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CA - Q1 2013 CA, Inc. Earnings Conference Call

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OVERVIEW:

CA reported 1Q13 total revenue of $1.15b, GAAP operating income (before interest and tax) of $381m and GAAP diluted EPS of $0.51. Expects FY13 reported revenue to be $4.74-4.80b and reported GAAP diluted EPS to be $2.07-2.12.

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PRESENTATION

Operator

Good day, ladies and gentlemen, welcome to CA Technologies first quarter 2013 earnings conference call. At this time all participants are in an listen-only mode. Later we will conduct the question-and-answer session with instructions following at that time. (Operator Instructions) As a reminder, this conference is being recorded. Now, I will turn the conference over to Kelsey Doherty of Investor Relations. Please begin.

Kelsey Doherty - *CA Inc - SVP IR*

Thank you, and good afternoon, everyone. Welcome to CA Technologies first 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, July 26, 2012, over the phone and the Internet. The information shared in this call is effective as of today's date and will not be updated. All content is the property of CA Technologies and is protected by US and international copyright law and may not be reproduced or transcribed in any way without the express written consent of CA Technologies. We consider your continued participation in this call as consent to our recording.

During this call, non-GAAP financial measures will be discussed. Reconciliation to most directly-comparable GAAP financial measures are included in our earnings release which was filed on Form 8K 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-look statements subject to risks and uncertainties, and actual results could differ materially from these forward-looking statements. Please prefer to our SEC filings for detailed discussions of potential risks. Please also note that our second quarter quiet period begins as the close of business on September 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 2.5 points for the full year. It is forecasted to peak at 4 points in our September quarter. So with that, let me turn the call over to Bill.

Bill McCracken - *CA Inc - CEO*

Thanks, Kelsey, and good afternoon to everyone. Thank you for joining us. I would like to start this afternoon by reviewing our first fiscal quarter and the drivers behind our updated guidance. I will discuss the challenges we faced, the progress we made and our execution related initiatives. I will then turn the call over to Rich for a more detail review of the financials and guidance before we open the call for questions.

By now, I hope you've had a chance to read our press release. We are adjusting revenue guidance from 2% to 4% constant currency growth to 1% to 2%. This reflects both the slow start we had to the year and the macroeconomic environment. We increased our expectation for non-GAAP operating margin for the year to 36%. The 36% margin reflects the benefit from an IP transaction closed during the quarter, which provided an incremental $35 million to our operating income, as well as driving more profitability from the organic business. In addition, we updated our original outlook on non-GAAP earnings per share growth from 9% to 12% to 10% to 12% in constant currency. And we reaffirmed our outlook on cash flow growth of 4% to 6% in constant currency. Despite the headwinds to top-line growth we experienced during the quarter, we are committed to delivering the earnings per share and cash flow growth we provided at the beginning of the year.

Now, let me provide some comments on the market and our performance in the first quarter. Our revenue grew 1% in constant currency. Some growth, but short of our expectations. Non-GAAP operating margin was 38% including 3 points of contribution from our IP transaction. Our non-GAAP earnings per share and cash flow from operations were up 16% and 10% respectively in constant currency. Both also improved by the IP transaction.

We had new product sales decline in North America and EMEA, growth in APJ and continued strong momentum in Latin America. Growth economies continue to reward our investments. Clearly, I'm not satisfy with the top-line performance in the first quarter. Because of CA Technologies' highly ratable model, it is important for us to get a strong start, and we didn't. We knew heading into the year that the renewal portfolio would be down. In fact, we shared this with you on analyst day last July and again in Q4 of fiscal 2012 earnings call.

We also highlighted that first quarter was a trough for the portfolio for the year, with the portfolio coming in approximately 40% lower year-over-year. To give you a sense of this portfolio dynamic, the number of large renewals worth more than $10 million at close during the quarter was half that of last year, $4 million compared to $8 million. As a result, the value of large contracts signed during the quarter decreased by approximately $200 million. Renewal of the ELA continues to be a good opportunity for us to sell new products and new capacity. It builds energy and momentum in an account, both for us and the customer. When we have a lighter renewal inventory, we have less opportunity to sell new products. This is also the case for new mainframe capacity, which is tightly correlated to the renewal portfolio.

As our portfolio builds in the second half of this year, this will help drive opportunities for product sales and capacity. While that explains the dynamics behind new product sales and mainframe capacity related to the ELA, it is only part of the story. The other piece relates to sales of new products outside the renewal. We did not deliver at the level we expected. We knew we had challenges outside the renewal, and customer our customer segmentation initiative is designed to address that.

We created three distinct customer segments with unique approaches to reach each of our target customer segments, large existing enterprise customers, large new enterprise customers and growth market customers. The addition of large new enterprise and growth market customer segments more than doubles our addressable market. Although we were below plan for the quarter, we did not anticipate significant traction in these new customer segments in the first half of the year. In fact, we continue to believe that the actions we took will be drivers in the back half of this year and beyond.

What we did not adequately plan for in the first quarter was a level of disruption our new customer segmentation efforts would cause in the sales force and the impact it would have on our productivity in large existing accounts. Anytime you move people into new territories, create new coverage models and train extensively, it takes time away from the customer. When combined with a lighter renewal portfolio, we slowed our start to the year. The result, new capacity and new product sales were down approximately 30% year-over-year. So, with the first quarter behind us and much of the move to customer segmentation largely complete, we are now back into territories with a renewed focus and a clear set of objectives, further penetrating the existing accounts and acquiring new customers.

To realize our objectives, we have increased accountability throughout the organization and made a number of important changes. We've moved all disciplines associated with our growth markets business under one general manager worldwide. This allows regional executives to focus exclusively on execution in our large existing and large new enterprise accounts. We consolidate all business operations into the finance team, scrubbed the sales pipeline for each region and customer segment and increased executive oversight in key transactions. As a result, we are confident in this afternoon's updated guidance.

From a new product perspective, we are entering a strong product cycle, leveraging the investments we have made in organic development and the intellectual property from our acquisitions. While we have introduced many products enhancements over the last decade and a half, these new solutions raise the bar of innovation and customer productivity. In June, we announced new releases of award-winning CA mainframe cores together with CA database management solutions that provide the fastest path to value for DB2 upgrades.

Next month, we will introduce performance analytics capabilities to our service assurance portfolio. The new solutions will focus on the infrastructure, which we will extend to applications. We now have the ability to rapidly analyze the massive quantities of performance data we collect and provide customers insight into improving their quality of service and customer experience. Service providers in particular will be able to leverage this capability to simplify and accelerate 4G network rollouts.

Customer demand for new solutions that can be deployed in both on premise and SAS models continues to grow, providing a choice of delivery model allows customers to migrate at their pace while preserving their current investment, which we believe is a competitive advantage. We continue to build our service management portfolio with these capabilities, including a mobile self service social interface, advanced dashboard and reporting analytics and world-class software asset management that we believe customers will find compelling. We will continue to introduce new products and solutions throughout the back half of the year. These present ongoing upsell opportunities to our occurred customer base and differentiating technology to retain and attract new customers. Given the timing of these introductions and the associated sales cycles, we expect traction later in fiscal 2013.

Before I turn the call over to Rich, I would like to address CEO succession. We are working on succession planning. My role, along with the board of directors, is to ensure the execution of an effective and smooth transition that will drive the Company's future success. Our focus on the business will not waiver during this transition, whenever it occurs. I also want to reaffirm that the board of directors and executive management team are committed to the $2.5 billion capital allocation plan we announced in January, including the $1 per share annual dividend and share repurchase program we have put in place. We remain on track to return an average 80% of our cumulative free cash flow through fiscal 2014, which we believe allows us the optimal mix of making investments in the business while returning cash directly to shareholders. With that, I will turn the call over to Rich to provide details of the quarter.

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, up 1% in constant currency and down 2% as reported. This includes a $32 million headwind from foreign exchange. From a segment perspective, mainframe solutions revenue $628 million, flat in constant currency and down 3% as reported. As a reminder for your models, we have a challenge mainframe revenue compare in the third quarter due to a $39 million single-license payment that occurred last year.

Our enterprise solutions revenue was $426 million, up 2% in constant currency and flat as reported. Services revenue was $91 million, up 4% in constant currency and 1% as reported. Underlying these results, mainframe solutions new product sales for the quarter were down more than 30% while new capacity sales were down more than 60%. New mainframe product and capacity sales are highly correlated to the timing of underlying renewals and will fluctuate quarter to quarter. We anticipate that mainframe new product sales and capacity will accelerate in the back half of the year, driven by a more robust portfolio of renewals. Enterprise solutions new product sales were down just over 20% this quarter. Finally, new services engagements, which are highly dependent on new product sales, were down more than 15% year over year. Our renewal yield in the quarter was in the low 80% range. This was due to a single transaction where the effect was amplified by the lower amount of renewals in the quarter. Excluding this transaction, our renewal yield was approximately 90%. We continue to expect full year renewal portfolio to be down single-digit year-over-year as compared to fiscal 2012, and it will be back-half loaded.

Looking at revenue backlog, current revenue backlog was $3.5 billion, down 1% in constant currency and 5% as reported. Total revenue backlog was $7.8 billion, down 5% in contact currency and 9% as reported. Backlog was affected by sales performance in the quarter, as well as the higher percentage of sales recognized as software fees and other. We will continue to see headwinds in backlog metrics as contracts burn off the balance sheet in anticipation of an increase in our 2014 renewal portfolio. As Bill mentioned, first quarter results include $35 million, or approximately $0.05 in GAAP and non-GAAP earnings per share from the assignment of certain intellectual property assets to a large technology company. This benefit was recorded as other income and was incremental to full-year guidance provided in May. From a non-GAAP perspective, non-GAAP operating income before interest and tax was $439 million, up 8% in constant currency and 5% as reported.

For the quarter, our non-GAAP operating margin was 38%, 35% excluding the IP transaction. Operating margin for mainframe solutions was 59%. Operating margins for enterprise solutions was 16%. The IP transaction contributed 8 points to enterprise solutions' margin. Finally, operating margin for services was 4%.

Non-GAAP diluted earnings per share was $0.63, up 16% in constant currently and 15% as reported. This include a year-over-year $0.01 headwind from currency. For the first quarter, our non-GAAP tax rate was 31% compared to 32% for the first quarter of fiscal 2012. Cash flow from continuing operation in the quarter was $183 million, up 10% in constant currency and 28% as reported. The difference in as reported and constant currency growth is due to the positive FX impact of the US dollar cash investment by our European subsidiaries. These investments protect the Company against European event risk. Next quarter the maturing FX heads of these assets will be a headwind to as-reported cash flow growth.

From a year-over-year perspective, cash flow growth was driven by lower tax payment in the quarter and the IP transaction. In addition, single installment payments were $123 million in the first quarter compared to $64 million in the previous period. This increase was driven by Q4 billings, which were paid in Q1. Total billings backlog of $4.58 billion was down 8% in constant currency and 11% as reported. Billings backlog log was affected by the first quarter decrease in sales. We ended the quarter with approximately $1.1 billion in net cash.

During the quarter, we successfully completed our accelerated share repurchase program with receipts of 3.7 million shares. This was in addition to the 15 million shares received in the fourth quarter of fiscal 2012. Subsequent to the completion of the ASR, we repurchased approximately 3.8 million shares for approximately $96 million in Q1. We are authorized to repurchase an additional $900 million of common stock through fiscal 2014.

Moving to first quarter GAAP results, first quarter GAAP operating margin was 33%. GAAP operating income before interest and tax was $381 million, up 10% in constant currency and 11% as reported. GAAP diluted earnings per share was $0.51, up 11% in constant currency and 13% as reported. Our effective GAAP tax rate for the first quarter of fiscal 2013 was 35% compared to 32% for the first quarter of fiscal 2012.

Now, let me turn to fiscal 2013 guidance. As has been our practice, guidance is based upon the exchange rate of the last day of the preceding quarter, or for this quarter, June 30, 2012. This includes a partial hedge of operating income. Updated guidance is the following. Total revenue growth is now expected to be 1% to 2% in constant currency. This translates to reported revenue of $4.74 billion to $4.80 billion. Non-GAAP diluted earnings per share growth in constant currency is now expected to be in the range of 10% to 12%. This translated to reported non-GAAP earnings share of $2.45 to $2.50. GAAP diluted earnings per share growth in constant currency is now expected to be in the range of 12% to 14%. This translates to reported GAAP diluted earnings per share of $2.07 to $2.12.

We continue to expect that cash flow from operations will grow 4% to 6% in constant currency. This translates to reported cash flow from operations of $1.54 billion to $1.57 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 this year. At the end of the year, we expect approximately 452 million shares outstanding and a weighted average diluted share account of approximately 459 million shares. We now expect our non-GAAP operating margin to be 36% for fiscal year 2013. And now I'll turn the call back over to Bill.

Bill McCracken - *CA Inc - CEO*

Thanks, Rich. Before we close, I would like to leave you with a few thoughts. First, we continue to drive shareholder value through a disciplined return of capital. Second, this quarter we invested the time and energy necessary to enable our go-to-market customer segmentation model. Now, moving through to reliable execution is the next step. Third, we are on track to deliver a series of market leading products and solutions this quarter. And in the back half of the year, that levered our organic development capabilities and acquired technology. Fourth, we are corporation that has the ability to increase operational efficiency and drop more profitability to the bottom line, even in the face of challenging macroeconomic conditions. We have taken the steps necessary to position ourselves to deliver the earnings per share and cash flow growth we forecasted at the beginning of the year. And with that, Kelsey, let me turn it 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 15th Annual Oppenheimer Technology, Internet, and Communications conference in Boston on Tuesday, August 14, and the 2012 Citigroup Global Technology conference in New York City on Wednesday, September 5. In the interest of time, please limit yourself to two questions. Operator, please open the call for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) We have a question from Phil Winslow of Credit Suisse.

Siti Panigrahi - *Credit Suisse - Analyst*

Hi, guys. This is Siti Panigrahi for Phil Winslow. Could you give us a sense of the dynamics in the mainframe business terms of pricing and volume, and also could you give us your expectations for the timing and potential impact from the next platform release from IBM? Thanks.

Rich Beckert - *CA Inc - SVP and CFO*

Hi, this is Rich. How are you?

Siti Panigrahi - *Credit Suisse - Analyst*

Good.

Rich Beckert - *CA Inc - SVP and CFO*

As far as what we're seeing in the mainframe market, it's pretty much steady as she goes. As you know, our business is really tied to our renewals, and we have a high correlation with the mainframe as the renewals come in. We are seeing continued demand for the MIPS in the marketplace. The MIPS are growing at the standard rate. The price points that we're seeing, it's always been a competitive market, but that market seems to be holding up just fine.

Our product introductions that we've had just recently and a couple we have this fall give us great confidence because we're seeing our ability to outpace some of our competition who's not at the same level of investment. We continue to say it will be a strong tailwind for us as we progress through the end of this year and into the out years. On your second question, as you know, we work very closely with IBM and their technology. Their ability now to go across platforms, both mainframe and distributed, moves right into our sweet spot. We think that's a great move, and we work with them daily in order for us to both be successful to expand the mainframe marketplace.

Siti Panigrahi - *Credit Suisse - Analyst*

Great. Thank you.

Operator

Thank you. The next question is from Abney Lamba of Mizuho Securities. Your line is open.

Abhey Lamba - *Mizuho Securities - Analyst*

Yes, thank you. Can you talk about the reasons for the shortfall in the quarter? What they are rated to, sales changes and internal execution challenges, or was there an impact from macro as well? Any commentary on macro would be helpful, and then I got a follow-up. Thanks.

Rich Beckert - *CA Inc - SVP and CFO*

Sure, so the renewals themselves were exactly where we they thought they would be. If you recall, our renewals go out over the next five years and we have those mapped out by quarter, so the renewals piece was not the issue in the shortfall. On the yield piece of that, we had one transaction that we accepted that was below our normal yield that we accept, and that drove it down to the low 80s as opposed if we back that out, it was in the mid-90s -- low 90s, excuse me. There's really not a change in the yield. There's not really a change in the renewals. As far as the macro environment, we are, just like everyone else, seeing an impact in southern Europe and some other places around the world. Some economies are slowing, but our basic business is somewhat insulated from the macroenvironment, but it does elongate our sales cycles and maybe keeps our pipeline a little bit longer.

Abhey Lamba - *Mizuho Securities - Analyst*

The deal that you just mentioned which lowered your renew yield, can you talk a little bit about that? Is this that you renewed, but at a lower yield, or did the deal not renew? Are you still working on it --?

Rich Beckert - *CA Inc - SVP and CFO*

The deal itself did renew. It just had some products that actually fell out of the actual renewal.

Abhey Lamba - *Mizuho Securities - Analyst*

Got it. And Bill, or either of you. Now, over the last couple of few weeks, there have been some interesting announcements by VMware, especially that indicate their intention of building some management tools for exogenous environment or go beyond the compute stacked networking or storage. Now, how do you view those developments? How do you think they will impact your competitive position, and what type of opportunity [of credit] they create for you. And that's it for me. Thanks.

Bill McCracken - *CA Inc - CEO*

Okay, yes, Abhey. VMware is, as you mentioned, expanding into the management area. We don't meet them too much in the marketplace, though, when we are in our account environment. The thing that we see is we have been now, for many decades, in the management area, and it gives us significant advantage with respect to the capability we have, especially from an enterprise point of view. The key point, though, is our positioning is to work across all platforms. That helps us integrate VMware with all the other platforms that are in the environment. So, it really deals to our strength with respect to the way we deal with VMware. They are a piece of the growing market along with the rest of the pieces, and it deals to our strength.

Kelsey Doherty - *CA Inc - SVP IR*

Great. Next question, please.

Operator

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

James Wesman - *Raymond James - Analyst*

Hey, guys, it's James Wesman sitting in for Michael. Took a look at the current backlog, it's the first in recent memory I think it's been down year-over-year in constant currency. Can you talk about what happened there?

Rich Beckert - *CA Inc - SVP and CFO*

Hi, how are you? This is Rich. The current backlog, as I said earlier, the renewals piece is what we thought it would be. What we didn't do to the level that we had anticipated was selling outside of the renewal backlog, so therefore, our overall sales were off from what we anticipated. What we also have is the tail -- or the headwind of our entire business as it builds over FY '14 and get closer and closer to the renewal in FY '14, the backlog shrinks until they're renewed and then the backlog is refilled. So, what you're starting to see is two things. One, we had a weak Q1, and you see the impending increase of renewals in FY '14.

James Wesman - *Raymond James - Analyst*

Great, thanks, guys.

Operator

Thank you. Our next question is from John DiFucci of JPMorgan. Your line is open.

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

Thank you, my first question is for Rich. Rich, if renewals for the year are going to be down single-digits and they're back end loaded but this quarter renewals were down 34% constant currency, 36% reported, should the -- could the -- or do you plan for the renewal portfolio to actually grow in the second half?

Rich Beckert - *CA Inc - SVP and CFO*

The renewal portfolio, depending on the quarter in the second half, will absolutely grow. What you will see is it's very back end loaded, so to the degree between Q3 and Q4, that can move around. Where they are today planned, John, you would have a very large Q4, so it could move slightly. But absolutely, and then that moves right into FY '14.

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

Okay, great. Thanks. And Bill, a question for you. New product sales declined in it looks like in every region except maybe Latin America, which was the smallest region. This is a quarter that you reorganized the sales force to focus more on new product sales, but it sounds like you underestimated the disruption the reorg would cause. And I just want to -- it sounds like you made some changes, but why should we be confident that it's going to get better this quarter, that sort of disruption?

Bill McCracken - *CA Inc - CEO*

Okay, you've mention one of the primary reasons. In both Latin America and Asia Pacific, the new product sales were up in both those regions. The investments we've made in those regions, in fact has paid off for us, and that's where we see our growth. The most important point behind that, John, is that we have been in the model now for the last year in both Asia Pacific apart and a model and Latin America. And we saw the results that stayed even and grew in both those geographies. The biggest challenge we had was to move that model into both North America and EMEA. And the thing we did underestimate, which is what you said, we knew we were going to have to move the territories, we moved people into new enterprises as well as into the growth area. But the magnitude of the impact that it had with respect to the account changes and the territory changes did, in fact, have more impact for us than we thought, and we ended up in the territory only part of the quarter. We're back in the territory now, and so we have great confidence that's going to bring us to where we said we would, John.

Rich Beckert - *CA Inc - SVP and CFO*

John, if I could just add to that. If you look at how the portfolio is evolving, the large new and growth will be in place now for a few quarters and you will start to see the pipeline -- we are seeing the pipeline build, especially Q3. As it progresses through, they will actually come to fruition in Q3, Q4. Of the renewals we talked about earlier, which you know we have impending events, which then allows us to put out -- we have new products being announced in August and then again in October and then again in November, and it will allow us to cycle through our portfolio at that time. So, we're positioned better, both from a product portfolio, and we'll have people out on the territory now, it will be six month by then.

Kelsey Doherty - *CA Inc - SVP IR*

Great, thanks. Next question, please

Operator

Thank you. Our next question is from Aaron Schwartz of Jefferies. Your line is open.

Aaron Schwartz - *Jefferies & Co. - Analyst*

Good afternoon. I had a question on the deal duration. I shortened a little bit here in the quarter, presumably tied to the renewal portfolio dynamics and also I guess self disruption, But could you talk about the macro situation with the deal duration, whether you expect that to bounce back as the renewal portfolio grows through the year? And if it is more macro related and stays at the shorter end here, how would that tie into cash flow for the year?

Rich Beckert - *CA Inc - SVP and CFO*

Good question, Aaron. No, there's no change to buying pattern. What you're seeing is when we have a low renewal portfolio, you have more as a percentage that's being done in the quarter. Stand-alone transactions, they tend to be a little shorter than three years Renewals tend to be a little bit longer.

The most important part, if you recall, the top deals that were $10 million or more, there were only four this quarter totaling a little over $60 million where if you looked at the same period a year earlier, it was $260 million. That would elongate back to the normal 3, 3.5. We're not concerned about this. This actually -- we saw this, not to this degree -- if you look a couple quarters back, I think it was 1.5 ago, you will also see that we had a low renewal portfolio and it was predominantly products being sold outside of the renewal cycle. It will shorten, and we expect that to bounce back. So, we're not concerned about the cash piece of this.

Aaron Schwartz - *Jefferies & Co. - Analyst*

Okay, and just had a follow-up question on Europe. You've obviously made a lot of changes there internally here over the past year, but you're also facing a lot of external influences that are out of your control. How do you measure the improvement in Europe against the face of a lot of things that are out of your control right now?

Bill McCracken - *CA Inc - CEO*

Well, I guess the first thing I would say is the changes we have made and the leadership that we put in place in Marco and then the additional leadership that he's put in place in the regions and in the countries. We're pleased that they are executing and paying attention to the details to sell outside the ELA, which is one of the things we talked about a year ago, as well as to build the pipe on three segments that we talked about. Having said that, we see them executing against it, but you do have that downward pressure of the macroeconomics. What we're looking at is, what is a renewal, what is the selling outside the renewal cycle and the metrics that indicate their execution against the plan that they put in place. We are pleased with what they have done, but as you well know, the macroeconomic environment in Europe puts a downward pressure on everything you do.

Operator

Thank you, our next question is from Mark Moerdler of Sanford Bernstein.

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

Thank you very much. Two questions, the first one is, you made the comment that you moved all disciplines associated with growth under one manager. Is that from a development point of view, a sales point of view? what exactly is involved in that?

Bill McCracken - *CA Inc - CEO*

Yes. All of the resource that sells in the marketplace for the growth is now reporting to the executive that we had in Latin America in the last two years and he now lead that worldwide.

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

Okay. And the second one is at the conference, you talked about moving of applications to your own platform as a service you were building up. We haven't heard much more about that. Is that still underway within the product portfolio?

Bill McCracken - *CA Inc - CEO*

Yes, it sure is, and that is one of the key advantages we think we have in the marketplace. Because if we look at our SAS, it performed about 30% better in the quarter this time. We have departmental capability that we put in the SAS kind of environment. We have had, as you know, in the enterprise environment, the capabilities, whether it be service assurance or whether it be service desk kinds of things. And what we have done now, and it's a part of the SAS first strategy that we announced a couple of months -- or a couple of quarters ago is that we have an ability to bridge between those two. So, we actually, I think have put ourself in advantaged position for growing on the SAS side, the way that part of the market is. We're able to bridge it into the enterprise side as well at the same time.

Operator

Thank you. Our next question from Walter Pritchard of Citigroup. Your line is open.

Walter Pritchard - *Citigroup - Analyst*

Hi, thanks. Rich, I was just wondering on the cash flow of these items, you had the cash taxes lower, you had the higher up-fronts, and then you had the IP. Was that all anticipated in your guidance that you gave at the beginning of the year?

Rich Beckert - *CA Inc - SVP and CFO*

The only thing, the IP was not in there, the rest of it was anticipated.

Walter Pritchard - *Citigroup - Analyst*

Okay, got it. And then just on the up front, I guess your renewal portfolio was down. I'm surprised to see that the up fronts were up. Was hat just contract dynamics on an individual basis, or is there any trend there that you're driving in the business?

Rich Beckert - *CA Inc - SVP and CFO*

There's actually two pieces to that. The first piece is that it's really -- the up front is also recognized a one-time transaction from Q4 that is in Q1. So, if we pay -- if we bill and they pay the entire amount, that shows up in Q1. That was half of that half up front. If you look at the Q1 up fronts, they're actually down year-over-year.

Operator

Thank you. Our next question is from Shaul Eyal of Oppenheimer. Your line is open.

Shaul Eyal - *Oppenheimer & Co. - Analyst*

Thank you, hi. Good afternoon, guys. Two quick questions on my end. Bill, can you slightly touch and maybe provide us with some more color specifically about the US? I totally get what is happen in Europe, but maybe what is happening in the US domestically? And then follow up is more specifically on your identity and access management product, how did that perform during the quarter? Thank you for that.

Bill McCracken - *CA Inc - CEO*

Okay, Shaul. On the US, when you think about it, the main part of our business, which was the existing enterprises we had, was primarily in the US. So, a lot of change we talk about with respect to the account assignments and the movement of that resource really happened in North America, and so it had more impact there than it did actually in the other geographies. As I referenced before with respect to Asia Pacific and Latin America where we had that model before, so therefore, it did have more impact. Don't see anything beyond that,. The economy is a drag, as we know, but we didn't see indicators coming out of here that it had a significant impact. Most of it was the things that we changed. And on the security side, we had a strong quarter in security, significant growth, but I caution you on that is on security. It's a long sale cycle and one quarter you're up and you have a good result, which we did this quarter; another quarter it may not be up as much. Overall though, security is working very well. And the security, just to give you an idea, was up double-digit over the 20% range in the quarter.

Shaul Eyal - *Oppenheimer & Co. - Analyst*

Thank you.

Operator

Thank you, our next question is from Matt Williams of Evercore Partners. Your line is open.

Matt Williams - *Evercore Partrners - Analyst*

Hi, guys, thanks. I'm just popping in for Kirk. Just one or two questions. In terms of the sales disruption in the quarter, was there any real pipeline build in the quarter, or does that process start this quarter with the payback six to nine month from now? And then along those lines, when did you start to notice that the reorg was a little more disruptive than maybe you'd expected?

Bill McCracken - *CA Inc - CEO*

Yes, good question because as we got back into the territory, then the pipeline did begin to grow because we focused attention on that, and there's clear focus and an organization as to how we go about it with respect to how we review it. And I think as we said, Rich did in his prepared remarks, we're actually tracking that by region around the world. So yes, as we go back in the territory, that begins to grow. Do you want to comment beyond that, Rich?

Rich Beckert - *CA Inc - SVP and CFO*

Yes. One of the things that we definitely saw is it was a slow build. They were in the territory but as they're now out looking at and talking to their customer set, the pipeline now we're starting to see fill in. The other piece of that though is as they are now working their way through the pipeline progression, we expect that to pay off in the second half of the year. Your question is when did we really see that come to fruition, I would tell you that was really more towards the end of May, first week of June because by then, where we are in our pipeline progression really gives us headlights as to where we think this -- the transaction should close in the quarter.

Bill McCracken - *CA Inc - CEO*

Yes. So, let me comment on the back of what Rich said, too, and it's something we said when we ended the year last year, but I want to emphasize it again. We are back in the territory. We're building the pipe in those new growth areas. We see the second half of this year as when that gets traction, not second quarter.

Matt Williams - *Evercore Partrners - Analyst*

Okay, great. That's helpful. And if you don't mind, just one quick follow up. Could you maybe discuss how some of the newer businesses like Nimsoft or a 3tera, how they fared in the quarter since they're not as attached to the renewal cycle? That's it for us. Thanks.

Bill McCracken - *CA Inc - CEO*

Actually, Nimsoft is sold primarily outside the renewal cycle, and it was up in the 40% range in the quarter, so we saw growth in that. And that's some of the things that contributed, that Arkadin and other products such as that, that sold in the SAS environment area which overall drove a 30% growth for us.

Operator

Thank you. Our next question is from Matt Hedberg of RBC. Your line is open.

Matt Hedberg - *RBC Capital Markets - Analyst*

Thanks, guys. Within the sales reorg, I'm wondering, was there any reduction in force there and potentially offset by some hiring? I know in the past you've trimmed but then added in higher growth areas. I'm wondering where you started the quarter, how does capacity look today versus maybe quarter over quarter and year-over-year?

Bill McCracken - *CA Inc - CEO*

We have added, as we said coming out of the fourth quarter, we were at -- adding 300 on our headcount in sales worldwide. We will be at headcount on that as we exit August. We're largely there in the first quarter, but we'll be continuing that as we go through the second quarter as well. Rich, you want to comment beyond that?

Rich Beckert - *CA Inc - SVP and CFO*

I think -- so as we talked about back in Q3 of last year and then again Q4, we unlayered quite a few people in the sales force, so there's about 200 or so people that were unlayered and put into direct quota carrying. And then as Bill said, we also then hired in some people. There was some attrition as normal, but I would tell you our attrition is actually down year. We're seeing good attrition in sales and across the entire Company. So, attrition is not a problem, which is why we can say that we're at end of job in the quarter that we're in where we need to be from a sales. And as Bill says, everyone is out in the territory now selling. The second part of that question, overall, the total sales spending will be down slightly this year compared to last year, as will the G&A piece, which allows us to drive to that 36% margin. Across those, we expect to see productivity improvement in the back half of the sales team and we have overall spending down. So, it's a good combination to drive a 36% margin.

Matt Hedberg - *RBC Capital Markets - Analyst*

That's helpful. And then maybe one follow-up on the guidance. Embedded within your 1% to 2% constant currency growth now at this point, can you talk about the dynamics of what is embedded in your expectations for both US and international growth? Is it -- I mean, are you expecting much of a divergence there from what happened this quarter?

Rich Beckert - *CA Inc - SVP and CFO*

We will see, as Bill said earlier, I believe the Asia Latin America will continue to grow at or --, at a reasonable rate. EMEA will continue to be the laggard across all the geos and North America we think should start to build momentum over time as we break into these new, large corporations and the new growth areas for us.

Bill McCracken - *CA Inc - CEO*

Okay so let me wrap up probably with just four comments. We did what we needed to do, what we wanted to do, what we said we would do in the first quarter and we are position now to take all the steps we do as we go through the second quarter and the rest of the year to execute as we said we would for the balance of '13. we're committed to delivering a bottom line that we forecasted beginning of the year. And in fact as Rich indicated, we'll expand that margin to 36% as we move through the year. We are going to continue, as I mentioned before, we're going to continue to drive the shareholder value through our disciplined return of capital to them through this year as we said we would through the extended period. And finally, we are committed to the multiyear guidance that we first introduced to you last July. So, thanks for hooking up with us, and we'll talk to you soon.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect. Have a wonderful day.