FINAL TRANSCRIPT

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CORPORATE PARTICIPANTS

Kelsey Doherty
CA Technologies - SVP, IR

Bill McCracken
CA Technologies - CEO

Rich Beckert
CA Technologies - SVP and CFO

CONFERENCE CALL PARTICIPANTS

Philip Rueppel
Wells Fargo Securities - Analyst

John DiFucci
JPMorgan Chase & Co. - Analyst

Phil Winslow
Credit Suisse - Analyst

Walter Pritchard
Citigroup - Analyst

Gregg Moskowitz
Cowen and Co. - Analyst

Michael Turits
Raymond James & Associates - Analyst

Kirk Materne
Evercore Partners - Analyst

Kevin Buttigieg
Collins Stewart - Analyst

Scott Zeller
Needham & Co. - Analyst

Israel Hernandez
Barclays Capital - Analyst

PRESENTATION

Operator

Good day everyone and welcome to the CA Technologies first-quarter 2012 earnings conference call.

Today's call is being recorded. At this time, I would like to turn the call over to Kelsey Doherty, Senior Vice President of Investor Relations. Please go ahead, ma'am.

Kelsey Doherty - *CA Technologies - SVP, IR*

Thank you and good afternoon everyone. Welcome to CA Technologies first-quarter fiscal 2012 earnings call.

Joining me today are Bill McCracken, our Chief Executive Officer; and Rich Beckert, our Chief Financial Officer. Bill will open the call with an overview of the quarter. Then Rich will review our first-quarter results and our full-year fiscal 2012 guidance.

Bill will return to conclude and we will take your questions. As a reminder, this conference call is being broadcast on Wednesday, July 20, 2011 over the telephone and the Internet.

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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 the 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 investor.ca.com.

Today's discussion will include forward-looking statements subject to risks and uncertainties, and actual results could differ materially from these forward-looking statements. Please refer to our SEC filings for a detailed discussion of potential risks. So with that, let me turn the call over to Bill.

Bill McCracken - *CA Technologies - CEO*

Thanks, Kelsey, and good afternoon to everyone. Thank you for joining us.

Our customers tell us IT has become the primary vehicle that they use to adapt their business to changing market demands and become more competitive. This evolution is being driven by virtualization, cloud implementation and SaaS applications, allowing business models to change in days and weeks instead of months and years.

While these technologies increase flexibility, they can also introduce significant management complexity. 18 months ago, we called this evolution and built our strategy around it when many others were asking the question, is it real.

Now 18 months later it is clear. It's real and the rate and pace of adoption is exceeding industry estimates.

We believe our years of experience and core strength in traditional IT management and security combined with significant investments in our portfolio will position us as the standard in the industry.

Now let me turn to our progress against this strategy with our quarter one results. Our first quarter showed operational improvements reflected in revenue growth, a 2 point year-over-year improvement in our non-GAAP operating margin and double-digit growth in non-GAAP earnings per share.

However, we did not get as fast a start on the year from a revenue perspective as I had expected particularly outside of the Americas. For the quarter's results from continuing operations, revenue grew 4% in constant currency, more than half of which was organic.

While we remain comfortable with our full-year guidance of 6 to 8% revenue growth in constant currency, we had expected better topline performance in the first quarter. We continued to see good revenue growth in North America, up 9% in constant currency.

This was offset by our international region which was down 2% in constant currency. EMEA remains our execution challenge and cost the Company approximately 1 point of revenue growth during the quarter.

Performance in EMEA continues to vary widely by country and the salesforce continues to use the ELA renewal event to sell new products. We have been successful at selling outside the renewal cycle in North America and that is how we have consistently achieved mid to high single digit revenue growth each of the last seven quarters. We've not yet accomplished that in EMEA. We will change this.

Successfully selling outside the renewal cycle in EMEA will be driven by several things, the most important of which are moving additional people with a track record of execution to the region, accelerating the introduction of new products from our acquisitions, adding new sales incentives and changing the leadership. As a result, I recently made the decision to replace our EMEA general manager.

We believe this new executive has the knowledge and experience to unlock the value of our operations in that region. The balance of our first quarter results were good.

Non-GAAP operating margin was 36%, a 2 point improvement over last year's first quarter. We are carefully managing our cost structure and focusing the portfolio on strategic priorities.

Non-GAAP EPS was up 23% in constant currency, driven by operational improvements, a lower year-over-year tax rate and reduced share count. Cash flow was slightly up in constant currency which keeps us on track to accomplish our full-year outlook.

This total was affected by a $111 million year-over-year increase in cash taxes which included a significant tax payment during the quarter. Finally, current revenue backlog, a good indicator of our expected subscription and maintenance revenue growth, grew 4% in constant currency year over year and 10% as reported.

Underlying the performance, total new product sales and mainframe capacity were up in the low teens during the quarter. New mainframe product sales were up more than 15% year over year.

Mainframe capacity was up slightly year over year. As we have said, we continued to expect a new IBM mainframe to be a slow steady tailwind as we cycle through our renewal portfolio.

We had good traction with our mainframe competitive replacement program. During the quarter, we closed 11 competitive replacement deals including Federated Mutual Insurance, a provider of insurance and risk management solutions; and Telefonica Brazil, one of the world leaders in the telecommunication sector. As a reminder, the size and timing of the underlying renewal portfolio varies and can affect trends in both new product and capacity sales.

In Enterprise Solutions, new sales were up low teens. Identity and Access Management new product sales including [earth cart] grew more than 70%.

Customers making significant purchase in the quarter include Cox Communications, a broadband communications and entertainment company; and BNP Paribas France, a European leader in global banking and financial services.

Service Assurance including Nimsoft was up mid-teens. We added more than 65 new logos to this business including Oppenheimer Funds.

In addition, Nimsoft added more than 45 new logos including Cervalis, a premier provider of IT infrastructure solutions. And we now have more than 410 managed service provider partners worldwide.

Virtualization and automation and service portfolio management were down more than 15%. This performance in the first quarter follows a good finish to last year and we are in the process of rebuilding our pipeline.

However, under virtualization automation, there was some strong performance. During the quarter, our automation suite for physical, virtual and cloud infrastructures was up more than 40%. In fact, Logicalis USA, an international provider of integrated information and communications technology solutions and services selected CA Technologies as its cloud automation and management platform.

Next week we are announcing a number of new updated cloud products and solutions that help our customers more easily use and provide cloud services. Our new solutions will drive cloud computing and adoption by improving time-to-market and lowering operational costs.

Before I turn the call over to Rich, I'd like to review our segment results. I'm pleased that our first-quarter financial statements provide additional transparency for the Company.

First, Mainframe Solutions revenue was $646 million, up 1% in constant currency and 5% as reported. Mainframe remains a great and profitable business for us, reflecting our three decades of market leadership.

Mainframe Solutions operating margin for the first quarter was 57%, up 3 points from last year's fiscal first quarter. This was driven by revenue growth and continued focus on operational efficiencies in that segment.

Our Enterprise Solutions business revenue for the first quarter was $427 million, up 9% in constant currency and 14% as reported. We continued to invest significantly in this segment of the business to position the Company as a leader in both the hybrid cloud market as well as mid-market IT management as a service.

These investments both in technology and go-to-market are reflected in the 11% operating margin in the fiscal first quarter. While this is a 4 point improvement over last year's operating margin, we recognize it is below industry standard as we have consciously invested 4 percentage points of margin in this segment to accelerate our strategic initiatives.

We are also continuously focused on operational efficiency. I would like to note that in the second quarter, we will be incurring GAAP and non-GAAP expense of approximately $35 million to $45 million in connection with a workforce reduction of up to 500 employees.

This action is a continuation of work we are doing to optimize our business by reallocating resources and divesting nonstrategic parts of the business. You will recall that last year we divested our information governance and Internet security businesses.

Now we are moving resources to align with our strategy, allowing us to intelligently invest in growth technologies and regions. Despite this incremental expense and the expected acquisition of Interactive TKO we will hold our expectation for fiscal 2012 non-GAAP operating margin at 34% with the expectation that this workforce rebalance and other cost efficiencies will allow us to improve operating margin over time. We will discuss this in more detail next week at Investor Day when we provide our multiyear financial outlook.

Finally, turning to services, services revenue was $90 million in the first quarter, up 9% in constant currency and 15% as reported. First-quarter services margin was 2% compared to 5% last year. We saw a more than 50% increase in newly contracted engagements, some of which we staff with external consultants which added cost.

We run our services business to delight our customers and enable implementation. And now, let me turn the call over to Rich to provide some more detail on the quarter.

Rich Beckert - *CA Technologies - SVP and CFO*

Thank you, Bill, and good afternoon everyone. Before I review first-quarter results, I'd like to make some comments on our segments.

Mainframe Solutions include only revenue from mainframe products. Enterprise Solutions includes revenue from all other products.

Services revenue is from implementation consulting, education and training services. Segment expense includes direct costs as well as shared costs which are allocated based on revenue and expense allocation percentages.

Further details are available in today's press release in the footnote of Table 4 posted to our investor relations website. Now let me turn to the remainder of our first-quarter results.

Please note that all of our growth rates are year-over-year unless otherwise indicated and all results are from continuing operations. First-quarter renewals were up approximately 15%. This was due primarily to the timing of two large deals that closed in the quarter but has been expected to be renewed later in fiscal 2012 and an increase in contracted duration of a few current quarter transactions.

We continued to expect our fiscal 2012 renewal portfolio to be down approximately 20% year over year with second quarter currently expected to be down approximately 35% year over year. I will talk about the dynamics driving quarterly and annual fluctuation in our renewal portfolio in more detail next week at Investors Day. As a result, we do not focus on year-over-year comparisons of bookings as they are not indicative of our overall health of our business.

We do focus on our renewal yield. This quarter our renewal yield was uncharacteristically low at just over 80%.

We had two large deals with contracted renewal rates that were unusually low, reducing the overall average. Excluding these two transactions, the renewal yield was in the low 90% range, consistent with previous quarters.

We also focused on current revenue backlog which was $3.7 billion, up 4% in constant currency and 10% as reported. Total revenue backlog was $8.5 billion, up 6% in constant currency and 11% as reported.

Total revenue for the quarter was $1.16 billion and grew 4% in constant currency and 9% as reported. This includes a positive foreign exchange impact of approximately $45 million.

From a non-GAAP perspective, non-GAAP operating income before interest and taxes was $417 million, up 15% in constant currency and as reported. For the first quarter, our non-GAAP operating margin was 36%.

Non-GAAP diluted earnings per share was $0.55, up 23% in constant currency and 22% as reported including a $0.02 tailwind from currency. Our effective non-GAAP tax rate for the quarter of 2012 was 31.6%.

Turning to cash flow from operations in the quarter, which was $143 million, up 2% in constant currency and 17% as reported. This includes a year-over-year increase in cash taxes of $111 million which while expected still yields a difficult year-over-year compare due to the timing of cash tax payments.

In addition, cash flow was favorably affected by improved customer collections. Single installment payments were $64 million in the first quarter compared to $90 million in the first quarter of fiscal 2011.

Total billings backlog was $5.1 billion, up 10% in constant currency and 15% as reported. DSOs were down slightly year over year. Turning to first-quarter GAAP results.

First-quarter GAAP operating margin was 29%. GAAP operating income was $228 million, up 3% in constant currency and as reported and GAAP earnings per diluted common share was $0.45, up 7% in constant currency and 5% as reported.

In addition to the items affecting our non-GAAP results, the GAAP results were unfavorably affected primarily by the loss on our hedging program and to a lesser extent increased stock-based compensation expense year over year. Our effective GAAP tax rate for the first quarter was 31.5%.

Now moving to the balance sheet. We ended the quarter with approximately $1.6 billion in net cash. During the first quarter, we purchased approximately 6.4 million shares of stock for a total of $150 million.

This leaves approximately $630 million available under our current authorization. Now let me turn to guidance.

As has been our practice, guidance is based on June 30 exchange rates, includes a partial hedge of operating income and updates our expectations for share count. Guidance is the following and includes the effect of the expected acquisition of Interactive TKO.

Total revenue growth is expected to be in the range of 6 to 8% in constant currency. This translates to reported revenue of $4.9 billion to $5.0 billion. Non-GAAP diluted earnings per share growth in constant currency is expected to be in the range of 6% to 10%.

This translates to reported non-GAAP diluted earnings per share of $2.14 to $2.21. GAAP diluted earnings per share growth in constant currency is now expected to be in the range of 5 to 9%. This translates to reported GAAP diluted earnings per share of $1.79 to $1.86.

Cash flow from operations is expected to grow 3 to 5% in constant currency. This translates to reported cash flow from operations of $1.48 billion to $1.51 billion.

Underlying this guidance, we expect GAAP and non-GAAP tax rates to be 31 to 32% in this fiscal year. At the end of the year, we expect approximately 489 million shares outstanding and a weighted average diluted share count of approximately 497 million shares.

Finally, we expect our non-GAAP operating margin to be 34% for fiscal year 2012. With that, I'll turn the call back over to Bill.

Bill McCracken - *CA Technologies - CEO*

Thanks, Rich. As I said at the outset of this call, our customers are looking to IT to help them become more competitive. Virtualization, cloud implementation and SaaS applications can transform businesses but only if they can be effectively managed and secured.

Building on our 35-year leadership in IT management, we made the call 18 months ago to become the standard in this new era and we're making good progress. Now, it comes down to execution.

Going forward, our focus will be building a healthy business in EMEA based on sales outside of renewal; continuing to improve sales productivity and expanding routes to market through managed service providers, partners, and new sales models; leveraging our acquired and organically built technologies to accelerate penetration in cloud computing, virtualization management and SaaS; creating capacity for growth by continuously disinvesting less productive parts of the business; and driving ongoing performance across our key performance measures. We look forward to seeing you at Investor Day which will be held at the Palace Hotel in New York City at 7.45 AM next Friday, July 29. And with that, Kelsey?

Kelsey Doherty - *CA Technologies - SVP, IR*

Thank you, Bill. Attendance at CA Technologies Investor Day requires registration which can be found on our investor relations home page at investor.ca.com. The event will also be available live via webcast.

As the operator is polling for questions, I would like to inform you that CA Technologies is presenting at the Oppenheimer 14th annual Technology and Communications Conference on Tuesday, August 9 and the 2011 Citi Technology Conference on September 7. In the interest of time, please limit yourself to two questions. Operator, please open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Philip Rueppel, Wells Fargo.

Philip Rueppel - *Wells Fargo Securities - Analyst*

First of all, thanks for providing the additional segment details. That's helpful.

My question is around Europe. You know, this appears to be a recurring theme of underperformance.

Could you give us a little more granularity? Is it specific product areas, specific countries? Talk about any -- was there any execution progress seen during the quarter?

And I guess finally, your outlook at least seems to anticipate some improvement there throughout the year. What gives you confidence around that given the sort of uncertain macroeconomic outlook? Thanks.

Bill McCracken - *CA Technologies - CEO*

Yeah, Phil, good set of questions actually. And then obviously as you would expect, that has been a real focus for us in that we have spent significant time over the last couple quarters dealing with that.

The primary thing that has driven that lack of performance is the difference between what's happened in North America and what's happened there and that is the freestanding sales when we're selling outside of the ELA renewal. And that hasn't been driven in EMEA the way it has in North America and has provided a tremendous difference in the performance.

We did see some improvement in the quarter in that their bookings were up 40% in the last quarter. We're doing some other things too that I think will drive and give us confidence that we're going to see a pretty significant turnaround there, and that is we're taking people to that region that have proven performance in marketing in the freestanding environment.

We're putting new sales incentives in place. And the most important piece is we put a new leader in place. That leader has been chosen.

We took a good time to interview and select that leader. I'm not able to announce who it is because he's currently in a position; we can't do that, but we expect him to join in the quarter. So, yes, we're confident we'll get a turnaround, but obviously he needs to be on the ground working with that. I would ask if there's anything else you would add, Rich?

Rich Beckert - *CA Technologies - SVP and CFO*

I think two things just to echo. We had actually a pretty decent mainframe in the capacity range in the quarter, and also services was actually fairly strong considering they have somewhat of a weak performance on the product side, their services side actually started to show some decent momentum. So there are some encouraging spots there.

Kelsey Doherty - *CA Technologies - SVP, IR*

Phil, do you have a follow-up?

Philip Rueppel - *Wells Fargo Securities - Analyst*

Yes, just kind of along those themes, selling outside the renewal cycle, are you confident that there isn't really a market issue or a customer issue within Europe that prevents that and it really is execution? And is it more a resource issue? Do you have enough feet on the street or were the incentives just not aligned in the past? Thanks.

Bill McCracken - *CA Technologies - CEO*

Yes, Phil, I don't think it's a macroeconomic issue for us. It's our execution and we do have the resource on the Street that we need.

I think that the key things that give us good confidence on the product side is the products are selling well in other parts of the world, but also our competition is selling in Europe. So we know that we're losing share in Europe.

So, the products sell, the products that we offer sell very well. We just need to engage that part of our business and we haven't found it there as we have in the rest of the world. Those things give us confidence that we will turn this thing now.

Operator

John DiFucci, JPMorgan.

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

Thank you. You've got a lot of information here and it is helpful. So I'll repeat Phil's thanks for that.

But follow me on my question here. I look at annualized subscription and maintenance bookings, comes in around $210 million which is comparable to what you did last year which was by all accounts a difficult quarter. And annualized subscription and maintenance bookings were down about 7% on a constant currency.

Recognize and appreciate, Bill, you saying up front it wasn't what you wanted it to be. But you also -- I think Rich said that renewals were up 15% due to a couple large deals and some longer-term deals.

But if renewals were up 15% and annualized subscription and maintenance -- realize that doesn't take in everything but it's just about everything -- was down 7%, I guess what does that say about new business? And is that all just EMEA?

Rich Beckert - *CA Technologies - SVP and CFO*

(multiple speakers) so let's talk about the bookings. So you are correct, it's up 18%.

The renewal piece for that was up 15%, John. We had planned on that being down 15% just to be clear.

And as you said, we had a more back to normal length, then we went back to a 3.3 year versus a 2.9 year which was unusually low last year. So that does kind of answer where are we on -- from the renewals and the bookings. How did the Corporation do?

If you look at North America, we yet again had actually a fairly strong -- and Latin America was also fairly strong. So it really does start to cycle through that EMEA is the part of the business that we are going to continue to work on and it did pull down the overall growth rate for the Company.

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

But, Rich, did the -- I mean because if you look at the annualized subscription and maintenance bookings, they were down 7% on a constant currency year over year. And I realize renewals were up 15% because of a couple large deals and longer terms.

But still I would assume that even if you back that out, that would have been positive if not even. So I'm just -- my other question there had to do with new business. Does this say that new business -- some of your selling new business, existing products, new products, was actually down year over year?

Rich Beckert - *CA Technologies - SVP and CFO*

No, our new business was actually up in the quarter low double digit. So it wasn't really the new -- remember we had anticipated being down in our renewals in the quarter.

So coming down 15%, we had told you last quarter. So coming down 7 like the way you did the math is down but not down as far as we had anticipated.

But no, we're actually up, John, in new business. When you back out the EMEA, it's really an okay rate. EMEA clearly pulls the total down, you're correct.

Bill McCracken - *CA Technologies - CEO*

John, the thing that keeps coming back into this for us is our [PNCV] was double-digit growth in this quarter which was very strong for us especially when you consider in the light of where we are in EMEA.

The thing that's going to continue to riple through on a lot of [things where is] product, bookings, [PNCV] or whatever is your -- if they would have been at the percent of what normally would be North America, the values that you're looking at will change dramatically. So the good and the bad of this, the good is it's EMEA. The bad is it's EMEA and that's really what explains a lot of it, John.

Operator

Phil Winslow, Credit Suisse.

Phil Winslow - *Credit Suisse - Analyst*

Just wanted to dig in a little bit more on the mainframe side. Obviously IBM has put up some very strong EMEA [growth stitch] numbers over the past several quarters here and I know you talked about sort of a long-duration cycle here, call it also lower beta.

But what are you seeing in terms of just the pricing environment, just also net MIPS growth and kind of how do you anticipate that trending as we think about the remainder of this cycle? Thanks.

Bill McCracken - *CA Technologies - CEO*

Yes, you know, we do see a slow tailwind with respect to the IBM mainframe piece. Capacity is up again for the second quarter in a row, up in the mid-single-digit area.

The new mainframe sales was up in the mid-teens. So we saw good movement there with respect to that.

And I think probably most encouraging for us too is that we had 11 competitive replacements in the quarter as well and started to see some movement in the new products from the [chorus line] that we talked about in the past as well too. So we see good indicators out for the mainframe and we were pleased with the quarter.

Kelsey Doherty - *CA Technologies - SVP, IR*

Phil, do you have a follow-up?

Phil Winslow - *Credit Suisse - Analyst*

No, that's it. Thanks, guys.

Kelsey Doherty - *CA Technologies - SVP, IR*

Thanks.

Operator

Walter Pritchard, Citi.

Walter Pritchard - *Citigroup - Analyst*

Just, Rich, for you, just one question around the single installment payments. You mentioned it was $64 million this year, it was $94 million a year ago. I think the press release talks about an increase in collections year over year of 150 and then it talks of a large payment of $22 million.

I guess I'm just trying to get to the bottom of whether single installment and sort of upfront payments were actually a headwind or a tailwind this year on cash for this quarter versus last year on cash flow.

Rich Beckert - *CA Technologies - SVP and CFO*

Okay, no, what we actually had was a single installment, wasn't up. It was actually about even. Even if you pull forward the one deal, the $22 million deal that we had talked about which is just a deal -- it would've happened this month, it happened to come in last month.

So, no, we're basically flat. The real change as you recall, in Q4 we had a tax payment that was now paid in this quarter. So that's if you were to normalize that, we actually had a pretty decent CFFO.

Walter Pritchard - *Citigroup - Analyst*

Okay, great, and then just around the growth -- I think a different way of asking the same question that others have been asking here -- if I look at your Enterprise Solutions business which I think are by about $51 million year over year, and if I look at your disclosure about acquired versus organic growth, it looks like around 2% of the growth was acquired, and I think all of the acquisitions have been in Enterprise Solutions. So I guess the message that comes away to me from the numbers is that Enterprise Solutions on an organic basis isn't growing. And I'm just wondering if I'm doing that math wrong or if that is indeed what's going on in that ES business.

Rich Beckert - *CA Technologies - SVP and CFO*

No, we actually have growth inside of that number. Clearly the wily NetQoS, that product line is growing in a very healthy way.

So there's a lot more to it. You have to also remember we have services in our number set. So I don't know if you had a chance yet to look through the segmentation, but we actually have decent growth rates that we think are in line with competition for the quarter.

Bill McCracken - *CA Technologies - CEO*

And you know, Walter, I think in that area, especially the new technology areas, we had significant growth in those. We have some large legacy products in that group as well that increases the base dramatically. So it camouflages a lot of that significant growth that occurs [in these news].

So when you look at Nimsoft, I mean that was in excess of 70% growth in the quarter. That is true for the other acquisitions we've made.

So we're getting good penetration on the new technologies. And what you have to look at is everything with the exception of mainframe is in that and we have a lot of large legacy products in there.

Kelsey Doherty - *CA Technologies - SVP, IR*

Great, next question, please.

Operator

Gregg Moskowitz, Cowen and Company.

Gregg Moskowitz - *Cowen and Co. - Analyst*

Okay, thank you and good afternoon, guys. Rich, as you pointed out, it is very unusual to see a renewal yield around 80% for CA.

Could you perhaps give a little more insight as to what occurred with those two large accounts? For instance, are they using another vendor for part of their mainframe management?

Are they moving some workloads off the mainframe altogether? Is there a chance you could get some of this business back? Any color there would be helpful.

Rich Beckert - *CA Technologies - SVP and CFO*

So there are two different stories for them. The first one was the customer three years back before the economic downturns thought they were going to have a significant increase in MIPS. As the outcome -- when it's time to renew, they didn't need the increase in MIPS and so now they're back to a much more modified growth rate and that's what drove that first one down.

The second one is a little different. There was actually three transactions. We closed two of the three in Q4. The third one closed this quarter.

If you collectively added them altogether, we actually got a higher dollar per day revenue from that customer. So again, it was really more a statement of the way that ELA is standing out there without any other new products in. So we were not uncomfortable with either one of those transactions in the quarter.

Gregg Moskowitz - *Cowen and Co. - Analyst*

Okay, that's very good to hear and appreciate the clarification on that, Rich. My follow-up question if I could is around virtualization.

And broadly speaking, we've certainly seen continued strong adoption globally of server virtualization. And when you look at VMware specifically, they have grown license revenue now by an average of about 40% year over year over the past four to five quarters.

So I was just wondering if you guys could elaborate on the 15% year-over-year decline in virtualization and service automation and more importantly, what you expect for that business going forward. Thanks.

Bill McCracken - *CA Technologies - CEO*

Yes, you bet. Two things on that primarily. One, again, we have one or two very large legacy products in that group. AutoSys would be one of those. It is very large.

And being the order of product, it didn't grow at that rate. If you take a look at the automation suite within that, it's up over 40%.

So the new products that we have in that area are growing at and beyond what we think the market growth rates are and again because of the segmentation being put together with the combination of our legacy products and the new products at times can camouflage what's really going on at the more detailed level.

Operator

Michael Turits, Raymond James.

Michael Turits - *Raymond James & Associates - Analyst*

Back on Europe, you talked about a number of execution issues and yet there have been plenty of companies that have been reporting issues in Europe and patently the macro situation there is bad. I guess the question is what makes you think fixing this is under your control and that it's not a demand or macro issue there?

Bill McCracken - *CA Technologies - CEO*

Well, I guess, Michael, what we said is -- from my perspective, I'm not blaming it on the macroeconomic issues. There are some there, I understand that and others have seen those.

However having said that, at what the market is doing there and what we're doing with respect to that market, we have growth within that. So our focus is fix our stuff and then we will deal with the pieces beyond that.

But I think we have the uplift there that we need to take our outlooks to where we have said. So I think from our focus point of view, we're focused on what we can fix and the other pieces frankly we're not that focused on them at this time.

Michael Turits - *Raymond James & Associates - Analyst*

And a very different kind of question, maybe it takes off a little bit from what Greg was asking. In virtualization and let's call it cloud management, you have some interesting products there and suites. There's lots of people offering solutions there from VMware to your big four competitors to startups.

Can you just talk a little bit about what really differentiates what your strategy is? Because there's lots of people who have solutions that look very similar. So maybe you could do that for us and tell us why that ought to grow here.

Bill McCracken - *CA Technologies - CEO*

Yes, Michael, I guess a couple items. One is we're fairly unique in that marketplace in that we're working across all the platforms that are there and we have a broader span of all the requirements that go from mainframe right through security, distributed into the SaaS implementations.

And we are platform agnostic. So we are unique from that point of view in breadth as well as going across all the platforms. We have uniqueness in many of the products that we have with respect to that as well too in the capability that they have in that area.

And I think the growth we've demonstrated in those areas is a part of what is setting us apart. The second thing I guess I would mention is the Gartner report that came out on IT operations management said of the big four, the only one that gained share last year was us.

That's IBM, HP and VMC and ourselves; and in fact, we grew 50% above the market growth rate in that. So I think that even from the outside industry sources, it says we're penetrating there greatly. However having said that, Gartner also said a lot of the growth outside of the big four did come from the other organizations. So that is occurring at the same time.

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Kelsey Doherty - *CA Technologies - SVP, IR*

Michael, do you have a follow-up?

Michael Turits - *Raymond James & Associates - Analyst*

No, that's good. Thank you.

Kelsey Doherty - *CA Technologies - SVP, IR*

Okay, thanks.

Operator

Kirk Materne, Evercore Partners.

Kirk Materne - *Evercore Partners - Analyst*

Yes, thanks very much. I guess just in Europe, Bill, you mentioned that you didn't think it was a revenue mix issue. Could you just talk a little bit about are the products you've acquired over the last couple of years, are they now ready to go in Europe. Do you have the right marketing people over there? Is it really just the salespeople not focused on selling outside the renewals? I'm just trying to get a sense on whether the product in Europe is where it should be relative to US right now.

Bill McCracken - *CA Technologies - CEO*

Good question on two pieces there. First of all, we didn't have some of the performance based people that have sold those products in Europe.

We're moving those to Europe. That's one thing what we are doing. So that is the first thing we did.

The second thing is those products are localized and we are reintroducing those into the market now with the introduction of the sales incentives as well as the people that have demonstrated that they can perform in those market areas. So those are three things I think are moves that we needed to make to push up our performance there.

Kirk Materne - *Evercore Partners - Analyst*

Okay and then just a quick follow-up, I guess when I look at the enterprise operating margins, there's clearly room for you guys to expand those over time. I guess my question is within that area, even within virtualization as you mentioned, there's some legacy products in there that can hold down the overall sort of growth mix.

Are you guys done sort of pruning I guess products that you don't think are core longer-term for you? Do you still have to do that I guess to get leverage out of that business? Or do you think the product mix I guess on the enterprise side is about right and it's really just about topline growth at this point?

Bill McCracken - *CA Technologies - CEO*

No, we're going to continue to -- your term -- prune in that area. We will continue to optimize across that because in time and over time, some of those legacy products that customers themselves want to migrate to things, and we give them those migration paths and then move it across that way.

But for us as we've been doing over the last year and into this year which is what we just announced taking the charge this now second quarter, it's a constant process. That's why we put the charge in both GAAP and GAAP because it's a standard way of business for us. We continue to optimize this business and we will continue to do that.

Operator

Kevin Buttigieg, Collins Stewart.

Kevin Buttigieg - *Collins Stewart - Analyst*

Rich, I was wondering if you could help us think a bit about the renewal portfolio for the rest of the year. You mentioned -- you reiterated that it would be down about 20% for the full year, down about 35% year over year in the second quarter.

As I recall, you did fairly well in the second quarter a year ago, a little bit worse in the third quarter a year ago and then bounced back in the fourth quarter a year ago. So does that suggest that the renewal rate should be a little bit better in the third quarter and then I guess a lot worse in the fourth quarter? Is that the right way to think about it for the rest of the year?

Rich Beckert - *CA Technologies - SVP and CFO*

Well, as you know, we don't necessarily guide by quarter. But that said, I'll remind you that in Q4 last year, we had a very large deal with an outsourcer. And then Q2 we had a large deal with the federal government, so it made for tough compares. But to your point, overall we will still be down 20%.

Kevin Buttigieg - *Collins Stewart - Analyst*

Okay, and then so the two deals that had renewed early in the quarter, any characteristics about them that brought them into the first quarter?

Rich Beckert - *CA Technologies - SVP and CFO*

Sorry, that's a good question. The customer themselves asked to have those pulled forward. The reason for that a lot of times, they want to make sure that they don't come to end of job, especially if they have other competitors that they want to make sure that our renewal and their renewal are timing out the same time.

So it's not unusual -- it wasn't coming out of the year. So in other words, it wasn't coming out of FY 13 or anything, it was just a different quarter within the year which is why John had asked a question earlier -- he was expecting to see us down 15 and you see us down 7 when you normalize everything.

Bill McCracken - *CA Technologies - CEO*

And, Kevin, I think the key there too is we're following the buying pattern of the customer. And so in some cases, we're selling new things in. And because we are and they're moving into some of these new technologies, they make the request -- let's just

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bring this whole thing forward, put the new with it and go from there. So we just follow the buying pattern the customer wants and both of those were in the current fiscal year.

Operator

We'll take the next question from Scott Zeller with Needham & Co.

Scott Zeller - *Needham & Co. - Analyst*

Thanks, another question about the Enterprise Solutions group and the products and growth rates. We have heard you call out a couple areas of strengths and then there are a couple other areas of legacy that are not as strong. Is there a way you could give us sort of a broad stroke growth rate for things that have been acquired in the last say three to four years if you look at sort of the newer assets versus the more legacy assets in Enterprise Solutions?

Bill McCracken - *CA Technologies - CEO*

Yes, I think two things. One is the growth rates there are strong. They are all double digits and many are well up into the 30, 40 and 70 range.

What we will do though on your question is, Scott, we're going to spend a bit more time on that next week and Friday on the Analyst Day to give you a better insight on that as well too.

Scott Zeller - *Needham & Co. - Analyst*

Thanks, that's helpful.

Kelsey Doherty - *CA Technologies - SVP, IR*

Great, do you have another question?

Scott Zeller - *Needham & Co. - Analyst*

All set.

Kelsey Doherty - *CA Technologies - SVP, IR*

Okay thanks. Next question please?

Operator

Israel Hernandez, Barclays Capital.

Israel Hernandez - *Barclays Capital - Analyst*

Hey, guys, my question was just asked. But maybe with respect to the operating margin which it did come in a little bit better than our expectations, you're holding the line on margins for the full year outlook.

Can you comment on where and when we could possibly see some further upside to those margins going forward? I know you're making a lot of investments here in the near term but I'd like to see when we could start to see -- expect to see some more leverage. Thanks.

Rich Beckert - *CA Technologies - SVP and CFO*

So, Larry, we will talk about that again next year on Analyst Day a week from tomorrow. But if we just kind of reiterate a little bit, inside this 34% margin, we will be absorbing our TKO which is about 0.5 points headwind to us.

We'll also be absorbing that $35 million to $45 million realignment of costs in the workforce and all of that will all come out of Q2. You will see those benefits start to come back in over Q3 and Q4.

And at the same time, we will be investing though in areas like APJ and in organizations like Nimsoft. So overall we think we will be pretty well positioned leaving the year which is part of the reason why we're doing that.

Bill McCracken - *CA Technologies - CEO*

So like I said in my remarks at the beginning too, those optimization things in this year go with what Rich said for the year. But as I've said there too going forward, they do provide opportunity for uplift in the margin over time.

Operator

That does conclude our question and answer session for today. I'll turn the call back over to management for any additional or closing comments.

Bill McCracken - *CA Technologies - CEO*

Let me first of all thank everybody for getting on. To wrap up, I would make I guess just a couple points.

First of all it's execution and primarily it's execution in EMEA for us to get focused on what we do there to bring that strong, because that added to what we are doing we think puts us in a very strong position. We're going to continue to drive our productivity across all the pieces of our business which we started and which we will continue with, and we're going to drive the penetration of our new technologies which is getting very good traction in the marketplace. And coming off of the first quarter, we've got good confidence in this year, so we are looking forward to working through the rest of this year and do what we set out to do. Thanks to all of you again.

Operator

Ladies and gentlemen, that does conclude today's conference. We thank you for your participation.

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