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CA - Q3 2016 CA Inc Earnings Call

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OVERVIEW:

CA reported 3Q16 total revenues of $1.034b and GAAP diluted EPS of $0.52. Expects FY16 reported revenues to be around $3.99-4.03b, reported GAAP diluted EPS to be $1.74-1.80, and reported non-GAAP diluted EPS to be $2.39-2.45.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the CA Technologies third-quarter 2016 earnings conference call.

(Operator Instructions)

As a reminder, this conference call is being recorded. I would now like to turn the conference over to Traci Tsuchiguchi, Vice President of Investor Relations. You may begin.

Traci Tsuchiguchi - *CA Inc - VP of IR*

Thank you, and good afternoon, everyone. Welcome to CA Technologies' third-quarter FY16 earnings call. Joining me today are Mike Gregoire, our Chief Executive Officer; and Rich Beckert, our Chief Financial Officer. Mike and Rich will offer some prepared remarks, and then we will open the call up for a Q&A session. These prepared comments were previously recorded, and this conference call is being broadcast on Tuesday, January 26 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. Please note that our fourth-quarter and fiscal year-end quiet period begins at the close of business on March 15, 2016. Let me remind you that all comparisons are year over year in constant currency, unless otherwise indicated.

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

Mike Gregoire - *CA Inc - CEO*

Good afternoon, and thank you for joining us.

I am pleased to report that both Enterprise Solutions and Mainframe new sales performed better than expected in the third quarter. Both revenue and new sales outperformed expectations, with strong new sales growth for the second consecutive quarter. Total new sales were up just over 10% year over year, following an exceptionally strong second quarter. Enterprise Solutions new sales increased in the high-single digits year over year. Mainframe new sales increased in the mid-teens year over year. It marks the third consecutive quarter of Enterprise Solutions new sales growth, and the second consecutive quarter of Mainframe new sales growth. This is a reflection of our ongoing efforts to improve product competitiveness, as well as sales effectiveness and consistency. Relative to our expectations, third-quarter results benefited from the combination of very strong performance from recent acquisitions, a higher level of renewal bookings growth that came at a healthy attach rate, and better-than-expected sales execution.

Looking to our fourth quarter and into the next fiscal year, I am encouraged by the progress we are making in our sales and product execution. I believe we are well-positioned to achieve our FY16 and medium-term guidance. As conveyed in November, we expect our upcoming FY17 to be the year CA crosses into sustained, albeit initially modest, revenue growth. Our improved confidence in the business is reflected in the accelerated share repurchase, which essentially completed the previous $1 billion share repurchase authorization, the additional $750 million share repurchase authorization, and our intent to increase the dividend in FY17, subject to quarterly Board approval.

We remain committed to our three-pronged capital allocation strategy of returning capital to shareholders, with an ongoing share repurchase program and one of the highest dividend payouts in the industry, while continuing to invest for future growth. Importantly, we are investing in innovation that matters, from containers and data analytics, to big data, open source and Agile, we are making investments to ensure that CA Solutions are meaningful and compelling, and can drive growth for years to come. In some cases, this investment will result in net new products, and in other cases, it will result in meaningful feature enhancements to existing product suites that will make CA Solutions even more competitive in the marketplace.

Many of you experienced this in November at CA World, which was a banner event. It was a tremendous opportunity for customers, partners, media and analysts to see the full breadth and power of the CA brand and portfolio. The pendulum is swinging towards the desire to reduce complexity and consolidate around full-suite solution suppliers with global service. Consequently, customers increasingly find CA more attractive than point product vendors.

All of our key CA World metrics were up year over year, including overall attendance, customer engagement, pipeline generation, and broad visibility across both traditional and social media outlets. More specifically, the number of customer accounts represented at CA World increased in the mid-20s, and our social media presence nearly doubled year over year. These improvements reflect the increasing engagement of CA's traditional Platinum customers, as well as the broadening impact the named and partner business is having on our ability to address growth opportunities.

At CA World, we launched four net new organically developed products, and dozens of new releases and product enhancements. CA's organic engineering engine continues to improve and drive innovation. We also demonstrated a number of innovation sneak-peeks showcasing products currently in development. These innovations extend CA's ability to enable customers to embrace and benefit from the rapidly emerging application economy. They represent CA's platform-agnostic strategy of enabling customers to develop, manage and secure increasingly complex IT environments, regardless of whether the app resides in the cloud or on a mainframe, or whether it's on-demand or on-prem.

As the time between major waves of innovation continues to compress, it is increasingly critical for global enterprises to be more agile; agile is the way they develop, and agile is the way they think about their business models and strategy. The accelerated frequency and amplitude of the ways of innovation provide game-changing opportunities for those with vision and the ability to execute. Agile is not just a product or a methodology that CA is evangelizing and selling; it is a disciplined and modus operandi that we are broadly embracing internally. We've already migrated 85%

of CA's projects to the CA Agile Central platform, with the balance expected to be completed by the end of this fiscal year. I fully expect this will accelerate our pace of internal innovation and product development, and result in more high-quality-relevant products.

Leading enterprises all around the world are architecting their digital transformations. One of our customers, General Electric, aspires to be the leader in the industrial Internet, and expects to be a top-10 software company by 2020 -- tangible proof that every company is becoming a software company. The momentum driving change with some of the most storied companies in the world is palpable. The opportunities for CA to help customers embrace the Application Economy are seemingly endless.

Now, I'd like to highlight a few areas within Enterprise Solutions in which we are seeing very good progress. In the Agile Management pillar, formerly Management Cloud, I am very happy to report that Rally continues to exceed our expectations. Seat expansions within the large-enterprise customers and improvement in seat retention positively impacted performance. Customer seat count retention, or what CA refers to as renewals, is the best it's been since before Rally went public in early 2013. This is indicative of our customers' view of CA Agile Central as a strategic partner and trusted advisor, rather than just a software tool. It highlights the success of our land-and-expand strategy, as initial deployments within enterprises grow exponentially.

In the quarter, Barclays, which had been using Rally within just one of its North American divisions, executed a large upgrade to more broadly embrace Agile across its North American and European operations. Thousands of additional seats were signed in this competitive win. Another notable win was with a regional local exchange carrier that upgraded to thousands of seats to standardize on CA Agile Central across the enterprise. Also within the Agile Management pillar, I'm pleased to note that ITBM, or IT Business Management, increased new sales for the third consecutive quarter. Within ITBM, CA Project and Portfolio Management SaaS again grew new sales, marking its third consecutive quarter of robust year-over-year growth.

In the quarter, CA was recognized as a leader in the Gartner Magic Quadrant for Integrated IT Portfolio Analysis Applications. In Q3, we had a major win with an American multi-national conglomerate. This win was the result of a very competitive campaign involving CA Project and Portfolio Management SaaS. We are seeing consolidation in the market, as customers gravitate towards stable, proven vendors with the size and scale to support large-enterprise deployments.

Moving to DevOps, API Management continues to be a bright spot, consistently posting strong growth rates. The third quarter marked the seventh consecutive quarter of double-digit-or-better year-over-year new sales growth. The opportunity here is vast, and we are typically addressing white space or replacing home grown solutions. We launched three new products and enhancements at CA World. CA Live API Creator lets customers rapidly create API connectors from data base sources, such as mongo DB and Oracle SQL databases. What used to take developers three to four weeks to create in API can now be done in fewer than five clicks. CA Mobile App Services provides core back-end services for building end-to-end enterprise mobile applications. And CA API Management SaaS enables customers to combine the convenience of cloud SaaS with enterprise-level security.

Demand for CA API Management is expansive. The business unit acquired more than 50 new customers in Q3. New customers to CA API Management include one of the largest insurance companies in the world, as well as a financial service technology company. The former is standardizing multiple divisions on CA API Management, and the latter is standardizing on CA API Management enterprise-wide. While initial deployments are exciting, major capacity expansions are proof points of our successful land-and-expand strategy. Notable capacity expansion deals include a win with a leading global payments company. This customer is deploying CA API Management as the standard for a variety of application projects. And due to CA's strong mobile and authentication use cases, a major US airline is employing CA API Management to build its B2B environment and dot-com property.

Our security business had an outstanding third quarter, with new sales up over 45% year over year. The acquisition of Xceedium, which has provided a tremendous lift to our Privileged Access Management product portfolio, is driving considerable momentum in our Security Group, and has far-exceeded our expectations. In the quarter, we executed one of the largest deals for the Security Group in recent history, led by Privileged Access Management. We closed a competitive win at a federal agency which is extending from a single-use case to an expansion throughout their entire environment. The streamlined capabilities of CA Privileged Access Management is enabling this customer to leverage its existing public key infrastructure, smart card and strong authentication solution with privileged user controls and auditing.

Another highlight was the competitive win with an iconic American multi-national mass media conglomerate. CA Privileged Access Manager was chosen to protect a brand and its intellectual property. It needed a standards-based solution that could easily integrate with a broad set of applications and systems. CA offered a comprehensive solution that allows a customer to secure their on-premise and SaaS-based applications and systems to ensure it can effectively control privileged users. Now the brand and its IP are protected against both internal and external threats.

In the quarter, we announced the new release of CA Identity Suite. New features include an application launch pad, so that users can access any web application on the go -- easy, streamlined access, direct account entitlement management and integrated advanced authentication. As one of our large customers, Florida Blue Cross and Blue Shield recently highlighted, CA makes identity management easy, so that any employee can understand it. We help our customers manage and govern the access of its employees, which is critical to improving productivity, maintaining security, and protecting data.

I am pleased that what we are working on from a product perspective is beginning to bear fruit, and our value proposition and messaging is resonating with customers. Our performance this quarter is evidence that the transformation into a modern sales organization is demonstrating increasingly consistent, solid performance. For the third consecutive quarter, our combined named and growth sales teams delivered healthy growth. And in the third quarter, our pipeline conversion rates and win rates improved, our sales cycle shortened, and our average deal size increased. I'm pleased with the team's consistently improving efficiency, and continued focus on accelerating velocity.

Overall, I'm very pleased with our third-quarter performance, which reflects the consistent improvement in our execution. We feel that we are near an inflection point in the business. That said, we know there is still work to be done to grow at a rate that is representative of CA's true potential.

With that, I will turn to call over to Rich to review our third-quarter financials and full-year guidance. Thank you.

Rich Beckert - *CA Inc - CFO*

Thank you, Mike. Before we get started with the quarter review, let me remind you that all comparisons are year over year and in constant currency unless otherwise indicated. This afternoon, I'm going to focus my comments on the key business drivers and performance indicators for the quarter. The balance of our financial details can be found in our supplemental and press release.

The year-over-year strength in the dollar continues to be a headwind to both our results and our guidance. Our Q3 total revenue was $1.034 billion, and was down 1%. Enterprise Solutions increased 3%, Mainframe solutions decreased 2%, and Services decreased 4%. Q3 renewals were up approximately 30% in constant currency, and in the low 20%s as reported. The higher level of renewal bookings was driven by earlier-than-expected closing of some renewal transactions originally expected outside of Q3, as well as an increase in the average duration. Importantly, attach rates to these renewals were healthy.

Renewal yield for the quarter was in the mid-80s. The lower-than-historical average renewal yield was a result of a large North American financial services customer transitioning to an application that requires fewer of our products to support. This transition was expected and previously factored into our fiscal-year and medium-term guidance, and expectations related to our mainframe business. Excluding this transaction, our renewal yield was in the low-90s. We expect FY16 renewals to be up approximately 30% year over year as compared to FY15, and up in the mid-20%s range as reported. Excluding the large system integrator renewal that occurred in the second quarter, we now expect FY16 renewals to be up mid- to high-single digits, and flat to up low-single digits as reported.

Q3 total new product and capacity sales were up just over 10% in constant currency, and up mid-single digits as reported. The year-over-year increase was due to very strong performance from recent acquisitions, a higher level of renewal bookings growth with a healthy attach rate, as well as a solid sales execution, also has a positive effect. The outperformance in Q3 related to our expectations had smoothed the lumpiness we had expected between Q3 and Q4 due to the movement in the renewal portfolio.

The Rally acquisition continues to perform well, with seat expansion within large enterprises and improvement in seat retention positively impacting performance. Total paid seats under contract at the end of Q3 increased in the high-20% range year over year. We define a paid seat as a seat with a subscription or support contract. As a reminder, we plan to phase out this metric, as paid seat growth is not expected to be an accurate proxy for expected revenue growth as we penetrate our large Platinum accounts. Acquisitions contributed approximately 10 points to total new sales growth in the quarter as reported, and just above 10% in constant currency. Excluding acquisitions for the first nine months of FY16, total new sales were up low-teens in constant currency, and up mid-single digits as reported.

Turning to geographies, new sales were strong in North America and EMEA, driven by stronger-than-expected performance from acquisitions and the timing of renewals. However, new sales were down in APJ and Latin America due to smaller renewal portfolios. Within our segments, Q3 Mainframe new sales, including new product and capacity, was up in the mid-teens year over year, and up high-single digits as reported. Overall, we continue to expect our Mainframe revenue to be down in the low-single digits over the medium term, which we believe is in line with the mainframe market. Q3 Enterprise Solutions new product sales were up in the high-single digits in constant currency, and up low-single digits as reported. Acquisitions contributed mid-teens growth in the quarter in both constant currency and as reported. Excluding acquisitions, for the first nine months of FY16, ES new sales were up mid-single digits in constant currency, and down low-single digits as reported. Services revenue decreased 4% in constant currency and 9% as reported. Over the long term, we can expect Services revenue to decline as we design our products to be easier to install, and as we leverage partners.

Total revenue backlog improved to up 5% in constant currency, or up 2% as reported. Current revenue backlog declined 2% in constant currency, or down 5% as reported. As many of you know, current revenue backlog is impacted by the timing of deals in our renewal portfolio. As contracts move closer towards their renewals, revenue backlog declines. Current revenue backlog will likely grow when we demonstrate multiple quarters of new sales growth, while maintaining a low 90s renewal yield. While the timing of some deals shifted from FY17 into Q3, driven largely by customer requests, we continue to expect FY17 to be a solid renewal year. We believe our customers' desire for MIPS capacity ahead of renewal expiration is a positive reflection on the strength of our current mainframe cycle.

Q3 non-GAAP operating margin was 38%, and GAAP operating margin was 28%. Segment operating margin in the quarter were 61% for Mainframe Solutions, 12% for Enterprise Solutions and 6% for Services. Our Q3 non-GAAP tax rate was 29%, and our GAAP tax rate was 21%. Q3 non-GAAP diluted earnings per share was $0.63, up 1% year over year, and includes a $0.02 benefit from the accelerated share repurchase in the quarter. Q3 GAAP diluted earnings per share was $0.52, up 18%, including a $0.02 benefit from accelerated share repurchase in the quarter. Our Q3 CFFO was $332 million, up 18% year over year, or up 6% as reported. CFFO improved year over year due primarily to a decrease in vendor disbursements in payroll, partially offset by the decrease in cash collections due to an unfavorable effect on foreign exchange. Single installment cash payments were $125 million and up year over year, but down for the first nine months of the fiscal year. We ended Q3 with approximately $250 million in net cash.

During the third quarter, we repurchased 22 million shares for approximately $590 million, as we accelerated and essentially completed our $1 billion share repurchase authorization. The Board of Directors authorized an additional $750 million share repurchase program, which we expect to begin to execute in FY17. In Q3, we paid $105 million in dividends. We also announced a plan to increase the annual dividend from $1 to $1.02 in FY17. Our balance sheet is strong, and we remain committed to maintaining our investment grade rating.

Now turning to guidance. Guidance is based on exchange rates on the last day of the preceding quarter, which was December 31, 2015. The guidance also assumes no new material acquisitions. We expect currency to have a negative impact to our full-year FY16 revenue of approximately 5 points at December 31 rates. For the year, the increased mix of ratable relative to up-front we experienced in the first half of the year has created a headwind to our reported revenue. We continue to expect total revenue to be towards the low end of our guidance of down 1% to flat in constant currency. This translates to reported revenue of around $3.99 billion to $4.03 billion. Please note that the negative impact of foreign currency on our reported revenue outlook is approximately $200 million. The movement of some transactions from Q4 into Q3 has the effect of moderating our Q4 expectations, which we expect to weigh on metrics, including new sales, reported revenue, bookings, operating margin and EPS, in Q4.

We expect full-year GAAP operating margin of 28%, and full-year non-GAAP operating margin of 38%, consistent with our prior expectations. Similar to our expectations for revenue, we believe operating margin will be negatively impacted by a higher mix of ratable revenue, rather than up-front deals, in the first half of the year. Keep in mind that our fiscal Q4 operating margins are likely to be the weakest of the year, due to the seasonality of operating expenses. Underlying this guidance, we expect our GAAP and non-GAAP tax rate to be between 28% and 29%, consistent with our prior expectations. Non-GAAP diluted earnings per share is expected to grow between 4% to 7%. This translates to reported non-GAAP diluted earnings per share of $2.39 to $2.45. The negative impact of foreign currency on earnings per share is around $0.23. GAAP diluted earnings per share is expected to grow 8% to 13%. This translates to reported GAAP diluted earnings per share of $1.74 to $1.80. The diluted earnings per share estimate includes the impact of accelerated share repurchase, which has a positive impact of approximately $0.03 and $0.04 to GAAP and non-GAAP earnings per share, respectively.

At the end of the fiscal year, we expect approximately 412 million shares outstanding, and a weighted average diluted share count of approximately 427 million shares. Cash flow from operations is expected to increase 2% to 7% in constant currency, consistent with our prior expectations. This translates to reported cash flow from operations of $970 million to $1.02 billion.

And now, we'll take your questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Our first question comes from John DiFucci of Jefferies. John, your line is now open.

John DiFucci - *Jefferies and Company - Analyst*

Thank you.

So I have a couple of quick questions, but things sound pretty good here. But I guess, just when I look at some of the numbers, that's where I just start to wonder a little bit. And Rich, it's really more -- or Mike -- around the mainframe. So I see new sales being up in the mid-teens year over year and high-single digits on a reported basis, mid-teens in constant currency. But you still expect revenue to decline in low-single digits over the medium term.

So can you help us understand that? Because I think for a lot of investors, because mainframe's so relevant for you, they'd love to see that be relatively stable. But if the new business is up and you still expect a decline over the medium term, that must mean that the renewals -- and I don't know, maybe this quarter for mainframe is an anomaly. It certainly is; you pointed that out. But maybe this quarter and quarters like that -- I think it was three years ago, you had a similar issue.

But it may have a big effect. Because I would think that -- first of all, would mainframe be a little more stable? And when you hear that new sales are up, and I think this second quarter in a row, it was up pretty good. And to hear that the revenue is going to go down in the medium term, there seems to be somewhat of a disconnect. Or is it really just about the renewals? I'm sorry for the long-winded question.

Rich Beckert - *CA Inc - CFO*

Hey, John, how are you? This is Rich. The quarter actually behaved a little differently than what we had said back last quarter, and it behaved in a better way. Two pieces that were better, acquisitions clearly, in total, improved. And the second part is the mainframe that you described. Those deals that were due to renew in Q4, and a couple deals that were in first-half of next year, customers are now getting our contracts in line with the MIPS that they had purchased through IBM over the last year or two. And you can see in the last quarter that they just announced, they had another good quarter of MIPS growth. We do expect that to come in over the length of these deals, over the next three years, like we talked about, in fact, in November.

The second part is, though, the renewal yield does need to be in that around 90% range. This quarter, we had anticipated that particular vendor to take off their mainframe and put in a non-mainframe product set. We knew that, they'd been working on that for a few years, so that was anticipated in both this year's guidance and our medium-term guidance. And as you said, that happens from time to time. It's a single-digit kind of percentage where that happens, so we have that planned out over -- and we can see that coming, because it takes years for people to migrate away when they do choose to do so.

As far as the total MIPS growth, though, for the quarter, it was very healthy, as you said. And that is a positive for us over time. We need MIPS to be growing in totality another 20%-plus in order for us to have flat growth. So this is really in line with what we had anticipated, it's just a few quarters ahead. So it just really smoothed out the difference between Q3 and Q4.

John DiFucci - *Jefferies and Company - Analyst*

Okay. If I might just ask a related question. And you had -- so in Q3, just overall renewals were up 30% constant currency, low-20% reported, and new business was up 10%, a little more than 10% constant currency, mid-single reported. When I look at that, and correct me if I'm wrong, but I think a lot of your new business is still connected to renewals. Though I know you've been putting a lot of effort into trying to disconnect that -- or not necessarily disconnect it, but sign more new business outside the renewal cycle, and also sign with new customers. So in order for you to grow, that new business has to grow, over time anyway, faster or better than the renewals. Is that a right way to think about it? And -- I'm sorry, go ahead.

Rich Beckert - *CA Inc - CFO*

So the way the quarter performed from the ES side of the house is exactly what we had said last quarter. We had anticipated it being down low-single digits, so that part of the portfolio behaved in that manner. What you really saw kick in was the mainframe, as you described. So the Q4 renewals that we did tended to be a higher percentage of mainframe customer-driven. And then our overall new sales growth, as you said, happened because of the very strong performance by both Rally and Xceedium. Xceedium had its largest transaction ever in the quarter, and that was anticipated to close in Q4. So having that close in Q3 helped the revenue, but keeps us on track for the full year.

John DiFucci - *Jefferies and Company - Analyst*

Okay, thank you.

Operator

Thank you. Our next question comes from Sterling Auty of JPMorgan. Your line is now open.

Sterling Auty - *JPMorgan - Analyst*

Yes, hi, thanks. I wanted to kind of follow on the mainframe line of questions, because that is the most popular question that we still get. Which is, okay, characterize for us this mainframe cycle, the growth in MIPS, where you're seeing customers still putting those workloads and growing those workloads in terms of MIPS capacity versus those that are still starting to migrate off to more virtualized and other types of approaches. And how does that weigh on revenue versus what you might be able to do on the pricing side and benefiting from those that are growing their MIPS capacity?

Rich Beckert - *CA Inc - CFO*

There's a large number of financial institutions that absolutely are growing their mainframe capacity. And any time you see someone using a mobile application to check maybe a checking account or their stock or anything else, that's driving a huge amount of back-end MIPS. They could be priced differently, because they tend to be a little bit cheaper, the way those MIPS are deployed. But it has a strong growth for the mainframe business.

If you ask about sort of the hybrid model, where IBM came out with their IBM's mainframe and their ability to use Linux, we also have products that do that. We announced one at CA World. So you'll see us putting on the mainframe MIPS versus Linux. And that will continue to keep that cost of that hardware and everything attached to it very competitive in the marketplace.

When you then asked the last question, who is really coming off? It's similar to what I said to John, we don't see a lot of large customers dropping their mainframe. In fact, we're seeing their capacity pick up. It tends to be at the very low end, a single application on an older mainframe. So that's really where we see that business, and we haven't really seen that change much over the last couple years. We check that, as you can imagine, every quarter, and we haven't seen any negative trends there.

Sterling Auty - *JPMorgan - Analyst*

So does that change at all your outlook? So when you talk about FY17 having that modest low-single digits growth, what is the mainframe side need to contribute for you to hit those goals?

Rich Beckert - *CA Inc - CFO*

As we said in November, we still think it's going to be low-single digit decline. We think that's in line with the marketplace. That's more about price compression than it is about customers leaving the platform.

Sterling Auty - *JPMorgan - Analyst*

Great, thank you.

Operator

Thank you.

(Operator Instructions)

Our next question comes from Raimo Lenschow of Barclays. Your line is now open.

Raimo Lenschow - *Barclays Capital - Analyst*

Thanks for taking my question.

So I have one question, Mike. Can you please talk a -- you talked in the prepared remarks already about some of the product areas that are doing better. Can you talk a little bit about the situation on the distribution side of the business? So how are strategic accounts versus named accounts this quarter, and what are you seeing there? Thank you.

Rich Beckert - *CA Inc - CFO*

Can you just repeat that, Raimo? You cut out just a little bit.

Raimo Lenschow - *Barclays Capital - Analyst*

Okay. So I was trying to find out, on the distribution side of the business, how happy were you with the performance on the named accounts and the strategic accounts? Especially on the named accounts, there was a lot of focus from you to improve things there. Thank you.

Rich Beckert - *CA Inc - CFO*

Sure. Yes, I was very pleased with it this quarter. It was up over 10%. And this is our ability to get to net new customers that we don't have a very material relationship with. The customer count was definitely up quarter over quarter as well, and the kinds of customers that we're getting relationships with were quite impressive as well.

Operator

Thank you. Our next question comes from Philip Winslow of Credit Suisse. Your line is now open.

Sateet Manigray - *Credit Suisse - Analyst*

Hi, this is [Sateet Manigray] in for Phil. Just wondering, in terms geographic [profile], could you give some color what you have seen outside of the US?

Rich Beckert - *CA Inc - CFO*

Can you repeat the question? I believe you asked, how did we do outside the US?

Sateet Manigray - *Credit Suisse - Analyst*

Yes.

Rich Beckert - *CA Inc - CFO*

We did very well in Europe, as we did in the United States. And as I said in my prepared remarks, we were down slightly in Asia and Latin America. Those were both driven by just what the portfolio was to be renewed in the quarter.

Sateet Manigray - *Credit Suisse - Analyst*

Thank you.

Operator

Thank you. Our next question comes from Michael Turits of Raymond James. Your line is now open.

James Wesman - *Raymond James - Analyst*

Hello, good afternoon. It's James Wesman sitting in for Michael. Rich, can you -- given the renewals that you guys had closed in fiscal third quarter were earlier than expected, can you talk about what the renewal portfolio looks like for FY17, and if it should still be up year over year, over FY16?

Rich Beckert - *CA Inc - CFO*

We believe it will still be up mid-single digits when you back out the large system integrator for the rest of the year. And it should still be up next year. We will give very detailed what we believe 2017 is when we close out the year. Because we want to make sure that we don't continue to update it for any other transactions that might be a FY17 that fall into FY16.

If you recall, going back to what we talked about in November, we have three years of solid renewal portfolios. So we're anticipating that, that will allow us to continue to see very strong renewals over the next three years.

James Wesman - *Raymond James - Analyst*

Got it. So just to make sure I understood what you said, for FY17, even given the early renewals, you still expect the renewal portfolio to be up year over year in 2017?

Rich Beckert - *CA Inc - CFO*

Correct.

James Wesman - *Raymond James - Analyst*

Great. Thank you.

Operator

Our next question comes from Walter Pritchard of Citigroup. Your line is now open.

Walter Pritchard - *Citigroup - Analyst*

Hi, thanks.

Rich, on the cash flow, you didn't sort of provide any commentary about next year's cash flow. I think you'd indicated that it could be up slightly, at the November event. Does the pull-forward in the renewal or the business that you saw from 2017 into 2016 here change at all how you're thinking about the cash flow next year? I'm just wondering if that dynamic was meaningful enough to have a bigger impact such as that?

Rich Beckert - *CA Inc - CFO*

I think what it does is, it just takes pressure off of that. As you can imagine, you can see that we continue to have our total billings backlog grew. It grew pretty healthy. And we grew 2% just in what we billed. So that better-positions us, Walter, but I would say it didn't necessarily have a major meaningful change year over year. As we said, it should -- over time, it will track a little bit better than the revenue growth, as that grows. So we still will see that growing in that low-single digit range.

Walter Pritchard - *Citigroup - Analyst*

Thank you.

Operator

Our next question comes from Matt Hedberg of RBC Capital Markets. Your line is now open.

Matt Hedberg - *RBC Capital Markets - Analyst*

Thanks for taking my questions. Rich, what, if anything, can you tell us about the mix of ratable revenue as you look into next year? Should some of the trends that we're seeing now continue? And should we expect to maybe accelerate even more so?

Rich Beckert - *CA Inc - CFO*

The two things that will drive your ratable revenue is, one, the product set. So an example, any of the SaaS products will rally, and that continues to be a bigger piece of the portfolio in PPM. That will all be viewed in a ratable nature.

The other thing is the products that are to be renewed. So the mainframe in this particular quarter, as an example, had a lot of ratable nature to it. Xceedium, which is the other new acquisition, though, had a lot of standalone transactions, as did our growth area. Which, you heard Mike talk about the named accounts that grew 10%. So those tend to be more standalone transactions.

Will that mix change over time? Yes. We saw it change in the first half of the year, where more things went ratable. But this quarter, it kind of went back to more of a traditional mix. And I think the quarter that we're currently in seems to be shaping up to be more in that traditional mix. But as the product set becomes more ratable in nature, clearly there will be less revenue that will be taken up front. So, I think to net that out, you'll have certain products that are going to drive that, so as we grow with our SaaS products. But our portfolio will definitely drive certain products to go ratable. An example: all of mainframe and a lot of our traditional ES products.

Operator

Thank you. Our next question comes from Kirk Materne of Evercore ISI. Your line is now open.

Ken Talanian - *Evercore ISI - Analyst*

Hi, it's actually Ken Talanian on for Kirk. Congratulations on the quarter.

One question. You put up a good margin, close to 38%. You're looking for the same for the full year. Can you give us some framework to think about where future margin leverage might come from?

Mike Gregoire - *CA Inc - CEO*

Yes, this is Mike. I think you'll see margin leverage come as we start to generate more net new sales and higher revenue. But we're still investing in a lot of our products. We think a margin in the high 30s is a good place for our Company to be, provided we're paying a very good dividend, we have a great share buyback program. When you take a look at all those metrics together, we think that, that's the best balance between investing in the Company, providing value to shareholders, and also investing for the long-term viability of our Company.

Ken Talanian - *Evercore ISI - Analyst*

Okay, great. Thanks.

Operator

Thank you. Our next question comes from Abhey Lamba of Mizuho Securities. Your line is now open.

Abhey Lamba - *Mizuho Securities Company - Analyst*

Yes, thank you. Mike, can you talk a little bit about your confidence in growing revenues in FY17 as the current revenue backlog is still declining? And as we look at it qualitatively, you've got headwinds from some early renewals that moved from FY17 to the current year. But I'm sure there are some tailwinds that you're seeing. If you can share those with us, that would be helpful.

Mike Gregoire - *CA Inc - CEO*

Sure. I'll comment on part of it, and I'll let Rich weigh as well. First of all, when you just take a look at the math, our 2017 and 2018 renewal portfolios are very strong. So we've got an awful lot to work with that's already pretty much booked business, that we really understand. We know how to close those types of transactions, we continue to get high renewal yields in the low- to mid-90s, and we don't see that changing. So that's a good basis point to start from.

And then secondly, we have been building a much better, increasing portfolio of products. When you take a look at the competitive wins we've been getting over the last three quarters, I take a look at what's being built organically in our labs, and the improvement we have had with respect to our organic engineering, I think that that's a confidence factor.

And then lastly is, we're seeing a bit of a tipping point happen in the market, where customers are really starting to get aggravated with the integration of big parts of their infrastructure being done on their nickel, and they're looking for a suite. When you take a look at how we go to market and the buckets of products we have, we are a suite player. And to the extent that we can get rid of all of the engineering in and around the integration of multiple products, I think that's a net wind at our back.

And I see this mostly right now in security. When we are selling our security product, it usually starts off as a very tactical sale. And as soon as that sale starts moving up the executive ladder and gets to a [see-so] or gets to a CFO or CEO, they don't want to talk about a tactical solution. They want to talk about how are you going to protect my company, and how can we think about this more holistically? We've had a great quarter with Xceedium, and Xceedium is a great opportunity for us to have that conversation.

It's not lost on anybody that most of the hacks that have happened over the last year and-a-half have happened by a person's identity getting compromised. There's a tactical reach-out right now by just about every corporation to solve that particular problem. But as soon as you start having that conversation and you bring it up to an executive level, they expand it into how we are protecting the identities for our whole corporation? There's only a handful of companies in the world that can do that, and there's only a couple that can do that at scale. I think that we're very well-positioned for those kinds of competitive bids.

Rich Beckert - *CA Inc - CFO*

The only thing I would add is, when you asked about the current revenue backlog, some of that will be driven by -- since we do have a strong portfolio next year, as those items start to come off, meaning like Q4 of next year, no longer isn't current, it has an artificial downward pressure on there. That's probably worth a couple points. So we're feeling pretty good about where we are. You can see the total revenue backlog grew. And as Mike just described, we have some new products that are going to give us a tailwind.

Abhey Lamba - *Mizuho Securities Company - Analyst*

Thank you.

Operator

Thank you. Our next question comes from Greg McDowell of JMP Securities. Your lines is now open.

Greg McDowell - *JMP Securities - Analyst*

Great, thank you very much. It's nice to see the progress being made.

A lot of macro headlines have people worried, and I was just wondering if you've seen any change in customer behavior in the first month of this year? And then maybe if you could just comment on maybe how your FY17 commentary takes into account the potential economic headwinds? Thank you very much.

Mike Gregoire - *CA Inc - CEO*

Sure. With respect to macro, we haven't seen any change in customer sentiment for the problems they're trying to solve. If you think about just about every single company, they're trying to be part of the Application Economy. So they are building applications. And if they're building applications, they're going to be using things like CA Agile Management. They're going to be using testing tools that we have. They're going to be using service virtualization.

They're going to want to instrument those applications and make sure that the hardware that they deploy them on has enough capacity. And if that hardware is bumping into problems, they're going to want to be notified about it. And obviously, they're going to want to be secured. So being in the right spot as everyone thinks towards the macro -- how am I going to improve? The way that they're going to improve is by getting involved in the Application Economy.

Now, there is also a lot of macro territorial issues. China's definitely been on the mind of just about everybody. And how do you think people are going to solve their issues in China? And China, as they move into a consumer-oriented economy from an export economy, they're going to want to have all the things that you would expect a G20 nation to have. They're going to want to have credit cards, they're going to want to have insurance, they're going to want to have cars, they're going to want to have electronic devices. All of that commerce is going to be built on the Application Economy, as well.

So I feel like we're very well-positioned strategically in macro, in order to make that happen. And that is -- we haven't put out our FY17 guidance yet. We'll do that after we finish up the year. But we'll take that all into consideration. But what I see right now is a bit of a blip, and a little bit of a correction. The stuff that's getting corrected, I think everybody probably saw that it probably should get corrected. When you have a Company like ours that makes money, when you have a Company like ours that has great customer service, when you see a Company like ours that invests $1 billion in real R&D, that's the kind of stability that I think customers are going to want to pay attention to.

Rich Beckert - *CA Inc - CFO*

I think if I were to add to Mike's comment, we did see Brazil has had its troubles. It had a strong quarter the last couple quarters. We're not as big in China, so some of the pressure that Mike just described in China were a little bit inflated from that, as well as Russia. So we performed very well again in Europe and North America. A lot of what we did over the last 18 months to get our Named and Growth accounts moving is really starting to pay dividends. As Mike had said earlier, we saw that segment grow 10%, and that's the third quarter in a row where it had significant growth.

So I think we're positioned where we have a lot of white space, if you will, in the Fortune 5000. We were traditionally, four years ago, very concentrated in our Fortune 500. So that gives us a lot more insulation, if you will, from economic downturns in certain industries.

Greg McDowell - *JMP Securities - Analyst*

Thank you.

Operator

Thank you. And this does conclude our question-and-answer session. I would now like to turn the call back to Mike Gregoire, CEO, for any further remarks.

Mike Gregoire - *CA Inc - CEO*

Great. First of all, thank you for joining us late this afternoon, and your interest in CA. I'd like to leave with the following key take-aways. First of all, we're very pleased with our performance in Q3, which definitely exceeded our expectations. Our recent acquisitions are performing very well, and we had a strong quarter in the mainframe. And finally, we continue to invest in innovation that matters, which will drive growth for CA for many years ahead. Thank you, and have a great evening.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program. You may all disconnect. Everyone, have a great day.
