Company Name: BMC Software
Company Ticker: BMC US
Date: 2012-10-31
Event Description: Q2 2013 Earnings Call

Market Cap: 6,490.19
Current PX: 40.70
YTD Change($): +7.92
YTD Change(%): +24.161

Bloomberg Estimates - EPS
Current Quarter: 0.990
Current Year: 3.481
Bloomberg Estimates - Sales
Current Quarter: 587.308
Current Year: 2249.000

Q2 2013 Earnings Call

Company Participants

- Derrick Vializ
- Robert E. Beauchamp
- Stephen B. Solcher

Other Participants

- Matt Hedberg
- Michael Turits
- Aaron M. Schwartz
- Derrick Wood
- Philip A. Winslow
- Walter H. Pritchard

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen and welcome to today's BMC Software second quarter fiscal year 2013 earnings results conference call. Today's call is being recorded. At this time for opening remarks and introductions I would like to turn the conference over to Mr. Derrick Vializ. Please go ahead, sir.

Derrick Vializ

Good afternoon, everyone. I'm Derrick Vializ, Vice President of Investor Relations and I would like to thank you for joining us this afternoon. During our call Bob Beauchamp, our Chairman and CEO, will provide an overview of the second quarter fiscal 2013 performance of both our company and business units and update you on recent initiatives. Steve Solcher, our CFO, will then provide additional financial and operational details. Bob will conclude our prepared comments by discussing and providing you with an update of our expectations for fiscal 2013 before we open the call to questions. These prepared comments were previously recorded. This call is being webcast and a complete record of the call will be made and posted to our website. In addition to today's earnings press release we have posted a presentation that we will refer to at various times during the call. Both of these documents are available on our Investor Relations website at Investors.BMC.com.

Before we continue I would like to remind you that statements in this discussion including statements made during the question-and-answer session regarding BMC's future financial and operating results particularly statements and views regarding fiscal 2013, the development of and demand for BMC's products, BMC's operating strategies, acquisitions and other statements that are not statements of historical fact are considered forward-looking statements. These statements are subject to numerous important factors, risks and uncertainties that could cause actual results to differ from the results implied by these or any other forward-looking statements. Cautionary statements relative to these forward-looking statements and BMC's operating results are described in today's earnings press release and in our annual report on Form 10-K. All of these documents are available on our website.

These forward-looking statements are made as of today based on certain expectations and we undertake no obligation to update these forward-looking statements.

I would also like to note that the company's use of non-GAAP financial measures is explained in today's earnings press release and a full reconciliation between non-GAAP measures and the corresponding GAAP measures is provided in the tables accompanying the press release and at Investors.BMC.com. At this time I'll turn the call over to Bob.

Robert E. Beauchamp

Good afternoon, everyone. During our second fiscal quarter we regained momentum in key growth areas while continuing to generate positive financial results. Total bookings during the quarter rose 13% compared to the year-ago quarter. ESM license bookings rose 44% sequentially and 2% year-over-year. Maintenance revenue grew a strong 6% year-over-year. We maintained our strong profitability. Non-GAAP diluted EPS for the quarter was $0.88 per share, up 1% year-over-year. Cash flow from operations tracked in line with our expectations and was $67 million for the quarter. We maintained our strong balance sheet with $1.5 billion in cash and investments and $1.8 billion in deferred revenue.

We continued our share repurchase program and during the quarter spent $200 million buying back shares. We also have announced a new $1 billion share repurchase authorization with $750 million of this amount expected to be executed with an accelerated share repurchase agreement.

In addition to these solid financial results we launched four major product releases, delivered innovative solutions and expanded alliances with industry leaders. Our new releases include the third generation of our Cloud Lifecycle Management solution and Remedy ITSM Version 8.0 which added significant new capabilities for our SaaS customers. In addition we released BMC ProactiveNet Performance Management, or BPPM, 9.0 and BMC Control-M Version 8. All four of these major new releases have been received very positively from our customers and the analyst community. All in all this was a solid quarter in a macro operating environment that continues to pose challenges in some areas. There is for example significant uncertainty in Europe that's impacting the economy overall and IT spending in particular.

With that overview let me move now to discuss the performance of our two business units in more detail, beginning with ESM. As noted we saw a strong sequential increase in ESM license bookings which were in line with our expectations. The second quarter also marked a turnaround on a year-over-year basis with 2% growth. The sequential increase in ESM license bookings this quarter largely reflects the improved performance within the Americas, most notably the Northeast and the Asia-Pacific sales regions. From a product line perspective we saw sequential improvement across all major product lines with strong year-over-year growth in the datacenter automation portfolio. Our ESM results were positively impacted by improved trends in our sales force during the quarter with sales capacity growing at above plan, attrition rates better than plan and resulting improvements in ESM sales force tenure.

In addition, we saw strong growth in ESM's maintenance revenue of a very strong 11% year-over-year, an indication of the strength of customer renewals and an ongoing commitment to BMC's solutions.

We also continue to see good performance in key strategic growth areas including Software as a Service, and Cloud. We more than doubled the number of new SaaS customers during the first half of this fiscal year compared to the same period last year. We added just under 90 new SaaS customers in the second quarter alone. We currently have approximately 475 SaaS customers about 70% of which are new ITSM customers.

We're very pleased with our relationship with Salesforce.com and the positive impact of remedy force business. Given the progress and opportunity we are significantly increasing our focus and level of investment in this key growth area. While we're pleased with the success of our two main ITSM service offerings BMC is extremely focused on investing in the development of new SaaS offerings beyond the service desk.

In June we announced mobile device management as a service enabling customers to now have the control required to securely manage a variety of mobile devices throughout their entire life cycle. In July we also announced end user experience management as a service. Providing customers with real time real user visibility into the service levels delivered by business critical web applications in the Cloud. Our Cloud offering also continue to do well in the marketplace licensed bookings rose nearly 30% in the first six months of fiscal 2013 compared with the same period last year.

We're committed to extending our leadership in this high growth segment and will continue to significantly invest in new sales capability and innovative solutions in this exciting market. For example, we released our next generation Cloud offering CLM 3.0 and Cloud Operations Management, during the quarter. This innovative offering provides the industry's most comprehensive approach for planning, building, and running Cloud.

The new Cloud Operations Management solution provides increased visibility and control of complete cloud services and shared resources provisioned by CLM through advanced analytics and automated work flow for capacity aware placements, automated charge back, and monitored provision. When combined with CLM 3.0, BPPM 9.0 takes management to a new level. BPPM 9.0 will now allow organizations the ability to anticipate the consumption of their Cloud based infrastructures so they can manage them better.

To further extend our leadership in Cloud, earlier this month, we announced an extension of our alliance with Amazon Web Services, that includes product collaboration and a coordinated go-to-market approach. The value proposition of BMC and AWS is clear and compelling. We're giving enterprise IT the best of multiple worlds to accelerate their move toward a hybrid cloud model, a scalable, flexible cloud infrastructure with all the confidence of a strong cloud management platform.

We're also continuing to see large global enterprises standardize on our ESM platform. The number of ESM wins during the quarter, with over $1 million in licensed bookings rose 26% year-over-year. The number of multi-discipline wins over $1 million increased 22% from a year ago. Some of the multi-discipline wins during the quarter included China Construction Bank, Credit Agricole, JDA, Swift Post Finance [ph], and Tata Motors.

Over the past few quarters we've talked at length about our issues related to our sales force. As we discussed, key trends related to capacity, tenure and attrition have been improving. And this past quarter continues that trend. We ended the quarter operating with sales capacity above plan, with a more favorable mix of experienced sales professionals, and with attrition trending to the low 20% range on an annualized basis. This progress is obviously welcome news, but we think there are further advances to be made, and I want to discuss our plans for doing so.

The ESM segmentation strategy we announced two quarters ago is generating results and we're making further investments. We now have sales teams which are aligned to the needs of the market, from the most sophisticated global service providers and enterprises to the commercial segment, a market which requires a high-volume and low-friction sales engine. Our sales teams can now leverage more customized sales campaigns and more effective and efficient sales motions by market segment. The ESM worldwide sales organization led by Carv Moore, will now report directly to me, as we continue to build out this segmented sales architecture that will serve us and our customers well in the years ahead.

BMC solutions continue to be recognized as leaders in the market place. In my 11 years as CEO at BMC, I have never before seen so much third-party affirmation that BMC's products are best-in-class. Our unified and broad portfolio of on-premise and SaaS IT service management solutions make BMC the leader in IT service management across all market segments, from SMB to the largest global enterprises. In fact, Gartner ranked BMC #1 for IT Service Desk and Helpdesk Software market share in 2011 and our latest major release of Remedy ITSM 8.0 with significant new capabilities for SaaS customers will help us ensure we extend this lead.

Within IT service management, we are innovating further by focusing on key growth areas including mobility, social IT management, advanced analytics and reporting and service visualization. In Gartner's recently-published BMC vendor rating report, we received a strong positive rating for the request and support category, which is equivalent to BMC's ITSM portfolio. This strong positive was given to us in addition to other numerous strong and strong positive ratings in other categories. Earlier this week, we launched an important new software solution called MyIT. MyIT empowers employees to take personal control over the delivery of the IT services and the information they need anywhere, anytime from any device.

Employee's expectations of IT service have been conditioned by their experience in consumer settings. MyIT addresses expectations related to the consumerization of IT, building a strong, robust bridge between the industrialized backend of enterprise IT and the need for user-focused, consumerized solutions for the millions of employees in companies around the world. MyIT promises to reduce cost, improve productivity and strengthen IT organizationally. Industry analysts and early customer feedback has been exceptional by any measure. MyIT puts us far ahead of the competition and we think it has great potential in the marketplace.

To illustrate the excitement for this powerful new offering, let me quote Abraham Galan, CIO of energy giant PEMEX who said, "PEMEX will be among the first companies in the world to deliver BMC software's MyIT solution." In our case, that means more than 75,000 IT users. Employees are demanding a much better service experience than my IT organizations have been able to provide. PIMEX has been a leader in this area and we believe that BMC's MyIT will reduce our cost of service deliveries and enable us to compete more effectively, both for markets and for talent. BMC MyIT is an extraordinary piece of software that represents exactly what IT organizations need today.

Let me turn now to MSM business. MSM has performed well during fiscal 2013 and continues to meet expectations for new business and profitability. In fact, in our top 15 deals this quarter, we once again saw an increase in the spin rate largely due to our success in selling more new products into those relationships.

During the quarter we added or expanded our relationship through new products with 147 new product placements. We expanded business with new and existing customers. In particular, during the second quarter we saw strong new product performance for both Control-M and our traditional database management, DPM, product lines, in North America and Latin America. Our Control-M workload scheduling solution continues to be a significant driver of MSM's new product placements globally with existing customers, such as Amundi, Polo Ralph Lauren, Telefonica and Tecnologia Bancaria.

Our strong new product performances also result of legacy mainframe product placements with customers, where our MSM solutions demonstrate advantages over the competition in cost optimization and performance for those customers who require high availability, reliability and security in the mainframe environment. We find our cost and performance advantages continue to fuel competitive displacement opportunities and new product growth, in part driven by our acquisitions of I/O Concepts and NEON Software.

Control-M and the broader workload automation business within MSM in particular continues to see healthy growth rates and currently represents 40% of MSM's total bookings as measured on a trailing 12-month basis. We're also continuing to invest internally to enhance our leadership position through our solutions. For example, we recently launched our newest major version of our Control-M product line. Control-M version 8.0. It features a redesigned product interface that simplifies and eases its use for our customers, offers virtual workspaces, more power and performance and social collaboration for the fast-growing social enterprise market. The market's reaction has been overwhelmingly positive. MSM also launched several important product releases last quarter in the DPM space including the latest version of our BMC console management for zEnterprise, BMC MainView 6.1 and BMC Middleware Management.

As customers begin to adopt and capitalize on the advantages of the newest IBM Systems z release, the IBM zEnterprise EC12, BMC's products and solutions are ready to help our customers realize the full benefits of their investment in the mainframe platform. We are pleased to announce that BMC is once again an early adopter of the new zEnterprise platform, allowing us to stay ahead of the competition by receiving one of the first new z EC12 mainframes being shipped by IBM.

Finally, we continue to maintain operating discipline in MSM, with non-GAAP operating margin rising by one percentage point on a year-over-year basis to 62%. We believe the business is in very good shape, from a brand, technology innovation and operating discipline perspective. As we exit the trough and enter the strength of the MSM renewal cycle.

Moving forward to services, our professional services business had a mixed performance this quarter. Revenues declined by 5% year-over-year, although non-GAAP gross margin improved by 5 percentage points sequentially. With stronger expected license bookings, we expect growth in professional services to return, along with steady margin improvement. We continue to see strong services demand in our high-growth areas such as cloud computing and our SaaS offerings.

Before I conclude my initial comments, let me update you on an important area. In our continuing pursuit of delivering value to our shareholders, as you saw in today's press release, we announced that our Board of Directors has approved a new $1 billion share repurchase authorization. We expect to execute approximately $750 million of the repurchase authorization through an accelerated share repurchase agreement, which we expect to enter into in the company's fiscal third quarter ending December 31, 2012. We anticipate completing the remainder of this new $1 billion share repurchase authorization within the next 12 months.

The decision to authorize this share repurchase program comes after a thorough strategic review by the company's Board of Directors. At least annually, BMC and its Board review a broad array of strategic paths towards maximizing shareholder value. We believe it's responsible policy for a public company. With the assistance of outside advisers, the company regularly considers splits, spins, transformational acquisitions, sale and capital structure, along with internal investment strategies and independent public company path to success. After a series of discussions with major shareholders, this year we took a more robust approach to this regular process, including a subset of our Board to oversee the review.

The subset of the company's board, which led and oversaw the review, included Jim Schaper and John Dillon, two of BMC's newest directors, as well as Lou Lavigne and Mark Hawkins. After evaluating the results of this extensive review this committee unanimously recommended and BMC's board of directors unanimously agreed that the repurchase program, along with BMC's internal growth and operating strategies are the best outcome for BMC's share holders.

Management and our board are united and confident in our continued prospects and remain committed to delivering superior results and value to our share holders. We believe that new releases of our industry leading solutions, together with a launch of new products such and BMC's MyIT and positive progress on our go to market plans will further strengthen BMC's execution. Furthermore, we're taking additional steps to deliver on that commitment, which includes both a significant return of capital to our share holders as well as refocusing our internal investments with an increased emphasis on our high growth initiatives including our Cloud, automations and staff based solutions.

So, let me sum up the quarter for you and outline where we stand after the first half of fiscal 2013. As always, the economic environment in our key markets impact the ability of our customers to commit dollars to IT spending, and while that remains an uncertainty we're continuing to work to excel at the execution of those items under our control. With that said, we're clearly making progress in capturing the growth potential that lies ahead.

We've seen positive trends in a number of critical areas and we continue to deliver innovations that lead to market. Our sales force is stabilizing and capacity is increasing and we are positioned to improve our sales for productivity. Management is making the changes necessary to focus even more sharply on our growth markets and our customers. We remain highly profitable and financially strong, and as a reflection of these factors and our excitement about future prospects we are repurchasing an impressive amount of our outstanding shares. I'll come back and discuss what this means in terms of our outlook for the rest of the year after, Steve Solcher, takes you through our financial results in more detail.

Stephen B. Solcher

Thank you, Bob. Overall, we had a solid quarter as our financial results showed significant improvement versus the first quarter, and we're in line with our expectations across our key financial metrics. On a sequential basis revenue grew 9%. ESM license bookings grew 44% and non-GAAP operating income grew 34%. Total booking showed strong year-over-year growth of 13% and ESM license bookings grew 2% year-over-year. Our growth initiatives in Cloud and

CSC continue to show positive results and our financial position remains strong.

With that let me review our financial results for the second quarter in more detail. Non-GAAP operating income was $198 million down 8% from the second quarter of last year. Our second quarter non-GAAP operating margin was 36% down three percentage points from the year ago quarter. Please refer to slide 5 in our presentation for selected non-GAAP financial information which includes information on our ESM and MSM business units.

ESM's non-GAAP operating income in the second quarter declined to $72 million, down 19% from the year ago quarter. ESM's non-GAAP operating margin decreased year-over-year by five percentage points to 21%. MSM's non-GAAP operating income in the second quarter was $127 million, down 1% from the year ago period and MSM's non-GAAP operating margin increased 1 percentage point to 62%.

Our non-GAAP net earnings for the second quarter were $141 million, down 8% from the second quarter of fiscal 2012. Non-GAAP diluted earnings per share for the quarter was $0.88 per share. This reflects a non-GAAP effective tax rate for the quarter of 27%. GAAP operating income in the second quarter was $138 million, a decrease of 14% from the second quarter of fiscal 2012. GAAP net earnings and diluted earnings per share were $98 million and $0.61, respectively. Our results reflect diluted shares outstanding in the second quarter of $160 million versus $176 million in the respective prior year quarter.

Turning now to bookings, total bookings for the second quarter were $430 million, an increase of 13% compared to the year ago quarter. On a constant currency basis, second quarter bookings increased 12%. The weighted average contract length per total bookings on a trailing 12-month basis was 2.07 years, down 11% from the year ago period. After normalizing for contract length, trailing 12-month annualized bookings for the second quarter were $1billion, up 3% from the year ago period. Please refer to slide 7 in our presentation.

Now let me turn to the performance of each of our business units. Total ESM license bookings were $129 million in the second quarter, up 2% from the year ago quarter as reported and on a constant currency basis. Sequentially, ESM license bookings increased to 44%. Two key measures for our SaaS are monthly-recurring revenue, our MRR and SAS subscription revenue. MRR represents the combined monthly value of subscription fees associated with active customers. As of September 30th, our SaaS MMR totaled $2.3 million, a 138% increase compared to the year ago quarter. SaaS subscription revenue for the second quarter was $6.3 million, which grew 166% over the year ago period. SaaS subscription revenues reflected within maintenance revenue in our income statement.

Turning to the MSM business unit, trailing 12 month total MSM bookings decreased 16% as reported and 14% in constant currency, to $792 million and had an average contract length of 2.9 years, down 8% compared to the year ago period. After normalizing for contract length, total annualized MSM bookings for the trailing 12 months were $267 million, down 8% as reported and 6% in constant currency.

Turning to revenue, total revenue for the quarter was $548 million, down 2% as reported and flat on a constant currency basis compared to the second quarter of fiscal 2012. ESM total revenue was $345 million, down 1% compared to the year ago quarter and MSM total revenue for the quarter was down 2% to $204 million. Licensed revenue in the second quarter was $209 million, down 9% from the year ago as reported and down 8% on a constant currency basis. ESM license revenue was $129 million, down 12% while MSM license revenue was $80 million and down 4% from last year.

For the second quarter maintenance revenue was $285 million, an increase of 6% as reported and 7% in constant currency compared to the year ago quarter and up 2% sequentially. ESM maintenance revenue was $162 million, up 11% and MSM maintenance revenue was $124 million, down 1% compared to the second quarter of fiscal 2012. Professional services revenue, which is included in our ESM business unit, declined 5% from the year ago quarter as reported and 3% on a constant currency basis to $54 million in the second quarter.

Moving next to operating expenses, non-GAAP operating expenses for the second quarter were $350 million, up 3% from the year ago quarter. Looking at our business units, ESMs non-GAAP operating expenses for the second quarter were $273 million, up 5% from the year ago period and MSMs non-GAAP operating expenses were $77 million, down 5% from the year ago period. Other income in the second quarter was a loss of $6 million, compared with a loss of $5 million in the year-ago period.

Now turning to the balance sheet, total deferred license revenue at the end of the second quarter was $626 million, down 3% both sequentially and year-over-year. During the quarter, we deferred $76 million of license revenue, or 40% of license bookings, and recorded $98 million of deferred license revenue from the balance sheet. Total deferred revenue decreased by $118 million sequentially, to $1.8 billion. The current portion of deferred revenue now stands at 55%. Our software development costs as of September 30 were $262 million, as we capitalized $35 million and amortized $28 million during the quarter. Cash and investments totaled $1.5 billion, with 33% of our cash held domestically. At September 30, our net cash position was $636 million, while the domestic portion was in a net-net position of $350 million. For the quarter, cash flow from operations was $67 million.

During the second quarter, we repurchased 4.8 million shares of our stock for a total cost of $200 million. As Bob mentioned, we announced earlier today a new, $1 billion share repurchase authorization. At today's prices, this would represent repurchasing approximately 15% of our current shares outstanding. We expect to fund this program with cash on hand as well as other sources of liquidity available to the company. Along with our currently outstanding authorization, this new authorization brings our total outstanding share repurchase authorizations to a total of $1.5 billion.

This commitment to returning capital to shareholders is one example of our focus on enhancing shareholder value. We are also focused on enhancing shareholder value through our continued investment in proven growth opportunities in attractive markets such as cloud, SaaS and our commercial business. We are also investing in emerging growth opportunities with innovative new solutions such as MyIT. We will continue to increase the investment in these attractive growth opportunities by finding efficiencies and improving productivities in other areas of our business.

With that, I'll turn the call back over to Bob for his concluding remarks and updated expectations for fiscal 2013.

Robert E. Beauchamp

Thanks, Steve.

We are maintaining our current full-year expectation for non-GAAP diluted earnings per share. We expect non-GAAP diluted earnings per share in the range of $3.49 to $3.59 per share. At the midpoint, this would represent a 9% increase over fiscal 2012. This range excludes an estimated $1.13 to $1.18 per share for non-GAAP adjustments, including expenses related to the amortization of intangible assets, stock-based compensation, severance, exit costs and related charges, and proxy contest cost. We expect full year fiscal 2013 cash flow from operations to be between $785 million and $835 million which at the midpoint represent 1% increase over fiscal 2012, including the adverse impact from foreign currency exchange rates.

We do, however, want to update our full year fiscal 2013 expectations to reflect three factors. FX impact, given today's rates, uncertainty surrounding the broader macroeconomic environment, especially in Europe, and continued efforts to improve the sales force productivity and tenure in our ESM Sales Force. The current assumptions underlying our full year fiscal 2013 expectations include total Bookings growth in the mid single digits, with growth on a constant currency basis in the mid to high single digits, ESM License Bookings growth in the mid-single digits, with growth on a constant currency basis in the high single digits.

MSM Total Bookings declined in the low single digits and flat to up low single digits growth in constant currency, with annualized Bookings growth in the low double digits, revenue growth in the mid single digits with growth on a constant currency basis in the mid to high single digits. Non-GAAP operating margin's slightly lower than the prior year, other income at a loss of around $30 million. Weighted shares outstanding down mid to high single digits from the prior year, and a non-GAAP tax rate of 26%.

With that, we will now turn the call over to your questions. Operator?

Q&A

Operator

Thank you. [Operator Instructions] And from Cowen and Company, we'll go to Gregg Moskowitz.

<A - Robert E. Beauchamp>: Hey, Gregg, before you start if I can just make one comment. I just want to let everybody know that our thoughts are with our friends in the Northeast United States. And I've talked to a few people up there, and I understand how incredibly difficult it is on everybody there, so I just want to make sure that we're all with you. And, it's going to be an interesting few weeks, and anything we can do to help, let us know. Thank you. Go ahead, Gregg.

<Q>: Thanks for that. This is actually Matt [ph] on for Gregg. So I have just a couple of questions. How was your Financial Services business this quarter?

<A - Robert E. Beauchamp>: Say that again.

<Q>: Sorry. How was your Financial Services business this quarter?

<A - Robert E. Beauchamp>: Let me see if I – we had some really wins at Financial Services. Big European bank. We had a nice competitor replace an ESM. We had a big company in, I'll call it, the card business, the credit card business. We had a very nice win there. Competitor replace. Insurance was good. I'm looking at the list of all the customers. I don't know, Steve, do we have any particular numbers by sector for him today?

<A - Stephen B. Solcher>: No. I would say, like Bob said, I think if you just look at some of our larger wins in the quarter they were in the Financial Services sector itself and pretty much across the globe, not only in North America, Asia-PAC, Europe. I'm looking at a list now of about 10 or 15 and you're looking at, at least half of the bigger wins are in that sector.

<A - Robert E. Beauchamp>: And I would add this. We had a really solid quarter in our Northeast U.S. sales office which, if you recall, we were struggling with before, and that grew. It really delivered nicely and certainly they're heavy into Fiserv.

<Q>: Okay. Thanks. And I had one other question. How would you characterize the size and the quality of the pipeline as it stands today?

<A - Robert E. Beauchamp>: Yeah. It's pretty solid. I mean really if you look at the reason that we reaffirmed, one of the core reasons there has to do with the pipeline numbers. We don't know what we don't know about macro and what can happen, fiscal cliff and all those other uncertainties, but from just traditional measures that we look at traditionally this is a pretty solid pipeline. On ESM if you look at MSM you're really moving into the strength of the renewal cycle. We're coming out of the trough into the strength of the renewal cycle. So from a bottoms up perspective it's reasonably good numbers for us as we look forward.

<Q>: Thanks. And actually if I could just squeeze one more in. How is the Capgemini partnership going?

<A - Robert E. Beauchamp>: Really well in the standpoint of I believe we just completed the full migration to their platform, and the relationship is very solid. I don't have any numbers here in terms of any business impact to it, but the relationship is very good. We're now fully hosted on their platform for our SaaS platform. And they've been, by the way, very high quality service that they're delivering for us for, for instance, our Remedy OnDemand platform and we're very pleased with that.

<Q>: Thanks a lot, guys.

<A - Robert E. Beauchamp>: Okay.

Operator

Next will move onto Matt Hedberg with RBC Capital.

<Q - Matt Hedberg>: Hey, guys. Thanks for taking my questions. You guys have always done a really good job with staying ahead of the curve from a technology perspective. And I think SaaS, you've agreed that maybe you were a couple of quarters too late there, but it sounds like with the MRR results you guys are coming on pretty good there. I guess I'm wondering, from your ESM perspective, how do you think about software defined networking fitting into the overall strategy?

<A - Robert E. Beauchamp>: Yeah. So I mean anything that delivers more virtualization, more software control, gives BMC more opportunity. Right? The customers, if you think about it, as the customers virtualize their networking components just as that delivered a huge market opportunity for use in the network space, I mean in the server space, it delivers the same opportunity for us in the network space, including our heterogeneity play. The fact that there may be those out there that can deliver a component of it, of the capability, but we ride on top of it and can deliver a complete application stacked, a complete application management stacked, from the application code to the Middleware, to the database, to the server and now through the network layer. And that heterogeneity story becomes even more important as these components move from being a hard-wired component to being a virtualized software-based infrastructure. We think that plays very nicely to our strength.

<Q - Matt Hedberg>: That's great. Obviously ESM was much better than I think a lot of people thought. Can you give us a sense for the linearity into the December quarter? Are you expecting a normal 4Q flush? And I guess it's probably hard to say at this point, but do you think Sandy will have an impact on the Northeast sales with maybe some sales base being offline [ph] for a few days?

<A - Robert E. Beauchamp>: So on the Sandy part, it's too early to tell. I mean I don't think that a few days of our sales people being out will make a difference. What I don't know yet is what that does to our customers in the Northeast and the impact that will have yet. So it's just a little too early for me to give you an answer on that. I'll let Steve address the linearity question.

<A - Stephen B. Solcher>: On the linearity side, we're really looking at patterns that are very typical of what happening in 2009, 2010 and 2011 and not last year where we were flat sequentially. So we are looking for sequential increase. And that's primarily driven, as Bob said, to the pipeline building. We also see just gross capacity of sales people were up quite a bit. And tenures improving, attritions down, so that gives us confidence in this linear progression that we are expecting and not only in Q3 but Q4 slight improvement on a sequential basis.

<Q - Matt Hedberg>: That's great. And if I could squeeze in one last one, it's probably still a little too early to think about fiscal 2014, but in a given rebound this quarter in ESM with the mainframe renewal cycle that you expect, is there any high level schematic thoughts we should expect for 2014, and I guess maybe from margin perspective. Do you think we'd get back to some margin improvement in 2014?

<A - Robert E. Beauchamp>: So, let me take the first part. I think as you see the announcements we made today with our ITSM version 8 and the SaaS first methodology will be delivering on that platform going forward. The CLM platforms, the MyIT platforms, the new Control-M technologies that really take advantage of social networking mobility and all of the drivers that are changing the industry – Cloud Operations Management. What you'll see is a little bit of a shift from a single – this is just a continuation of what we started two quarters ago of a little more of a segmented sales model where you have a large account managers really handling those largest accounts in a very customized way and then as you move down the pyramid to the commercial accounts, a very low-friction, high-volume sales motion.

And you'll see these new products dropping into those sales engines in different ways. So you'll see us continue to expand, cause more – I mentioned on the call today, is building out unified architecture for go-to markets that is segmented. We'll be pushing that through in these new products coming on-board. We're going to spent more money on these – shift more of our resources to these high-growth areas, faster, as we launch into next year. And so our goal is to have the sales force, as we start fiscal 2014, really in a very good, stable, consistent environment and no big changes there. Our product lines really ramping-up, coming from early release into full production and ready to go. And really try to hit the ground running in 2014 without any big rocks moving around.

<Q - Matt Hedberg>: Thanks.

<A - Robert E. Beauchamp>: Okay.

Operator

Moving on to Michael Turits from Raymond James.

<Q - Michael Turits>: Hey, guys. Good evening. First of all, congrats on the results. Better than many, many people did this quarter.

<A - Robert E. Beauchamp>: Thank you, Michael.

<Q - Michael Turits>: Just on the buy-back, can you get into the mechanics a little bit more. A couple things we bought back, about 10% of shares. To me it looks like you might actually – by our calculations, could actually end up down more than mid to high-single-digits, would be one question. Also, how does it work in terms of use of onshore cash and how much cash do you have onshore? Are you using all of it with the $750 million and if you're going beyond that, you said you're getting it from other sources. Could you maybe go into what some of those mechanics are?

<A - Stephen B. Solcher>: Michael, I'm going to take it in two parts. The first piece of which is, the buyback that we announced in the result in ASR is not in any of the guidance that we've given you. So it's all upside. And that is strictly, we just have not executed that. So there is still some moving pieces in that. Once that's done, we will update then. I expect to do that in the December quarter. You're right, we are going to use onshore cash. Today we've got about $500 million in cash domestically. But we've got plenty of options in other sources, the liquidity and I'm not – frankly I'm just not worried at all about the ability to fund the ASR. That is something that we plan to do this quarter and we've got, the good news is, is we've got a lot of flexibility in how we accomplish that funding.

<Q - Michael Turits>: Okay. [indiscernible] I can't recall do you have a line out how much?

<A - Stephen B. Solcher>: We do. So we have a revolver today that's $400 million with an accordion feature that would allow us to expand at the $600 million. The credit markets are wide open today. A lot of liquidity. We do have foreign cash that we can tap that has a consequence. I'm not ready yet. We're still evaluating what we plan to do and we'll make that decision here shortly.

<Q - Michael Turits>: Okay. And then just if I could get one other question in? Bob, I wasn't quite clear on one comment you made about the sales reporting. You said that global sales I think would be reporting up to you. Carv's organization would be reporting up to you and that was a change. Can you be more specific on that?

<A - Robert E. Beauchamp>: Yeah. So with the new products coming out. With MyIT, we're going, after the really high volume you heard in the press release and in my quotes, or you saw in the press release and in my comments that PEMEX is talking about 75,000. We're talking to customers who are into North of 100,000 is the potential number of units. We're moving into some different businesses in a way. Same basic theme, but different businesses. And we've reached a point where we need to make a decision.

Are we going to create additional business units? So we have MSM and ESM and then maybe a business unit focused on SaaS. A business unit focused on MyIT. And as we work through that, we come to the conclusion that the best way forward is not to adopt a whole set of new business units, but rather move to a little bit more of a traditional software model where you have product line groups developing product lines that are integrated in our architecture. And our leadership will ensure that they're integrated and part of our overall architecture.

But then those products funnel through our sales channels. And the sales channels then need to be very well orchestrated. So they are not competing with each other, so that we've got good cost structures in it and compensations in it. That we don't fracture into multiple companies. As we get bigger here with these new products. So what Carv's going to do is lead that sales organization and really create the strategic, what we call the S1, the very top customers, will be treated differently than S2. We'll have E1, E2, commercial, indirect. We'll have some specialization groups and remedy force is an area we're really going to be putting some more dollars into and more focus on, maybe hear more about that later in the years, in the year. But that needs to be architected that way. So Carv is going to lead that reporting to me and we're moving away somewhat from the business unit structure over time.

<Q - Michael Turits>: Okay. Thanks.

<A - Robert E. Beauchamp>: Thank you.

Operator

Thanks. We'll hear from Aaron Schwartz with Jefferies.

<Q - Aaron M. Schwartz>: Good afternoon. The first question that I have is actually on the sales segmentation that you just spoke to. If we think about BMC moving to some higher volume sales, presumably ASP on those sales, how would that effect your views of gil tenure [ph] and then, also the impacts to cash flow growth going forward.

<A - Robert E. Beauchamp>: I'll let Steve address the cash flow aspect of it. But in general, if we're selling to one of the largest global outsourcers and systems integrators, then we will have essentially a vertical sales team that really focuses on global outsourcers and systems integrators. We'll probably be moving, or not probably, we will be moving towards a few more verticals like financial services and others, that we'll be servicing more directly. These are the very largest enterprises out there and we'll be, I view that as the top of the pyramid and that will be dealt with, with account executives who will be high touch. There'll be a team assigned to them, traditional large account management methodology, instead of one size fits all.

And then, it moves down, but at the bottom you'll have more traditional inside sales, telesales, pipeline generation. The things you see at, for instance, our good partner at salesforce.com and kind-of the engine they've set up which, I greatly admire. How their structure works. Where they have people early in their careers in IT doing very high volume pipeline generation. Then they pass the leads to inside sales people who can close them at a certain level. And then it moves up the stack and if it gets large enough then it'll move to an account manager who will manage their geography or zip code, et cetera. And all the way up the strategics. I don't know if I'm answering your question, but what would be moving, what Carv is developing is a segmented model with account executives and teams at the top and a high volume inside sales machine serving the entire stack and all the through into the commercial space. So, I hope that at least conceptually provides you with what you're looking for.

<Q - Aaron M. Schwartz>: Actually, I was looking more on the inside sales model and if you see higher volume sales there. Would you expect that to bring down, I guess, contract length a little bit? And then also, I believe you collect cash up front on multi-year deals, and as this shift goes on, presumably that would have some effect on cash flow?

<A - Stephen B. Solcher>: Well, Aaron, let me just quickly, just make two quick comments. One of which is, is this down segment move that Bob's talking about is completely incremental to the model that we have today. So this is a space that we're not playing heavily in. So anything that we would do here would be incremental. Number two is, this is a high-volume, low-touch, and the margins typically are better. You can look at solar winds, you can look sales force, you can look at others. And we're looking, as we're modeling this out, we are looking for it to be more profitable but the ASPs are going to be lower and we're going to have to drive a lot of volume. So the way I look at it is, it's all upside. This is incremental, it's not replace. And I would also add we're early days in this. This is a decision, not an organization that we're yet talking about scale. We're still in the early days of building this out.

<Q - Aaron M. Schwartz>: Okay. That's helpful. And second question, if I could, on the sales productivity and the improvement in sales tenure there, is there any way you can talk to that regionally? And what I'm getting at is certainly in Europe there's some issues that are obviously outside of your hands in terms of macro. Does that sale seem a little more up the curve in terms of tenure? Has that been – with most of the capacity adds in North America, can you provide any color around that?

<A - Robert E. Beauchamp>: Yeah. Go ahead. Steve's just got something.

<A - Stephen B. Solcher>: I was going to say, historically Europe has had a much higher tenure, and again the results would show that. And we did have some of the churn in the West, you heard us talk about previously, and in the Northeast as recent as last quarter.

<A - Robert E. Beauchamp>: Steve, U.S.

<A - Stephen B. Solcher>: Yeah, right. But we are looking for that to normalize. We're really looking for all the geos to really start increasing in productivity. The only caveat would be is we are mindful that the European economy and what's happening in Europe could be a natural headwind as we move forward.

<A - Robert E. Beauchamp>: We had a, by the way, just, for instance if you look at total bookings for the company, Europe was the only down geography. We had really nice growth. Latin America had a great quarter. Asia-Pacific had a really solid quarter. North America did well. Northeast North America did exceptionally well. And, by the way, the product groups generally had good solid across-the-board. So there were some nice things to see in this last quarter.

<Q - Aaron M. Schwartz>: Got it. Nice improvement. Thanks for taking the question.

<A - Robert E. Beauchamp>: Thank you.

Operator

Moving on to Susquehanna International Group, Derrick Wood.

<Q - Derrick Wood>: Thanks. I wanted to talk about the Cloud-related license bookings. Last quarter, you mentioned that it was up nearly double this quarter, up 30% in the first half, so I imagine that it was down year-over-year in the quarter. Can you just confirm this? And, I guess, as a follow-up, this would insinuate you had much stronger non-Cloud bookings numbers in the quarter. Maybe if you could talk about what products you saw particular strength and maybe how remedy on premises is tracking.

<A - Robert E. Beauchamp>: So it wasn't down in the quarter, but we didn't have as strong of a quarter and that primarily was a compare. A year ago in Q2 was probably the best Cloud quarter that we had, phenomenal growth; it was something that just made this quarter's compare. You're right that the good news is, is the automations phase which we saw quite a bit of growth was primarily driven by Blade and a lot of the other products that are surrounding the whole automation piece. If you look at CLM itself, the Cloud Lifecycle Management product, the SKU itself, for the six month period it was up over 140% year-over-year. And, by the way, CLM Version 3.0 is a big beautiful product. I mean, it's a very, very power upgrade to the product.

And, now to your product on Remedy, I want to tell you, as we think about Remedy, when you're going to take Remedy on-prem, Remedy SaaS, because we're not trying to move it one way or the other. We think about it total, and on total it grew.

<Q - Derrick Wood>: Okay. And just real quick shifting gears. So just to be clear, you've concluded your review process, your decision is to accelerate a buyback, and at this point, you've discarded any other strategic alternatives regarding a sale, a split, a spin or any big capital structure change?

<A - Robert E. Beauchamp>: What I would just say is that we completed the review, and this is where the Board has approved, so we're going to execute on this plan.

<Q - Derrick Wood>: I understand. And then on to normal operations from there?

<A - Robert E. Beauchamp>: Absolutely right. And normal operations is something that we're very focused on. Our internal investments, as I mentioned before, we'll be shifting more to our SaaS offerings, Remedyforce certainly is getting more, we'll be shifting more to Cloud, MyIT, we'll be shifting resources there so we've been working diligently to shift money to the high growth areas of the company and to accelerate our growth.

<Q - Derrick Wood>: Okay. Thank you.

Operator

And next we'll hear from Philip Winslow with Credit Suisse.

<Q - Philip A. Winslow>: All right. Thanks, guys. You gave some pretty impressive numbers in terms of just the growth and SaaS year-over-year and even quarter-to-quarter, but just wondering if you'd give us a sense for how much of that is organic versus how much of that monthly revenue run rate that you mentioned, in terms of your growth came from Numara, et cetera? And then just had one follow-up question after that.

<A - Robert E. Beauchamp>: Well Numara really isn't driving any of the SaaS. So the revenue, the primary SaaS revenue is either the Remedy, what we call Remedy OnDemand product which is the high-end product. Or it's Remedyforce which is...

<A - Stephen B. Solcher>: High volume.

<A - Robert E. Beauchamp>: Yeah. The high volume, more service desk-oriented product. So there's no, on the SaaS numbers, I would not, I would not say we got any benefit from the purchase accounting from Numara.

<Q - Philip A. Winslow>: Got it. Perfect. And then also just one more on Remedyforce. Bob, wondering if you'd just give us some more details there in terms of how you think about the current incremental customer gain there versus Remedy OnDemand versus these upcoming investments that you're going to make and how you think you're going to balance it.

<A - Robert E. Beauchamp>: Sure, so Remedyforce is where we're going to focus on a large volume of customer account. We, it's going to have high volume. We're winning, right now we're tracking. If a deal, a competitive deal with one of our biggest SaaS competitor, an ITSM, makes it to our deal desk, so we register it, we know about it, and we're working it, this last quarter we were about 60% win rate in that which is not good enough from my perspective. But nonetheless, it's pretty impressive. And we're winning now regularly head to head. And we'll be doing a lot more volume of that. Remedy OnDemand, those customers who are large, sophisticated IT service management, work flows, integrated work flows, integrated IT asset management, they basically they love the Remedy product line, but they want that delivered in a SaaS methodology than we lead with Remedy OnDemand. The customer can pick.

We are not, we're trying to make it easy for the customer to have choice. We're not trying to steer them one way or the other. We want to steer them to the one that meets their requirements. And we try to neutralize the compensation question so that our sales people aren't driven to do one versus the other. But Remedy OnDemand is really for those large, sophisticated organizations that really driving ITIL best practices, IT service management through the enterprise. And it largely skews to the world's largest enterprises.

<Q - Philip A. Winslow>: Perfect. Thanks, guys.

<A - Robert E. Beauchamp>: You bet.

Operator

And from Citi, we'll hear from Walter Pritchard.

<Q - Walter H. Pritchard>: Hi. Bob, wondering if you could just tell us in terms of sales capacity, you had some qualitative commentary, how much is your sales capacity at this up on a year-over-year basis? And what do you expect that to be as you enter fiscal 2014 in say six months.

<A - Robert E. Beauchamp>: Well it's up 28% from what it was a year ago as we entered the quarter. So big number.

<A - Stephen B. Solcher>: That's – when Bob gave you that, that's on a productive basis. So that is when you've been here six months or greater. Just gross capacity is up probably in the mid-teens.

<Q - Walter H. Pritchard>: And that's ESM only?

<A - Stephen B. Solcher>: That's ESM only. On the MSM side, it has been fairly stable. We are adding what I'd say is more of the attack reps, but the account manager side has been fairly stable. And by the way, MSM had an excellent quarter of new product placements in competitive replacements. They continue to do very, very well there on Control-M especially, but other products inside the portfolio.

<Q - Walter H. Pritchard>: And then, Steve, just two quick guidance questions, so first on the cash flow, if I look at where you are and through the first half of the year and I compare that to last year, you're actually significantly behind and it looks like you have a pretty big second half expected. What gives you the confidence in that on the cash? Is that just a mainframe renewal cycle starting to yield more as you get into the second half of the year?

<A - Stephen B. Solcher>: So I would say two things, that it is the mainframe renewal cycle, but it is exactly the way that I guided at the beginning of the fiscal year. I said do not look at 2012. Look at 2011 because 2012 was highly influenced by one transaction that we got in early. We're 35% of the way through our midpoint. And that is very typical of this time of the year if you just back out fiscal year 2012, which was completely skewed for one deal.

<Q - Walter H. Pritchard>: And then just...

<A - Stephen B. Solcher>: And then yes to your question. We are entering the strength of the renewal cycle for MSM as well.

<Q - Walter H. Pritchard>: And then just lastly on the EPS, it does look like you're going to take the share count down substantially with the ASR. Mike [ph], I priced you down about 11% and things like that has an impact on significant impact potentially to Q3 and Q4. Just curious, any thoughts on the EPS guidance you maintain despite looks like a share count that's coming down substantially?

<A - Robert E. Beauchamp>: Yeah. What we did, as I said and Turits asked this question and I said, we have not built into any of the expectations the upside that would come through the ASR.

<Q - Walter H. Pritchard>: Okay. Got it. Sorry. I missed that.

<A - Robert E. Beauchamp>: All right.

<Q - Walter H. Pritchard>: Thank you.

Robert E. Beauchamp

Okay. Thank you. Listen, I apologize. I'm going to be a little bit abrupt and shut it off only because I realize that we've ran past the hour and I show a few minutes after the hour and generally we like to try to wrap that up and we also have calls scheduled starting four minutes ago. So we better go. We look forward to anybody please work with Derrick if you'd like to visit with us. We'll be making trips to see many of you in the next few weeks. We look forward to talking with you all. And again, those of you in the Northeast, our thoughts are with you and good luck.

Operator

Ladies and gentlemen, that does conclude today's conference. Thank you for joining.