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CA - Q2 2015 CA Inc Earnings Call

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OVERVIEW:

CA reported 2Q15 revenues of $1.08b and GAAP diluted EPS of $0.53. Expects FY15 reported revenue to be $4.27-4.33b, reported GAAP diluted EPS to be $1.73-1.80 and reported non-GAAP diluted EPS to be $2.40-2.47.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the CA Technologies second quarter 2015 earnings call.

(Operator Instructions)

As a reminder, this conference call is being recorded. I would now like to introduce your host for today's conference, Jon Doros, Investor Relations, you may begin.

Jon Doros - *CA, Inc. - IR*

Thank you and good afternoon everyone. Welcome to CA Technology's second quarter FY15 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 section.

These prepared comments were previously recorded, and this conference call is being broadcast on Wednesday, October 22 over the telephone and the internet. The information shared in this call is effective as of today's date and will not be updated.

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During this call, non-GAAP financial measures will be discussed. Reconciliation to the most directly comparable GAAP financial measures are included in the earnings release which is filed on form 8-K earlier today as well as in our supplemental earnings materials, all of which are available on our website at CA.com/invest.

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

Please note that our third quarter quiet period begins at the close of business at December 15, 2014. Before I turn the call over, I'd like to highlight that for modeling purposes, our year-over-year currency headwind on revenue guidance is expected to be roughly 1%.

So with that, let me turn the call over to Mike.

Mike Gregoire - *CA, Inc. - CEO*

Good afternoon and thank you for joining us. Our second quarter performance demonstrates continued progress in executing against our strategy.

Total second quarter new sales accelerated to mid-single-digit growth year-over-year from flat year-over-year performance in the first quarter. I'm pleased to see that within new sales, Enterprise Solutions' new sales grew in the low teens year over year compared with mid single digital growth year-over-year last quarter -- a strong indicator of both the value of our product offerings and the continued traction of our new sales execution model.

Furthermore, we again delivered solid performance with respect to our renewals in maintaining disciplined operating expense management. While we still have a lot of work ahead of us to achieve our medium term goal of low single digit revenue growth, I believe we are clearly gaining traction.

We have a very strong market opportunity, a set of offerings that will help our customers seize the potential of the application economy, where software and application development have become the core of our customers' business strategy. Moreover, the speed and quality at which the business line demands new applications is increasing exponentially. CA Technologies is well positioned as a heterogeneous partner for many enterprises as they plan, develop, manage and secure these applications across platforms.

Let me provide a more detailed update on each component of our strategy to deliver differentiated solutions, improved sales execution and increase our velocity. First, in product development, we are focused not only on organically developed solutions in our three core product pillars of management cloud, dev ops and security, but we are also insuring that we develop software in the most efficient manner with our customers' needs in mind. Over the last few months, we continued to improve our efficiency within development by shipping more resources so higher RY opportunities and better position us to achieve our medium term targets.

Within our product strategy, management cloud is an area where we are developing and delivering differentiated solutions. With the explosion of IT assets across the enterprise and into the cloud, the management of IT assets is crucial to our customers' success.

Our management cloud solutions enable our customers to transform IT from a cost center to a business enabler. Last quarter, we discussed the launch of our cloud service management solution which we believe has the best value in the market today.

During Q2, we witnessed some initial success with numerous wins including a seven figure deal with TriZetto, a world-class health care IT solutions and services provider. I am also encouraged by the product road map the team has planned for cloud service management, and I look forward to updating you as we gain further traction with this product.

I'd also like to highlight our API Management business which demonstrated strong performance during the quarter both with new clients and within our traditional customer base. During the second quarter, our API Management new sales more than doubled year-over-year and exceeded our internal plans.

APIs are becoming the next generation mid ware of how applications securely connect both within the company's private cloud as well as in the public cloud. For example, a large UK financial services integrator signed a multimillion-dollar transaction to leverage our API Management solution to build a cloud based mobile platform that allows third-party financial service offerings such as mortgage and insurance.

Our API Management solutions continue to gain mind share. For example, in the Forrester API Management solution wave released this past September, CA's API Management solution was once again cited as a leader. API Management market is evolving beyond its traditional use case, and we are positioning ourself to take advantage of this. To further accelerate our work in this space, we created a distinct API team with a dedicated executive leader.

Another area which we are developing and delivering differentiated solutions is dev ops, one of the largest market opportunities. Software applications are on the front lines with customers and employees expecting and demanding a flawless and constantly improving experience.

Speed to market and quality performance of applications with a dev ops approach are table stakes. Specifically, dev ops is a methodology that structures collaboration between the development group and operations to accelerate software and application delivery. This is the future of enterprise software development, and we are focusing our investment to drive leadership in this space.

We have a complete portfolio of solutions and expertise across the entire application life cycle spanning the virtualization of development environments, automating the application release cycle and monitoring the applications as well as the underlying infrastructure. We do all of this while continuously sharing those analytics through the recycle.

Service virtualization is a major component of a successful dev ops approach to software development. Our service virtualization solutions performance this quarter was driven by numerous large wins from previous smaller proof of concepts or departmental transactions. To that point, awareness and evangelizing the rapid ROI benefits from service virtualization is a driving factor in future adoption.

As demonstrated this quarter, our strategy is to land with a smaller deal and prove the value to the customer before attempting a large enterprise wide sale. To further develop awareness around service virtualization, we will be launching a free offering of the solution at CA World.

Another essential piece of dev ops is understanding mobile environments. As I said earlier, we live in an application economy. From retail banking to reading the news, everything is connected by mobile based applications. In this ad driven world, your customers are far more likely to connect with your brand through a software application than a live person.

Now, the ultimate priority becomes delivering a superior user experience. At CA World in November, you will hear us highlight the first component of our mobile dev ops solution that provides mobile application performance analytics.

This is a new, organically developed product. We already have several customers in beta, and we are excited about the opportunity.

Our major goals within dev ops and throughout all of development include making our products easy to deploy and use and having well articulated product road maps. A further example of this is our Application Performance Management solution.

Our team improved a product functionality resulting in easier configurations for our new applications and a better overall user experience. We are already seeing the positive impact as our APM new sales increased year-over-year. In addition, during Q2, we closed a multimillion-dollar win at one of the world's largest consumer entertainment enterprises.

Our APM solution beat out Appdynamics, New Relic and Compuware to monitor the end-to-end experience of their online gaming platform. At CA World, we will further highlight our APM product strategy. This will build upon our current success with enhancements such as support for new software development languages and improve end-to-end mobile transaction monitoring.

Finally, let's touch on our security solutions. In today's interconnected digital world, a company brand can be promoted with 140 character endorsement and equally tarnished within seconds with a malicious breach.

The days of only protecting the perimeter, keeping people out, are over. Today it's about identity management and creating a secure but frictionless environment where end users feel confident and unobstructed to conduct business.

Our identity management suite of solutions authenticates and controls access to the world's most sensitive data. This is an area where I believe with the right brand positioning and marketing, we can meaningfully accelerate our growth.

Turning now to the second component of our strategy, I will walk you through how we are improving market awareness and sales execution. There are two major areas of focus in our marketing strategy: brand awareness and demand generation.

First, brand awareness, as I said earlier, in a digital world your brand is an extension of the service quality you deliver, not only for our customers but also for CA. As our newer business rewritten by software campaign rolls out, we are using modern analytic and measurement tools to understand our customers' and prospects' needs more effectively. Furthermore, at CA World you will see customers such as Facebook, Nike and Samsung joining our executives on stage to discuss how CA software enables them to gain a competitive advantage.

Now on to demand generation. Getting our technology into the hands of end users is critical to delivering the kind of buying experience prospects and customers need, want and expect. Premium and try and buy offerings are important components of a modern demand generation.

Our premium infrastructure management Snap offering continued to gain traction as a demand generation engine with successful conversions to our commercial offering. In addition, with only a quarter under its belt, the trial version of cloud service management influenced several sales during the quarter. I am also excited about the opportunities created by the premium service virtualization offering I mentioned earlier as well as other try and buy offerings that are planned over the next 12 months.

Our sales execution during the quarter was mixed by both geo and customer segmentation. North America overall performed in line with our expectations.

In light of a challenging macro environment in EMEA, our performance in that region was encouraging. EMEA new sales grew year over year, and we are seeing signs of continued improvement in sales outside our platinum accounts.

For example, we had a win with a large French airline that faced a competitive challenge to increase the speed and stability of application updates to their new mobile booking system. Traditional means of software testing couldn't meet the business line's requirements, but our service virtualization exclusion successfully shortened the testing cycles and improved performance readiness.

Our Latin American performance was below expectations, mainly due to continued macro-related headwinds in Brazil. However, we did not see evidence of competitive losses.

From a sales segmentation basis, our platinum accounts again exhibited falling performance overall with healthy attached rates of new sales to renewals. Our named and growth accounts are making progress as demonstrated by the improvement in that team's close rates and pipelines. For example, during the quarter we closed a seven figure API Management deal with a large US based insurer that previously was not a large account for CA.

The account team nurtured the relationship and effected a transaction that is a key component of this company's customer facing mobile strategy. There are ample opportunities to further expand this relationship and for this customer to become a platinum account.

This transaction is a prime example of why it's important to have a hard line separation between our platinum accounts and our named and growth teams. I am encouraged by the progress the named and growth teams are making improving sales participation rates and increasing the quality of the transactions in the pipeline.

Finally, I will touch on velocity. When you are in a dynamic industry such as software, human capital is an asset which propels your company towards achieving its goals.

The stronger the talent, the faster you hit your objectives. Accordingly, I am a strong believer that A players hire A players.

Over the last year, we have upgraded the talent not only at the executive level but also elevated the leadership acumen throughout our major business unit, sales and other support functions. Combined with the depth of talent that exists across CA and our renewed focus on organic development, we have a strong team focused on clear goals.

On balance, we made good progress this quarter on multiple fronts. We will continue to step up our pace and work to drive the type of meaningful progress needed to build a modern and even more competitive software company.

Our customers require deep expertise in integrated solutions to help them navigate an increasingly complex software driven business environment. CA is well positioned in this space, and we are seeing strong signs that our messaging and software are gaining traction with customers.

With that, I will turn the call over to Rich to review our second 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'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 has strengthened substantially during the last quarter against most major currencies during Q2. Currency had a negative 1% impact on total revenue from the time we provided guidance last quarter. Our Q2 total revenue was $1.08 billion and was down 3%, Mainframe was down 3%, Enterprise Solutions declined 2% and services declined 8%.

On an as reported basis, Q2 renewals were down approximately low [20]s which was in line with our expectations. Our renewal bookings increased and decreased year-over-year and can vary on a quarterly basis due to the timing of large transactions.

The renewal yield during the quarter was in the low [90]s. We continue to expect FY15 renewals to be down high single double digits year over year as compared to FY14 and flat year-over-year excluding the large system integrator renewal that closed in Q3 of FY14. We expect Q3 renewals to be down year-over-year but up year-over-year in Q4.

Despite renewal bookings being down year over year, our Q2 as reported total new product capacity sales were up mid single digits. As Mike, stated our new sales growth year over year benefited from a healthy attach rate to renewals, sales to platinum accounts outside the renewal opportunity and initial progress selling into our named and growth accounts.

In our Mainframe segment, Mainframe new sales including new product and capacity were down in the low 20s as reported, but in line with historical Mainframe renewal attach rates. Our Mainframe new product sales and capacity growth can vary on a quarterly basis. We expect our Mainframe revenue growth to be flat to down, low single digits over the immediate term which we believe is in line with the Mainframe market.

Enterprise Solutions new product sales were up low teens as reported. I am encouraged by our Enterprise Solutions performance. However, we are maintaining modest expectations for Enterprise Solutions full-year growth given tougher second half year-over-year comparison and an increasingly uncertain macroeconomic environment.

Services revenue during the quarter decreased 8%. The primary driver of the decline is due to us deemphasizing noncore government services subcontracting engagements as they are not directly related to our software sales.

We are refocusing on services and engagements that drive new product sales. As we outlined last quarter, we currently expect professional services revenue to decrease more than total revenue during FY15 compared with FY14. Current revenue backlog was down 1% and in line with our expectations.

As I have said before, consistent year-over-year growth in current revenue backlog is one of the indicators of future revenue growth. Current revenue backlog will likely grow when we demonstrate multiple quarters of new sales growth while maintaining a low 90s renewal rate.

Q2 non-GAAP operating margin was 40%, and GAAP operating margin was 30%. Our segment operating margin was 62% for Mainframe Solutions, 13% for Enterprise Solutions and 2% for services.

Our Q2 non-GAAP tax rate was 30%, and our GAAP tax rate was 24%. Our Q2 non-GAAP diluted earnings per share was $0.65, down 22% year-over-year. The decrease in our non-GAAP EPS is mainly driven by a lower non-GAAP tax rate in FY14.

GAAP diluted earnings per share was $0.53, down 4% year over year. Our Q2 CFFO was $66 million; single installment cash payments were $167 million and up year-over-year.

We ended Q2 with approximately $1.29 billion in net cash. During the second quarter, we paid $111 million in dividends. During Q3, we will pay off $500 million in senior notes due in December 2014.

Turning to guidance, updated guidance is based upon exchange rates on the last day of the preceding quarter which was September 30, 2014. This includes a partial hedge of operating income.

We expect currency to have a negative impact to our full-year revenue guidance of approximately 1% as of September 30 rates. Total revenue is still expected to be in the range of negative 2% to negative 1% in constant currency. This translates to reported revenue of $4.27 billion to $4.33 billion.

Non-GAAP diluted earnings per share growth is expected to be in the range of minus 20% to minus 18% in constant currency, an increase from our prior guidance of minus 21% to minus 19%. This reflects an approximate 20% headwind from taxes returning to its historical rate in FY15. This translates reported non-GAAP diluted earnings per share of $2.40 to $2.47.

GAAP diluted earnings per share growth is still expected to be in the range of minus 12% to minus 8% in constant currency. This translates to reported GAAP diluted earnings per share of $1.73 to $1.80.

Cash flow from operations is still expected to increase to 5% to 12% in constant currency. This translates to reported cash flow from operations of $1.01 billion to $1.08 billion which includes an approximate $70 million cash outflow related to our FY14 rebalancing program.

Guidance does not include the effect of any future material accusations. Underlining this guidance we expect our GAAP and non-GAAP tax rate to be 30%. We expect a full-year GAAP operating margin of 27%, a decrease of one point from previous guidance, and we still expect a full-year non-GAAP operating margin of 37%.

In addition to normal operating expense seasonality, we expect an incremental spend related to CA World to occur in our third quarter. At the end of the year, we expect approximately 436 million shares outstanding and a weighted average diluted share count of approximately 440 million shares. And now I will turn the call back over to Jonathan and we will take your questions.

Jon Doros - *CA, Inc. - IR*

Thank you, Rich. As the operator is polling for questions I would like to inform you during our fiscal Q3, CA Technologies will be presenting at the UBS, NASDAQ, Credit Suisse and Barclays technology conferences. In addition, mark your calendars for CA World in Las Vegas on November 9 through the 12.

We will be hosting an investor track at CA World on Monday, November 10. Please visit investor.ca.com for additional information about registration. In the interest of time, please limit yourself to two questions.

Mike Gregoire - *CA, Inc. - CEO*

All right, operator, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

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

Unidentified Participant - - *Analyst*

This is Stephan in for Raimo. Thank you for taking my question.

First, it's nice to see another quarter of solid new sales performance in Enterprise Solutions. Can you guys provide a little bit more color on what drew performance in that segment this quarter?

Mike Gregoire - *CA, Inc. - CEO*

Yes, thank you, Stephan. This is Mike. I would put it into a couple of different categories but relatively broad.

First of all, from a sales perspective, the sales model that we adopted last April where we were doing a hard line operation between our largest customers in the platinum and growth is definitely paying off because the sales professionals in those different groups are very well aware and trained in the specifics of the products they are trying to sell. Coupled with that, we have been specific of what products we sell to what markets. So I think that segmentation and the ability of that sales force to deeply understand those products and be specialists have made them more competitive.

Secondly, I think the portfolio of products that we are bringing to market have really improved and we see products that are growing on average, I have four or five of our fastest growing products growing at north of 20%. We have a couple products that we just introduced into the market relatively a short time ago that are in the 80% to 100% growth.

So when it comes down to it, salespeople that really understand the markets that they are competing in and really understand their customers, coupled with products that are highly differentiated, I would say that that fly wheel is starting to move for us. And the more that we focus on that and continue to replicate that, I think the more predictable our results will be with respect to consistent growth over time.

Unidentified Participant - - *Analyst*

Got it. And then if I could sneak in one more. On the SaaS products specifically, you've talked about that portfolio doing well, and it's nice to see the number of products there quickly extending. Can you talk a little bit about what the customer adoption has been to those offerings and how we should think about that portfolio evolving over the next couple of quarters?

Mike Gregoire - *CA, Inc. - CEO*

Yes, we have 11 SaaS products in the market today. Some of them are relatively new, the newest one being cloud service management, which has really only been in the market for a relatively short period of time.

But if you take a look at it just this last quarter, very sophisticated customer TriZetto had a multi-- had a seven-figure deal with us. And we are continuing to see that pipeline grow, which is driven by the fact that it's a try and buy play, much like we did with Nimsoft monitor snap.

We have almost 10,000 downloads of Nimsoft monitor Snap which has, once again, driven multiple seven figure deals or smaller deals. But as they get $200,000, $250,000 deal in place and they start buying more capacity, it drives down our cost of sale and also shows up in the overall sales picture.

So we are continuing to drive all of these products, but more importantly, even on the perpetual side of the house, the way we build our products in a pure agile fashion is taking into consideration the best attributes of building SaaS products and making sure those attributes are built into our perpetual products. So we are seeing the benefits of SaaS engineering driven across all of ESTG, and our Mainframe group is also equally competent in the agile development.

When you see their [scrumbs], they have customers from all over the world participating in their scrumbs, and I would say the Mainframe team is equally if not the best agile performance engineering team we've got in the Company.

Unidentified Participant - - *Analyst*

Got it. And then if I could just sneak in one more.

On the professional services on site, can you guys -- I'm sorry, I missed this on the prepared remarks before, can you talk a little bit about what is happening in that specific segment of why we are expecting it to be down more this year?

Mike Gregoire - *CA, Inc. - CEO*

Yes, I think that falls into -- once again none of these are just a one answer question, but I would put it into the following tiers ranked appropriately. Number 1 is our whole mantra and we have had that for 18 months is build applications that are easier to use, easier to install and lower cost of ownership.

If you're doing a good job of the engineering of the product, the amount of effort and hours spent in professional services to get that customer up and running and to value absolutely have to come down. And as we start seeing the new sales and these products getting into the market, it's been lesser -- a less requirement for professional services.

Secondly, we are a software company, we are not a professional services company. And to the extent that we had professional services in our company that drove revenue but we are not associated with our software, we are definitely deemphasizing that type of business.

And our professional services are focused solely on the customer success of our customers with our software. So you're going to see that come down a little bit.

And then lastly is just the focus we have had over the last two years on product quality. That puts us in a situation where our professional services are not out trying to help customers understand how our product works because it's much, much easier. And if you take a look at it from this quarter, the focus on selling net new software, the bookings are up for services this quarter.

So I think that works in conjunction for how we want to run the Company. Professional services are there to help customers go live and have great -- a great customer experience and show up with a high net promoter score.

Unidentified Participant - - *Analyst*

Got it. Thank you guys so much.

Operator

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

Daniel Ives - *FBR Capital Markets - Analyst*

Yes, thanks.

My question is if you look out over call it the next two, three quarters, I mean, what do you view as the biggest opportunity both from a product and market? And then on the other side, what do you think the biggest challenge is for you guys as you try to pursue growth?

Mike Gregoire - *CA, Inc. - CEO*

Sure. The biggest opportunities for us is in three very large business segments. Management cloud, and that includes all of our product and portfolio management. We just launched our cloud service product for service management which is a very big market and open to competition, and we take a look at what's happening in dev ops.

I think we are the industry leader in dev ops with the most comprehensive solution when you look from how you go after service virtualization to the whole concept of release management and pulling in all of the processes that affect getting applications out to market very quickly. That is number 1 on every customer's I have talked to mind.

And last thing everybody should be aware of is security. So when you take a look at those three big markets and the products we are putting into the markets and the products that we have that exist in those markets, I like our -- I like our positioning.

Daniel Ives - *FBR Capital Markets - Analyst*

And in terms of just, even tuck-in acquisitions versus organic, how should we think about that in terms of those areas?

Mike Gregoire - *CA, Inc. - CEO*

Our primary focus and I've been dogmatic about this since I've been CEO of CA is we are a software company and we have to and will have great software built by great engineers. So my number 1 thing when I wake up in the morning is organic engineering. And given the choice of build versus buy, all things being equal, I absolutely prefer to build.

Now, on the other hand, we also have a very large multinational company with a great and secure balance sheet. If there were opportunities for us to improve our lot in life with an acquisition, we would definitely want to take advantage of it.

Coupled with that is I now feel we have a strong management team that we would be able to handle a variety of different acquisitions. So if the market was conducive to being able to buy something, coupled with the fact that I felt that buying it would have a better financial return in the medium to long term building it, we are definitely open to that.

Jon Doros - *CA, Inc. - IR*

Thank you. Next question, please.

Operator

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

Jim Fish - *Citigroup - Analyst*

Hey, guys, it's actually Jim Fish on for Walter here.

Are you guys on the debt pay-down that's coming, the $500 million, are you issuing new debt to pay down or using cash? Just trying to understand why wouldn't you just get a new offering on the table given the rates.

Rich Beckert - *CA, Inc. - CFO*

Yep. So this is Rich. How are you, Jim?

Right now, no, we plan on paying off that $500 million in the quarter. We have plenty of cash onshore, and we also, as you know, we generate cash both onshore and get a royalty back moving forward, which allows us to do our buybacks, our dividend and any acquisitions that we feel the need to do.

So we don't see the need to carry the incremental interest on that $500 million. We are very comfortable where we are in our debt position.

Jim Fish - *Citigroup - Analyst*

Okay. And then just switching gears here a little bit.

Can you talk about the premium strategy a little bit more? How is this actually leading to actual conversion from -- conversion from free to paid and what's the penetration there?

Rich Beckert - *CA, Inc. - CFO*

Sure. In today's modern software age, most companies -- most customers, especially from an infrastructure perspective, they are very technical. And before they even bring you into an RFI or RFP, they have already got a vision of what your product can and cannot do. So if you are not in a situation where you can give them something that they can play with that is easy to use, easily downloadable and they can get an imagery of how that software would work in their environment, I think you're at a competitive disadvantage.

So pretty much all of our products that we can, we are trying to put it into a premium space. And that's primarily a lead generation tool, and when we take a look at our hit rate and the kind of information that we get when customers are using the product, our cost of sales dramatically goes down, our predictability for what quarter that particular release -- or that particular deal will close and become much, much better.

At the end of the day, I think that that's going to be table steaks across the software industry in general and for sure in the infrastructure space.

Jim Fish - *Citigroup - Analyst*

Great. Thanks, guys.

Operator

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

James Westman - *Raymond James - Analyst*

Hey, guys, good afternoon. It's James Westman sitting in for Michael.

Mike, apologize if you guys went through this. We have been hopping around on calls, but you guys had mentioned that Enterprise Solutions new product sales had grown in the low teens. Could you just expand on that and give us some color on what did particularly well in the quarter?

Mike Gregoire - *CA, Inc. - CEO*

We had a number of products do well, so it wasn't just one product that grabbed the limelight for us. The ones that did extraordinarily well would be service virtualization, our layer seven acquisition that we did about 1.5 years ago, we added an incredible amount of organic engineering onto that, and it's really starting to pay off.

Nimsoft monitor had a very nice quarter, and we still did nice in some of the flagship products. APM had a very strong quarter and so did our unified infrastructure management. So I would say those are the top five products across the portfolio, all grew in the high 20%s.

James Westman - *Raymond James - Analyst*

Great. And then just a follow-up.

IBM has had struggles with their Mainframe hardware sales recently. Are you finding that's having an effect on your business?

Mike Gregoire - *CA, Inc. - CEO*

It hasn't affected us other than it's in general a declining software market for the Mainframe by we have always said between minus 1% to minus 3%, and nothing has changed with respect to our renewal portfolio.

Our attach rates on renewals has been traditionally what it was in the past, so it's a very stable business throwing off an awful lot of cash, giving us a great opportunity to talk to customers about how they look at the Mainframe as well as areas where if they want to get off the Mainframe and/or products that they could use that are in our enterprise group, it's a great cross sale opportunity for us.

James Westman - *Raymond James - Analyst*

Great. Thank you, Mike.

Operator

Thank you. Our next question comes from the line of Mark Moerdler of Sanford Bernstein, your line is open.

Unidentified Participant - - *Analyst*

This is [Visha] filling in for Mark today. A quick question on margins. Going forward, notice that seasonally you guys are weak towards the end of the year.

Do you think there's any chance of potential weakness towards the end of the year in operating margins? And tagging along on that is, how should we think about the mix shift in cost you guys have going forward maybe out of year? Could you shed color on that? Thanks.

Rich Beckert - *CA, Inc. - CFO*

So first of all, we are very comfortable with the 37% margin. Through the first half we were sitting at 40% for the first two quarters.

There will be seasonality associated with things like commissions, and we are still hiring people back from their rebalancing. And remember in Q3, we will have CA World which is a big marketing expense. But in general it is -- we are very comfortable where we are, so we don't see the margin pressure that you just described.

Going forward, we have been very systematic with the way Mike described our transition from some of our older products and technology to the new product technology. And over last couple of years you saw us redress how we do development, how we do sales, the whole GNA function.

So we are in line and we are very much able to absorb the SaaS play as that comes into our total company. So just like we said back in May, we are comfortable with where we are with margins.

Unidentified Participant - - *Analyst*

Great. Thank you.

Operator

Thank you. And our next question comes from the line of Kirk Materne of Evercore. Your line is now open.

Matt Williams - *Evercore Partners - Analyst*

Hi, guys, it's Matt Williams in for Kirk. I appreciate you guys taking the question.

Just one on the management cloud and some of the -- sounded like there's some good initial traction there. And I was wondering if you could give us a little bit more color on what you guys are seeing in that market?

It seems like it's a very competitive area right now. And just curious to see what you're seeing in the market and how you guys are differentiating yourselves there?

Mike Gregoire - *CA, Inc. - CEO*

Sure. Well, you don't want to go to -- you don't want to go to a market that has no competition because that means it's usually not much of a market. So it's a big market, it is very competitive and you have to work on differentiation.

When we took a look at that market, one of the things that we saw that was needed in that market is ease of use. So we have a brand-new modern platform built on a modern architecture that requires no coding for integration.

Coupled with that, we are absolutely in the infrastructure management and application management business which kicks off a lot of issues with respect to service management. And to the extent that we can integrate our products and get into the whole idea of predictive analytics where we can create the trouble tickets immediately without human intervention, we think we are the only vendor in town that has the ability to do that.

So we are trying to think of what our customers are going to want on this mantra of easy to use, easy to integrate, easy to install and try to get as much of the use of our predictive analytics into the software. And when you're doing that, you need a repository in which you can report and act on it, and that's the service management solution.

So great user interface, no programming required for integrations, easy to download and try and buy. And I think we have hit a price point in the market that is a little bit unique as well, and I think that that's a market that needs another competitor with a unique offering.

Matt Williams - *Evercore Partners - Analyst*

Great. I appreciate the color. Thanks, guys.

Operator

Thank you. I'm showing no further questions at this time. I'd like to hand the call back over to Jon Doros for any closing remarks.

Jon Doros - *CA, Inc. - IR*

Thank you very much. In closing, I want to thank everyone for their time tonight. I know there are a lot of folks reporting and also want to thank you for the time you take to understand the work we are doing to drive customer and shareholder value.

We are going to be vocal over the next quarter, both Rich, John and I are going to be out in the market. Look forward to seeing you at some of the conferences and have a great evening on behalf of all of CA.

Operator

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