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CA - Q1 2016 CA Inc Earnings Call

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OVERVIEW:

Co. reported 1Q16 total revenues of $977m and GAAP diluted EPS of $0.47. Expects FY16 reported revenues to be $4.04-4.11b and GAAP reported diluted EPS to be $1.72-1.80.

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PRESENTATION

Operator

Good day ladies and gentlemen. Welcome to CA Technologies first-quarter 2016 earnings conference call.

(Operator Instructions)

As a reminder this conference call is being recorded. I would now like to turn the conference over to Traci Tsuchiguchi, Vice President of Investor Relations. You may begin.

Traci Tsuchiguchi - *CA Inc. - VP of IR*

Thank you and good afternoon everyone. Welcome to CA Technologies first-quarter FY16 earnings call.

Joining me today are Mike Gregoire, our Chief Executive Officer and Rich Beckert our Chief Financial Officer. Mike and Rich will offer some prepared remarks, and then we will open the call up for Q&A session.

These prepared comments were previously recorded and this conference call is being broadcast on Thursday, July 23 over the telephone 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 protected by US and international copyright law, and may not be reproduced or transcribed in any way without the expressed 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. Reconciliations to the most directly comparable GAAP financial measures are included in our earnings release, which was filed on form 8-K earlier today. As well as in our supplemental earnings materials, all of which are available on our website at CA.com/invest.

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

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

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

Mike Gregoire - *CA Inc. - CEO*

Good afternoon. Thank you for joining us.

We had an encouraging first quarter driven by improved sales execution, strong operating margin performance, and continued progress towards achieving our long term goals. While our overall first quarter total sales were down mid-single digits year-over-year, Enterprise Solutions new sales were up low single-digits over the year. This was offset by mainframe new sales, which were down in the high teens.

The decline in Mainframe new sales was in line with our expectations. Mainframe capacity was negatively impacted by both a decline in composition of our Q1 renewal portfolio. As well as a renewal with a large North American financial institution that required less capacity following a merger that occurred multiple years ago. That said, our outlook for the Mainframe business remains unchanged as we continue to expect Mainframe revenue to be down low- single digits over the medium term, which we believe is in line with the Mainframe market.

Non-GAAP operating margin was 41% in the quarter as we remain focused on efficient execution and financial discipline. Although I am pleased with the efficiency of the business, and encouraged by improvement in Enterprise new sales, we still have work do to drive the kind of growth that our Company has the potential to achieve. Our recent result only partly capture the traction we are experiencing in the field, and the strong market and opportunity in front of the Company.

The disruption of traditional business models is clearly accelerating as enterprises across the globe are embracing the application economy to drive innovation. CA Solutions enable enterprises to capitalize on the opportunities created by this application economy, where software is the competitive differentiator and application development is the driver of innovation. Let me provide you with more insight into the progress we're making towards our strategy to deliver differentiated solutions, improved sales execution, and increase our velocity.

First, in product development, we have stated that in order to be a leader in the next generation of software, innovation must be the life blood of our Company. The recent hiring of Otto Berkes as new Chief Technology Officer, signals our intent to accelerate organic innovation and enrich CA's long-term technology vision. Otto's experience as Chief Technology Officer at HBO, and his 18 year tenure at Microsoft, where he was one of the four original innovators of Xbox, exemplifies the talent we are attracting that will be critical in helping us achieve our longer term product development goals.

I am also very pleased that Ayman Sayed will be joining CA as Chief Product officer on August 10. Ayman Comes to us from Cisco, where he was Senior Vice President of network operating systems technology group. Leading development of network operating software in which nearly every Cisco networking product runs.

Ayman is a very accomplished executive, who oversaw the vision and engineering direction for Cisco's software strategy. He is experienced with agile software development, and pioneered the internet -- innovation at Cisco. At CA he will work closely with Otto to create the best-in-class products. Their teamwork and focus will drive organic technology and product development, which continues to be our priority and help CA's customers gain advantage in the application economy.

To compliment our organic road map, we recently enhanced our internal development capabilities with three transactions. We characterized two of the deals as technology tuck-ins that expand our capabilities and security in DevOps. The acquisition of Rally, which closed a few weeks ago, represents a more significant investment.

By adding Rally's award winning cloud-based agile development platform, and its transformation consultants and coaches to the fold, CA becomes an industry leader in the fast growing agile application life-cycle management software market. Importantly, this acquisition also adds product and service capabilities that are highly complimentary to our award winning PPM solution and strengthens CA's existing DevOps leadership.

With less than 5% customer overlap in our platinum accounts, Rally's best-of-breed technology and unmatched scalability provides ample opportunity important to cross-sell into these strategically important accounts. As well as cross-sell our solutions into their install base.

I am confident that Rally is a natural strategic fit for CA. Our products and go-to-market methods align well. And equally as important, Rally's culture and focus on delivering high quality solutions mirrors ours. To maintain the current momentum, the Rally organization and leadership team will continue to report to Tim Miller in his new portion as General Manager and over time will be fully integrated into CA. Later during the call Rich will discuss Rally's impact to our FY16 guidance.

Our Management Cloud Solutions experienced success in the quarter, and our Solutions continue to be recognized for leadership in the space. For example, in the quarter, CA PPM was designated as a leader in the Gartner Magic Quadrant for IT product and portfolio management software. In addition, during Q1, CAPPM had several high-profile wins such as a competitive replacement for Delta Airlines, that is leveraging our technology to automate the vast number of complex business processes across a multitude of different internal organizations.

Equally impressive was a win with Macy's, which required enterprise wide PPM to provide a common system of record and process for all business and IT projects. Overall, I am encouraged by the improved execution during the quarter, and I look forward to updating you on the integration of Rally and our product road maps through this fiscal year.

Turning to DevOps, the new release of CA APM 10 and CA UIM 8.3of feature compelling new user interfaces and analytics to facilitate collaboration in dynamic environments. Specifically, these new integrated solutions dramatically improve the ease of use for IT operation teams, by providing the speed and scale organizations need to rapidly deploy new applications, monitor dynamic environments, and continuously optimize application quality to ensure superb customer experiences.

Let me briefly highlight our continued APM success. I am pleased to report that APM's positive momentum has continued in FY16. In the quarter, the product posted impressive new sales growth of approximately 20%. Our fiscal Q1 release of APM 10 was a highlight and brings to market new capabilities, that accelerate customers' DevOps initiatives.

Key patent pending functionality added to APM 10 include, a completely redesigned user interface that enables first level production support personnel to resolve production problems much more effectively. Analytics technology, designed to reduce the skill level required for troubleshooting, unique time line functionality that quickly correlates performance issues with past App changes. This is differentiated technology that enables DevOps teams to receive recommended fixes in real time. A must have in the highly dynamic world of cloud and micro services.

I am very excited about our continued success in APM and the launch of APM 10. Importantly, customers and broader market share my enthusiasm. For example, just a few weeks ago, CA APM was featured as the number one APM product by Dow Jones News Wire based on the number of customer reviews on crowd-source review site, IT Central.

Our security pillar demonstrated consistent execution during the quarter. The need for comprehensive security solutions continues to strengthen worldwide. With the frequency and severity of breaches continuing to impact enterprises across the globe, companies are looking to software firms like CA to provide guidance on how to protect their users and data.

Leveraging our position within security and application delivery our API Management Solutions continue to gain mindshare. During the quarter, CA was positioned in the leaders' quadrant of the Gartner Magic Quadrant for application services governance for our API management product. APIs allow customers to modernize existing architectures and connect to hybrid cloud applications and mobile devices while unlocking the value of data.

We are a leader in this fast growing opportunity, as we can provide API Management Solutions at scale, and security levels needed for massive amounts of data traversing these newly created digital platforms. For example, after an extensive evaluation of the top vendors in the API management market, a leader in the peer to peer lending syntax space shows CA's API management for ease of use, flexibility, and security profile. We see many API management opportunities like this emerging in the marketplace.

Now let's turn to the second piece of our strategy, sales execution. During Q1 we saw continuing evidence that our decision to separate platinum accounts from our named and growth accounts and to specialize sales by product discipline is yielding results. The highlight for the quarter from a sales perspective, was accelerated new sales growth from our named and growth sales teams. Importantly, participation within these combined customer accounts was broad as every geography grew double digits during Q1.

Worldwide, these more seasoned sales teams increased deal counts, improved pipeline conversion rates, and improved win rates on a year-over-year basis. Additionally inside sales demonstrated impressive performance as the team substantially increased its participation in closing business during the quarter. This is important and exciting progress for our Company. It is a key indicator of the value of our products and consistent performance from these customer accounts as critical to the success of our strategy.

Finally, let me address velocity. While Q1 represents progress towards our long-term goals we still need to move faster in some areas. Our focus on brand awareness and demand generation are vital to improving CA's velocity. Let me briefly highlight a recent success our marketing team has experienced.

During the quarter, our digital marking team won the highest accolade in demand generation marketing, Marketo's Revvie. Winning this award represents our marketing team's use of next generation technology to push the status quo, and help CA break away from the competition.

Before I conclude let me be the first to invite you to CA World 2015 at Mandalay Bay, Las Vegas. CA World '15 is bringing brightest minds in the application economy together. Building off our success from last year, this year's event will showcase several new organically developed solutions that will help our customers develop and manage Apps in infrastructures with confidence in the application economy. I hope you will join me in Las Vegas on November 16 through November 20.

On balance, our first quarter results and qualitative indicators reinforce my confidence that our improvement in product quality is resonating with customers. In fact, our global net promoter score improved in all geographies and increased more than ten points year-over-year. During FY16, we will build upon our progress by focusing on innovation, execution, and speed to compete and win in the application economy.

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

Rich Beckert - *CA Inc. - 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 am 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 Q1 total revenue was $977 million and was down 3%. Enterprise Solutions declined 2%, and Mainframe Solutions and Services were each down 3%.

Q1 renewals were down in the mid-single digits and down low teens as reported. As we have previously stated, the year-over-year change in our renewal bookings can vary on a quarterly basis. Due to the timing of large transactions, Q1 total new product and capacity sales were down in the mid-single digits and approximately 10% as reported. This is due mainly to headwinds from the renewal portfolio.

Renewal yield for the quarter was in the mid 80% range. The lower than historical average renewal yield was a result of a large renewal with a North American financial institution, that required less capacity following a merger that occurred multiple years back. Excluding this one transaction our renewal yield was in the mid 90% range.

We continue to expect FY16 renewals to be up mid-teens year-over year as compared to FY15. And up low single-digits year-over-year excluding a large system integrator renewal, that is expected to close in FY16. As reported, we expect FY16 renewals to be up approximately 10% year-over-year, as compared to FY15. Including large system integrator renewal that is expected to close in FY16.

Turning to the geographies. We experienced an improvement in new sales in Latin America, in spite of the macro headwinds in the region. However, sales in EMEA in North America were down reflecting both decline and composition of the renewal portfolio in Q1.

In our mainframe segment, Q1 mainframe new sales including new product and capacity were down high-teens and constant currency. And down in the mid to 20% range as reported. Overall, we continue to expect our mainframe revenue to be down low single-digits over medium term, which we believe is in line with the mainframe market.

Q1 Enterprise Solutions new product sales were up low single-digits in constant currency, and down mid-single digits as reported. The improvement in Enterprise Solutions new product sales was mainly a result of improvement in sales outside our renewal process.

Services revenue decreased 3% in constant currency and 9% as reported. We expect lower services booking in FT15 to be a headwind to FY16 revenue. Over the long term, we expect services revenue to decline as we design our products to be easier to install and leverage partners for more service engagements.

Current revenue backlog was down 3%. Current revenue backlog was impacted by headwinds from a large system integrator expected to be renewed later in FY16, and lower FY15 services bookings. As I have said before, consistent year-over-year growth and current revenue backlog is one of the indicators of future revenue growth. Current revenue backlog will likely grow when we demonstrate multiple cores of new sales and growth, while maintaining low 90% renewal yield.

Q1 non-GAAP operating margin was 41% and GAAP operating margin was 31%. Segment operating margin in the quarter was 62% for Mainframe Solutions, 14% for Enterprise Solutions and 10% for Services.

Q1 non-GAAP tax rate was 29% and our GAAP tax rate was 30%. Q1 non-GAAP diluted earnings per share was $0.64 up 9% year-over-year. Q1 GAAP diluted earnings per share was $0.47 up 15%.

Our Q1 CFFO was $188 million, up 38%. Single installment cash payments were $37 million and down year-over-year. We ended Q1 with approximately 1.4 billion in net cash.

During the first quarter we repurchased 50 million in shares and paid $110 million in dividends. We have 735 million remaining in our original 1 billion share repurchase program. Subsequent to Q1, we drew down $400 million from our $1 billion revolver in conjunction with the close of our acquisition of Rally.

Now turning to guidance. Guidance is based upon exchange rates on the last day of the preceding quarter, which was June 30, 2015. This includes a partial hedge of operating income. This guidance also includes the acquisition of Rally Software, which closed earlier this month, and assumes no incremental material acquisitions.

We expect currency to have a negative impact on our full year FY16 revenue of approximately 4% at June 30 rates. Total revenue is expected to be down 1% to flat in constant currency compared to our previous guidance down 2% in constant currency. This translates to reported revenue of $4.04 billion to $4.11 billion.

We expect a full year GAAP operating margin of 28% compared to our prior expectation of 30%. And full year non-GAAP operating margin of 38% compared to our prior expectation of 39%. As previously disclosed, this one point decrease in our full year non-GAAP operating margin reflects the Rally acquisition. We expect the majority of this impact to be realized in our fiscal Q2.

We expect Q2 margins to be negatively impacted by foreign exchange headwinds. And recall our fiscal Q4 margin was negatively impacted by our Q4 FY15 severance actions. Underlying this guidance, we expect our GAAP and non-GAAP tax rates to be between 28% and 29% consistent with our prior expectations.

Non-GAAP diluted earnings per share is expected to grow 2% to 5%, unchanged from our previous guidance. This translates to reported non-GAAP diluted earnings per share of $2.37 to $2.44. GAAP diluted earnings per share is expected to grow 6% to 10% compared to our prior expectation of 12% to 17% growth. This translates to reported GAAP diluted earnings per share of $1.72 to $1.80.

At the end of the year, we expect approximately 432 million shares outstanding and a weighted average diluted share count of approximately 436 million shares. Cash flow from operations is expected to increase 2% to 7% in constant currency consistent with our prior expectations. This translates to a reported cash flow from operations of $0.98 billion to $1.03 billion.

And now we will take your questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Our first question comes from the line of Raimo Lenschow of Barclays. Your line is now open.

Unidentified Participant - - *Analyst*

Hey guys this is [Stephan] I'm sitting in for Raimo, thanks for taking my question. Mike, I was wondering if you can talk a little bit about what seems to be a slight change in strategy perhaps to more aggressively pursue acquisitions again. And then more specifically, if you can comment on where you expect to see meaningful synergies from Rally over time?

Mike Gregoire - *CA Inc. - CEO*

Sure. I wouldn't say that our strategies changed at all. We have been consistent for the last two years that we spend between $300 million and $500 million on acquisitions. But our number one focus is organic development. If you take a look at this particular quarter, we have had an opportunity to accentuate both of those strategies. Doing Rally, which is a big acquisition at $480 plus million. And bringing on two extraordinarily well-respected technologists in Otto Berkes and Ayman Sayed, shows that we're playing both offense and defense here.

We want to bring in Rally because we see some really deep synergistic opportunities for us, both on the PPM space and on the DevOps space. Coupled with the fact that we see almost every customer driving themselves into the application economy. The way they're doing that is by building software. The way they're building software is through agile. We see that as a very unique asset that fits very well within our strategy. And then when you take a look at the two tuck-ins we brought, both of those tuck-ins are going to need a fair amount of organic engineering in order to get them to scale for the kinds of customers that we sell to. As well as the kinds of opportunities to expand, a little bit more than a standard deviation outside the core of some of the products that we are looking at. In order to do that, you have to have some very experienced technologists, both on the product side and on the pure technology side, to make sure that you are building on the right platform, and truly driving product management. When I take a look at the combination of Otto and Ayman, I think that puts us in the upper class of ability to do organic development from a leadership perspective. Does that help answer your question?

Unidentified Participant - - *Analyst*

Yes, absolutely. If I can sneak in one more, I believe it's been a few years since the segmentation between the platinum named and growth accounts. Can you provide additional color on the progress? It seems like that took off this quarter. We haven't seen that until this quarter. If there's anything specifically going on, whether it's certain products doing better than others. And then, how that coincides? Because it seems like there was a decline in Enterprise Solutions' up-front revenue. I would think that the named and growth accounts, given that they're sort of separate outside of the renewal cycle, would actually positively impact that trend, so any additional color would be super helpful.

Mike Gregoire - *CA Inc. - CEO*

Very complex question with multi-tenants. I will try to answer it as succinctly as I possibly can. First of all, it's not any one thing. First, I have got to give my hats off to the sales force. We have moved into this year we said we weren't going to change sales accounts. We weren't going to go change sales leaders and we weren't going to change the way that we wanted them to sell in the segmentation. When we walked into this year we had an experienced sales force, selling to people that they know, understanding how they buy. And I think that was very important. Secondly, from a product perspective, we have a number of products that are selling very well in the market. I referenced in my call APM up 20%. API management. We are the number one player in that space, according to industry analysts as well as by financial performance. And then we had a very nice quarter with UIM. So those products sell very well to customers that are not necessarily in the Fortune 50, Fortune100, and customers that we don't have big relationships with. They're a great entry into those accounts, and I think the combination of both product and our sales force did a really nice job getting into those accounts. The other thing I would remind you of, Stephan, we spent a lot of time, energy, and money on marketing. And how do you go find the right people to sell our products to and understand what their buying perspectives are? I think that that put in a lot of air cover and helped make the sales force more productive.

The other thing on with respect to why the up front revenue didn't happen, I would put it into two categories and I'll get Rich to comment on it. First of all our, SaaS revenue is increasing, so if you are selling SaaS, you are definitely going to be recognizing that revenue ratably. And then a lot of the deals we sold primarily in APM, those deals went ratably as well. Rich, maybe you have a little bit more color on that.

Rich Beckert - *CA Inc. - CFO*

Stephan, I think the thing that would help is we actually had a very good attach rate this quarter on our portfolio that was renewing. When you back out that one transaction, we actually had a strong quarter, and that put a lot of traditional products in the ratable nature. And as Mike said some of the products that did well this quarter tended to be PPM and things like that that you will see show up over time. They would then move from SFO back up into the subscription [line].

Mike Gregoire - *CA Inc. - CEO*

Thanks, Stefan.

Operator

Thank you. Our next question comes from the line of Ken Talanian of JPMorgan. Your line is now open.

Ken Talanian - *JPMorgan - Analyst*

Hi, guys. Thanks for taking my question. We saw an inkling of growth in the enterprise solutions new sales this quarter. You just mentioned you saw growth in APM, API, UIM during that quarter. But you also said that you need to move faster. I was wondering what specifically gives you confidence that you can grow enough organically to actually reaccelerate the top line?

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Mike Gregoire - *CA Inc. - CEO*

Yes I think it comes down to two things that I kind of referenced in my previous answer. Number one, I was happy with the sales force, but I still think there is room for improvement. If you want to be a modern sales force, a modern sales force generates about 80% of their leads, follows our methodology all day, everyday, and does strategic account planning. When I look across the globe at our sales force, we have pockets of brilliance. We have work to do to help people understand that this is important. And for us to truly penetrate the kind of customers we want, we have to have the whole sales force operating at that level of proficiency. I think there is some work to be done there.

Secondly, on the product side, we have a number of products that are selling well into both the named and growth accounts, as well as back into our platinum accounts. What we need to do is have more products. I think that's what we look at when we have done some of these tuck-in acquisitions to accentuate our portfolio. Purchasing Rally, I think it's going to be a multi-year investment, where there's lots of tangents and where we can take that particular product, and you think about analytics with respect to how that works on the life cycle portfolio management. And then lastly, some of the products that we have that we've had for a long time, big releases are coming out that we're going to be announcing at CA World. I feel that we finally have some of our product mojo working. We're putting up net new products that people want to buy and that are very competitive in the marketplace. But I think that it's wise for you to ask the question because I don't think we should rest on that. I think there is a lot more to be done with respect to the markets that we participate in. And the constant push of the entire Company to build products that really matter. I think we have to continue to drive that.

Ken Talanian - *JPMorgan - Analyst*

Okay. As a follow up to that, you mentioned some new releases of older products, where would you say you are in turning over that older product portfolio? How far are you to in there and refreshing all of those?

Mike Gregoire - *CA Inc. - CEO*

Once again, it would be a long answer to the question. I will just give you a few highlights. I think in APM, I think we are in the medium to early stages. I think on UIM I think we have a lot of work to do. A lot of the UIM success has been in selling to net new customers.

I think getting some of the existing customers that have run the portfolio products under UIM, we have a particular program in place called From/To that we are driving that. I think we are in the very early stages of that. I think we are in the medium term stages with our flagship security products. The latest version of that has been out for about a year. And it was a significant change from the previous version, and as we start adding to the existing version rate now I think that's going to be a lot easier and the upgrades are going to be an awful lot easier. Definitely some room to grow there for sure. Depending on which particular product and which particular segment, I think you are going to get a different answer.

Operator

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

John DiFucci - *Jefferies LLC - Analyst*

Thank you. That large North American renewal you called out, was that expected in the quarter, or was it renewed early? We try to model that. I realize it's never perfect in the timing of these things, we do it based on an average renewal time. Even though renewal portfolio was down it wasn't down as much as we thought it would be. Just wondering if that big deal was something that came in early.

Rich Beckert - *CA Inc. - CFO*

That was due, John, to be in the back half of the year, and working with the customer they asked if they could have that in Q1. This was a transaction that they had asked us to do it even earlier in previous years and we had said no. They had excess MIPS after working through their consolidations. They actually consolidated 100% of their renewal yield on all their ES products, so it was really just over capacity on MIPS. What it did though, it goes back to the first question of the first caller. It did a little bit distort though -- we actually had a very good quarter. Mid 90%'s if you back that out and attach rate of the ELA is but to your point, it is a light quarter from -- traditionally Q1 is a light quarter. That does distort your model, but there wasn't a lot of yield out of that. That being said, we had a similar thing, if you recall maybe two years back.

John DiFucci - *Jefferies LLC - Analyst*

I do.

Rich Beckert - *CA Inc. - CFO*

Later on they came back and had to buy incremental MIPS and when they choose to not have the excess capacity, they actually have to pay us more dollars per MIP. So in the long run we work it out that it's better for us. We do try to encourage them to keep that model, but sometimes their own internal pressures cause them to make some short-sided decisions and we let them do that.

John DiFucci - *Jefferies LLC - Analyst*

Great Rich, and then just a follow up to that. I know the renewal rate said mid 80%s but without that deal in the mid 90%s. I know when you calculate the renewal rate, you are taking -- I think it's the majority of the revenue in the larger deals. But the actual renewal rate, if you calculate it across the entire business, wouldn't it be a little bit higher even --?

Rich Beckert - *CA Inc. - CFO*

Yes, and we do both, just so you know. We have been very consistent for the last five years of doing just the large. Now that we have SAP on every place but Japan, we actually do both but we have kept with the same metric. You are correct. It's always within 2 points of each other. We check it every quarter to make sure it doesn't have a distortion. If you actually were to back that out, the $1 per day revenue per day type thing would have been very strong this quarter. You are accurate.

John DiFucci - *Jefferies LLC - Analyst*

Great. I am sorry, just one more on this. Do you have any expectations? So of we can anticipate it of any other deals like that this year that may come in? A large deal where for whatever reason, consolidation or something like that, your renewal rate may look lighter? And realizing the first quarter is a lower renewal quarter, so it will have a bigger impact, but is there anything else we should be looking for?

Rich Beckert - *CA Inc. - CFO*

Not from a -- you are asking the renewal yield question? Or are you asking just renewals in total? Because we do have a large system integrator scheduled for back half of the year and whenever that happens, it will definitely distort that quarter. But as far as renewal yield, no that should be --nothing to that magnitude or size.

Operator

Thank you. Our next question comes from the line of Daniel Ives of FBR Capital Market. Your line is now open.

Jim Moore - *FBR Capital Markets - Analyst*

Great. Thanks guys. This is Jim Moore for Dan Ives. Just wondering if you can talk about the competitive landscape and specifically, on the DevOps side of things. What kind of opportunities you are seeing with your recent acquisition?

Mike Gregoire - *CA Inc. - CEO*

Sure. The DevOps is really a fragmented business which I think is storming and forming as we move forward. When you take a look at the whole notion of service virtualization, the ability to create synthetic testing, and the whole option of continuous delivery. I think when you look at Agile, and you take a look at how we are going to use Rally, that accentuates our position in DevOps. Because now we can go directly from product and portfolio management, directly into how you build software, into driving how you test software. Both virtually and through synthetic testing methods, and then driving the whole concept of continuous improvement. Now when you take a look at all that, there are still more things that need to be built in the context of DevOps. The driving factor of this is speed. As companies move into the application economy, and their primary deployment mechanism is mobile devices, the time to build net new apps is decreasing at a pace that I don't think anybody has really understood or taken into an account. As we start thinking about that problem set, it gives us a lot of opportunity to continue to build on our portfolio. Now when we are talking about competitors, we see most of our competition coming from point competitors that can't stitch together a full DevOps strategy and full DevOps mission. And we have a whole division built in on that, because we think that we are still in the early days and there is a lot of innovation that still needs to be built to make that as seamless as possible. Is that helpful?

Jim Moore - *FBR Capital Markets - Analyst*

Yes. Very helpful. Thanks a lot.

Operator

Thank you. Our next question comes from the line of Walter Pritchard of Citi. Your line is now open.

Walter Pritchard - *Citigroup - Analyst*

Hi. Thanks. Rich, I just wanted to confirm that the entire revenue guidance change came as a result of the Rally acquisition and including that in the guidance?

Rich Beckert - *CA Inc. - CFO*

Correct. As we had said last time, we were going to be 1 to 2 points, and you see we put that right back.

Walter Pritchard - *Citigroup - Analyst*

Yep.

Rich Beckert - *CA Inc. - CFO*

Like we had said a couple weeks back. And you also saw that we're at around a 39% margin, we brought that back down to 38%. I do want to remind people that that 1 point degradation in the margin will show up almost entirely in Q2. As people do their modeling, they should be aware of that. If you look at it from an historical perspective, Q4 last year was very heavy, because of all the rebalancing work that we did. Please make sure you correct that in your models as well.

Walter Pritchard - *Citigroup - Analyst*

Okay. And then Mike, on your end, I think last year Q1, Q2 you saw a similar strength in your ES business showing I think mid single-digit growth in Q1, and then it accelerated in Q2. And then you had some disappointment in the back half of the year, where the quarters get larger. Can you talk about how -- and I think a year ago you talked of some good signs in the business and then it reversed. Can you talk about how what you are seeing right now is different or similar than what you saw a year ago? And do you have confidence that you can continue to see the sort of growth in ES business based on drivers that you highlight here as we move through the year?

Mike Gregoire - *CA Inc. - CEO*

Sure. I think what we see today, just snap the chalk, the products are definitely better and definitely more competitive. I think the marketing is more crisp, more targeted, and more focused. I think the sales force understands their mission better, and we have a higher percentage of sales professional that really get what selling is in a modern IT environment. The days of chasing elephants and buying a steak and a bottle of wine and expecting somebody to give you a five year perpetual license contract, they're dead. I think our sales force has migrated to a much more collaborative, much more product knowledge based selling, and our targeting is definitely improved. When I take a look at the statistics on how I measure the sales force, I see up into the right type movement. Not perfect by any stretch of the imagination, but better than it was last year.

Rich Beckert - *CA Inc. - CFO*

If I can just add onto that Walter, if you think of revenue backlog being down 3%, 1 point of that is the services business which we by design, is going to actually sell a little bit just because of the new products being easier to install. 1 point of that is that large system integrator that comes due mathematically in Q4, that leaves you 1 point. If you think of the fact that the mainframe business as we continue to tell you, is a low single-digit decline it gives you idea that over time the ES business is actually growing inside that revenue backlog.

Mike Gregoire - *CA Inc. - CEO*

Is that helpful, Walter? Next question please.

Operator

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

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

Hey, guys. Michael Turits. On mainframe, I know you said that you think that the revenue growth rate would be down low-single digits no big change there but, any recent observations relative to what's going on in terms of units and pricing? Any change in what you think of as nets growth or pricing? And then is that consolidation reduction, is that a once off happens once in a while or any concern that might be a trend?

Mike Gregoire - *CA Inc. - CEO*

Sure. Michael I will give you a couple pieces of information and I'll let Rich walk you through how that flows through the financials. If you take a look at the quarter most recently reported by IBM, they had significant increase in MIPs. The platform unto itself is being more used today than it ever was. That's good for us. The customers that find the mainframe to be a stable, great transaction processor is not fading in any way shape or form. The number of MIPs that were shipped just last quarter by IBM I think exceeded everybody's expectations. And we will be a net beneficiary of that phenomenon. As far as how the market goes, we think that the market is shrinking still at 1% or 2%, and where we usually make gains is when there is any kind of consolidation going on. We're tending to be one of two stable providers that are still investing in pure R&D into the mainframe. But we come across as a very stable and committed vendor and partner to that platform. Rich, maybe as you're looking at that business you have something you want to add.

Rich Beckert - *CA Inc. - CFO*

I sat across the table from that one provider, that had nothing to do with them leaving the platform. That was just two companies that together that had too much capacity. As far as our ability to look through our install base, it hasn't changed and I as recently as last month sat with the pricer who maintains that for me. Michael, there is no change. At the very, very low end those guys continue to drift away at 1% or 2% a year. At the very, very high end those guys are growing their MIPs double digit. And that offsets that low end disappearing. I don't see anything really changing, other than the fact that there is more of a blur between what you call mainframe and what's just up in the cloud. But at the back end of it, it's still mainframe [churn].

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

Okay. Then just one follow up. The buy back level went down a bit this quarter from $2.5 million, $3 million, a tune of 3 million shares down to 1.5 million. Is that lowering intensely? Is that to do with Rally? I think that I noticed that you had a contract to buy back some more.

Mike Gregoire - *CA Inc. - CEO*

More to do with Rally. Roughly $400 million coming in the quarter. We are very much still on track. As you saw we're committed to the weighted average of 436 and the ending share count of 432 for the year.

Operator

Thank you.

(Operator Instructions)

Our next question comes from the line of Greg McDowell of JMP Securities, your line is now open.

Rishi Jaluria - *JMP Securities - Analyst*

Hi this is Rishi Jaluria dialing in for Greg McDowell. Thank you for taking my question. In terms of geographies, you did break down in terms of new sales. You said LatAm was up, EMEA and North America were down. Do you have any color in terms of what the driver in that improvement LatAm was and any sort of color on APAC?

Mike Gregoire - *CA Inc. - CEO*

Yes LatAm very specifically was a very tough year for us last year. There was a little bit of pent up demand, over the course of the year that showed up in the performance in LatAm. Secondly, which I was pleased to see, we did put a new sales leader in Mexico, and we are very pleased with the performance in Mexico. We also saw some transactions happen outside of where we usually get those transactions, which was Brazil. We're seeing the whole [ambient] space able to participate was a step forward for us. Similarly in Asia, we have seen an uptick in Japan and the execution in general from our Asian team.

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Rishi Jaluria - *JMP Securities - Analyst*

Okay. Great. Thanks. Very helpful. Just a quick housekeeping question Rich. You mentioned FX had been for the year in terms of revenue would be about 4%. Do we have any idea what sort of headwind we would see on the bottom line in terms of EPS from the change in currencies?

Rich Beckert - *CA Inc. - CFO*

Yes. At the end of the day non-GAAP EPS you are asking? It's about 7%.

Operator

Thank you. I am showing no further questions at this time. I would like to hand the call back over to Michael Gregoire for any closing remarks.

Mike Gregoire - *CA Inc. - CEO*

Thank you, everyone, for participating in the call. I know it's a big reporting night and everyone is really busy. I'd like to end it with just making sure everyone understands a lot of the positive momentum that we are seeing in the Company. The key things that really stand out for me, is we have had growth in ES new sales. As a matter of fact, we had double-digit growth in the main growth space in all geographies. The growth of new sales outside of the renewal process, exceeded my expectations for the quarter, which is also a big qualitative metric that I look at.

We continue to run the business in what I think is a very smart way, and a very efficient way, with margin expanse of 1 percentage point. We had great CFFO growth and we continue to see the EMEA team doing a really good job, and getting revenue returning to growth. Looking forward, I am super excited about the strategic acquisition of Rally. This improves our revenue guidance by 1 to 2 points. But I also think long term there is a lot more in the Rally acquisition with respect to the platform that they've built, and our ability to take advantage of that platform. We have a strong renewal portfolio in the back of FY16 and we continue to see great metrics on our CFFO growth. With that, I will let you return to your evenings, and thank you very much.

Operator

Ladies and gentlemen, thank you for participating in today's conference. That does conclude today's program. You may disconnect. Have a great day, everyone.