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CA - Q4 2015 CA Inc Earnings Call

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OVERVIEW:

Co. reported 4Q15 total revenue of $1.02b and GAAP diluted EPS of $0.33. Expects FY16 reported revenue to be $3.95-3.99b, GAAP diluted EPS to be $1.83-1.90 and non-GAAP diluted EPS to be $2.38-2.45.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the CA Technologies Fourth Quarter 2015 Earnings Conference Call.

(Operator Instructions)

As a reminder, this conference call is being recorded. I would now like to turn the conference over to Mr. Jonathan Doros, Investor Relations. Sir, you may begin.

Jonathan Doros - *CA Technologies - IR*

Thank you and good afternoon, everyone. Welcome to CA Technologies Fourth Quarter Fiscal Year 2015 Earnings Call. Joining me today are Mike Gregoire, our Chief Executive Officer, and Rich Beckert, our Chief Financial Officer. Mike and Rich will offer some prepared remarks and then we will open up the call for a Q&A session. These prepared comments were previously recorded and this conference call is being broadcast on Thursday, May 7 over the telephone and 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 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 contain 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 first quarter quiet period begins at the close of business on June 15, 2015. Let me remind you that all comparisons are year-over-year and in constant currency unless otherwise indicated. So with that, let me turn the call over to Mike.

Mike Gregoire - *CA Technologies - CEO*

Good afternoon and thank you for joining us. During fiscal year 2015, we focused our efforts on our go-to-market strategy, introduced new products, and strengthened relationships with our customers. As demonstrated by this quarter's results, however, we still have work to do to drive the kind of growth that our Company has the potential to achieve. I'm convinced that we have set in place the appropriate strategy to transform CA and return it to growth.

Over the last two years, we have significantly improved the underlying efficiency of our business. In fiscal year 2016, we will make the required investments to drive innovation while continuing to demonstrate financial discipline by expanding full-year, non-GAAP operating margins by 2 percentage points to 39%, excluding the impact of any future material acquisitions. Over the medium term, we will bring to market new products that will help our customers succeed in the application economy and we are confident that we can achieve sustainable low to mid single-digit cash flow growth.

Turning to our fourth quarter results, total new sales decreased in the high single-digits year-over-year. Relative to our expectations, this decline was mainly the result of a headwind from the timing of our renewal portfolio, which was down in the low single-digits range year-over-year. As we have said in the past, a large percentage of our new sales are still attached to renewal opportunities.

While we had expected the renewal portfolio to be up in the 20% range for the quarter, we closed a substantially lower number of future quarter renewals than historical levels. These renewals, primarily large deals within North America and EMEA, were not competitive losses and are expected to close within their natural expiration during fiscal 2016. We expect the renewal portfolio to be up in the mid-teens for fiscal 2016.

Let me provide you with a deeper insight into our strategy to deliver differentiated solutions, improve sales execution, and increase our velocity. First, solution development and delivery. We have stated that, in order to be a leader in software, delivering next-generation solutions must be the lifeblood of our Company. I'm beginning to see the evidence of improvement in our ability to organically develop new product offerings and differentiate our products in the market.

During fiscal 2015, we released differentiated new products such as mobile app analytics and our cloud service management solution. While small in terms of revenue contribution now, these solutions are in the market today and growing significantly. In the last two years, our development team has improved the core products within our portfolio, such as CA APM and our on-premise security solutions.

While the improvement is yet to be visible in our overall revenue growth, we are seeing positive underlying trends that reinforce my confidence in the business. For example, APM was declining in revenue in fiscal 2013 and 2014. Today, that trajectory has reversed course. APM grew revenue for fiscal 2015 and surpassed the plan we set for it.

Over the next 12 months, we have several new or updated products being released in the marketplace, such Identity-as-a-Service solution, new innovation from our API management team, a truly integrated approach to DevOps and Continuous Delivery, as well as meaningful offerings that extend our leading infrastructure management capabilities. We are confident their impact will become visible our results.

Despite the progress we have made in these key areas, it's clear we need to increase our delivery velocity and achieve even greater leverage from CA product development end to end. Over the past couple of quarters, I have come to the conclusion that we and our customers would be better served by a product management model that is more fully aligned.

To achieve this, I will be consolidating all CA product management and development from mobile to mainframe under the leadership of a new executive position, a Chief Product Officer. This new leader will have a track record of managing and growing a large portfolio and work closely with the Company's Chief Technology Officer whose role is long-term technology vision, platform management, and cross-development processes.

Both positions are in the process of being filled and with these new changes, Amit Chatterjee will be leaving CA. Turning to sales execution, the attach rate of new sales to renewals held steady for the fiscal year; however, we are still too reliant on large deals with existing large customers. In order for us to reach our medium term goals, we need to sell to our underserved and new customers, which we refer to as our Named and Growth accounts.

While our fiscal 2015 new sales in our Named accounts grew in the low to mid-teens, collectively our named and growth sales teams are not converting pipeline and follow-on transactions at the velocity needed for the Company to grow total revenue. We believe this is due to a combination of the following factors, which we have already begun to address. First, we need to further improve our brand recognition in the marketplace.

Throughout every sector of the economy, software is disrupting traditional business models in what has become an application economy. Our Management Cloud, DevOps, and Security solutions are empowering enterprises to leverage software applications in all facets of their business. For example, our API management solutions are used in the largest car manufacturers in the world to securely allow the automobile to evolve into an infotainment platform and eventually revolutionize into a fully autonomous, technology-enabled vehicle.

Specifically, these solutions secure the data being transferred into and out of these connected cars. We need to better market the opportunity for our API management solutions to be leveraged in many other emerging API connected computing environments. Another example of how brand recognition needs to improve is within DevOps. Our service virtualization and release automation solutions are allowing customers to move beyond Agile software development and into a continuous delivery software development model.

Many of the top enterprises in the world are partnering with us on this journey. For example, during the quarter, we closed 14 service virtualization and release automation new sales transactions that were over $500,000, including an $8 million transaction. These wins were across the consumer goods, retail, leisure, financial services, and energy industries, but only one was a Named account.

This is not enough, as there are ample opportunities for $500,000 transaction within our Named accounts in each one of these industries. We need to better evangelize the value of our DevOps solutions in the marketplace. A second area in which we are investing to improve velocity is within inside sales. For many of our new lighter weight products, we need to better integrate digital marketing with our inside sales organization.

Last quarter, we upgraded the leadership of our global inside sales organization by appointing a senior executive as its new head. In addition, we shifted investment to hire more quota-carrying inside sales reps who are focused on converting digitally generated leads, building more pipeline, and driving new business. We believe these changes will both lower our cost of sales and increase the velocity of new product sales growth.

The third area in which we are taking steps to improve sales execution is within our partner business. We have revamped our entire partner go-to-market model. The team is now focused on working with a smaller number of highly engaged partners with whom we plan to heavily invest to reach underserved and new customers. For fiscal 2016, we have modest expectations for our partner team, but we are excited about the opportunity ahead of us.

Let me now speak to velocity. As I stated earlier, there are still some areas of our operations that need to move faster. We have formulated a plan of action to address these concerns, which we believe are overshadowing the underlying progress that we are making. When I look at CA, I see a great deal of qualitative progress that needs to turn into quantitative results.

The key qualitative metrics that I look to that give me confidence that we will reach our medium term goals are as follows. The trajectory of our organic enterprise solutions new sales performance has improved and stabilized over the last two years. We are seeing better sales execution in APJ and EMEA. During fiscal 2015, they were both able to meet the plans we set for them. Our market studies are showing steady and meaningful gains in name recognition.

A recent Wall Street Journal corporate perception study, which tracks 662 companies in 50 industries showed CA moving up 23 points in quality of management and in overall reputation, a very significant 33 points. Moving on to industry analysts, CA is being ranked as a leader by firms such as Gartner and Forrester. New sales of our growth products were up in the low to mid-teens in FY15 and more than 1/3 of our total new sales compared to FY13 when they made up fewer than 20% of new sales.

Account coverage continuity is critical to effective sales execution. Therefore, in fiscal 2016, we are not making any wholesale changes in account coverage. We believe our go-to-market strategy is intact and with a few tweaks to improve sales velocity and close rates, we do not foresee any major changes. Lastly, where it counts the most, we had high single-digit increase in our net promoter score year-over-year.

We intend to do that again this year. With that, I will turn the call over to Rich for a review of our fourth quarter financials and fiscal 2016 full year guidance. Thank you.

Rich Beckert - *CA Technologies - CFO*

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

As many of you are aware, the dollar continues to strengthen against most major currencies, which negatively impacts both our results and guidance. Our Q4 total revenue was $1.02 billion and was down 1%. Mainframe was down 2%, enterprise solutions was up 2%, and services declined 3%. Fiscal 2015 total revenue was $4.26 billion and was down 2%, in line with our guidance of down 2% to down 1%.

Mainframe was down 2%, enterprise solutions was down 1% and services declined 6%. Q4 renewals were down in the low single-digits and down high single-digits as reported. As Mike stated earlier, while we expected the renewal portfolio to be up in the 20% range, we closed a substantially lower number of future year renewals than planned. As we previously stated, the year-over-year change in our renewal bookings can vary on a quarterly basis, due to the timing of large transactions.

Q4 total new product and capacity sales were down approximately high single-digits and low teens as reported. This is due mainly to the headwinds from the renewal portfolio, lack of performance selling outside the renewal opportunity, and a headwind from macro weakness in Latin America. Fiscal 2015 renewals were down in the high teens and down in the low 20s as reported. Fiscal 2015 new product and capacity sales were down mid single-digits and down slightly more, just into the high single-digit range as reported.

The renewal yield during the quarter was in the low 90% range and at or above 90% during each quarter of the fiscal year. We expect fiscal 2016 renewals to be up mid-teens year-over-year as compared to fiscal 2015 and up low single-digits year-over-year, excluding a large system integrator renewal that is expected to close in Q4 fiscal 2016. As reported, we expect fiscal 2016 renewals to be up approximately 10% year-over-year as compared to fiscal 2015, including a large system integrator renewal that is expected to close in Q4 fiscal 2016.

From a geographic basis, during the quarter, we saw continued improvement from our EMEA team sales execution as they grew new sales year-over-year this quarter. For the full year, excluding the impact of currency, EMEA new sales were up mid single-digits and we were encouraged with their underlying performance. While Asia fell short of our expectations for Q4, for the full year, they surpassed our expectations.

However, North America fell short of our expectations, mainly due to weakness selling outside the renewal opportunity. Latin American performance was again below expectations set at the beginning of the year, which we believe is mainly a result of macro-related headwinds in the region. In our mainframe segment, Q4 mainframe new sales including new product and capacity were down mid single-digits in constant currency and down low teens as reported.

Fiscal 2015 mainframe new sales, including new product and capacity, were down high single-digits in constant currency and approximately 10% as reported. Overall, we expect our mainframe revenue growth to be down low single-digits over the median term, which we believe is in line with the mainframe market. Q4 enterprise solutions new product sales were down high single-digits in constant currency and down low teens as reported.

Fiscal 2015 enterprise solutions new product sales were down mid single-digits in constant currency and as reported. As Mike stated, the decline in enterprise solutions new product sales is mainly a result of headwinds from the renewal portfolio and weaknesses selling outside the renewal opportunity. Services revenue decreased 3% and 6% for the quarter and the year, respectively.

As we previously stated, the primary driver of decline during fiscal 2015 is due to us de-emphasizing non-core government services subcontracting engagements, which are not directly related to software sales. Going forward, we expect lower services bookings to be a headwind to fiscal 2016 revenue. Over the long-term, we expect a negative impact to our services revenue growth as we design our products to be easier to install is and leverage partners for more services engagements.

Current revenue backlog was down 3%. Current revenue backlog was impacted by lower than expected fourth quarter renewals and lower services bookings. As I said before, consistent year-over-year growth in current revenue backlog is one of the indicators of future revenue growth. Current revenue backlog is likely to grow when we demonstrate multiple quarters of new sales growth while maintaining a low 90%s renewal rate.

Q4 non-GAAP operating margin was 32% and GAAP operating margin was 21%. Fiscal 2015 non-GAAP operating margin was 37% and GAAP operating margin was 27%. Fiscal 2015 segment operating margins were 59% for Mainframe solutions, 11% for Enterprise solutions, and 3% for services. Our Q4 non-GAAP tax rate was 23% and our GAAP tax rate was 28%.

Q4 non-GAAP diluted earnings per share was $0.56, down 11% year-over-year. Fiscal 2015 non-GAAP diluted earnings per share was $2.53, down 15% year-over-year. The decrease in our non-GAAP EPS is driven by a lower non-GAAP tax rate in fiscal 2014. Q4 GAAP diluted earnings per share was $0.33, up 48%. Fiscal 2015 GAAP diluted earnings per share was $1.82, down 5%.

Our Q4 CFFO was $485 million, up 8%. Single installment cash payments were $191 million and up year-over-year. Fiscal 2015 CFFO was $1.03 billion, up 9% and in line with our guidance of 5% to 12% year-over-year growth. We ended Q4 with approximately $1.4 billion in net cash. During the fourth quarter, we repurchased $90 million in shares, paid $111 million in dividends, we repurchased $215 million in shares in fiscal 2015, and paid $444 million in dividends, which represents over 65% of our free cash flow.

We have $785 million remaining of our original $1 billion share repurchase program. Turning to guidance, guidance is based upon exchange rates as of the last day of the preceding quarter, which was March 31, 2015. This includes a partial hedge of operating income. We expect currency to have a negative impact to our full-year fiscal 2016 revenue of approximately 5%, as of March 31 rates. Total revenue is expected to decrease 2% in constant currency.

This translates to reported revenue of $3.95 billion to $3.99 billion. Non-GAAP diluted earnings per share is expected to grow 2% to 5% in constant currency. This translates to reported non-GAAP diluted earnings per share of $2.38 to $2.45. GAAP diluted earnings per share is expected to grow 12% to 17%. This translates to reported GAAP diluted earnings per share of $1.83 to $1.90. Cash flow from operations is expected to increase 2% to 7% in constant currency.

This translates to reported cash flow from operations of $970 million to $1.01 billion. Guidance does not include the effect of any future material acquisitions. Underlying this guidance, we expect our GAAP and non-GAAP tax rates to be between 28% and 29%. We expect full year GAAP operating margins of 30% and full year non-GAAP operating margin of 39%. At the end of the year, we expect approximately 433 million shares outstanding and a weighted average diluted share count of approximately 437 million. And now, I'll turn the call back over to Jonathan and we will take your questions.

Jonathan Doros - *CA Technologies - IR*

Thank you, Rich. In the interest of time, please limit yourself to two questions. Before we start the Q&A, we'd like to remind you that we have supplemental disclosures, including a slide deck with additional information posted to the IR site. Operator, first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And our first question comes from the line of Raimo Lenschow of Barclays.

Raimo Lenschow - *Barclays Capital - Analyst*

Thanks for taking my question. Two quick questions, if I may, first, Mike, you talked a little bit about the areas of strength and weakness. Can you talk a little bit more specifically on which products performed well during the quarter and where did you fall somewhat short? Just to give us a better understanding of where do you have to look. And I have one follow-up.

Mike Gregoire - *CA Technologies - CEO*

Sure. Thank you. With respect to the products, it's pretty much been the same thing all year long. The growth product that have continued to do well, they did very well in Q4. When you take a look at release automation, service virtualization, API and management had an extraordinary quarter in the mid-30%s growth. Service virtualization was in the high 20%s.

Then we had a good performance by some of our more mature products with security was up in the low 20%s and e-commerce had the best quarter that we've ever had. Over the course of the year, we've seen a lot of lumpiness in some of our value products. The big stand-out there is API management. It had the really, really strong quarter, grew above our plan for the year.

If you the remember, this particular product was shrinking two years ago and definitely got into a place where we're definitely seeing growth and continue to see growth. So if I was to characterize those as the big winners and thematically, the newer products are selling very well and a little bit of lumpiness in some of the value product.

Raimo Lenschow - *Barclays Capital - Analyst*

Okay. Perfect. Thank you. And then if I look into the guidance, and maybe a question for both of you, you guide for about 200 bps margin improvement, but we're also in that phase where we want to see the acceleration of growth. Can you talk a little bit about how you handle it, especially given that you weren't ready to do this before? Are we coming out of the investment phase and now coming out more growth you can do that? Just talk us through how we can get comfortable on that one.

Mike Gregoire - *CA Technologies - CEO*

Sure. I would characterize it as the last two years we spent really getting operationally sound. When you take a look at our confidence in getting to 39%, now we're at a point where pretty much steady stream. I still think there's room for improvement down the road with respect to the enterprise segment, but that's got to be associated with growth. So we've been focused over the last two years completely on organic growth.

So getting to that 39%, from an organic perspective, I think is where the Company is operating very, very well. Net promoter score has gone up. The talent that we've been able to attract to the Company and the talent that we existingly had in the Company is operating at what I would have considered to be pretty much best of class. When you take a look at where we spend revenue on a percentage basis, where we spend as a percentage of revenue in all the categories, I'm feeling much more comfortable about that.

So now we've got a very good platform in which we can start layering on growth. The new products that we've been investing in and building out over the last year are coming to market. We have a number of products we'll be launching at CA World so I feel good about that. So to get to the 39%, I think we've got a little bit more work ahead of us coming into the next quarter or two, but I feel pretty confident, organically, we're in a good spot to get to that kind of operating margin.

Operator

And our next question comes from the line of Daniel Ives of FBR Capital Markets.

Unidentified Participant - - *Analyst*

Great, thanks, guys. It's Jim, actually, in for Dan. Can you just give us an update around your M&A strategy and what you might be thinking there, if there's any particular areas you're interested in or just any updates?

Mike Gregoire - *CA Technologies - CEO*

Sure. I'd like to be very clear, we are not bidding on Microsoft. So we can put that one to bed. It seems there's a lot of conversation about that. Our strategy has not changed with respect to the product and product placement. Our number one priority is organic. We've spent a lot of our time and effort thinking about products that we can build and improving the products we have. I've also said consistently that we will spend $300 million to $500 million a year on average and to the extent that we see products and companies in the market that makes sense to our strategy, and hit our internal hurdle rates with respect to valuation.

I feel very confident I've got a management team that can execute. Going back to the previous answer, I talked about on how we're improving the operation, I think we've cleaned up a lot of those types of issues, so we have the ability to be able to do that. And the other thing that should be very clear, I talked about it in the prepared remarks, we made our plan in EMEA, which is the first time that we've done that in an awful long time.

I think the EMEA team has done a very, very good job getting very serious about how our products need to be represented in that market. So that's a confidence builder. When you've got that distribution engine working in a market as big as that, you can start thinking about acquisitions again.

Unidentified Participant - - *Analyst*

Okay. Great. And then maybe if you could just talk about what are some of the biggest changes or just different dynamics you might be seeing with customers today versus a year ago and maybe just some of the next-gen and newer products?

Mike Gregoire - *CA Technologies - CEO*

It's one of those things where I think it's happening across the industry. Customers are being very specific about the capacity that they want and they want to make sure that whatever they buy works in their environment. So that's why you see all of our investment into try and buy, even for our perpetual products and our increase in the number of -- we've gotten much better in a number of different product areas of being able to do proof of concept.

We are absolutely well-tuned to a business model of try and buy, landing these mezzanine transactions, then coming back over time and selling the larger transactions. And I think that puts a lot of responsibility on us to have great products, high customer satisfaction, and really, really focus on product quality, because the days of being able to sell a large enterprise license and the customer not being able to try and understand how that product works in their environment, I think those days are long gone and we are well, well on our way to a new business model.

Operator

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

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John DiFucci - *JPMorgan - Analyst*

Thank you. The first question, guys, I'm just trying to make sure if I understand if your sort of outlook has gotten a little bit worse than it was before, because renewals are supposed to be up in the mid-teens for next year right now, which I think is a little bit better than you thought it would be, which makes sense, because of the slippage of renewals from this quarter into next. Previously, you had said that revenue would not grow on a constant currency basis and now you're saying it's going to decline a couple of percent on a constant currency basis.

And I think about those renewals pushing from this quarter to next quarter and it's a big delta. It was supposed to be up around 15%, 20%, now it's down in the high single-digits. So that would hurt this year and help next year relative to this year. Not a lot. I realize the timing of the year, but a little bit, anyway. Just curious as to why revenue, the outlook is a little bit worse, at least on the margin.

When you said it wasn't going to grow, it could mean it could decline, but you could have said it's going to decline, too. Are you sort of just assuming, Mike, some of the stuff that happened here is just going to take longer? It wasn't just renewals and to take longer to fix over the course of next year?

Mike Gregoire - *CA Technologies - CEO*

I'll give you a little bit of color, then I'll let Rich walk through some specifics on the numbers. We've been at this for two years and the change, the trajectory of something like CA is it two years, one month, and a day? Is it two years, six months, and a day? It's taken a little bit longer to get some of this product traction and getting the sales environment to sell consistently. When I look across the board as I said, I was super happy with EMEA.

They've been able to sell outside the renewal. They've been able to sell stand-alone. In the US, we have pockets where it worked well and pockets where it didn't work so well. In order for us to get to that growth, we have to keep our fingers on several levers and I talked about that in the prepared remarks. Number one is we have to get net new product that is in tune to what a customer wants to buy.

So we need more net new product to offset some of the legacy products and we're on that all day, every day. And secondly, we have to have more consistency in our sales operation. It's not okay to be good in certain territories and not good in other territories. This is something I'm spending an awful lot of time on with the sales leadership team. We're going to be focused on that to get the kind of consistent results. There's a number of mechanics, some of which you already pointed out. I'll get Rich to talk about some of the mechanics that show up in the CA model.

Rich Beckert - *CA Technologies - CFO*

Hey, John. If you think through where we did say we were going to end up with our renewals and bookings, about 2/3 of that were actually fiscal 2016 renewals that would come into our fiscal year-end. It would be in their calendar year. Those transactions, we know they did not occur in the quarter, so we didn't lose any of those. They just will now happen at their normal expiration date. Most of those expiration dates are back-half loaded.

So as opposed to closing the transaction in Q4 fiscal 2015, we've plumbed them now that the majority of those will close in Q3, Q4 with a ratable (inaudible) you can see if that pushes. So that's just a statement of about 2/3 of that booking change, but there is 1/3 of that booking change, as Mike talked about, where we didn't do as well in North America freestanding. Services continues to be a drag. Services is a drag of 0.5 point.

So mechanically those are the things that drove the change just in the overall bookings. On a positive note, and Mike alluded to it earlier, though, if you look at our new sales, about 1/3 of that now is our new fast growing product set. So as that product set becomes a bigger and bigger part of the overall new sales, it will, over time, overshadow the older products that are either in decline or flat.

John DiFucci - *JPMorgan - Analyst*

Okay, guys, that's really helpful. If I could ask my second question, because you guys said a few things there that I think are interesting. And sort of when I look at this quarter and I think about what you're saying, renewals were down low single-digits this quarter and we understand why and now they will come in the back half of next year, which explains the first question. But new business was down in the high single-digits this quarter.

Listen, with all due respect, both of you guys are very logical people and really sharp people, from my experience and we hear of good things in the field about CA. We hear of good things from customers, we hear of good things from partners, and others. But at some point, you guys have been at this doing what makes sense for this Company, but when do you -- is there a point where you say, gee, you know what, maybe with this kind of software, with this product set, maybe we should just stop trying to grow and just give cash back to investors?

You're already giving a lot of cash to investors, but just give more back to investors and run it a little differently? Listen, I'm not saying you should give up, I'm just wondering if that, I don't know, should be considered, because we do hear about good things here. And with all due respect, we think you guys have done all the right things, but we don't see it yet.

Rich Beckert - *CA Technologies - CFO*

John, Rich again. We currently already give 65% of our free cash flow back to our investors, so that's a pretty healthy return. If you go back to those transactions that moved out, and you heard Mike talk earlier about some of the other products, an example, a lot of the existing not new product set, they grow via capacity growth, which is ELA-driven. So to the degree that those ELAs naturally are going to happen in the back half of the year, a lot of the growth of the traditional products will happen in the capacity.

As Mike said, it's been lumpy. The first half of the year, we actually saw some good growth in some of our more traditional products. So we are not giving up on that product set at all. We see that happening more still in tune with the natural expiration dates. I think as far as North America, North America still needs to continue to grow outside of renewal, but the platinum accounts actually did well around the world in all quarters. So they're tied to the renewal cycle, but they performed well and we saw growth in our Named accounts.

Mike Gregoire - *CA Technologies - CEO*

Hey, John, you're asking a very good question. To think that we haven't played around with some of those ideas would be naive. So the way I would also look at it is this way. If I saw consistent poor performance on a global basis, I would be more apt to take a look at a different strategy.

But when I can see us turning Asia Pac, turning EMEA, platinum working pretty much across the globe, and North America, especially in the Named and Growth being spotty, where it works really, really well for some territories and some executives and it doesn't work nearly as well with some territories and some executives, it gives me confidence that if I can understand that and get more product and continue to improve customer satisfaction net promoter scores that we will be able to get this Company to grow.

The other thing, too, in the category of no good deed goes unpunished, we have become a much more disciplined Company. So some of these renewals that customers wanted to do in Q4, the economics were not in our favor, and I've really pushed hard to not discount these new products. These new products are of a high value, we're selling them across the globe, and just because you've had an ELA and an experience with CA where at the end of our Q4, you want to squeeze us on economics, I'm just not willing to give up that kind of value.

And I think that was a little bit of a different performance that customers have seen from CA than they had seen in the past. So hopefully that gives you a little bit more color on the machinations that go into running CA.

Operator

Our next question comes from the line of Ken Talanian of JPMorgan.

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Ken Talanian - *JPMorgan - Analyst*

Hi, guys, thanks for taking my question. You mentioned earlier that you closed a substantially lower number of fewer quarter renewals than historically and you just mentioned that you've done a lot of discounting. I was wondering, as part of that, how do you see the difference between trying to maximize the total value of that renewals or potentially elongating the sales cycle related to the new products attached to that renewal?

Mike Gregoire - *CA Technologies - CEO*

Great question. At the end of the day, you want to hold the value of your highest performing products and make sure that the market doesn't deteriorate and commoditize them. The other thing is we have this huge event called CA World, where we bring all of our customers together. And if you start selling software like rugs at a Turkish bazaar, you are not considered to be an honest broker and you eventually you get into a cycle where your product commoditizes quicker than you want it to and then you stop investing in R&D and then when stop investing in R&D, you get taken over by competitors.

I have seen that happen so much in our industry that I think you have to take a stand on where is value. If you hold the line on the value and you also hold the line on the value of the ELA, these ELAs drives an incredible amount of value for our customers and you want to be in a situation where you're negotiating fairly, but you don't want to give up the economics to make a number for one particular quarter when you're giving up the long term and medium term value of your Company.

Ken Talanian - *JPMorgan - Analyst*

Sort of related to that, one of the items you mentioned earlier in the call was increasing the velocity of sales. You have mentioned this a few times in the past as well. I'm curious, how much of your portfolio could you move over to inside sales or otherwise develop into something that could see higher velocity than you have historically?

Rich Beckert - *CA Technologies - CFO*

Today we have a fair amount of inside sales that supports what we call our Named accounts. So view that as account number 501 through 2000 and they support those teams of people that are around the world. We've added to that team last year and will continue to add to that team again. We've seen some very good success rates with certain products where the inside sales team was really able to percolate that and then it was actually closed by the Named account rep. But we've had a lot of good touching with the customers.

The other place we're using inside sales is on these smaller renewals, where it wouldn't be a platinum account, it's now maybe only $0.5 million renewal and they are touching them on a more frequent basis. You've heard Mike talk earlier about our customer SAT scores going up. A lot of that is tied right to the more you interact with the customers, the more customer satisfaction we have. We have seen a turnaround in some of those accounts that were dormant actually starting to buy either incremental capacity or new product.

Operator

Our next question comes from the line of Michael Turits of Raymond James.

Michael Turits - *Raymond James & Associates, Inc. - Analyst*

Hey Mike, hey, Rich, good evening. You talked about the renewal portfolio, which was expected to be up more than it was in this quarter, and you said a lot of those renewals, as I understand it, were renewals you expected where the natural expiration was next year and now you say that comes in the back half of next year. So I think the first question is why was it that you expected them to close, what sounds like three to four quarters early? And is there anything that you're doing that would have been pulling those renewals forward early?

Rich Beckert - *CA Technologies - CFO*

We track, as you know, Michael, every transaction over a certain size. And what we've seen over the five years we've been doing these, we get a certain percentage dollar statement that is done early; not because we're pulling it forward, it's because customers tend to want to do it forward, for the reasons Mike talked about. They view it as our impending event as opposed to their impending event.

This quarter happened to just be a light quarter where there wasn't as much of a drive towards that behavior and there were one or two that we said no to. The predominance was it just bucked the historical pattern more than anything.

Operator

Our next question comes from the line of Walter Pritchard of Citi.

Walter Pritchard - *Citigroup - Analyst*

Hi. Rich, I'm wondering if you could talk a little bit about the margin expansion that you're expecting for fiscal 2016. That's definitely more than we were modeling. It sounds like you're making still some changes to sales and requires to you maybe make some investments or at least make it difficult to cut there. On the product side, you're doing some organizational consolidation so I would guess that some of the margin improvement is coming there.

But Mike, you seem to mention kind of the same amount spent on product development as you have in the past. Could you help us understand where we should expect to see that leverage, the 200 basis points?

Rich Beckert - *CA Technologies - CFO*

Sure. If you recall, over the last couple of years, we've been rebalancing the Company from top to bottom: sales, development, G&A functions. And what you're really seeing now is all that hard work over the last two years is now paying off in fewer sites, people consolidated, doing things like Agile. On the sales side, what you see is actually more quota carriers and you'll see even more quota carriers next year, but less layers.

You heard the question earlier on inside sales, it's cheaper, it's faster for us to get to. If you look at it from the G&A functions, yes, we came down and we'll come down again, and that's the normal pattern we'll continue to drive to. We're very comfortable with the 39% and remember, and you'll see it tomorrow in the K, there's $40 million worth of people that left the company that we had to pay for in last year's number, which comes out of the run rate.

So you pick that up in that year-over-year expansion of margin. So we really have rebalanced the Company, which is how and why we described it as such a few years ago.

Operator

Our next question comes from the line of Abhey Lamba of Mizuho Securities.

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

Thanks. Mike, the product level management changes seem too drastic, especially as they're coming two years into the restructuring. Can you talk a little bit about how you plan to kind of, number one, what process created that situation? Number two is how do you plan to address any issues with the churn at the senior executive level and the impact it may have at the product side, which can take a couple of years to kind of flow through the system?

Mike Gregoire - *CA Technologies - CEO*

Great question. First of all, the thought process here is after operating the Company for awhile and taking a look at the last two years and really taking a look at the last two quarters and thinking about the velocity that we keep talking about, are we getting new product and differentiated product to the market as quickly as I would like it to be? And secondly, listening to customers of the kinds of problems that they want us to solve and most of the problems that they want us to solve had to do with complexity.

What is unique about CA is we truly can go from mobile to mainframe. And when you think of this application economy driving from mobile to mainframe and trying to reduce complexity, I took a look at our organization and it actually is more complex than I think it should be. In order to -- when we're building products, having the mainframe completely separated from the rest of the [EFPG] product, it became more difficult to think through holistically solving the problems of our customers.

When you take a look at a lot of our growth products, API management, for example, most of the target of the API management product is opening up the transactional processing of the mainframe. Service virtualization, one of the most popular use cases of that is virtualizing the mainframe. When it comes to release automation, there's as much software being released and changed at a higher velocity on the mainframe, as well as the massive amounts of distributed architectures that customers are deploying.

So, having one person managing all of the products, I think, is an opportunity for us to make sure when we go to a customer, we're going to that customer with one voice. Now, it's also a big job and to have that one person think of all of the products and the nuances of our products and also worry about our platform and the technical platform that's going to be required one to two years out, I didn't feel that we would be best served by having one person do that.

So I've had a search out for a CPO now for probably about a month and a half to two months and I've seen an incredible number of candidates. And as I'm looking through those candidates, I think that we're going to have an opportunity to up our game and up our ability to serve our customers. Now, the other thing is underneath that Chief Product Officer is all of our general managers and they're not changing around.

This is a group that is definitely committed to understanding modern software development and their focus in life is to make sure they're building products that are easy to use, easy to install, easier to sell, try and buy, and I don't see that changing at all going forward. It's more of a logical view of listening to customers and positioning ourselves for accelerated growth. Does that answer your question and help you get an understanding for why go through this change?

Operator

Our next question comes from the line of Kirk Materne of Evercore ISI.

Matt Williams - *Evercore ISI - Analyst*

It's Matt Williams, actually, on for Kirk. Just one from us, one area that we haven't heard a whole lot about on the call that you guys seem to have a pretty good position in is security. I was just wondering if you could provide a little bit of color what you're seeing in your security business, particularly with the identity to access management offerings that you guys have and how that business is performing?

Mike Gregoire - *CA Technologies - CEO*

Sure. First of all, last quarter, the one that just passed, Q4, was a very strong security quarter for us, up in the high 20%s and no doubt about it, Matt that is becoming an extraordinarily important technology and it's an important space for us to be in. When you think about what has happened over the last 18 months, identities has become the savior for most companies.

The fact that they can understand who's using their systems and who has the authorization to use those systems and understanding privileged identity, that is an absolute super strong spot for us to be. When it comes to managing identities at volume and at scale, we are by far the number one player that in space. When you go take a look at the industry analyst reports, they constantly hold us out as the volume player for almost every enterprise and vertical.

So we feel very good about our security business. It's an area where we're making some big investments. At CA World, we'll be launching some additional security products.

Operator

That concludes today's question and answer session. I would now like to turn the call back to CEO, Mr. Mike Greg Gregoire, for any further remarks.

Mike Gregoire - *CA Technologies - CEO*

Thank very much and thank you for your time. I know there's a lot of people reporting tonight. But in summary, I would take a look at the quarter and the year as qualitative and quantitative success. From a qualitative perspective, we have a lot of margin expansion, 0.75, that's showing the continued efficiency. We had CFFO growth. We returned over 65% of our free cash flow to shareholders.

Named account performance and traction is in double-digits. We have healthy attach rates to our renewals and I think that's a big testament to the work that the team has done over the last year to improve our net promoter score. The growth products are about 16% growing year-over-year and in Q4, most of them were in the high 20s. We've completed the FY14 rebalancing actions.

So when I take a look at the year in general for FY15, a lot of qualitative performance that I think the team is really proud of, but at the end of the day, it does have to show up in the quantitative results and we are very committed to drive growth. So when you think of 2014, things we have to look forward to, we have 2 percentage points of margin expansion. We've seen the ES revenue trajectory go from negative to start moving into the positive.

EMEA revenue turning to positive in FY16, a strong renewal portfolio in FY16, and strong CFFO growth. So with that, I want to thank you for your time and we'll be talking to you in the field. I think we're out in the market talking to a number of investors in a number of shows and we'll be able to answer your questions more further then. Take care.

Operator

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