4Q17 Earnings Conference Call Script

Traci Tsuchiguchi:

Thank you and good afternoon everyone. Welcome to CA Technologies' Fourth Quarter 2017 Earnings Call.

Joining me today are Mike Gregoire, our Chief Executive Officer, and Kieran McGrath, our Chief Financial Officer.

Mike and Kieran 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 11th, over the telephone and the Internet. The information shared in this call is effective as of today's date and will not be updated.

During this call, both GAAP and 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 including our annual report on Form 10K for a detailed discussion of potential risks. Please note that our first quarter quiet period begins at the close of business on June15th, 2017.

Please note that all comparisons are year-over-year and as reported unless otherwise indicated.

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

Mike Gregoire.

Good afternoon. Thank you for joining us.

I am very pleased to report our strong fiscal fourth quarter performance. It was the best sales execution we've seen in our fourth quarter in well over a decade. There's no doubt we ended fiscal year 2017 with solid momentum. Our strong fourth quarter performance enabled us to deliver most metrics at the high-end of our full year guidance ranges.

In fiscal 2017, we achieved total revenue growth for the first time since fiscal 2012. Importantly, we did this while maintaining healthy operating margins and cash flow generation. Now we are positioning CA for our next phase, which we believe will accelerate our growth trajectory over time.

Turning to our Q4 results, our revenue, new sales, EPS and CFFO were all at or above our expectations. The highlight was the strength we saw in new sales across both our Enterprise Solutions and our Mainframe segments. In ES, healthy new sales growth was broad-based and was particularly robust across API Management, Agile Central, Security and our Continuous Delivery portfolio, with exceptionally strong results in our Test Data

Management business. In Mainframe, new sales grew meaningfully. It is not surprising that capacity sales declined from the year ago period given where we are in the hardware refresh cycle. But, our Mainframe new sales performance in the quarter demonstrates how well customers are embracing our new innovations on the platform. In the quarter, strength in Mainframe new sales was driven by organically developed products like Data Content Discovery – or DCD – as well as Mainframe Operational Intelligence – or MOI.

Overall, our Q4 performance was driven by the great execution of our Platinum sales team. They did a very good job of capitalizing on a large renewal portfolio. Results from our North America Platinum and Public Sector teams were particularly strong. The renewal yield in the quarter was in the low-90s, in-line with our longer-term target, and new sales were up dramatically. Our Named and Growth, or partner-led sales organizations also delivered healthy double-digit new sales growth in the quarter.

I am pleased to report that the integration of our Automic acquisition is progressing well. And, we enthusiastically welcome Veracode to the team. We are really excited about the quality of the products – and most importantly – the quality of the people at both Automic and Veracode. These strategically important acquisitions substantially strengthen the growing portion of our ES portfolio.

For the full year, we delivered results broadly at the higher-end of our guidance ranges. Revenue, EPS and CFFO were above the mid-point of the guidance ranges we provided for the full year. Operating margin came in-line and reflects the absorption of acquisition-related expenses associated with Automic and Veracode. Notably, for the full year, our ES revenue grew organically – which is a marked improvement over prior years.

Our Mainframe segment delivered consistently solid performance through the year. For the year, Mainframe performed at the better end of our expectations. We believe our relative outperformance can be attributed to a few things.

Our Mainframe business unit was an early adopter of the Agile methodology. This has resulted in the completion of nearly 40 releases in the past year with zero defects. This level of product quality is important to all customers, but is most important to our customers running mission critical applications.

CA continues to invest meaningfully in the mainframe platform. We believe we offer a broader, more innovative, and cost competitive portfolio of solutions. We are also able to leverage our ES development as well as recent acquisitions to provide unique integrations and truly cross-platform solutions that help customers solve complex challenges. Our broad, solutions-based portfolio enables us to provide customers with compelling, cost competitive offerings.

For example, one of the largest retailers in the United States, made the decision to partner with us to support its retail, corporate systems, credit cards, and dot com property. Our portfolio of innovative solutions is enabling them to simplify their IT environment, narrow their supplier base, and reduce their costs. In conjunction with our partners and our customers' IT operations team, we are helping to deliver a seamless migration to seven key CA solutions, in less than 90 days.

Looking ahead, we believe our partnership with IBM on IBM Cloud Managed Services on z Systems – commonly referred to as zCloud – provides us with a great opportunity to help customers realize the benefit of the cloud while running mission critical, security-rich mainframe workloads. This partnership enables CA to provide value to customers that have smaller MIPS consumption where the fixed costs of running a mainframe platform is challenging. It also gives the option to larger customers to move capex to opex by turning mainframe capacity into a service – similar to AWS or Azure. These dynamics have the potential to enable CA to capture incremental market segment share over time.

When I look at our business overall, I can confidently say that we are in a good place. We are in great businesses, and we have absolutely improved our execution. In this industry, we can never rest on last quarter's performance. But when I pause for a moment and look back at the work our teams of have done, we have made outstanding progress.

First and foremost, CA was recently named one of the World's Most Ethical Companies for 2017 by Ethisphere Institute. This is the second year in a row that CA has received this honor, which recognizes companies that lead with integrity and align principles with action. We at CA take great pride in this recognition that we believe is a reflection of the culture and priorities we have cultivated over the last few years.

I'm also pleased that our heightened focus on customer success is reflected in the significant improvement we're seeing in our NPS – or Net Promoter Score. This is a standardized measure of customers' willingness to recommend our products to other potential customers. In fiscal 2017, our NPS scores across both our ES and Mainframe Segments moved up considerably.

The spirit of innovation within CA is alive and well. Throughout the organization, our teams understand that organic innovation is critical and is at the heart of our strategy. The budding success of our CA Accelerator – which is our internal, VC-like technology incubator - is certainly helping. In this framework, successful ideas become solutions and begin to build momentum with customers. The objective for these innovations is to exit the CA Accelerator into the product organization. The first graduate from the CA Accelerator into the CPO organization is a common analytics engine that can be utilized by both our Mainframe and our Enterprise Solutions segments. Company-wide, CA was granted 186 patents in FY17, up from 157 in the prior year.

Meanwhile, the product portfolio continues to improve. Our products are becoming easier to install, upgrade and manage. And, we are pleased to report that our solutions continue to earn recognition from major industry analysts. For example, in Q4, CA was named a Leader by Gartner in its 2017 Gartner Magic Quadrant for Governance and Administration(1).

We are listening to our customers. This is resulting in improved NPS scores, better products, and more efficient business practices. We are furthering our commitment to deliver solutions in the way customers increasingly prefer to buy. We're working to accelerate the velocity of products like Agile Central and Blazemeter. Looking ahead, we are optimizing our internal processes to build, sell, and monetize our subscription-based products more systematically, with higher velocity and with greater efficiency. This includes building out a common set of best practices, metrics, and business architecture across our SaaS solutions.

Similarly, we are optimizing the way in which we go-to-market. As mentioned last quarter, we've observed that our largest Named accounts have preferences and behave much like our Platinum customers. At the same time, the investments we've made in our Partner channel and in our digital sales over the past few years has started to gain momentum. This allows us to now reduce the complexity of our customer stratification. Going forward, we are migrating the Platinum, Named and Growth nomenclature towards two sales groups - Enterprise and Commercial. This aligns with our growing portfolio of next generation software solutions, and it aligns with how our existing and prospective customers transact.

The Enterprise sales team will encompass what has been known as Platinum, in addition to the largest 30% or so of the Named sales group. We believe this will enable us to drive deeper penetration in our largest Fortune 2000 opportunities. The Commercial sales group will absorb the smaller Named customers and will be entirely served by digital sales and partners. We believe this will enable us to cost effectively serve a much broader set of potential customers globally. Ultimately, we expect this to propel a lower cost, higher velocity go-to-market strategy for CA over time.

This is an exciting time at CA. This industry is moving quickly – and so are we. We've made incredible progress – and, as we look toward the next phase of this company's evolution, in many ways, we are just getting started.

As we enter FY18 and beyond, we are pivoting to enter our next phase as a company that delivers sustainable, long-term growth.

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

Kieran McGrath:

Thank you, Mike.

Before we get started with the quarter review, please note that all comparisons are year-over-year and as reported 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.

Bookings

As Mike had previously mentioned, we were very pleased with our sales execution in the fourth quarter. Q4 total new sales increased in the low 40s, while renewals increased in the low 50s. As we have stated on prior earnings calls, the year over year fluctuations in our renewal bookings vary on a quarterly basis, due to the timing and duration of large transactions. Automic contributed approximately mid single digits to total new sales growth in the fourth quarter.

Our Q4 renewal yield was in the low 90s, in line with our longer-term expectations.

In Q4 new sales in all regions were up as reported and in constant currency except EMEA where new sales were flat as reported and up in constant currency, including the contribution from the Automic acquisiton.

Within our segments, Q4 Mainframe new sales increased in the low 40s, despite lower capacity sales which likely reflects the timing of the hardware cycle. Mainframe new sales performance was driven by organically developed products like Data Content Discovery and Mainframe Operational Intelligence.

Q4 Enterprise Solutions new sales increased in the low 40s and mid 40s in constant currency. As Mike mentioned, the strong performance in this segment was driven by products like API Management, Agile Central, Security and our Continuous Delivery products, all of which saw meaningful improvement on a year over year basis. Automic contributed approximately high single digits to Enterprise Solutions new sales growth in the quarter.

For the full year, total new sales were up approximately 10%, with Enterprise Solutions new sales up high single digits and Mainframe Solutions new sales up in the mid teens. Acquisitions contributed approximately high single digits to Enterprise

Solutions new sales growth, and mid single digits to total new sales growth for the full year. Even without acquisitions, total new sales would have grown for the full year.

Our renewal portfolio for fiscal year 2017 was up in the mid-teens, and our renewal yield was in the low 90s in each of the four quarters.

Revenue

Total revenue for the fourth quarter was $1.01 billion, flat as reported and up 1% in constant currency. Q4 Enterprise Solutions revenue was up 5% as reported and up 6% in constant currency, Mainframe Solutions revenue was down 2% as reported and down 1% in constant currency, and Services was down 6% as reported and down 5% in constant currency. Automic contributed 2 points as reported and 3 points in constant currency to total revenue growth in our fourth fiscal quarter. More specifically, Automic contributed approximately 6 points to Enterprise Solutions revenue growth and approximately 4 points to Services revenue in the quarter.

For the full year, total revenue was $4.04 billion, flat as reported and up 1% in constant currency. As a reminder, our fiscal 2017 results include one quarter of inorganic contribution from our 2016 acquisitions of Rally and Xceedium, in addition to our more recent acquisition of Automic. Fiscal 2017 Enterprise Solutions revenue was up 5%, Mainframe Solutions revenue was down 1%, and Services revenue was down 8% as reported and down 7% in constant currency. Acquisitions contributed approximately 2 points to total revenue growth for the full year. Acquisitions contributed approximately 3 points to Enterprise Solutions revenue growth and approximately 3 points to Services revenue for the full year.

Total revenue backlog increased 11% as reported, and 12% in constant currency, while current revenue backlog increased 4% as reported, and 6% in constant currency, inclusive of Automic and Veracode. As we've said in the past, current revenue backlog will likely grow with more consistency as we demonstrate multiple quarters of new sales growth while maintaining a low 90s renewal yield.

Operating Margin and EPS

Fourth quarter GAAP operating margin was 21%, and non-GAAP operating margin was 32%, in-line with our expectations.

Segment operating margins in the quarter were 59% for Mainframe Solutions and 1% for Enterprise Solutions.

As typical, our Q4 margins were lower. In addition to higher seasonal expenses, an increased level of commissions paid from higher new sales generated in the period negatively impacted Mainframe Solutions segment operating margin in Q4.

Enterprise Solutions operating margins, which are typically seasonally lower in Q4, were also adversely impacted by non-recurring expenses related to our acquisitions of Automic and Veracode. In addition, segment margins were impacted by an increased level of commissions expense commensurate with new sales growth.

Services margin was negative 3%. As we've discussed in the past, as our product portfolio has evolved and our solutions are becoming easier to install and to manage, fewer services are required. This has resulted in contraction of this structurally lower margin segment. Our fourth quarter segment margin reflects the continuation of our actions to better align the cost structure with our expected Services revenue run rate going forward.

Our GAAP and non-GAAP tax rates in the fourth quarter were approximately 21% and 25%, respectively.

Q4 GAAP diluted earnings per share was $0.38, down 7%. Q4 non-GAAP diluted earnings per share was $0.54, down 10% as reported and down 12% in constant currency.

For the full year, our GAAP operating margin was 28%, and our non-GAAP operating margin was 37%. Fiscal 2017 segment operating margins were 61% for Mainframe Solutions, 11% for Enterprise Solutions, and break-even for Services.

Our GAAP and non-GAAP tax rate for the full year was approximately 28%.

GAAP diluted earnings per share for the fiscal year was $1.85, up 4% as reported and up 2% in constant currency. Non-GAAP diluted earnings per share for the year was $2.48, up 2% as reported and up 1% in constant currency.

Cash Flow and Capital Allocation

Q4 CFFO was $419 million, down 11%. CFFO in the quarter was impacted by the GSA settlement. We paid $49 million dollars, inclusive of legal fees, in the quarter to settle a longstanding matter brought against us by the DOJ and an individual plaintiff relating to our GSA schedule with the government, as previously announced. Single installment cash collections were $176 million in the quarter, up $46 million from the year-ago period. For the full year, CFFO was $1.04 billion, flat as reported and up 3% in constant currency. CFFO exceeded our expectations due to a higher level of single installment cash collections.

Separately, we issued $850 million in investment grade bonds, primarily to fund our acquisition of Veracode. We issued a 5-year $500 million tranche at 3.6% and a 10-year $350 million tranche at 4.7%. We are very pleased with the terms and are comfortable with the tenor of our corporate debt.

We ended Q4 with approximately $157 million dollars in net debt. During the quarter, we paid $107 million dollars in dividends. Due to the acquisition of Veracode and the bond offering, we did not buyback stock in the fourth quarter of fiscal 2017. We expect to resume our share repurchases in the near-term with the intention to generally at least offset dilution. We have 650 million dollars remaining of our original 750 million dollar share repurchase authorization.

Guidance

Now, turning to guidance. Guidance is based upon exchange rates on the last day of the preceding quarter, which was March 31st, 2017. It includes the impact of the Veracode acquisition and includes the incremental interest expense associated with the issuance of senior notes in March. No additional material acquisitions are assumed.

For the full year, we expect total revenue to increase 2 to 3% as reported and to increase 3 to 4% in constant currency. This translates to reported revenue of $4.12 to $4.17 billion.

This guidance contemplates our expectation that the overall mainframe market will decline in the low-single digits over the medium-term, consistent with what we've said in the past.

We expect full year GAAP operating margin between 26 to 27% and full year non-GAAP operating margin of 36%.

We expect our GAAP and non-GAAP tax rate to be between 28% and 29%.

GAAP diluted earnings per share is expected to decrease 10 to 7% as reported and to decrease 8 to 6% in constant currency. This translates to reported GAAP earnings per share of $1.67 to $1.72. This includes a $0.06 impact from the incremental interest expense associated with our March 2017 bond offering.

Non-GAAP diluted earnings per share is expected to decrease 5 to 3% as reported and to decrease 4 to 2% in constant currency. This translates to reported Non-GAAP earnings per share of $2.35 to $2.40. Again, this includes a $0.06 impact from the incremental interest expense from our bond offering, mentioned previously.

At the end of the year, we expect approximately 412 million shares outstanding, and a weighted average diluted share count of approximately 415 million shares.

Cash flow from operations is expected to be in a range of down 2% to up 2% both as reported and in constant currency. This translates to cash flow from operations of $1.05 billion to $1.10 billion. The incremental interest expense from the bond offering impacts CFFO by approximately $33 million.

Our Cash Flows from Operations guidance includes our adoption of ASU 2016-09, titled *Improvements to Employee Shared-Based Payment Accounting*. The adoption of this standard in the first quarter of fiscal 2018 requires us to present taxes paid in connection with employee stock within Cash Flows from Financing Activities, rather than payments within Cash flows from Operations. The adoption of this accounting standard will be presented retrospectively and is not expected to impact the year-over-year percentage change.

With regard to Q1, please keep in mind that we renewed a large System Integrator in the June quarter of fiscal 2017. This creates a very difficult year-over-year compare that will be particularly evident in our Q1 renewal bookings and new sales. Additionally, the impact from the acquisitions and related integration expenses will be most impactful in the first two quarters of the year, particularly in Q1.

For the full year, we expect the size of the portfolio to be renewed to be down in the high teens compared to the year ago period. Even excluding the impact of the large SI we renewed in Q1 last year, our renewal portfolio for fiscal 2018 is back-end loaded. We expect this to heavily influence the linearity of bookings through the year.

ASC 606 Update

To provide an update on ASC 606, the upcoming revenue recognition standard, as you will see in our 10K filing tomorrow, we expect this change in the revenue recognition standard will have a material impact on our reported financial statements. Specifically, we expect that the point in time rather than ratable recognition of license revenue will increase the variability in our quarterly reported results. However, we do not expect that the change in standard will significantly impact the way in which we recognize revenue from maintenance, SaaS and professional services contracts. And, we do not expect it will meaningfully impact customer billings or cash collections from customer billings. We are currently evaluating the effect of ASC 606 on cash tax payments.

In general, we do not expect the economic value of our transactions to change as a result of ASC 606. We plan to adopt ASC 606 in our first quarter of fiscal 2019, and we are continuing to evaluate the transition method we will use.

As we work through the changes coming with ASC 606, we are also exploring ways in which we can improve the transparency and simplicity of the metrics we provide on a regular basis to best reflect the on-going performance of our business.

In summary, we are pleased with our performance in Q4, where we met or exceeded our expectations across most financial metrics. As we look ahead to fiscal 2018 and beyond, we believe we are well positioned to achieve our goal of long-term, sustainable growth.

With that, we'll open it up for questions.

(1) *Gartner Magic Quadrant for Identity Governance and Administration, by Felix Gaehtgens, Perry Carpenter, Brian Iverson and Kevin Kampman, February 22, 2017.*

The Gartner Report(s) described herein, (the "Gartner Report(s)") represent(s) research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. ("Gartner"), and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this [Annual/Quarterly Report]) and the opinions expressed in the Gartner Report(s) are subject to change without notice.

Gartner does not endorse any vendor, product or service depicted in its research publications, and does not advise technology users to select only those vendors with the highest ratings or other designation. Gartner research publications consist of the opinions of Gartner's research organization and should not be construed as statements of fact. Gartner disclaims all warranties, expressed or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose.