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CA - Q2 2013 CA, Inc. Earnings Conference Call

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OVERVIEW:

CA reported 2Q13 total revenue of $1.15b, GAAP operating income before interest and tax of $337m, and GAAP diluted EPS of $0.48. Expects FY13 reported revenue to be $4.58-4.67b and reported GAAP diluted EPS to be $1.99-2.07.

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PRESENTATION

Operator

Good day ladies and gentlemen, and welcome to the CA Technologies Second- Quarter 2013 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session, and instructions will follow at that time.

(Operator Instructions)

As a reminder, this conference call is being recorded. I would now like to turn the call over to Kelsey Doherty. You may begin.

Kelsey Doherty - *CA Inc - SVP IR*

Thank you and good afternoon, everyone. Welcome to CA Technologies Second- Quarter Fiscal Year 2013 Earnings Call. Joining me today are Bill McCracken, our Chief Executive Officer; and Rich Beckert, our Chief Financial Officer. These prepared comments were previously recorded. This conference call is being broadcast on Thursday, October 25, 2012, over the telephone and the Internet. The information shared in this call is effective as of today's date, and will not be updated.

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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 third-quarter quiet period begins at the close of business on December 14, 2012.

Before I turn the call over, I'd like to highlight that for modeling purposes, our year-over-year currency headwind on revenue guidance is expected to be roughly 2 points for the full year. With that, let me turn the call over to Bill.

Bill McCracken - *CA Inc - CEO*

Thanks, Kelsey, and good afternoon, everyone. Thank you for joining us. I'd like to start this afternoon by providing some detail on CA Technologies' second-quarter results and our revised annual and long-term guidance. I will then turn the call over to Rich for a more detailed review of the financials and updated guidance before we open the call for questions.

Let me start by saying that our second quarter was short of our objectives in several areas. Obviously, we are disappointed in our performance. Because we did not expect the macroeconomic environment to recover quickly, and we therefore expect that our marketing transition will be elongated, we are lowering our guidance for the year. I will walk you through the quarter, what has changed in our outlook, what did not work well, and some things that did work well. Before I do that, let me turn to our expectations as we entered fiscal year 2013.

We knew the fiscal year 2013 renewal portfolio would be down year over year. We also knew that we would be reorganizing the sales force and we were sensitive that the economy might be a headwind this year. Having said that, there are two critical aspects of our business that are not performing to plan. First, underlying our performance, new product and capacity sales did not come in as expected, particularly new sales outside of the renewal. New product and capacity sales were down approximately 25%.

Second, as we have outlined, our sales force reorganization has been slower to gain traction than we had expected. Clearly, I'm not satisfied with our sales execution and transition to segment marketing, which is a key to our future growth. Finally, I would be remiss in not mentioning the weakening global economic outlook which has impacted our performance. In fact, we saw sale cycles elongate and deals slip out of the quarter. This trend exacerbated our efforts to sell to new customers under the segmented marketing model.

As we told you when we announced quarter one, we are closely inspecting the pipeline, and managing progression from a segmented view. This is new. This inspection improved the visibility into and quality of pipeline, but shifted the expected time of closing of some transactions to future quarters. All of this was exacerbated by the macroeconomic climate.

The result, as Rich will review in greater detail, is that we are reducing our full-year expectations for revenue in constant-currency growth to negative 3% to negative 1%. This results in updated cash-flow guidance of negative 8% to negative 4% in constant currency. However, we will continue our focus on cost and expense control through the second half of the year, and expect our non-GAAP operating margin, which we raised last quarter, to be 36% for the full year. As a result, we are updating our outlook for non-GAAP EPS growth to 6% to 10% in constant currency.

Before addressing the plan for the balance of the year, let me place our second-quarter results in perspective. First, there were headwinds that we knew we would have to contend with during the quarter. With the renewal portfolio down year-over-year and the mainframe portion down even more, we expected capacity sales to be down. This, coupled with an uneven macro environment where buyers are being cautious, resulted in capacity being down approximately 60%.

Based on our performance in the first quarter we saw a trailing effect on cash flows, as our quarter-one new product sales shortfall created a gap in billings that affected Q2. Additionally, our renewal yield was in the high 80% range, a little bit lower than historical levels in this tough economic environment, but attributed to two transactions.

The pipeline, while building, is building slower than we expected. This is the second quarter in a row North America has been down, and the impact of the economic political uncertainty in Europe was even greater than we expected. As a result, several core product lines declined, including our application performance management and infrastructure management businesses.

At the same time, there are areas of the business which are performing, though off smaller bases. They include mainframe new product sales, which were up approximately 10% year over year. In Latin America, where we have been leveraging channels and partners for two years, we grew high teens.

APJ, excluding Japan, where we also implemented a partner and segmentation program earlier, was up mid-teens. Both demonstrated that our segment marketing can produce improved results. Technology investments, such as ITKO and Nimsoft, delivered double-digit new product sales growth in the quarter; and our SaaS revenue grew by more than 30%.

Let me assure you that CA Technologies' competitive position is sound. I talk with customers and visit clients every week, and I remain confident that we are well-positioned in the market and our portfolio of products and solutions is compelling. Because of our weak new product sales this year, and the ongoing macroeconomic uncertainty, we see a dampening effect on revenue and cash flow growth next year.

As a result, we are modifying our long-term guidance. We continue to believe the multi-year financial objectives that we previously shared are correct. But we now believe the time line to reach these objectives will extend beyond our original expectations.

We feel very comfortable with our ability to generate cash flow. We expect approximately $1.4 billion in cash flow from operations this year, and can fund the dividend, share buyback, and future investments in the Company. The Board of Directors and I remain committed to delivering our $2.5 billion capital allocation plan. This includes the $1 per share annual dividend and share repurchase program we have put in place.

Now let me turn to our plan to improve execution in the second half. First, we are continuing to introduce new products to the portfolio. This past quarter we launched Infrastructure Management 2.0 and Nimsoft Monitor 6, which together arm our sales force with what we believe is the most complete infrastructure management solutions in the market.

We will continue to extend our services-strong strategy with a new version of CA Executive Insight, which adds capacity planning data to a solution that provides managers with IT insight in a business context; expanded monitoring capabilities for mobile browsing and a new version of APM Cloud Monitor. And new integrations of APM with CA Lisa from our ITKO acquisition, which will provide advanced performance analytics for better decisions in service virtualization and testing.

As I said in the first quarter, we are entering a period of increased product introductions. Second, we are focused on building our partner ecosystem. For example, our partnerships within India-headquarter of global systems integrators have driven an approximately 200% increase in related new contract value, and we added more than 20 new MSPs at critical distribution channels for each growth markets.

We also recently announced a partnership with Citrix to provide additional management and monitoring capabilities on top of Citrix's cloud and desktop virtualization solutions. Products include CA Nimsoft Monitor, CA Automation Suite, and CA Server Automation. Third, we are continuing to pay close attention to our expense profile to assure we deliver the 36% non-GAAP operating margin we outlook for the year.

We know we have work to do to sell more new products. The full impact of market segmentation was not evident in Q2, and it is going to take longer than we originally expected to gain traction. While market segmentation has put short-term pressure on our performance, we implemented this strategy because we believe it is the right thing to do for our business, and it will have long-term benefits for the future of CA Technologies. With that, I will turn the call over to Rich to provide details of the quarter and guidance.

Rich Beckert - *CA Inc - SVP and CFO*

Thank you, Bill. Please note that all growth rates are year-over-year unless otherwise indicated. Total revenue for the quarter was $1.15 billion, flat in constant currency and down 4% as reported. This includes a $43-million headwind from foreign exchange. In mainframe solutions, revenue was $619 million, down 2% in constant currency and 5% as reported. I want to remind you that we have an unfavorable mainframe revenue compare in the third quarter due to a $39 million single-license payment that occurred in Q3 last year.

Turning to enterprise solutions, revenue was $438 million, up 1% in constant currency, and down 2% as reported. Services revenue was $95 million, up 3% in constant currency and down 1% as reported. New services engagements, which are heavily dependent on new product sales, were down 15% year over year. We now expect FY 2013 renewal portfolio to be down closer to 10% as compared to FY 2012, with Q3 down year over year and growth in the fourth quarter.

Looking at the revenue backlog, current revenue backlog was $3.5 billion, down 2% in constant currency and 3% as reported. Total revenue backlog was $7.5 billion, down 7% in constant currency and 8% as reported. Backlog was affected by sales performance in the first half of the year. We also continue to see a headwind in backlog metrics, as contracts burn off the balance sheet in anticipation of an increase in our 2014 renewal portfolio.

From a non-GAAP perspective, non-GAAP operating income before interest and tax was $406 million, up 12% in constant currency and 7% as reported. For the quarter, our non-GAAP operating margin was 35%. Operating margin for mainframe solutions was 60%. Operating margins for enterprise solutions was 6%. Finally, operating margins for services was 6%. Non-GAAP diluted earnings per share was $0.59, up 22% in constant currency and 16% as reported. This includes a year-over-year $0.02 headwind from currency.

For the second quarter, non-GAAP tax rate was 31%, compared to 32% for the second quarter of fiscal 2012. Cash flow from continuing operations in the quarter was $89 million, down 50% in constant currency and 53% as reported. CFFO was affected by weaker new product sales. We have adjusted our full-year outlook accordingly. Single-installment payments were $95 million in the second quarter, compared to $100 million in the previous period.

Total billings backlog of $4.5 billion was down 10% in constant currency and as reported. Billings backlog was affected by sales performance in the first half of the year. We ended the quarter with approximately $790 million in net cash. During the quarter, we repurchased approximately 9.7 million shares for $250 million. We are authorized to repurchase an additional $654 million of common stock in fiscal 2014.

Moving to second-quarter GAAP results, second-quarter GAAP operating margin was 29%. GAAP operating income before interest and tax was $337 million, up 12% in constant currency and 1% as reported. GAAP diluted earnings per share was $0.48, up 15% in constant currency and 2% as reported. Our effective GAAP tax rate for the second quarter of fiscal 2013 was 32%, compared to 28% for the second quarter of fiscal 2012.

Now let me turn to fiscal 2013 guidance. As been our practice, guidance is based on exchange rate on the last day of the preceding quarter, or for this quarter, September 30, 2012. This includes a partial hedge of operating income. Before I review guidance, I would like to comment on this afternoon's update. Our adjustments take into account both our macro environment, which is elongated purchasing cycles, and our current view of pipeline progression for the second half of FY 2013.

Updated guidance is the following -- total revenue is now expected to be negative 3% to negative 1% in constant currency. This translates to reported revenue of $4.58 billion to $4.67 billion. A point of this year-over-year decline in revenue is attributed to a $39-million single-license payment that occurred last year and will not re-occur.

Non-GAAP diluted earnings per share growth in constant currency is now expected to be in a range of 6% to 10%. This translates to reported non-GAAP diluted earnings per share of $2.36 to $2.44. GAAP diluted earnings per share growth in constant currency is now expected to be in the range of 8% to 12%. This translates to reported GAAP diluted earnings per share of $1.99 to $2.07.

Cash flow from operations growth in constant currency is now expected to be in the range of negative 8% to negative 4%. This translates to reported cash flow from operations of $1.38 to $1.44 billion. Guidance does not include the effect of any future material acquisitions. Underlying this guidance, we expect our GAAP and non-GAAP tax rate to come in closer to the high end of the 30% to 31% we provided at the outset of the year.

At the end of the year, we expect approximately 449 million shares outstanding and a weighted average diluted share count of approximately 458 million shares. We expect our non-GAAP operating margin to be 36% for fiscal year 2013. Now I'll turn the call back over to Bill.

Bill McCracken - *CA Inc - CEO*

Thanks, Rich. Before we close, I'd like to leave you with a few thoughts. Market segmentation is the right strategy for CA Technologies. Expanding beyond our core 1,000 customers by accessing new channels, leveraging new partnerships and improving our coverage model will drive growth and expand profitability.

At the outset of the fiscal year, the timing looked right to introduce these changes. With a lighter renewal portfolio, we hoped to minimize the effect on our existing customer base. However, over the last six months we have continued to be challenged selling outside the renewal, both to our existing customers as well as potential new ones.

Driving this amount of change in a unpredictable economy proved more difficult than we anticipated. Because of our transition to segment marketing and expectations as to macro will not recover significantly, we are not projecting a rebound in the second half of this fiscal year. That being said, we understand the challenges we face. We have reset the timeline of our expectations, but not our goals of profitability and acquiring new customers. We continue to focus carefully on all details of our sales execution, and will continue that focus until we reach our objectives. Now, Kelsey, back to you.

Kelsey Doherty - *CA Inc - SVP IR*

Thank you, Bill. As the Operator is polling for questions, I would like to inform you that CA Technologies is presenting at the 2012 RBC Capital Markets Software and Services Investor Day in New York City on Tuesday, November 13, and the Credit Suisse Annual Technology Conference on Wednesday, November 28, in Phoenix, Arizona. In the interest of time, please limit yourself to two questions. Operator, please open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Mark Moerdler, Sanford Bernstein.

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

Thank you. Two quick questions. Can you give a little more detail on exactly what affected the cash flow from continuing operations? Is it the deal mix? Is it the staffing mix, et cetera? The second question, you discussed ten deals that were done, ten large license agreements with incremental contract value greater than $10 million, and then a value of $232 million, and then last year's similar size had a larger dollar. Is that the contract term that's affecting it, or the license component of it? Thanks.

Rich Beckert - *CA Inc - SVP and CFO*

Yes. On the second one, it's a little bit of both, so they were definitely longer in duration last year. This year is a shorter duration if you look at the top. We're at about a 3.11. Last year was closer to 3.6 in duration, so that drove most of it. I think your first question was on how we came up with CFFO and the change in guidance, is that correct, Mark?

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

Yes.

Rich Beckert - *CA Inc - SVP and CFO*

Okay. I think this will be a recurring question maybe for some others. Let's start with what really we saw coming out of Q1. As we had said, it was a slight decline in our transactions that were done outside of the renewal cycle. The deals that were done within the renewal cycle actually came in in both first and second quarter right in their normal historical levels, and those impending events actually proved out to be the way we would normally see them.

In Q2, what we saw was a slight difference now, and that was a little bit of elongation in some of these transactions that were now going to happen later on in the year. That predominantly sits in the distributed or enterprise solutions segment, and that $150 million worth of perpetual licenses normally would have flowed to direct cash, as well as the revenue associated with it for the licenses. What we thought was prudent, looking at the macro environment and the pressure the macro environment has on some of our geographies, and thought it was the right time to take that down.

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

Okay. Thank you.

Operator

Aaron Schwartz, Jefferies.

Aaron Schwartz - *Jefferies & Co. - Analyst*

Good afternoon. Rich, on the renewal portfolio, it sounded like that was a slight down tick, if I heard that correctly, and I was just wondering if you could reconcile that. It seems to me that would be something that was pretty well scheduled. I just don't know if that's just something -- just an overall sort of conservatism to the guidance, or if there was something specific, or maybe you could just walk through that if that was sort of -- I know it's pretty minor, but it did seem like it was a very modest downtick there.

Rich Beckert - *CA Inc - SVP and CFO*

It's a good question. What we saw, Aaron, as I said, the overall duration came in at 3.1, a little lighter than the 3.6 that was a year ago. Not that that's anything that's really that significant, but the second part of that that we saw in the quarter and I think is a general economic trend, is people who sometimes are at the top end of their capacity, either from MIPS or they need incremental (inaudible) on the enterprise solution side of the products would have maybe potentially gone a little bit early, or the ones that are there would have extended to a larger transaction.

What we're seeing is they're buying just enough for what they really want over a three- or four-year transaction. Although it's minor, it was enough that we thought it was the right thing to tweak it down. If you recall from our last call, what we said is as we thought we had better highlights into that number we would share it with you guys, because we did give a single-digit range, which wasn't as close as what we're really trying to be more transparent to.

Aaron Schwartz - *Jefferies & Co. - Analyst*

Right. I understand that it could have been nine and now you're at ten, so maybe it is very minor. But I thought the deal tenure with the shorter duration there was more tied to just the fact you were doing sort of more of these perpetual deals that are just shorter in nature, and that was a little more independent of some of the mainframe renewals?

Rich Beckert - *CA Inc - SVP and CFO*

It was a little of both. Remember that's the case, as you said, and clearly in Q2. It's the case because what we currently have is a lighter portfolio in Q2. The transactions that were done outside of the portfolio would have pulled that down. Even in the ELAs that we saw, some that maybe historically would have gone four-year or a five-year, they were being done closer to three to four, so there was a slight detraction there.

Aaron Schwartz - *Jefferies & Co. - Analyst*

Okay. Thank you very much. That's helpful.

Operator

Michael Tertis, Raymond James.

James Weston - *Raymond James - Analyst*

Hi guys. It's [Shane] Weston sitting in for Michael. A question -- some of your competitors have seen a September slow-down in spend from their software customers. I was wondering, did you guys experience a similar effect this quarter?

Bill McCracken - *CA Inc - CEO*

Well, as we said in some of the comments, Shane -- you said Shane? The macro-economic environment is having an impact. We've all talked about it in EMEA in the past. We saw it now in North America, as well, this quarter. It was the second quarter where they were down from where they had been before, so we do see a slowing. For us, it's actually an amplifying factor on our market segmentation piece, as well. As we're moving into the market segments, having that slow-down, having the decision cycle slow-down, people sometimes even cancelling projects and moving them, we do see that impact. We saw it in September, but we think -- our expectation is that that's going to continue through the back end of the year, and that's a large part of why we took our guidance where we did.

Rich Beckert - *CA Inc - SVP and CFO*

I think if I could just add to that. What we really saw was, when -- we have pretty good headlights now into our pipeline and our pipeline progression. Transactions that are not driven by an ELA with a specific renewal date. What we're seeing is a slight -- people being a little more cautious and taking a little longer, especially inside their own firms, maybe to either get budget approval in the case of the government, or in order for them to get higher levels of authorization to spend their capital dollars. We thought it was the right time to make the decision to elongate our pipeline. What would normally have been a certain cycle, depending on where they were in the cycle, we actually extended that out. That really is what caused us to decide to take that extra -- both cash, which came with the perpetual licenses, and the revenue.

James Weston - *Raymond James - Analyst*

All right. Thanks, guys.

Operator

Abhey Lamba, Mizuho Securities.

Abhey Lamba - *ISI Group - Analyst*

Bill, can you discuss the reasons behind new product sales not taking off? Is it all sales execution and macro-related? Are there any comparative issues in terms of the products or the market you guys are competing in?

Bill McCracken - *CA Inc - CEO*

Let me answer the second part first. Competitive-wise, we're very strong-positioned. In fact, one of the things I reviewed going through some of those comments were we've launched several products as we went through this quarter, and we are on the front end of a very strong new product announcement cycle. We don't see competitive losses, so we feel strong on that.

If you take a look at the new product sales, it varies by segment. If you look inside the existing accounts, probably the macro thing we talked about is probably the biggest factor. Decisions are slowing down. We don't see people making decisions without going up their change for approvals as they do it, so that does delay things. In some cases customers, because of their own demand cycles, are delaying projects or pushing projects out.

It's not directly related with the new sales, but on -- from the renewal point of view in the existing -- I think future agreements sometimes in the past have been brought forward. We're not getting as many requests on that. Some that are brought forward to us, we've rejected because we think it has too much impact on the future. That would sort of put the existing in place. If you look at the new, as Rich mentioned, we're building the pipe as we go through the quarter. The quality of that pipe is better.

You'll recall we said when we put that in place it was a two-year plan. We do have accelerators on, though, for our reps to close the new orders in the new enterprise segment as soon as they can, and we're moving at competitive accounts, and clearly the macro cycle, because they're in many cases the same size as our existing accounts. The macro environment plays on that, as well.

Finally, on the growth side, we're building that pipe, but we're also building the partnerships with our business partners. The productivity of that takes time. All three of those, as I mentioned, are being impacted and elongated with respect to how we implement the segmentation.

Rich Beckert - *CA Inc - SVP and CFO*

The only thing I would add to that, because when we looked at the transactions that did move out of Q1 into Q2, we won most of those transactions. The ones that went out of Q2 and now into October, we won most of those, as well. We have not seen a disproportionate number of transactions that were either lost to competition. What we saw was more often than not a delay by the customer to just put off the purchase.

Abhey Lamba - *ISI Group - Analyst*

Got it. Quickly following up on that, given that you saw delays in September, how has the environment been in October? Are you seeing a continuation of same trend, or have you started seeing some improvement on that front?

Rich Beckert - *CA Inc - SVP and CFO*

No, it's exactly what I said. I think we saw what we thought was just a single point in Q1 became two, which is now aligned, and a continuation into early part of October. I think we've all read similar things from different firms, and I think it all came into our -- we are very metrics-driven now with our pipeline. Depending on where we are in the cycle, we decided to elongate that as far as when we are calling that to be in. We think that's the prudent thing to do with an uncertain environment. With the government sales and a lot of other things, it's the right answer. Where Europe currently is. We think we positioned ourself well for the second half.

Bill McCracken - *CA Inc - CEO*

We did see some of the transactions that we had originally thought might close in the second quarter did move into October and some of those did close. But that doesn't, in our opinion, change what the macro-economic impact is for us going forward.

Operator

Shaul Eyal, Oppenheimer & Company.

Shaul Eyal - *Oppenheimer & Co. - Analyst*

Thank you. Hi, good afternoon. Two questions on my end. Bill, I know you mentioned on the kind of new Citrix CA partnership. Can you expand a little bit on that? What's the scope, or what's the when we might be seeing some meaningful revenue contribution over the next couple of quarters? Also, a word about your identity and access management? I know you mentioned a couple of products that did perform well and kind of grew double digits. I just want to find out whether the IAM product is also included here?

Bill McCracken - *CA Inc - CEO*

Yes. On the Citrix piece first, we think that's a great partnership. As you well know, Citrix is one of the leaders in the BDI area, and what they need to add to their customers is the management control pieces that we add to and for them. It gives them more competitiveness in the market place, and it gives us opportunity in the market place, both in their accounts, as well as in our accounts. We just thought it was a very strong partnership. As you well know, one of the things that we bring uniquely to the market place is we work across all platforms. When you work in the market place, I think our customers and Citrix looks at it as an opportunity for them to expand their presence in the accounts, and it's just a strong partnership for us.

On the identity access management, that continues strong. Our cut was strong. But as we've said many times, quarter to quarter security goes up and down. We had a strong quarter. I think it was the first quarter it was down a little bit to the second quarter, and come back again in the third quarter. It's a longer sell cycle than it is with a lot of our products. Security, as I travel the world, there is nothing that I talk about more, because of customers asking us questions, because of the implementation of the cloud, whether it's private or public or a combination of those is that security piece. It continues to be a very strong demand for us, and we believe it will, primarily because of the cloud. That was one of the things we did first is move our security into the cloud.

Operator

Matt Williams, Evercore Partners.

Matt Williams - *Evercore Partners - Analyst*

Hi, good afternoon, guys. Thanks for taking the question. Just looking for any incremental color you might be able to provide on trends in the enterprise business. I know you highlighted in the prepared remarks that there were some declines in the APM business, in the infrastructure management piece. I was just curious as to any sort of other trends that you might be seeing within that enterprise business?

Bill McCracken - *CA Inc - CEO*

Are you asking particularly with respect to the ES area, or mainframe and ES?

Matt Williams - *Evercore Partners - Analyst*

Just ES primarily.

Bill McCracken - *CA Inc - CEO*

Okay. We think that when we look at our products across the ES area, they were all essentially down. They were because the revenue there was down because of the new product sales. Yes, we have seen a slowing in the APM market, and I think that has been a trend that, frankly, on the on-premise side has been slowing over time in the last couple quarters. We saw that continue through this quarter. Rich, would you add anything to that?

Rich Beckert - *CA Inc - SVP and CFO*

I think the way I would answer that question, when there was a renewal that was due, so therefore there was an impending event, the customers acted in their very traditional -- their attach rates were the same as normal. The way they wanted to pay their cash was the same. I think what we did see, as Bill alluded to, in North America, which has been a growth engine for us, that was a little slower. We saw some transactions that required higher levels of signature, almost back to a little bit of the 2008 feel to it. That being said, we had strong growth out of Nimsoft. We had strong growth out of ITKO. Our SaaS business grew well. It was a little bit of a mix, but in general, clearly it's not where we want it to be in the enterprise solutions. We are looking for that business to continue to expand.

Matt Williams - *Evercore Partners - Analyst*

Great, thanks. That's helpful. If I might, just a quick follow-up. I know you made some changes to the sales leadership in EMEA a couple quarters ago. Just curious -- I know it's a tough region right now, but are you pleased with sort of how the changes you have put in place are progressing, or is there still a fair amount of work to be done? Some incremental color on EMEA would be helpful? Thanks.

Bill McCracken - *CA Inc - CEO*

You bet. Yes, EMEA market place is a challenge. I think it is for everybody as for us, as well, too. The changes we have made have been the right changes, and we're seeing improvement, especially with respect to the relationships that have been built in the enterprise existing accounts, but also in the identification of now the pipeline for the enterprise new. If we look at the changes that you referred to, clearly those have been the right changes and they are making a difference in the performance for us individually. It is weighted down significantly by the macro environment over there.

Operator

John DiFucci, JPMorgan

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

Bill, in prepared remarks, you said you are closely inspecting the pipeline. It seemed like you are doing something a little bit different than you've done in the past. I guess what you do mean by that, and why should we be confident, even with lower expectations you're going to be able to hit them?

Bill McCracken - *CA Inc - CEO*

Yes, that's a great question. We did mention at the end of last quarter that we put additional focus on that. The key piece of that, though, frankly, is we're looking at the pipeline by segment now. Looking at it by segment has you look at it in different ways by segment, and you look at and inspect for different things as to what the closed time would be. The pipeline clarity by segment is much better. It is building, and the quality of it is building. Also, as we looked at it, especially when you think of it, for example, in the enterprise new or in some of the growth areas, some of the things that needed to be done for the close are then identified.

As a result of that, where we may have had it setting in the second quarter or third quarter, we might now have it setting in the third or fourth quarter. We've always inspected it before, but we're down to a level of detail now where we follow with that with both Rich and George, primarily because of the segment orientation. It does give us good confidence in what's building there. The thing that has been the, I guess, the amplifier on the delay really has been the macro-economic environment, because it lengthens the decision cycle, John.

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

Rich is also involved in this pipeline section?

Rich Beckert - *CA Inc - SVP and CFO*

Yes. George and I together do a deep dive of all 21 regions on a regular basis. It gets very up close and personal. I think what we're seeing is a very structured way that we collectively go forward and have the pipeline progress. I think collectively as a team we're coming up with much better metrics as to when deals should be viewed as 20%, 40%, 80%. I think that all led into, John, George and I saying, we think this certain sections of certain geographies or certain product lines, because they have longer sell cycles, like you heard, security is a great example, right -- when you win you win big, but it's a longer cycle. Those kind of things into large new or into some of the growth markets, I think, has given us better insight. I think taking it down the number, which I'm sure a lot of people said your 2Q wasn't really that far off, it really is all about our trust in the pipeline going forward.

Operator

Phil Winslow, Credit Suisse.

Chate Benchavitvilai - *Credit Suisse - Analyst*

Hi, guys. This is Chate Benchavitvilai for Phil Winslow. Could you comment on the trends in the mainframe segment and your expectations going forward with the release of this new IBM mainframe?

Bill McCracken - *CA Inc - CEO*

Mainframe, yes. I think, a couple of things on the mainframe side, Phil. You heard in our prepared remarks that the new product sales in the mainframe was up 10%. That's driven, frankly, by some of the investments we've been making now for the last year, year and a half in the product sector we call the chorus products and our tools that we provide in that area. That's helping to improve our revenue in that area. We look at a 90% renewal rate as we do the renewals on those. Then I think the final piece of that is when you look at the capacity piece of mainframe, it is largely driven by the customers' increased volumes or increased demand.

There's been times in the past, for example, in the financial industry, which is important to us, where we have been the recipients, benefits of large banks buying smaller banks. Then that load is transferred on to that, and that has pushed some of that capacity. I think what we're seeing now across probably all segments is that there is a -- appears to be a reduction of the demand that those people have. That reduction demand isn't pressing them to put capacity on. That is, I think, one of the key pieces that we see happening with respect to capacity. A final point would be that competitive win-back. I think a lot of the new tools that we provide in the mainframe area, we are now winning in the mainframe market place. That's adding to our revenue as well. Phil, does that answer your question?

Rich Beckert - *CA Inc - SVP and CFO*

If I could just add one thing. I think what we see is a slowing down of the growth. It's not a statement that there is a lessening of demand. That really is back on some of the financial institutions, I think, because of the pressures they're under. They're not going to put as much head room out ahead of them. They're buying a little bit closer to what their base business is growing at. That's just something we will cycle back through and catch it later. That was my point earlier when I said why we're more comfortable at the 10% than when before we said in the mid-single digits, is we're seeing just a little bit smaller in total transaction size. They're being cautious, which I think in their case, it goes back again to the economy.

Chate Benchavitvilai - *Credit Suisse - Analyst*

Thanks, guys.

Operator

John DiFucci, JPMorgan.

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

Thanks. I guess as to the third time's a charm. Just one question. It's one that I get asked a lot, so I figure I can ask it publicly. This is with all due respect to Bill, who I know remains very active here. I'm just curious. You had publicly announced in June that you had begun a succession plan for the CEO position. I wonder if you can give us any update at all on that?

Bill McCracken - *CA Inc - CEO*

Actually, John, it's probably good that you do ask it, because I get asked that question a lot, as well. We did announce that both the Board and I are working on a succession plan. We have no new update to that. Obviously, when we have an announcement with that, we will make that known. In the meantime, what you and everybody else should know, we are full steam ahead on what we have just talked to you about today with respect to where we are and where we're going. We are on offense. We're staying on offense. That will not vary as we move into the transition, whenever that occurs.

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

Okay, great. Thanks a lot, Bill.

Bill McCracken - *CA Inc - CEO*

You bet. I think, then, let me wrap. I think I would make three points. First, we believe that market segmentation is the right strategy for CA Technologies. It is expanding us outside our current base, and that's what's going to allow us to grow and to be even more profitable. We will continue our focus on cost and expense, as I mentioned in my prepared remarks, and we expect to deliver a 200-basis-point increase in our non-GAAP operating margin this year.

Finally, we understand what we have to do to close out the balance of this year. With a careful focus on all the details, up to the sales execution that we talked about, the segmentation, implementation, we're going to continue that focus until we have met those objectives. Folks, thanks for hooking up with us.

Operator

Ladies and gentlemen, this concludes today's program. You may now disconnect. Good day.