area where I think we have a lot of overhead. And that overheads sometimes gets in the way. And it just stops people from doing what they should be doing anyway. These are three things that I've been talking to the staff over and over again.

I have done a town hall in pretty much all of our European offices as well as our North American offices and I've talked to them as directly as I'm talking to you. When they think about it they say, yes, you know what, I think I can do a little bit more on innovation. Yes, there are a lot of reasons why I say I can't do what I said I was going to do, and I should probably work through that a little bit crisper, and then when it comes to speed there's not a single person I've ever met in CA that doesn't think we should be able to go faster. These are the things thematically that we're driving in the Company that I think are extraordinarily important, and they have to do with the culture of the Company. I don't see any resistance by any of the people that I've met that these are important and that they're willing to put some effort into making it happen.

Rich mentioned today that we have taken a rebalancing action that doesn't show up in our GAAP financials. I want to walk you through what this is. At the end of the day this is always an extraordinarily difficult thing to do, but it is absolutely necessary if we are going to grow. We did it in two areas. We did it with people and we did it with locations. On the people side of it, we took a big whack at sales and it took a lot of non-quota carrying expense out of sales. It's about $100 million.

This is shadow overlay groups and groups that for sure added some value. But they didn't add enough value to merit the expense. Coupled with how we're going to build products as we're going forward. I expect the sales force to know the products better and these products have to be easier to use, easier to implement and easier to sell. Part of the sales efficiency is going to come on the backs of building better and easier to use and sell and implement products.

When it comes to R&D, we are doing R&D in 81 locations. Too many. Rich said we have adopted the agile development methodology. If you are a student of the agile development methodology it is smaller teams, higher impact, taking requirements very close to the customer, iterating quickly, putting it through test environments and into production. That methodology does not suit itself very well to large geographic dispersions between the development team and the communication has to be robust. We are centering our key development areas into locations we think have the absolute best talent and we're also doing the same thing with support. Our support locations will be based on six hubs on a global basis. These are hubs where we think we can get the right kind of skilled people as well as we like the cost basis for these folks.

The only reason to do this is number one, is we need to take advantage of some skill that we currently don't have in the Company as we are building net new products and marketing those products and selling those products. Number two it goes back to my theme of innovation, execution and speed. Taking people that are not adding enough value or are in overhead positions that don't provide the kind of support we need to sell more software or build more software. And then lastly is streamlining our development process. These are the reasons why we're doing these actions and at the end it is positioning us to save capital, to invest in net new products and adjacencies. In the development organization it's about a $50 million switch from older products to new horizon products. And Rich will show you where that shows up in the graph he has in his presentation.

Now, one of the things that occurs to me and I'm sure it occurs to you is we spent an awful lot of money on development. We spent about $600 million it was very difficult for me to understand where are the products that drive growth for that spend? And we when you take a look at our development organization and where we spend money and how we spend it, I think that there is room for improvement. We spend an awful lot of money on maintenance products that are very old, some of them are tired, and we haven't done a good enough job of building differentiation into these maintenance release to encourage customers to move to the new release. This is going to be a big multi-year focus of ours, is to get customers onto the newest releases. And the only way that they are going to get onto these new releases is if these new releases have high differentiation. We need to be able to make that happen.

Coupled with that, we need to have a much higher track record in when we are building new differentiated applications. We have built a number of different skunkworks projects that never made it to market. And it is great to be experimenting, but that experimenting needs to be done in the context of a strategy. And you shouldn't get so far along that you have spent so much that you don't -- you can't bring that product to market. That happens far too often. And we're going to stop that. We are going to invest in very specific areas with very specific business cases and have very specific targets for what these products should be able to do.

And how we build has to change. Taking the agile methodology and using it in a waterfall type tool set is not going to be helpful. The world is moving to SaaS, and what I mean by SaaS is not necessarily cloud. That is quite a big misunderstanding in our industry. Just because you build in SaaS does not necessarily mean that you are deploying it in a private cloud or a public cloud. Building it in SaaS is a way of building an application. We are going to build using a SaaS platform where we can implement behind the customer's firewall, in our private cloud, or in a hybrid cloud, or with a managed service provider.

The ability for customer to have the flexibility to move that application to wherever they want without hiring an army of consultants I think is going to be a big differentiator for us. Some of our customers are not going to want to operate in the cloud. But we shouldn't take away our ability to do great engineering using a SaaS platform. The thing I like about SaaS platforms is it forces you to break up your user interface, your database and your application logic so as new technologies come on board, you can swap them out without having to reinstall the whole application. It obscures all of the complexity about implementation. At the end of the day, nobody wants to spend $100,000 on a software subscription or license and spend $600,000 or $700,000 implementing it. Those days are gone. We need to be more thoughtful on how we build these products with the eye that the cost of ownership, the total cost of ownership has to come down. SaaS is a methodology for making that happen and this is where customers are spending their money. Now, not all of our applications will make it to SaaS but all of our net new applications will be on a SaaS first platform that we build ourselves.

We're going to invest in five key business areas. These are very focused with a strategy tied tightly to them. So that when we are taking a look at net new innovation and where we're spending our dollars we are going to have an idea of how does this help with renewals? How does this help customers get off of old releases? And what is net new and highly differentiated that we can charge more for, or it's a net new SKU that we can sell into an existing customer or how do we compete against point develop -- point providers. The five areas we're going to invest in is mainframe, IT business management, security, application delivery and service assurance. Net new products will be built on our own platform. You'll see some of those products that have been built on that platform that are behind the wall here. And I will walk you through each one of these business units and give you a feel for the growth that I see, where we differentiate, and a little bit of a peek into what I think the future of these products are going to be.

Now the Mainframe, not a high-growth area. This is an environment that is going to be flat to plus or minus a percent. I think everybody knows that. This is an area though that is extraordinarily important to us for a variety of reasons. First of all, we have a huge customer base, and a huge profit engine coming out of our Mainframe business. We are one of the few companies that are still innovating on the mainframe. One of the applications you can see out there is Chorus. Chorus is a Java built application that runs on the mainframe and is it extracts a lot of the complexity of managing mainframes. Whether that be reindexing a DB2 database to starting a job on a different mainframe server, it is all graphically driven, it is point and click, it is something that if you just came out of computer science school, and you've got to work for a large financial firm, and you didn't understand how to use a 3270 mainframe screen, you'd be able to figure your way around that application.

We are going to continue to invest in the mainframe. It's an important market for us and it's a high differentiator with our customers. At the end of the day, that is where the trust is built with a lot of our customers. They trust us on the mainframe, they trust us in distributed, they will trust us with these new applications that we are building for the cloud. Doing a great job and being able to drive value on the mainframe is critical to being able to do a great job with some of the other product areas that we're focused on.

The next area is IT business management. This is one where we are coming at it from a position of strength. I'm sure many of you are familiar with our Clarity product. We are the market leader in enterprise portfolio management and we are trying to take it to a new level. Why do customers want to buy this today? What do customers want to buy this in the future?

First of all, we're the only Company that can deliver this in our private cloud or behind the firewall. It's going into the theme I talked about, giving a customer the ability to run this application where they want to. They can have us run it or they can run it. Secondly, we are continuing to invest and innovate in this area. One of the products you will see out there is the Playbook we have, the Clarity Playbook. If you are a CIO you can have all of your portfolio projects and look at it on your iPod, iPad, be able to see who is behind schedule, who is on schedule, how much are you spending, hit the screen, be able to drop down to find out who is working on it. What is the utilization of the consultants that are spending time on it? These are the things that a CIO is thinking about all day everyday. They used to have to be in their office connected to their secure network and that's the only way that they could find this, find out this information. Having that on their iPad and being able to be in whatever geographic location they are with a modern graphical user interface is something that nobody else can provide.

Secondly, this is an application that I think sells well to net new customers. Reducing the total cost of ownership of this application, giving them a modern user interface allows us to sell to net new customers and it also reignites the customer base. Also in this line of business, is our Nimsoft Service Desk. Once again, this is an application that is out there, I would encourage you to take a look at it. I think it's the most competitive user interface for service desk on the market. This is an area where we have had to make some improvements in our ability to have an easy to use Facebook social like user experience, and when we showed this to customers, we think that this is a product that is going to sell extraordinarily well.

Now, what does CA have that nobody else has? We have scale, and we have a big product portfolio. Tying some of our products together uniquely differentiates us against point providers. This is a perfect example. Taking the Nimsoft Service Desk and providing all those help desk tickets, extracting that and putting it on the Clarity Playbook. If you're a CIO not only can you see the financial performance of your organization with an iPad, you can click down and find out where are the applications having trouble. How many tickets are in this particular application? Who is working on it? What does my service-level look like? Nobody else can do that.

These are the kinds of things that I think we need to be doing a better job at and we are capable of doing it, we just need to focus. Tying the unique things that CA has that nobody else has and putting them together. This is a business unit where it is growing at 9%. It's an area where we can do better. And this is an area where this is a great product and it just doesn't see the light of day as much as it should.

Security and enterprise mobility. It's not lost on anybody in this room how important security is, but security is changing. Right now, the identity is becoming the new perimeter to the security infrastructure. And when you take a look at what CA has done, we're the pioneer in identity and access management. Our Cloud Minder product, once again, this is product that's available in the market today, you can take a look at it when you go for a cocktail outside. This is a product that is used by hundreds of financial institutions. It can work in the cloud, it can work in on premise and its an application that really protects and ensures that the person that is accessing the application is really the person you think they are.

We have even taken that a step further because we are going to continue to invest in this business. You have seen that we have bought Layer 7. It's not just people, connecting up the infrastructure and applications, it's other machines. Those other machines do that through APIs. Layer 7is the best security API tool on the market and this is a perfect example of you just can't buy great technology, and expect to put it through the channel and everything is going to work out well. When we bought that Company we've put a bunch of engineering dollars in and around it to make sure that we can extend it, that we can continue to differentiate not just in 2014, 2015 and 2016.

With think that this is a big player that is going to reignite a lot of the applications that we have in our security portfolio and it also solves a huge customer issue, which is to bring your own data. Bring your own device. Having your own device into the office environment is going to happen. It's happening today. There's billions of these devices that are going to be out there over the next five years. How are they all going to be managed? We have already done that before with PCs, securing them and making sure applications are on there.

We launched an application for a mobile device management at CA World and this again is a net new SKU for us. It's an area that we have brand permission to work in. And it's a unique application in the marketplace, and we've got a multi-year road map that we see extending that across the platform. Using security as one of the fundamental tenants of managing these devices.

Application delivery. This is another area that is our fastest growing as a percentage of growth area. And it's one where have a multi-year lead on anything that's in the competition. This is primarily our ITKO product which is service virtualization for the layman. If you are an application developer, one of the biggest problems you have is being able to test your application. 90% of all testing is done manually. And it's not done very well.

This is an application where you can test in a virtualized environment all the inputs coming into your application, all the outputs. You can mimic different operating systems, you can mimic different networks. It is all done virtually and simulated. Nobody else has this technology. And then we've taken it one step further with our purchase of Nolio, this is managing the lifecycle. So now that you have built an application, how do you take it from your development environment to your test environment to your integration test environment and finally into production? 70% of the issues that happen in data centers is because that lifecycle management is broken by human error. This automates it. Once again, we're not thinking about point products. We are thinking of how do we tie ITKO into lifecycle management of an application we bought with organic engineering wrapping it together, adding real value? Once again, highly differentiated.

Service Assurance. This is our biggest business unit. It is really the crux of our distributed technologies. When it comes to the Mainframe, that's the biggest business unit we have next to Service Assurance. This is an area that is highly competitive. This is an area where we have some unique strengths and we are going to be working very hard to highly differentiate in this area because we have things that nobody else has.

First of all, we have Nimsoft Monitor which is -- can be operated both in the cloud, our private cloud or it can be operated behind the firewall, which is exactly how we want to be deploying these applications. It's got a great user interface. This is an application that can be sold to smaller companies, but it also fits into IM 2.0 platform which is the most comprehensive infrastructure application and network management system on the planet. We are managing hundreds of thousands of devices for some of the largest companies in the world. And this is a great opportunity to modularize these applications so you don't have to have the CA sales force trying to sell the big $50 million deal, where you're either going to get it or you're not going to get it.

You're able to buy the parts of your infrastructure that you want to manage. If you want to manage applications, you can do that with Nimsoft, sorry, devices, you can do that with Nimsoft. If you want to manage your network, we have a network product that can manage your network. If you want to manage the content on your network, if you want to manage devices, all of these are being modularized and wrapped up into a user interface called IM, Infrastructure Management 2.0, and this is something that is highly differentiated. There is nobody that can manage applications, devices and networks as well as CA does. Once again a great market for us to be in and a great way for us to differentiate.

One of the things that's pretty obvious, you can have good products that are highly differentiated and we're not anywhere near where I think we should be, but how do you get those products to market? When I took a look at CA and how many sales professionals we have and how much we spend, I think we can do it more efficiently. At the very high end of the market, these are customers that we have a long-term relationship with that spend tens of millions of dollars and have been with us for an awful long time. That is one model. And at the lower end of the market, is an area where it's very good for our partners and our channels but our cost structure and some of our products don't fit very well. Those are pretty easy to decipher. It's the stuff in the middle that I think gets a little cloudy.

Let me walk you through what we have done. When I inspected the sales force and started pulling contracts and started talking to customers, what I found is at the very high end of the market, that model works very well for CA and it's appreciated by customers. But it is expensive. It's difficult, it's complex, we're talking about global companies with black belt procurement teams. With sophisticated CIOs. And literally hundreds of applications. And hundreds of contracts merged into an enterprise license agreement.

In the world I came from, with PeopleSoft and Taleo, these kind of renewals were not handled for the most part by sales professionals. 80% of these transactions were handled by a team that was managing a contract and you are working on plus or minus 5% on a renewal every three years. CA, that is upside down. 80% of these contracts are highly negotiated. Difficult to understand. It takes a partner to dance. You are dealing with a procurement person, you are dealing with outside consultants, it is very complex.

At that high-end of the market, it's going to be expensive for us to sell. It's going to be complex. I don't see that changing in the short-term. But one of the things I noticed is that works really well for the biggest customers but that model has permeated pretty much across the whole infrastructure in CA in different shapes or forms. And what happens is the sales professional spends too much time on the renewal and then the renewal comes up because it is an event and then we take products that we should be able to charge more for and they get crammed into the renewal.

We are not going to do that going forward. If you are a sales professional and you are not working on those biggest accounts, the way you are getting paid is going to be on selling net new products to existing customers or expanding products that we currently have at existing customers and we're working the comp plan so that happens outside the renewal cycle. How are we going to do this? First of all, my first hire here has been someone I've worked with for 12 years. He managed sales ops at JD Edwards, PeopleSoft, and Taleo. He's got eight years of experience in building comp plans and sales deployment models for one of the largest on-demand companies, so he intimately understands what a SaaS model looks like, which is kind of where we are going and what are the pros and cons of that. He also understands these very large complex renewals and how you should pay a sales force on it. And he also understands how you have to be able to structure yourself to grow.

We are in the process of making this transition. We're not going to go all the way there in 2014. The last thing I want to do right now is upset the apple cart and make a huge transition in our sales organization. We did that last year, some of it worked out well, some of it not so well. If you take a look at what we are doing this year, we're doing as little as we can to touch customers. And we're trying to strip out the infrastructure and get people focused on the areas that are most important going forward.

When we come out of the customer base, this large customer base, we're starting to look more like a normal software Company. Where on the right-hand side here you have the median touch renewals, this is where primarily it's going to be a renewal person that s handling a renewal. And the sales exec is going to get paid nothing or very little for helping that renewal go by. Making that renewal happen.

Secondly, we're putting a lot more discipline into the process. Where you can't sell some of these net new products that are highly differentiated and just jam them into a renewal. I was on the West Coast last week, and this is a dance that we are going to have to play but it has to start somewhere. It was a large financial institution, they want to buy ITKO. The development team is convinced that it's the right thing to do. And it's sitting on the CIO's desk.

I go see the CIO. This is a large multinational billion-dollar company. And he takes the meeting with me and he's got a renewal that is due in December. Renewal team is already starting to work the renewal, helping them understand how much did they use, how much are they going to use, how much, are we going to be asking more, and the procurement guy is telling him to sit on the ITKO purchase because he wants to wrap it in the renewal. And I told him, I said here's the problem I have. You and I are going to have this problem because I've got it across the globe. Your procurement guy is telling you not to buy this because you want to cram it into the renewal because you think you're going to get a better deal. I'm telling you right now, you are not going to get a better deal because this sales person right here is not getting paid if this thing goes into the renewal. We can't do that.

It has to start somewhere and it's going to take some time, it's cultural in our Company but we have to unwind it. ITKO is one of the most valuable pieces of software out there. We have a two-year head start on anybody else. To give that and put it into a renewal where it's discounted at 60%, 70% 80% doesn't make sense to me. We have to be able to sell those products outside the renewal cycle. We are not very good at it. We don't have the muscle memory to make it happen. But we are starting. And we're spending a lot of time and we're trying to adjust the comp plan to make that behavior a habit. We're just not there yet, it is going to take some time.

When you think about sales, there's been a lot of attention spent on the CA sales force. Some of it is warranted. Some of it is a lack of understanding and I have got to tell you, from my own personal view, I went in there with a different perception of our sales force and over time, I haven't been there long enough that I can be corrupted or swayed. I've been there long enough that I have to understand. My desire to upset that applecart and change our customer relationships is very low. We did that in Q1 of last year. I want to be more evolutionary than revolutionary with the sales force.

When I take a look at it, we have other things to change that will help our sales force become more efficient. This Company has been selling for 37 years to the biggest companies in the world. About 600 companies generate the majority of our Company's revenue. When you are dealing with 600 companies, you know all of those companies. You have bought them a steak, they have been to CA World, you've -- you know what they are buying, you know why they are buying it. You know the people in the organization, you understand the power structure, you know how procurement works, you know all that. That works great but now you are trying to grow.

There's only really two ways to grow. Either you're building more highly differentiated products that you can sell to those 600 customers or you have to get net new customers. I want to do both. I want to sell new products to those 600 customers, I don't want to stop doing that, but we need to sell more net new customers. We are not good at it.

Part of it is marketing. People do not understand the power of this Company. For a number of years we have never really spent any money on marketing. If I take a look at the budgets over the last several years the marketing budget compared to what you see across the board is miniscule. They don't understand this Company, they don't understand what we stand for. You don't think we're a cloud Company. They think we're a Mainframe Company. They don't understand our power and security, they don't understand what we're doing in dev ops. They don't understand what we're doing in mobility. We have to change that.

Part of that $100 million that we took out of sales, I am going to take some of that and spend it on brand. Understanding the CA brand. Secondly, when you are only selling to 600 customers, you are not as focused on modern lead generation. The Company I came from -- I couldn't afford salespeople. I couldn't deploy a sales resource unless I knew there was a high probability they were willing to buy. How did we do that? We used modern marketing tools and lead generation, where if you want to our website, we knew exactly what product you looked at. You could download our products. Because it was a SaaS model I knew exactly what you were doing with the product. And if you started doing anything sophisticated and I saw that you went on our website, I could afford to deploy a sales rep and go after that as a competitive bid.

We don't have any of those tools in our Company. We're going to have them. We are going to take advantage of all of the modern lead generation management tools you have. We are early days, but this is going to help our sales force be much more effective. It's going to be help our sales force be much more efficient.

New models. The days of putting 20 or 30 beautiful PowerPoints and getting a customer to give you millions of dollars, they are done. They are over. You have to be able to do try and buy. You go to our website today, there's not a single piece of software you can download and try. That's got to change. That has to change with our development teams, it has to change with our marketing teams, has to change with our website, and it has to be adopted and understood by our sales professionals. This is going to happen whether we like it or not.

We need to be able to embrace it and I think that our software is highly differentiated and it will start to become more user-friendly and force it to be easier to implement over time if there is an opportunity to do try and buy. Nobody likes, if you are running a software Company the last thing in the world you want to do is a proof of concept and try and buy. Unfortunately that's how customers want to deal with it. We need to deal with it that way. We are going to do that. It's going to take us most of the year to get there. You should see one or two products up by the end of the year. You should be able to go to our website and be able to download the software, try it and buy it, and then if you want the more sophisticated features, that's when we would drop in a sales professional and start working out an agreement that would match your needs.

And then product differentiation. I can't stress this enough. We have got to be the leader in all of the products from a differentiation point of view. And we can do that in multiple different ways. We have assets that nobody else has. When it comes to scale, nobody has built scale like we have. When it comes to security, nobody has handled secure environments like we have. When it comes to global distribution, global distribution is extraordinarily difficult to build. It's very expensive and it takes years. We've put it in place. We have to take advantage of it.

I think that we are in a position if we do these things and we do these things well, and we do them all day everyday, you are going to see a change in CA. You all understand how our model works. It's going to take time but we are absolutely committed to it. And how I would end is the mantra of our Company. We are all about innovation, execution and speed. And with that I will let Rich come up here and tell you about 2014.

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

Okay. I'm going to try to tie together the innovation, speed, execution into the financials and I think you'll start to really see the passion that Mike brings and it's kind of amazing what we have been able to get done over the last four months here. Let's start with innovation. We have moved about 10% of our H1 or core business into H2 and H2. How did we do that? We continued on the path, if you look at a normal product lifecycle and we have certain criteria for growth rates, whether or not a product was growing fast enough, then we would pare down that spending, move it over to some areas where we had potential of hypergrowth. We have also, as you can see in the Mainframe, we think that's pretty well-balanced right now for what it delivers. If you look in the middle a little bit above the profit line, we worked on that, we were able to move 10% of the development spend to different areas to really accelerate into the adjacent and other businesses. You can also see where Nolio and eventually we'll have Layer 7, will also fit into that.

Mike talked about the sales. Inside of the sales, I think this is an important number. We have removed $100 million out of the sales spend in fiscal year '14. What we did do is we reinvested some of that back into marketing which will allow us to increase our pipeline generation. You can also see from the bottom of the slide, when we talked about what we did last year. We had three different segments. We've collapsed two of those segments down for very deliberate reasons. It allowed us to move some management around. Put them back out into the field. This allowed us to generate more quota carriers year-over-year again. It also allowed us, as we go forward, that the specialist coverage we were able to change. This is going to continue as Mike says, part of our evolution that we have going on in the sales and marketing areas.

What do we have to execute on? You can look here, this was is the first year we are out of the trough. So if '13 was the trough year we're now into '14 and beyond. Those following years will be higher than '13 from a renewal standpoint. We need to have the renewals continue to do what they have been doing which is make sure the attach rates are correct, make sure we're doing that in an efficient and effective way.

Why does it matter? Why does it impact this year's revenue and guidance though is important to see. This was the timing of when the contracts are due. Contracts can get done sooner than that, but if left to all timing out upon their expiration date, it's severely backend loaded. We also have one large customer inside of that number. And to the degree that CA and that customer decide to do that sooner because it is a mutually benefit, you can see that move forward, we would let you guys know if that happens. What this says is by Q4 our revenue backlog and our billings backlog will have turned around. The current piece of revenue billings and the current piece of the backlogs. That's the first time you'll see the flywheel now accelerating as opposed to decelerating. And as we have all seen that happen over the last six to eight quarters it will now pick up by Q4. That's an important point.

Mike talked about what we did with development. What you see here is the six main hubs. It's important that we have the six main hubs because from the slide that I showed earlier with the lifecycle and the consolidation of sites, it allows us now to move a substantial amount of our development into what on this chart would be future R&D projects as opposed to the maintenance part of our business. Again, that allows us to drive better quality, faster to market, and it also allows us to rehire and remix into specific sites. It's a win/win overall.

The other part of speed with that is agile. Agile though from a financial standpoint says I am now doing something different. The waterfall method which has been around forever since FASB 86 came out back in '86, which I helped implement back then, you can actually see where feasibility and design happens it would have gone to the balance sheet. It would've been capitalized. In the agile, by definition the teams are smaller, they're into those sprints. And feasibility and design really doesn't happen until you have a full working model at the bottom. Therefore all that capitalized development, it's still the same amount of development, it just goes to the current period. Therefore it doesn't affect free cash flow but it does affect CFFO because now it is going to go to investment. Very important.

We think because of the speed of our products coming out of the marketplace, the quality of the products we have and our ability to interact with our customers and getting feedback from customers is all going to be leveraged on our ability to do that. It's all part of why we did the consolidation of the sites. And it's pretty impressive that we did it in four months here.

What does that mean now from a P&L standpoint? The top bar of the 652, that is total development. Gross development being spent. The green shaded area, that was the amount that was going to the balance sheet. That's the amount that no longer will be in CFFO. There's a very thin sliver that you see in '14 and '15. That's the projects that were already in the waterfall method, we going to continue to allow those to flow out over time. By the time we get to '16 there will not be any more projects that are in the waterfall method. So it will all flow, gross will equal net in essence, so you can see the overall development being spent, the 14% E2R that we have talked about before. We feel that is balanced.

The bottom part of the slide shows what was going on. You can see it now going away and there actually is a tiny little sliver in '15, but you can see the amortization, which is now slowly going to, and it will accelerate because we will not put anything more on over time to the point where we will have nothing left on the balance sheet for our own internally developed code. What does that mean when we did all this rebalancing. It allowed us to improve the effectiveness of our sales coverage, as I said we are going to extend even more people out on the field. It will increase the velocity of the development team, and we think it will have better quality and a better time-to-market with that. And from the G&A functions we are able to continue to rebalance our business, become more and more effective.

From the benefits of course we will have a better lead gen coming out of the marketing team, we will be able to have our sales expense and the E2R will continue to have that work in the direction that we want to see it coming down. We told you we had to move another point or two. You saw us do that this year so it was a big movement. And that allowed us then to get to market faster we believe. Now from a timing of this, for people who have models, it says there's $150 million worth of GAAP. $100 million of that will hit this year, so $50 million of that will hit in the following year as we close out sites in some locations as people take that long to leave. Of the $100 million, half of that will be in Q1. Okay, so it's just so people understand.

Talk about cash tax impact now. As I said we changed our methodology and allowed us now to be more predictable. As we changed the methodology and our ability now to essence have our tax rate and then pay our taxes, you will see all that happen in the same year. What you see in '14 is the prior-year catch-up as we change methodology. It's a big number, right? So that's why you saw that dip. When you normalize that back out you see our overall tax rate is about the same. It's not really -- it's the timing of cash, it's not a tax rate issue.

Cash flow. The chart I started with earlier, I thought it was important to now show it again. I think it makes a little more sense. You can see the cap dev moves to CFI. You can see the one-time tax change, you can see the rebalancing, how that impacts us. So if you were to normalize those in '14 we would actually be in line and what you will see that we also think that over time we will have our low single-digit CAGR continue in cash.

I just thought this chart would be hopeful. It shows free cash flow versus CFFO. And you can just see the cap dev going away over time. It also shows though from a free cash flow standpoint that we are showing growth over time.

What is our uses of cash? We have a very strong balance sheet with $2.8 billion and $1.3 billion worth of debt and a triple B+ rating. We have 38% of our cash is in the United States. That's enough to pay the dividend, it's enough for us to do our buyback. We are very comfortable with that. It's enough for us to on average, and if you remember, last year was a light year with acquisitions, to do between $300 million and $500 million at any point in time if we so choose. And then it allows us to return $1 per share dividend and also continue our buyback that we started last year of $500 million which is what's left to time out. And with that, I will invite Mike back up to do Q&A.

Mike Gregoire - *CA, Inc. - CEO*

Thanks, Rich. I think Kelsey is going to bring a microphone. There's one here if we need be. And we will try to answers as many questions as we can.

QUESTIONS AND ANSWERS

Unidentified Audience Member - - *Analyst*

Thanks, I just had a question on timing. It sounded like Rich you were saying that a lot of this has already been done. Can you just clarify in terms of what has been done and what hasn't been done?

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

Done in what way? Be more specific.

Unidentified Audience Member - - *Analyst*

Well you said facility consolidation, the restructuring in terms of people. It sounded like you were talking like everything had already been done.

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

The announcement today will start the people that will happen over time. The facilities will happen after the people exit those facilities. You have a portion of that happens in Q1. That's why I said half of the $100 million will happen this year. $50 million of that in round numbers is in Q1. The rest of it you have to vacate the sites in order to receive the rest of that and in some locations around the world you have to, it takes much longer to work through work council. The impact that we have from the actions were a one-year phenomenon, that if you put those next in '15, those will continue to grow. To a degree, our sales and all those type of things continue on top of that. You'll see benefit from there.

Unidentified Audience Member - - *Analyst*

So that's assuming flat revenue or flat bookings over that two-year period?

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

Close to that.

Unidentified Audience Member - - *Analyst*

Okay, and the second question is post the transition, what do you to think the right level of leverage the business can hold?

Mike Gregoire - *CA, Inc. - CEO*

What do you mean by leverage?

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

Yes, what do you mean by leverage?

Unidentified Audience Member - - *Analyst*

Debt.

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

We like where our balance sheet is right now. We like the rating that we have and so as I said earlier, we have enough cash in the US so that therefore, the 38% allows us to do our buyback, it allows us to do the dividend, and it allows us to do the acquisitions that we think we need. So there's not really a reason for us to go out into the debt market at this time.

Unidentified Audience Member - *- Analyst*

Mike, a quick question on products. You mentioned advanced analytics and also social and mobile. Should we be thinking of those, that functionality being embedded in all net new products?

Mike Gregoire - *CA, Inc. - CEO*

Yes, on the social mobile thing, I think that is table stakes nowadays. To put an application out and not have a notion that people are going to want to use it from an Android or an iOS device, the horse has left the barn on that one. Anything new coming out will have that notion involved in it. On the analytics piece, there's parts of it that I think we understand pretty well and there's parts that I think we should be very careful about and do a wait and see. On analytics will we be managing Hadoop applications and Hadoop servers? Yes we do that today. I don't think that's a big stretch for us.

An area where I think we can do more and we're launching a product, 9.5 of APM where we have analytics built into the APM engine. We are collecting all this log file data and it's not like what Splunk does, we collect this in real time. And being able to drop that into our analytics server and do correlation of what is happening in your network or in your application and giving you real-time alerts on trend analysis and heuristics, that is launching in APM 9.5, which I believe is this quarter. We are adopting the big data analytics engines and the products that make sense.

In areas where we are still experimenting, we hired -- since I've been here I've hired six data scientists. And I've got them doing some work because I don't know what the value of this data is. But to your point, one of the things when I was at Taleo, we kept all of the employment information and all the salary information, and before we got bought by Oracle, we were talking to some of the big data firms, asking us if they could buy the data from us because what they were trying to do is predict the employment number. As we started collecting all of this data, we realized that that data has value and if we can get people who understand it, that might be a new growth engine for us. This is a perfect example of six people doing that and trying to find out if it works out. That is worth the investment. Having 60 people working on it for a year-and-a-half to see if it's going to work out, I am not for that.

Unidentified Audience Member - *- Analyst*

Okay. Thanks, and if I could a follow-up. Your presentation on renewals, this is the real question.

Mike Gregoire - *CA, Inc. - CEO*

So you gave me the a softball to warm me up?

Unidentified Audience Member - *- Analyst*

Yes, pretty much. You knew that.

Mike Gregoire - *CA, Inc. - CEO*

All right. Bring it on.

Unidentified Audience Member - *- Analyst*

How much in that pyramid of your customers, how -- what roughly what percentage are in that high-end, and totally understand and respect that they are very sophisticated contracts. You have contracts that are $100 million, you have some that are hundreds of millions. Those are, that is not going to just renew automatically. I totally understand that, but how much of your -- roughly how much of your business is that kind of a contract?

Mike Gregoire - *CA, Inc. - CEO*

Too much.

Unidentified Audience Member - *- Analyst*

Okay.

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

It's never too much. We love that kind of business.

Mike Gregoire - *CA, Inc. - CEO*

The issue there is twofold. It's a big number in dollars. It's not a big number in customer relationships. And to the point I was making before, it's a natural extension in a premise that was just wrong. It works will here, so let's do it here. When you take a look at the economics and once again, it is changing. If you take a look at what those contracts look like, they're all bespoke. When you buy from salesforce.com, when you buy from Concur, when you buy from Taleo, it's on our paper. When you buy from CA, every contract is pre-negotiated. It's a workout session. And we need to work through the best way of engaging contractually, product wise, and that's going to take a little bit of time.

But to your point, the evolution of the Company will be to get the renewals in a perfect world, I'd like the renewals in one group, they only get paid on the renewal and the renewal has very little fluctuation from subscription to subscription. That is a direction, we're not going to get there in 2014. But everything that we are doing is moving towards that model. And I'm more than happy to tell you a year from now how far we have progressed on that model.

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

I also think just to add to that, the lower end transactions, the renewals, which is probably three quarters of them are actually only handled by about 50 people worldwide that are renewal only. It's not as if we throw the -- as Mike has focused on the upper triangle, there are hundreds each quarter that are done by a very small team that are on a very low quota type of thought process.

Unidentified Audience Member - *- Analyst*

But the point is not so much the people, the cost of doing that, but it's the issue of allocation of revenue upon a renewal when I know there's a renewal person and a new person, but they report in a matrix fashion, but to a first level sales manager and they all report to George Fischer, and let's say, there is so much room for allocation issues for bad practices.

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

Not really, because they go below a certain renewal yield, which is why you see our --

Unidentified Audience Member - - *Analyst*

Okay, but let's say they were going to renew at 100% and then they renew at 90%. And then that 10% is allocated to new business. That's 10% of renewal you could have had, that somebody is getting a higher commission on than if you didn't, no it doesn't happen?

Mike Gregoire - *CA, Inc. - CEO*

I can't say what happened in the past. In the future -- what is happening now is we are -- we are on a diet. We are weaning ourselves off it. It is very difficult -- you will not make your quota, if that's your mode of operation in our Company you will not make your quota. The odds of you making that are so stacked against you. That I think it might even be --

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

It doesn't have the same weighting, that's what I was going to tell you. That first 10% doesn't have the same weighting.

Mike Gregoire - *CA, Inc. - CEO*

It could be mathematically impossible, John, for that to happen in the 2014 playing season but to my point is, I don't think that is even aggressive enough. I just think it's reckless to change those customer relationships and I also feel that I don't understand the machinery well enough to make an educated guess. I've got people working on it and my, I've already started 2015 yesterday, I think it was yesterday, and I put up on the board no commissions for renewals. That is my starting argument. I won't get there. But that's where I am starting negotiations.

Unidentified Audience Member - - *Analyst*

I appreciate that, and by the way, the first question was, I really wanted to ask that one too.

Mike Gregoire - *CA, Inc. - CEO*

Sure you did.

Unidentified Audience Member - - *Analyst*

Thanks actually. Mike, you, thanks for going through the distributed part of the portfolio and going through the details over there. When you look at your product portfolio, are there certain product lines that you think you need to completely shut down or get out of drive longer term growth, and if you do, what is your timeline for that?

Mike Gregoire - *CA, Inc. - CEO*

Yes, once again, it's very -- I don't have a history in the Company, and I do believe that I've got an objective view today. Over time, that objectivity will get tainted. But when I take a look at products and I take a look at budgets, I want to give money to the products that have growth, I want to streamline products that are good but they are not going to grow. And then there is a cadre of products that just don't make sense in our portfolio.

That's an area where we will probably look for a better home for those products. We're not going to leave customers stranded. That's not in the CA culture. That's not the way I want to operate. I think it would hurt the rest of the business.

But you are absolutely correct, we can't be everything to everybody and over 37 years, we have made a couple strategic plays that just didn't work out the way we wanted them to, and that's life in the big city. To continue to invest and pretend that those products are going to be what we once thought they were going to be, we should stare that down and deal with it and take the money that we were going to invest in that product that's not going to get us to where we really want to go and put it into ITKO. Put it into Clarity Playbook, put it into Nimsoft Monitor. Put it into IM 2.0. These are areas where we can really aggressively spend those R&D dollars and get a disproportionate return because the innovation and differentiation is high, plus the customers want those products.

Unidentified Audience Member - - *Analyst*

How big of a portfolio is that?

Mike Gregoire - *CA, Inc. - CEO*

We haven't really broken it out.

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

I think the way I would look at, to answer your question we have already removed 10% of the portfolio in the development and allowed us to then put in into newer, faster growing markets. We have another subset of that market. We're happy with the customer and the growth might be very slow, but we need to move from seven releases that we have in the field to -- and minus one and minus two. That will free up more money, but as Mike says we are not going to leave people behind. Then you get to what just doesn't fit at all into our portfolio anymore, and we have a subset of those that we are out working on and that's what Jacob's team does. We're going to do that in a smart, intelligent way and we don't need to fire sale things, so that's how I would answer that question.

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

We have a question from the webcast. They'd like a little color on your view on the renewal yield on an ongoing basis on the portfolio.

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

How do we feel about the renewal yield? Is that the question?

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

Yes, a little color on your view on the renewal yield on the upcoming year and the expected larger renewal portfolio,

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Mike Gregoire - *CA, Inc. - CEO*

I think over the last year starting probably in Q2 of last year going forward, we had a lot of focus on what's the yield, making sure, kind of back to the point you had asked John, are we making sure, so we inspect transactions over certain dollar amount. Every one of them in a lot more detail than I think you probably think as far as how much of that is allowed to be, there's not as much movement and that's not controlled by necessarily the sales team that makes those decisions. That being said, it just stay right around in the 90% range plus or minus a little depending on the quarter. The only anomalies to that, and we put those out is usually if someone in the early 2006 or '07 or '08 way over bought because they thought they were going to do acquisitions, and we saw that in some of the financial institutions. Those were the types that all of a sudden pulled down any one quarter to an unusual 82%, 83%, 84%. In general, especially on the Mainframe, we are not seeing, at the high-end, we're seeing decent growth of capacity. Doesn't necessarily mean it qualifies into dollars, but that platform is alive and well.

And the number of customers that are falling off the bottom are very small. And I would tell you we happened to be at the same conference and we heard IBM speak, they're seeing actually believe it or not growth in mainframes in some of the emerging markets, China is the best example that we are just starting to get into that marketplace. We always have to draft them remember. So as they move into parts of Africa as well, we will draft there.

From the Enterprise Solutions side, that's really where I think as we are making the right choices and accelerating what we are bringing to market, that will take pressure out of us having to discount more prices. We can deliver more releases sooner is how I would answer that.

Michael Turits - *Raymond James & Associates - Analyst*

Hi, guys. Michael Turits, nice to meet you and talk to you. Question regarding this question that you both, this issue you both talked about of support for back versions of products. First, is there any target for how much actually can be saved by going to a smaller number of products, versions of products that are supported historically, and how can you really do that effectively with let's say just the carrot of producing better stuff versus really forcing people to get off and what is the risk behind forcing people to get off?

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

Yes, there is a target, and no, we are not telling you the target, Michael.

Michael Turits - *Raymond James & Associates - Analyst*

Worth a try.

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

Yes, I know, it's okay. But that being said, we have a whole team and I think actually that's the other thing we didn't really talk in a lot of detail on. When Mike came we have a team going across all the disciplines looking at those products because if you're a normal product manager you are looking at the newest best thing and so there's a subset of people now that are looking at how do we help migrate these customers forward? That might mean you have to actually develop the bridges for them and then you can then sunset that old release and there is a whole effort we have going on. We learned from one of our other products that we have been pretty successful with and that is being led in the development side.

Mike Gregoire - *CA, Inc. - CEO*

Coupled with that is a lot of these products came through acquisition and part of the acquisition methodology that we put in place, I worked with Jacob on that, is I want to have a perspective before we buy the asset, how does it fit within the portfolio? And if it is a similar product, where we are just buying the customer and the revenue stream, what is the plan to deal with that? One of our great examples is in work on the Mainframe is workload automation. We have 10 products in the market. This team that Rich talked about has gone through systematically and concluded that we can get that down to three. We can't get it less than three. The volume of customers on those three products is so significant and the complexity of those particular products are such that there is no automated way that we could write automated scripts to make that happen. But the 7 that are currently out there, if we work with the customers and help them, sometimes offering carrots, we can get down to 3 and managing 3 is better than managing 10. And I think that there is multiple of those in my short tenure here that I think we can make happen.

Unidentified Audience Member - - *Analyst*

Thanks a lot for the overview, it was really helpful. A lot of shareholders would like to translate what you've described into how to think about growth in revenues margins and cash flow going forward, and especially with the accounting change, I think there is a lot of confusion and I just want to confirm a few things and maybe you can help me think about that. The first is I think I heard you say that you're taking out $100 million which is almost -- is over 200 basis points of sales cost this year in what is apparently the early stages of a change in your sales force, that you are not going to do it all at once. You are going to reinvest some of that, even if it's half of that, it's pretty good. I think I heard you say that you are spending enough in R&D so all the things that you are changing won't increase the aggregate spend.

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

That's correct.

Unidentified Audience Member - - *Analyst*

But it's just a mix shift. I wasn't sure about that.

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

Correct.

Unidentified Audience Member - - *Analyst*

Is that correct? Okay. And then the third thing I think, and this is more a technical question is that you are guiding to flat margins year-over-year, so again, the year one of your transition, but there's this big accounting change. Does that mean that you are really expanding margins like, are you taking $160 million hit in the P&L year-over-year?

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

No, from a GAAP standpoint, yes, but not non-GAAP.

Unidentified Audience Member - - *Analyst*

Not non-GAAP?

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

No, because it comes out.

Unidentified Audience Member - - *Analyst*

So, why are margins flat then year-over-year?

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

Because our revenues are down even though we are containing costs. Our total absolute revenue in absolute numbers are down year-over-year.

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Unidentified Audience Member - - *Analyst*

Can you help me, just the final question is, how to think about what you're doing, the costs you're taking out, the reenergizing of your revenue growth. How to think about the next three or four years. What are you going to grow? And what are you going to do with margins?

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

Yes, we are not give you forward-looking guidance which I think is sort of what you are asking but I think you should think of it in a different way. Just, everything that Mike described, and hopefully what I described, you see us positioned very well. Once the top line comes back around, you really can start to leverage things like our development and our go to market. And I think what you will see coming out of the marketing side with better pipeline which means quicker sales. On the development side you are going to see more releases sooner, and Mike is an expert in driving that kind of behavior. We feel good about that. We had some, maybe talk about some of the things that we announced at CA World, I don't know if you had a chance to go. We have a lot of things coming out that have releveled the playing field for us in areas that maybe we were a little bit behind. Part of that standalone transaction when you have a hot product is a lot easier. So you'll see some of that too. I don't know if you would add anything to that.

Mike Gregoire - *CA, Inc. - CEO*

Yes, Rich is spot on. We're just not in a position right now where we can give multi-year guidance. I've been here four months, we've done some pretty dramatic things, taking $100 million out of sales, reenergizing the product development teams. Moving $50 million of costs from older products to net new growth engines. And those products will take a year for us to build. It's really having an eye towards what are you going to have in 2015 and '16 that is going to drive revenue down the road rather than looking for the next acquisition, and trying to jam that into a renewal. I want to get out of that business and into the highly innovative, very customer centric client focused business and we're just not in a position right now where we can give that 2015, 2016 guidance.

But hopefully from what you see here today and the direction and if you step outside and touch and feel those products, they are real products that are in the market today that you can buy. They're highly differentiated. I think the future looks a lot brighter for CA going forward than it has perhaps in the last couple of years. I think the slide that I would like you to talk about Rich is the renewal trough. 2013 was a very awkward year for the Company. And we are getting some of the benefit of just being in a better renewal season that will show growth in future years.

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

If you look at that slide, I'm sure some of you will put your rulers out to see what percent is actually in Q4. It's a disproportionate percentage, which all of that revenue will show up in the following year, that's attached.

Unidentified Audience Member - - *Analyst*

Does that renewal portfolio grow again in the next year as well?

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

We're not giving you guys that kind of guidance but what I can tell you is, for the next several years will all be higher than '13.

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

And just one point clarification on the non-GAAP operating margin, for those of you looking at your models, last year we had a one-time benefit from the IP transaction in the first quarter. When you're looking from an organic basis this year versus last year, even with the headwind in revenue we are seeing expansion from an organic perspective in the non-GAAP operating margin. I think there are some models that probably need to be updated when you look at that.

Unidentified Audience Member - *- Analyst*

Thanks. Two questions. Mike first for you. And welcome aboard.

Mike Gregoire - *CA, Inc. - CEO*

Thank you.

Unidentified Audience Member - *- Analyst*

Have a chance to spend some time with you. You're looking forward in the long-term making some changes in the sales relationships separating it sounds like the ELA renewals from the net new product sales. Should we be thinking about this that over time this will basically detach that event that occurs on ELA renewal where you are attaching these additional sales, which will mean that some products, it will be more transactional-based, some coming in earlier, some coming in later, but less tied to the renewal itself?

Mike Gregoire - *CA, Inc. - CEO*

I would love to get there if we could. Once again I said you have to have a dance partner that wants to play that game with you. I don't want to speak out of both sides of my mouth, but we use that renewal as an event for our own purposes and so do customers. We're going to have to play that dance, and what I want to do is get away from this behavior. Is a renewal is coming up. And every sales person that is selling a particular product tries to jump and get their product into that renewal. What happens is it's not a popular thing, and the sales force cringes every time I say this. I am going to say it again because I want them to cringe because I don't like the behavior. It's like going to seven-year-olds at a soccer game. The ball goes in the corner and you see everybody go to that corner and the whole field is left empty. You watch a professional soccer game, people play positions. We can't have everybody migrate to an event in our Company because it is going down because that means that there is all these net new customers that we are not focusing on.

And so what I would like to see the behavior is if we have a renewal going on, and there is a product that makes sense to be sold, and we're going to hold the line on the value of that product, I have no issue with it happening in the context of a renewal. But I want that a conscious decision that is being made by us. But because that is going to happen I don't want to abdicate our responsibility to sell those products to other customers as well as into the renewal cycle. And this is feedback that I have directly heard from customers is how come I only see you and your account team six months before a renewal? I want us to be intimate with these customers and understand what their buying patterns are, what the problems they have, and how our portfolio maps up against that. Now, we will bump into situations where the customer is going to hold off buying because they're going to try to take these products into an ELA, and I can't say that that is not going to happen and that is no fault of our sales force. I'm just saying that we default to that more often than I would like. And you have been here a lot longer than I, Rich. I know you been trying to police and monitor this, maybe you can provide a little color on that.

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

I would say what we really want to make sure, in the final year of that renewal, that's one thing, but in year two of a three-year renewal, we really want those guys selling outside and as Mike said, touching those customers all the time. And I thought it was a perfect example. Here we are in Q1 trying to put ITKO in, which we know the IT side wants and that could potentially get elongated all the way out to Q4. That is the behavior that we are trying to curtail.

Unidentified Audience Member - - *Analyst*

Thank you. A quick question, Rich. Mainframe revenue has been trending down. Year-over-year it is down. So the chart you are showing is that Mainframe up slightly 1% to flat on it.

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

Gartner's.

Unidentified Audience Member - - *Analyst*

Rather than specifically your expectation of where it will trend.

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

No, I think Mike said it right, it is going to be flat plus or minus 1%. Clearly the way -- you have to view the market you have IBM, then us, BMC, Compuware, and then 30% of the market is single product family companies. Which has all been announced over the last couple days, clearly that puts us in a very good position. We're investing heavily, we're coming out with new products and other people aren't. We think we are going to get more market expansion over time anyway. Because we are, I think we are viewed technologically as one of the leaders still in that space.

And then as I said earlier when we look at the financial institutions and a lot of these other big manufacturing companies and how they are leveraging that business. I think people forget, every iPad that is in here, or if you swipe a credit card on one of those little cubes on your phone at some little stand, the backend of that is the mainframe. People forget all these mobile devices, it is great for us. I think there's a lot of transactions that are going to continue to happen and they still are world-class at doing that, probably how I would answer that question. Will that market move up and down? It absolutely does move up and down. But I think plus or minus 1% is what we think.

Unidentified Audience Member - - *Analyst*

Good. Thank you very much.

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

Rich, I think you pointed out that the previous year we had a one-time event in Mainframe in the third quarter.

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

Right.

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

That's a little bit of the year-over-year disparity in the composition of the Mainframe revenue. Do we have any other questions? Back to, hello John.

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

I felt we had a maximum.

Unidentified Audience Member - - *Analyst*

No, I asked Mike two, I have two for you Rich.

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

Perfect. When does the beer start?

Unidentified Audience Member - - *Analyst*

On slide 33, Rich, you show that when the bookings are scheduled to come in, assuming they came in on the expiration of the contract.

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

Correct.

Unidentified Audience Member - - *Analyst*

But could you just tell us, I know you don't know when they are going to come in, but can you talk to us a little bit about your experience historically when they normally come in?

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

On how they work.

Unidentified Audience Member - - *Analyst*

And then historically over time, but also more recently the macro environment is funky and just give us a little bit of information about what normally happens.

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

Unfortunately, it's one of those depends. And the reason why I say that, if the customer's budgetary year is December 31, and they have the budget in December versus our Q4 which would be their Q1, that's the reason why they would want to do that event earlier. Sometimes you'll see that come in sooner, sometimes you'll see it come in later. The other thing that we might drive it for a different reason if we see our ability to line up with one of our competitors and take out potentially more of their products by lining up our ELA on top of their ELA, then that allows that vendor to have more leverage over them. So it will accelerate as opposed to, those are probably the two biggest.

Other than that John, if you were to look at the norm, clearly the whole economy has caused people not to do a big buy ahead, we saw that happen several years ago and I think that trend has continued and so that was my point before. There are still growing Mips, but there is a lot of price pressure on those extra capacity as an example and you'll see that they are buying our distributor products but they are not going to go buy a lot

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more. We have actually had some which surprised us, we're willing to buy outside of the renewal at a premium rather than have to sit there and commit to that. Because they couldn't get their finance teams to agree to that. They were uncertain on their business, it had nothing to do with our product set.

Unidentified Audience Member - - *Analyst*

Okay. Thanks. Just a quick follow-up, just want to make sure I understood your answer to one question about the impact on non-GAAP EPS of this change in the capitalized software development. You are going to be expensing most of R&D at this point whereas before you capitalized more of it.

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

Right.

Unidentified Audience Member - - *Analyst*

So that will show up right on the income statement, and then the amount that is right now on the balance on the balance sheet, that will amortized, but will still be an expense, and will that still be a non-GAAP expense?

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

So the cap dev will, we actually will have in the supplemental, if you looked at the supplemental, we are laying those out for you, and you can actually step through that and you will be able to see exactly what, how much per quarter is coming in and out of each one of those. It's literally there, I don't know if you have your supplement in your deck.

Unidentified Audience Member - - *Analyst*

Okay, but I just want to make sure in the non-GAAP numbers because I'm thinking about the guidance, there is certainly the expense in there.

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

They are both excluded. In non-GAAP. Going forward. It is in GAAP. And you will be able to then back it back out or put it in depending on how your model works, right?

Unidentified Audience Member - - *Analyst*

I'm sorry what both?

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

Cap dev, because you have now -- you have your capitalized development that would've gone, so we actually went back and redid last year for you.

Unidentified Audience Member - - *Analyst*

Okay.

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

And then you can see it going forward. We're providing in essence for everyone apples to apples.

Unidentified Audience Member - - *Analyst*

Okay, thank you.

Mike Gregoire - *CA, Inc. - CEO*

Just to be clear John, amortization goes away -- it really will decelerate in about three years and then it becomes noise in years four and five. That little tiny bit that you saw goes on for several years but it gets very small very quickly.

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

So I think that's it. Mike you want to?

Mike Gregoire - *CA, Inc. - CEO*

Great. Well, first of all, thank you very much for coming. We are really excited about some of the things we're doing on the product side. We are absolutely committed to making our go to market as efficient as possible, trying to drive our customer relationships as tightly as possible as well. And I'm going to be sticking around here for a little while with Rich and we are happy to answer some questions over the cocktail hour. But if you can, please go take a look at some of these products. As I said, I've been here for four months. I'm absolutely blown away by some of the innovation this Company has. And I want you to see it because I think that's part of the recipe for making CA grow. Thank you very much.
