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CA - Q2 2016 CA Inc Earnings Call

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OVERVIEW:

Co. reported 2Q16 total revenues of $1.005b and GAAP diluted EPS of $0.39. Expects FY16 reported revenues to be around $4.00-4.04b and reported GAAP diluted EPS to be $1.70-1.76.

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PRESENTATION

Operator

Good day, ladies and gentlemen. And welcome to the CA Technologies' 2Q 2016 earnings conference call.

(Operator Instructions)

As a reminder, this conference may be recorded. I would now like to turn your conference over to Ms. Traci Tsuchiguchi, Vice President of Investor Relations.

Ma'am, you may begin.

Traci Tsuchiguchi - *CA Technologies - VP of IR*

Thank you.

Good afternoon, everyone. Welcome to CA Technologies' second-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'll open the call up for a Q&A session.

These prepared comments were previously recorded. And this conference call is being broadcast on Wednesday, October 21, 2015, over the telephone and the Internet. The information shared on this call is effective as of today's date and will not be updated. All content is the property of CA Technologies and is protected by US and international copyright law and may not be reproduced or transcribed in any way without the express written consent of CA Technologies. We consider your continued participation in this call as consent to our recording.

During this call, non-GAAP financial measures will be discussed. Reconciliation to the most directly comparable GAAP financial measures are included in our Earnings Release which was filed on Form 8-K earlier today, as well as in our supplemental earnings materials, all of which are available on our website at CA.com/invest.

Today's discussion will include forward-looking statements subject to risks and uncertainties. And actual results could differ materially from these forward-looking statements. Please refer to our SEC filings for a detailed discussion of potential risks.

Please note that our second-quarter quiet period begins at the close of business on December 15, 2015. Let me remind you that all comparisons are year over year and in constant currency unless otherwise indicated.

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

Mike Gregoire - *CA Technologies - CEO*

Good afternoon. Thank you for joining us.

I'm pleased to report that new sales were very strong in the second quarter. In fact, new sales delivered solid year over year growth across our Enterprise Solutions and Mainframe businesses.

Our performance in the second quarter reflects the continued improvements we are making in both our product and sales execution. In particular, I'm excited about new sales, an indicator of the great traction our solutions are experiencing. Our overall second-quarter total new sales were up more than 40% year over year.

In the quarter, a great portion of our new sales bookings were recognized ratably, compared to our historical trend. Enterprise Solutions new sales increased in the high 20s year over year. Mainframe new sales more than doubled year over year.

In the second quarter, we closed a large system integrator renewal that was initially expected to transact in the second half of our fiscal year. The accelerated time to close this renewal was at their request and is a reflection of CA's strategic importance to the system integrator and its customers. We are very pleased with the outcome of this large renewal, which had a strong yield and a healthy new sales attach rate.

Our renewal yield in the quarter was in the high 90s. This is the best it's been in recent history. This is a testament to our pricing discipline and the ability of our sales teams to execute deals that realize the value of our solutions.

In today's application economy, a lot of mission-critical data still resides in the Mainframe. This is particularly true of the big players, the Fortune 500. As such, it should not be a surprise that there will be quarters in which capacity buys are particularly strong, as was the case in Q2.

Excluding the large system integrator, our renewal yield would have been in the low 90s. Excluding the large system integrator renewal, total new sales increased in the mid-20s range, and Enterprise Solutions new sales increased in the mid teens year over year.

Non-GAAP operating margin was 36% in the quarter, which was consistent with our expectation and commentary on our fiscal Q1 earnings call. Recall that the full percentage point impact on operating margin guidance for FY16 was expected to be realized in our fiscal Q2. This is due to the expenses related to the Rally acquisition and realignment costs.

Our second-quarter results were clearly a big step in the right direction, but there is still work to be done. While we are on track for the second half of our fiscal year, it is important to note that we expect it to be heavily weighted towards the fourth quarter. That said, I am increasingly confident that our results will reflect our work to deliver innovative solutions that truly solve customers' problems.

Put simply, CA enables enterprises to capitalize the opportunities created by the application economy. In fact, once again Gartner has rated CA Technologies with an overall positive rating in its latest August 2015 Vendor Rating report.

We remain focused on product quality and execution. Our Chief Product Officer and Chief Technology Officer are working in lock step to ensure continuous improvement on our near- and mid-term product execution, while driving us towards our longer-term Horizon 2/Horizon 3 technology leadership opportunities. Our strategy continues to stress organic innovation complemented by targeted strategic investments that are within one standard deviation of our core.

A great example of this is our acquisition of Rally, a leader in the fast-growing Agile Application Life-Cycle Management software market, which closed on July 8, 2015. The rationale for this acquisition was three-fold. First, Rally's products and services are highly complementary to our award-winning PPM solutions and strengthens CA's DevOps leadership. Two, there is ample opportunity to cross-sell, given the limited customer overlap. And, third, the opportunity to accelerate Agile methodology internally at CA to drive improving velocity of our high-quality solutions.

Three-and-a-half months into the acquisition, I am very pleased to report that Rally is performing well. In many ways, it is doing better than our expectations. For example, total paid seats under contract at the end of Q2 grew in the high 20% range year over year. We define a paid seat as a seat with a subscription or support contract.

Q2 saw a particularly large upgrade order from a global leader in networking routers and switches. This customer exemplifies Rally's successful land-and-expand strategy. Rally is able to prove strategic value in a small initial engagement and then grow exponentially within the customer. We are encouraged by the opportunities we see to further engage our customers around Agile.

In terms of integration, just last month, we GA'd our first release of a bi-directionally integrated combined Rally and CA PPM solution. This allows customers to combine planning and execution, track progress in real time, and eliminate the need for point-to-point integrations. It creates a closed-loop system that vastly accelerates and improves the decision-making process.

This level of integration is something with which point solution providers simply cannot compete. The broad value proposition that we offer in Rally, combined with CA PPM and DevOps tools like Service Virtualization and Release Automation, enable organization transformation rather than small, disparate design teams functioning in soles.

In fact, we often do not compete against point solutions in head-to-head evaluations. Rather, our solutions are deployed as a result of am enterprise decision to scale Agile methodologies across a number, sometimes hundreds, of development groups. Combined with CA's global enterprise engagement and support model, this puts us in a different class of solution providers.

Now I'd like to highlight a few areas within Enterprise Solutions in which we are seeing very good progress. Our award-winning Clarity PPM platform, which has been one of the cornerstones of our Enterprise Solutions business, grew new sales over 70% year over year as reported. With the release of 14.2 in April and 14.3 last month, customers can now glean powerful management insights from their data. Enabling them to view their product portfolios and investments across all platforms, including tablets and mobile.

We are becoming increasingly confident in our ability to outpace the market. We believe we have the right products at the right time, with a more seasoned sales force executing multiple six-figure deals across geographies.

We are particularly pleased with a major win at a large Canadian bank that was originally an on-premise customer using Clarity PPM for financial reporting. This transaction dramatically expands CA's engagement as it migrates to our on-demand platform and standardizes its financial reporting, product management and time tracking. This win displaced both the customer's internal systems resources, as well as CA's competitors.

Within DevOps, API management continues to grow at a rapid clip, with new sales up in the high 30s year over year as reported. We are a leader in the secular growth space. We are in a unique position to provide API management solutions at scale with the requisite security features. CA's API management products enable customers to manage and protect the ever-growing volumes of data traversing across rapidly expanding digital platforms. Our solutions are recognized by both industry pundits and customers.

Our leadership in this space is evidenced by a major win at a large US-based auto manufacturer. This engagement represents an enterprise-wide expansion of our relationship and includes Mainframe, API management, and DevOps. Importantly, it also establishes an initial footprint for CA into its finance division.

We also secured a win at an American media company that provides local weather forecasts globally. This win was a competitive displacement, where CA API management was chosen due to its superior performance and scalability.

UIM, which is foundational to our DevOps portfolio, is a great example of Agile methodology deployment within CA. In fact, UIM was the first group within CA to adopt Rally and was its internal lighthouse sponsor. The resulting improvements with regard to product quality and velocity are notable.

In the quarter, UIM had a major win with a large cloud Infrastructure as a Service company, who chose CA's UIM tool over its parent company's alternative offering. Another notable deal was a competitive win at a leading athletic apparel company that is embracing the application economy to transform into a lifestyle brand with a leading digital health platform. CA was chosen over a number of competitors for our ability to offer an enterprise-wide global solution and services view.

Next month, at CA World in Las Vegas, you can expect to see net new product launches, some of which reflect our unique opportunity to bridge between distributed cloud and mainframe. You will see our heightened emphasis on Agile and better appreciate how CA is in a unique position to benefit as large enterprise data center management strategies evolve to hybrid cloud environments.

Given CA's rich heritage as a trusted vendor to large enterprises running mission-critical workloads, and providing support around the globe, we have a coveted seat at the table. This point is particularly salient when it comes to the fragmented security space.

Our security business had a very strong second quarter with new sales up over 60% year over year as reported. Results were positively impacted by the large system integrator renewal, where CA's security footprint has expanded considerably. Even outside this large renewal, we closed multiple six-figure transactions across a number of verticals including healthcare, automotive, technology and government.

In addition to the technology and expanded product portfolio breadth our recent acquisitions provide, they are also improving our visibility with customers who are increasingly viewing CA as a large committed vendor with staying power in this critically important, yet still incredibly fragmented space.

We are very excited about our most recent acquisition, Xceedium, which extends our PIM, or Privileged Identify Management, offering. Xceedium positions us well in the rapidly growing network security market, as large enterprises have become increasingly aware and less tolerant of dangerous and often very public inter-organizational security breaches. In fact, it appears to have also created a halo effect, lifting sales of existing PIM products as customers embrace our PIM roadmap.

Now turning to sales execution, I am pleased to report that our decision to separate Platinum accounts from Named and Growth accounts, and to specialize sales by product discipline continues to yield positive results. Globally, in the second quarter, our sales teams improved win rates, decreased average sales cycles, improved pipeline conversion rates and increased average deal sizes. This speaks to the team's improving efficiency and continued focus on accelerating velocity. In fact, for the second consecutive quarter, our combined Named and Growth sales teams delivered strong, broad-based results.

While two quarters do not make a trend, we do expect the second half of the year to be weighted towards the fourth quarter. I am convinced that our sales execution strategy is on the right track.

I invite you to come and see the progress we're making in terms of sales execution, product development and marketing strategy next month in Las Vegas. Please join us at CA World to see our product innovation first-hand and hear why customers are embracing CA Solutions to differentiate and accelerate their products and processes in order to thrive in the emerging application economy. Our Financial Analyst track will take place on November 18, 2015, at the Mandalay Bay in Las Vegas. We hope to see you there.

In aggregate, I am pleased with our second-quarter results, particularly with regard to new sales, which reflects the success our solutions are seeing in the market. That said, we recognize there's still work to do in order to drive the kind of growth that CA has the potential to achieve.

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

Rich Beckert - *CA Technologies - 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.

As many of you are aware, overall the dollar continues to strengthen, which negatively impacts our results and our guidance. Our Q2 total revenue was $1.005 billion and was down 1%. The increasing mix of new sales going ratable compared to upfront, which we experienced in Q1 and again in Q2, has impacted reported quarterly revenue by approximately 1 point per quarter. If this trend persists, it will continue to be a headwind towards reported revenue.

Enterprise Solutions increased 3%, and Mainframe Solutions and Services were each down 3%. Q2 renewals were more than doubled year over year, both in constant currency and as reported. Excluding the large system integrator transaction, Q2 renewals would have been up in the low teens and in the high single digits as reported. As we have previously stated, the year-over-year change in our renewal bookings can vary on a quarterly basis due to the timing of large transactions.

Q2 total new product and capacity sales were up nearly 50% and over 40% as reported. This was due in part to a large system integrator renewal previously mentioned and the contribution from acquisitions, with Rally as the most meaningful. As Mike indicated, excluding the large system integrator renewal, total new sales increased in the mid 20s and high teens as reported, and Enterprise Solutions new sales increased in the mid teens year over year, high single digits as reported. Excluding the large system integrator renewal, and excluding acquisitions, total organic new sales were up in the high teens in constant currency and low teens as reported.

As Mike mentioned, Rally's total paid seats under contract increased in the high 20% range year over year. We disclose this metric because we thought it would be helpful to show how well this acquisition is progressing. However, we do not intend to provide Rally seat growth metric indefinitely. This is because in very large transactions, such as the ones signed in the second quarter, as well as those we believe can be executed over time with our platinum accounts, paid seat growth may not be an accurate proxy for expected revenue growth.

Renewal yield for the quarter was in the high 90% range. This is the highest it's been in recent history and was driven by the large system integrator. This renewal had a positive impact across our Mainframe and Enterprise Solutions businesses. Excluding this one transaction, our renewal yield was in the low 90s.

The large system integrator renewed for a duration longer than our forecast. As such, we now expect FY16 renewals to be up in the mid 20s year over year as compared to FY15, and up approximately 20% as reported. Excluding the large system integrator renewal, we expect FY16 renewals to be up in the low single digits and down in the low single digits, as reported.

Turning to geographies, new sales were particularly strong in North America, driven by the large system integrator renewal. New sales were also strong in EMEA and Latin America. However, new sales were down in APJ, due to the timing of renewals and generally weaker pipeline in the region.

Within our segments, Q2 Mainframe new sales including new product and capacity more than doubled year over year, both in constant currency and as reported. Overall, we continue to expect Mainframe revenue to with down in the low-single digits over the medium term, which we believe is in line with the mainframe market.

Q2 Enterprise Solutions new product sales were up in the high 20s in constant currency, and up approximately 20% as reported. Enterprise Solutions new sales, excluding the large system integrator transaction, would have increased in the mid teens year over year and up high-single digits as reported. New sales attached to renewals, including the large system integrator, contributions from our recent acquisition, and solid performance in Named and Growth customers drove the improvement in Enterprise Solutions new product sales.

Services revenue decreased 3% in constant currency and 9% as reported. We expect lower services bookings in FY15 to be a headwind to FY16 revenue. Over the long term, we expect services revenue to decline as we design our products to be easier to install and as we leverage partners.

Total revenue backlog improved up 2% in constant currency, or down 3% as reported. Current revenue backlog improved to down 2% in constant currency, or down 7% as reported.

As many of you know, current revenue backlog is impacted by the timing of large deals in our renewal portfolio. As contracts move closer towards their renewals, revenue backlog declines. In other words, backlog is heavily influenced by time. Given the timing of deals in our renewal portfolio, we expect current revenue backlog to tick down in the coming quarters.

As I've said before, consistent year-over-year growth in current revenue backlog is one of the indicators of future revenue growth. Current revenue backlog will likely grow when we demonstrate multiple quarters of new sales growth while maintaining a low 90% renewal yield.

Q2 non-GAAP operating margin was 36% and GAAP operating margin was 26%. Segment operating margins in the quarter were 62% for Mainframe Solutions, 3% for Enterprise Solutions and 5% for Services. Enterprise Solutions margins were negatively impacted by acquisitions and other related expenses, some of which we do not view as ongoing.

Our Q2 non-GAAP tax rate was 28% and our GAAP tax rate was 30%. Q2 non-GAAP diluted earnings per share was $0.56, down 6% year over year. Q2 GAAP diluted earnings per share was $0.39, down 13%.

Our Q2 CFFO was $43 million, down 32% year over year, or down 35% as reported. CFFO declined year over year due to the combination of foreign exchange headwinds and lower single installment cash payments. Single installment cash payments were $105 million and down year over year.

We ended Q2 with approximately $660 million in net cash. During the quarter we repurchased $65 million in shares and paid $110 million in dividends. We have $670 million remaining in our original $1 billion share repurchase program.

During the quarter, we issued $400 million five-year notes at 3.6%. We used the proceeds to pay down the revolver accessed in conjunction with the closure of our acquisition of Rally.

Subsequent to the close of Q2, we opportunistically took a six-and-a-half-year, $300 million senior term loan facility at LIBOR plus 150 points. The use of proceeds is for general corporate purposes and to provide increased flexibility to execute our capital allocation strategy. As you can see, the terms are attractive and the tenor fits well with our maturity profile. 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 September 30, 2015. This includes a partial hedge of operating income. The guidance also assumes no material acquisitions. We expect currency to have a negative impact to our full-year FY16 revenue of approximately 5% at September 30 rates.

As Mike mentioned, we expect the second half of our fiscal year to be heavily weighted towards the fourth quarter. In other words, as we look to the back half of our fiscal year, we expect our results to be better in the fiscal fourth quarter than in our fiscal third quarter.

Our expectations for a softer third quarter is a result of the expected timing of Named and Growth deals in the pipeline. As previously mentioned, we also expect the trend in mix whereby the increasing portion of deals are going ratable rather than upfront to continue in Q3. The impact of this is for revenue to be recognized over the course of time as opposed to in the current period. However, associated expenses are recognized in the current period, which negatively impacts near-term margin.

Also, with regards to operating expenses, please note that CA World takes place in November. So the expenses of our biggest event of the year will hit in the third quarter.

For the year, the increased mix of ratable relative to upfront we experienced in both Q1 and Q2 have created a headwind to our reported revenue. As I mentioned earlier, this shift has resulted in downward pressure of approximately 1 point of reported quarterly revenue in each of the past two quarters. We expect this shift toward ratable revenue to occur again in the third quarter.

As such, we'd like to provide headlights into our current view of the full year. We currently expect total revenue to be at the low end of our guidance of down 1% to flat in constant currency. This translates to reported revenue of around $4.0 billion to $4.04 billion. Please note the negative impact of foreign currency on our reported revenue outlook is around $40 million.

We expect a full-year GAAP operating margin of 28%, and a full-year non-GAAP operating margin of 38%, consistent with our prior expectations. Similar to our expectations for revenue, we believe operating margins will be negatively impacted by the increasing mix towards ratable revenue rather than upfront deals. 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 come in between 2% and 5%, consistent with our prior expectations. This translates to reported non-GAAP diluted earnings per share of $2.34 to $2.40. The negative impact of foreign currency on earnings per share is around $0.03.

GAAP diluted earnings per share is expected to grow 7% to 11%. Prior guidance was an increase of 6% to 10%. This translates to reported GAAP diluted earnings per share of $1.70 to $1.76.

At the end of the year, we expect approximately 431 million shares outstanding, and a weighted average diluted share count of approximately 436 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 $0.97 billion to $1.02 billion.

And now we'll take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of John DiFucci with Jefferies. Your line is now open.

John DiFucci - *Jefferies LLC - Analyst*

Two questions. Rich, the first one has to do with the new ES, new Enterprise Solutions, sales excluding the large deal but also excluding acquisitions. What was the growth in that? You gave us a lot of growth numbers but I don't think you gave us that. You talked a lot about Rally, and it sounds like Rally's doing really well so that's good to hear. But what was the growth if you excluded the large deal and Rally? Was it better than the renewal growth?

Rich Beckert - *CA Technologies - CFO*

It was mid single digits and constant currency, so growing a little bit better than the market.

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John DiFucci - *Jefferies LLC - Analyst*

Okay. Great. And, Mike, you said there's still work to be done here. And there always is. But can you talk to us a little bit about what are the things that you think of that really need to be focused on. And perhaps you can't say exactly what it is but even in generalities. Is it more around the sales force? Is it more around the product? You have new product leadership there. Can you just address that a little bit more? And, actually, with Rich saying it was up in, I think, mid single digits, that's actually lower than, I think -- renewals were up in the low teens if you exclude, I think, Rich, the large deal and acquisitions. So, I would think that that's the only growth number -- you gave us a lot of them, they all sound good -- that's the only one that I guess maybe with a little asterisk next to it.

Mike Gregoire - *CA Technologies - CEO*

I think we were pretty happy across the board with the new sales number, John. Every region, two quarters in a row with our growth in named accounts improved. So, we're definitely seeing traction. Like what I said in my prepared remarks, two quarters don't make a trend but it's moving in the right direction and accelerating. So I was pretty happy with that.

As far as work goes, we still have work to be done. I'm still not completely satisfied where we are with our products. I want to do more organic innovation. We're launching a number of net new products at CA World. So, that's a great step in the right direction.

I'm really happy with some of the thinking that's coming from the Rally team, this whole concept of Agile. I made my whole management team go through Agile training, my direct reports. Next week I'm having the whole senior leadership team, which is the top 100 executives in the Company, go through Agile training. This is something that I think is going to not only improve our products but change some of the ways we think and act. And that gets into culture.

I really do think we've changed the culture of the Company where we're getting into a culture of innovation, accountability, predictability, and performance, and moving away from a culture of entitlement and complacency. Between the number of net new people we've hired, the people that existed in the Company and really get it, and some of the great people we've been able to bring in from acquisitions, I think we've got more than a critical mass of people that really understand how a modern software needs to operate and just how competitive it is to perform in this market. When you have a competitive team that really gets it and we're starting to see our ability to win, win rates went up this quarter, second quarter in a row, I'm feeling that we're definitely moving forward. But I also am very sober to the fact that we've got a lot of work to do.

Rich Beckert - *CA Technologies - CFO*

John, if I could add to that, the named and growth did very well and the Mainframe did very well. And that has to do with what was up for renewal in the quarter. You had the standalone transactions that Mike described, and the named and growth really performed well around the world, and then the Mainframe had a very strong quarter. And that's really what the renewals, where you can see what products were up for renewal.

John DiFucci - *Jefferies LLC - Analyst*

And it's true, though, Rich, that, especially with new Mainframe sales, they were tied primarily to renewals, right?

Rich Beckert - *CA Technologies - CFO*

Predominantly. But I would tell you we are starting to see the effect of the box that came out of IBM. You saw they posted another strong quarter of hardware. That's a leading indicator of how customers are taking on the hardware. So, we will see that as it goes through the renewal cycle.

We did this past quarter have a couple transactions that were, because people were light on what they were renewing, meaning that they didn't put a lot of head room in and they outpaced the head room they had put in so they had to come back to us in between renewal cycles in order to pick up extra capacity. So, that's a good sign.

John DiFucci - *Jefferies LLC - Analyst*

Okay. That's great. Thanks a lot, guys.

Operator

Thank you. Our next question comes from the line of Greg McDowell with JMP Securities. Your line is now open. Please go ahead.

Greg McDowell - *JMP Securities - Analyst*

Great. Thank you very much. Just one quick question about the large renewal. I was wondering what caused the systems integrator to want to renew that. It sounds like that was originally going to be a March deal and it sounds like you brought it in earlier. So, I was wondering if you could go through the reasons they did that.

And the second half of that question is the contract length. It sounds like it was maybe a little bit longer than you guys expected and I'd love to hear about why that is and if you had to give any concessions to get that longer contract length. Thanks.

Rich Beckert - *CA Technologies - CFO*

I would start out by saying the actual renewal, if you remember, we had a very strong renewal yield inside that SI. So, from a concession standpoint there were virtually none. I think if you look at it from the standpoint of the length of time, traditionally they go longer. We had planned that to go a little bit shorter and they came back into their more traditional cycle time of over five-plus years. That's not always the case. We plan them for less and they actually came in longer.

Between the two companies, and I'll let Mike comment, the relationship is actually very strong. And we left that transaction in an even stronger relationship between the two firms. So, in general, all the metrics were very strong, as you can see. High renewal yield, high both capacity, which is a Mainframe statement, and new ES sales.

Mike Gregoire - *CA Technologies - CEO*

From the dynamics of what prompted them to move early, when you have a large transaction like this the weight of the negotiation goes in our favor the closer it gets to the renewal date. And no large company that's dealing with our software running mission-critical applications, they want to understand exactly what their liability is going to be or what their cost structure is going to be as early as possible. So, they're usually anxious to get into the negotiation at least three quarters out of renewal date. We've seen that consistently happen for multiple years.

Greg McDowell - *JMP Securities - Analyst*

Great. Thank you.

Operator

Thank you. Our next question comes from the line of Abhey Lamba from Mizuho Securities. Please go ahead.

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Abhey Lamba - *Mizuho Securities Co., Ltd. - Analyst*

Thank you, Rich and Mike. You guys had many strong points to this quarter. I would love to hear which ones of them are sustainable. New product sales looked pretty good. Should we think that we are at a point where we should expect strong performance on a sustainable basis? Also with the renewal, it was pretty strong, but can it continue? How should we expect where it goes from here?

Rich Beckert - *CA Technologies - CFO*

This is Rich. As you can see, our renewal yield was very strong. And even when you backed out the large system integrator you can see it was in the low 90s. We think being in the low 90s is pretty standard if you look back over the last few years. We'll have an occasional where we drop into the 80s and we usually talk to you guys about that. That tends to be more on the side of a company going through a merger or a divestiture than it is them abandoning our products, for the most part.

I think when you look at it from the overall success of the business, the way we fragmented that, as Mike said in his prepared remarks, about platinum, named and growth accounts having sustained now two quarters in a row. Now, two quarters in a row aren't necessary that we've moved beyond but is really a very strong indication that that strategy is starting to take hold around the world.

Mike Gregoire - *CA Technologies - CEO*

With respect to sustainability, we're seeing a lot more traction and predictability out of the sales force. I think our sales team has become much stronger. I'm much more happy with the sales leadership, I think, in both named and platinum. They consistently follow the techniques and processes you would expect from a modern software organization.

We still have some work to do with our partner community. That's something we're really paying attention to. And we've got some great products that are really driving high growth. APIM, for example, is a best-in-class product. We had PPM which is another SaaS product, which grew 70% quarter over quarter, like we put in the press release.

So, we have a lot of focus that we've put on products, and the sales force really understands how to articulate that value. So I'm feeling more optimistic that we are into an upward trajectory. Now, on the Mainframe side, as Rich talked about, we're going to see some lumpiness based on some of the renewals that we go through, which is just natural to our model.

Abhey Lamba - *Mizuho Securities Co., Ltd. - Analyst*

Got it. And, Rich, on the current revenue backlog, I know this large deal has been a headwind over the last couple of quarters. But this quarter we got that renewal but your current revenue backlog growth rate is still negative. What needs to happen for it to turn positive? Because that is the leading indicator for revenue growth, right?

Rich Beckert - *CA Technologies - CFO*

Correct. What I would say is, there's two things. Inside of that you have a little over 0.5 point of our services backlog, which is always going to be current. And as we've been saying, services over time will continue to go down, by design, as we build our products that need less and less services. So, that drags almost half of that current point down.

And the second part is really just as you look at the timing of renewals. So, you look at the back half has more than the front, and then you start to reach into next year. That's just more timing as we see them come out.

To your point, over time we believe, and if we continue to have sustained improvement, we will be able to offset both of those. So, as we close the gap from prior quarters, we have a few more quarters before that will turn positive.

Abhey Lamba - *Mizuho Securities Co., Ltd. - Analyst*

Thank you.

Operator

(Operator Instructions)

Our next question comes from the line of Michael Turits with Raymond James. Your line is now open. Go ahead.

Jeremy Benetar - *Raymond James - Analyst*

Hey, guys, it's Jeremy Benetar in for Michael. Can you just describe your strategy with the Xceedium acquisition? And how do you plan to position it versus competitors like CyberArk? Thanks.

Mike Gregoire - *CA Technologies - CEO*

First of all, if you take a look over the last year, the majority of the large-scale public hacks has been the lack of identity management with respect to machines, where a user has either control of root and gets to other machines and imposes their user identity on those other machines, or even inadvertently opens up ports on a machine that allows hackers to get into it. This is a very important piece of technology. We have a very comprehensive PIM solution. Xceedium just adds to that PIM solution. So, this was additive to an already existing portfolio.

And what we have, which I think is differentiating the market, is we have a much broader solution that covers more use cases with respect to privileged identity management. There are a number of different competitors in this space. I think it's a big market. I think there's room for multiple players to be successful.

I think the differentiating factor for us is that we are not a small company. We have global breadth and depth. We are continuing to invest large sums of capital into this solution. And, secondly, we have adjacencies in and around the PIM solution so that when a customer comes to us we're taking a more holistic look at protecting their infrastructure.

Jeremy Benetar - *Raymond James - Analyst*

Great. Thanks.

Operator

Thank you. Our next question comes from the line of with Raimo Lenschow with Barclays. Your line is now open. Please go ahead.

Unidentified Participant - *- Analyst*

Hey, guys, this is Stefan sitting in for Raimo. Thanks for taking my questions. The first one is just a follow-up to John's question. Could you help frame the mix of the growth versus the more established products within your ES segment just where we are as the transition moves to more of your portfolio growing faster than the ones that are not?

Rich Beckert - *CA Technologies - CFO*

Sure. If you look at our portfolio, and I think you heard Mike talk about, we had UIM was up, APIM was up. We had a strong APM management, PPM, SaaS. And then you get into, of course, what we just purchased, so Xceedium and Rally. But the entire security portfolio did very well this quarter.

Around the horn, we actually did pretty well, which is what Mike was trying to talk about earlier. This was more than just the system integrator having a strong influence on the quarter. We saw a large part of our portfolio perform well and it was fairly balanced.

We had another strong quarter out of Europe and we had a strong quarter out of North America. We had a strong quarter out of Latin America despite Brazil, so it was the rest of Latin America. So, really the only geo that was a little soft was APJ. It was a very good ES quarter. And when you put on top of that the Mainframe, it was one of the best quarters we've seen in a while.

Unidentified Participant - - *Analyst*

Got you. On that system integrator deal, could you help frame how the new product attach compares with the transaction that renewed last. I was just wondering, given that it seems like most of the metrics came in in line to better than where you guys were expecting, why wouldn't we see a positive impact on revenue, given that it's two quarters earlier than what people were modeling on that deal?

Rich Beckert - *CA Technologies - CFO*

Sure. This is Rich again. Remember, that's a ratable transaction and that will be spread over five years. So, as you see that go out over time, there will be some benefit in the out quarters, it's just muted because of that. When you look at the rest of the portfolio and how well we performed, what we were trying to say is what we saw in Q1 was a slight trend of about 1% of our ES business went ratable more than our historical.

We saw that again in Q2. Not that two quarters make a consistent line for Q3 and Q4, but we were giving headlights that if that trend continues it will drive the revenue in near-term year to the lower end of our guidance. To the degree they flip back to their historical rate of attach versus not attach, you would be closer to the other end of guidance. All that revenue, though, we'll capture. Now we're just talking about the timing of when that revenue will actually be on the P&L.

So, all in all, we've had a very strong first half. Now we're talking about when that revenue will show up on the P&L. What we're seeing is it's starting to move more towards the out years.

Unidentified Participant - - *Analyst*

Got you. And then just one last one, if I could sneak it in. With the secular trends that we're seeing in the industry around open source, can you elaborate a little bit on how that impacts CA?

Mike Gregoire - *CA Technologies - CEO*

We're excited by open source. We're a huge open source user and we view that as a catalyst for our business. At the end of the day, you have to remember the heritage of this company has always been in managing heterogeneous platforms. We're probably one of the largest manager of open-source heterogeneous platforms out there.

If you just take a look at our APM solution, APM 10.1 was launched just last week, and what we added into that release would both support a Cloud Foundry and Docker, two very powerful open-source systems that are getting extraordinarily quick traction in the market. I know we've been managing multiple versions of Apache for years with our APM solution, which is all open source. When you take a look at the UIM product, the UIM product supports almost all the popular open-source Linux platforms including Red Hat, SUSE, CentOS and Open SUSE. And I think that as we see more innovation coming out of open source, folding that into our platform on both APM and UIM, I think that makes, once again, a differentiator. We're the only ones that have the wherewithal to invest in multiple platforms as they come out instead of waiting for them to be thrown into either legacy systems or for an open-source project to start to manage multiple heterogeneous systems. We just haven't seen a lot of traction in the open-source community to do that. I think that that's a unique place where we can fill a void.

Unidentified Participant - - *Analyst*

Got it. Thanks, guys. And congrats on the quarter.

Operator

Thank you. Our next question comes from the line of Sterling Auty with JPMorgan. Your line is now open. Please go ahead.

Sterling Auty - *JPMorgan - Analyst*

Yes, thanks. Hi, guys. I thought I saw in the prepared remarks somewhere when you talked about the back-end weighted results for the rest of the year there was talk of timing on some of the named accounts in the pipeline you expected. I'm just curious, did you see any of the deals get pulled forward and close this quarter and this is backfilling into the pipeline, or any deals or projects that were being delayed because of any macro or other issues?

Rich Beckert - *CA Technologies - CFO*

No, it's not a macro issue. What we've seen, we now have a very methodical approach to how we build pipeline and then move pipeline through the system. And our headlights into Q3 and Q4, especially on those single product type transactions where named and growth tends to be, we can see what our pipeline is for Q3 and what we believe would be the right yield from that, and we see it for Q4. So, it's nothing more than sharing with you guys headlights into what we see as our pipeline mix between Q3 and Q4.

Sterling Auty - *JPMorgan - Analyst*

Got you. And then on the duration, can you give us a sense, if you back out the longer than expected large renewal, what would the duration have looked like in the quarter?

Rich Beckert - *CA Technologies - CFO*

If you back out, we would be down to a little over 4. So, 4.1.

Sterling Auty - *JPMorgan - Analyst*

So, that's still a step up from where you've been, right?

Rich Beckert - *CA Technologies - CFO*

It is up. Last year it was in the mid 3s.

Sterling Auty - *JPMorgan - Analyst*

And is there anything to read into that?

Rich Beckert - *CA Technologies - CFO*

No. What you see is you had a lot of transactions in the quarter. As I said earlier, you had a very strong Mainframe quarter. Some of the Mainframe customers want to be locked in because they see the value of this platform so they want to get locked into a three-, four- or five-year transaction. So, they're buying a ahead capacity in anticipation of growing into that. It's actually a very healthy statement when you see that type of a mix with the Mainframe customer set.

Sterling Auty - *JPMorgan - Analyst*

Got you. Thank you.

Operator

Thank you. Our next question comes from the line of Phil Winslow with Credit Suisse. Your line is now open. Please go ahead.

Siti Panigrahi - *Credit Suisse - Analyst*

Hi, guys. This is Siti Panigrahi for Phil. Just wondering if you could give some color in terms of geography, what you're seeing outside United States. And just a follow-up to your last comment about Mainframe. Could you give some color in terms of what you're seeing in units and pricing, as well?

Mike Gregoire - *CA Technologies - CEO*

Sure. I'll hit the geographic. We had a very strong quarter in North America, as you would expect. It's the biggest market for us to sell in. And I was very happy with how the sales team progressed deals and were able to hold the line on pricing, as well as get strategic accounts to buy more software.

I got to tell you, I've been very happy for the last several quarters with the EMEA team. They've been able to really drive the value proposition. They're getting into the right accounts, they're talking to the right people, and they've had strong, steady improvement across the board.

We have had rough air in the last few quarters in Latin America. I was happy to see Latin America really push and do a nice job this quarter. But most impressive I was happy with the way that that management team attacked the market. Knowing that Brazil is a tough market, they repositioned some of their sales capacity outside of Brazil and did a nice job outside across LA.

Japan is a market that we really count on to be able to drive growth. Their quarter was a little soft and the rest of APJ was pretty much in line with what we usually see.

Rich Beckert - *CA Technologies - CFO*

From the Mainframe side, as you had asked, we didn't see any particular price pressure, if you're asking from a dollar per MIPS standpoint. So, that was in line with what we had anticipated. We did see a nice take up, though, with the capacity people were looking for, which is always, as I said earlier, a positive sign. And we think we're still in line with our low single digit revenue over time, which is in line with the market.

Siti Panigrahi - *Credit Suisse - Analyst*

Thanks for the color.

Operator

Thank you. I'm showing no further questions at this time. I would now like to turn the call back over to Mike Gregoire, Chief Executive Officer, for closing remarks.

Mike Gregoire - *CA Technologies - CEO*

Thank you again for joining us this afternoon and for your continued interest in CA. I'd like to leave you with the following thoughts.

First of all, we had a very strong quarter in terms of new sales. Secondly, our renewal yield was in the high 90s, the best we've seen in years. Excluding the large system integrator, the renewal was still in the low 90s. Third, following our strong second-quarter performance, we expect a softer third quarter.

And then, lastly, our product and sales execution are beginning to show measurable improvement. We look forward to showing both of these drivers and the fruits of our work at CA World in the next month. Thank you very much and have a great night.

Operator

Ladies and gentlemen, this does conclude today's program. You may all disconnect. Everybody have a wonderful day.
