



## Technology

Analyst: Stephen Turner  
502.588.8675 / STurner@hilliard.com  
Institutional Sales Desk: George Moorin  
502.588.9141 / GMoorin@hilliard.com  
J.J.B. Hilliard, W.L. Lyons, LLC  
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### COMPANY UPDATE / ESTIMATE CHANGE

#### Key Metrics

TDC - NYSE - as of	4/26/17	\$32.00
Price Target		N/A
52-Week Range	\$24.21 -	\$33.32
Diluted Shares Outstanding (mil)		131.9
Market Cap. (\$mm)		\$4,220.8
1-Mo. Average Daily Volume		1,479,550
Institutional Ownership		99.0%
Debt/Total Capital (net) % Q1'17		0%
ROE		36.3%
Book Value / Share		\$6.50
Price / Book Value		3.5x
Dividend Yield		0.0%
LTM EBITDA Margin		15.0%

#### Non GAAP EPS FY 12/31

	Prior		Current		
	2016A	2017E	2017E	2018E	2018E
1Q	\$0.47		\$0.28	A \$0.34	\$0.28
2Q	\$0.71	\$0.40	\$0.34	\$0.42	\$0.37
3Q	\$0.69	\$0.38	\$0.29	\$0.39	\$0.35
4Q	\$0.67	\$0.45	\$0.34	\$0.35	\$0.33
Year	\$2.58	\$1.55	\$1.24	\$1.50	\$1.33
P/E	12.4x		25.8x		24.1x

#### Revenue (\$mm)

	Prior		Current		
	2016A	2017E	2017E	2018E	2018E
1Q	\$511		\$491	A \$488	\$478
2Q	\$564	\$532	\$523	\$527	\$511
3Q	\$552	\$518	\$512	\$522	\$505
4Q	\$626	\$597	\$587	\$602	\$578
Year	\$2,253	\$2,145	\$2,114	\$2,139	\$2,071

**Company Description:** *Teradata Corp. provides business analytics solutions, ecosystem architecture consulting and hybrid cloud solutions that help companies gain a competitive advantage from data. Teradata's 1,400 customers include those within telecom, financial service, transportation, consumer packaged goods, government, healthcare, manufacturing, and retail industries among others.*

## Teradata Corp.

TDC - NYSE – Neutral - 3

### Q1'17 Results and Q2 Guidance Miss Expectations; Transition Weighs on Results

- Results.** Teradata reported Q1'17 non GAAP EPS of \$0.28 vs. \$0.47 a year ago on revenue of \$491 million vs. \$511 million last year. (Figures exclude the Marketing Applications business which was sold last year.) Teradata missed our \$498 million revenue estimate and our EPS estimate of \$0.32. Teradata matched the consensus EPS view of \$0.28 but missed the consensus revenue estimate of \$495.9 million. Cash from operations totaled \$248 million vs. \$251 million in the year ago period. Free cash flow was \$230 million vs \$224 million, however cap ex is expected to increase throughout 2017 leading to lower FCF. Teradata has \$1.164 billion in cash (largely overseas) and debt of \$563 million.
- Highlights.** Management noted positive customer reception of Teradata's strategy and underlying Teradata demand remains healthy with 30% y/y T-core growth and recurring revenue increasing 7% y/y. However, this was offset by the transition to a subscription model which weighed on revenue as license revenue declined 24% y/y in Q1. Deferred revenue increased 1% y/y to \$528 million.
- Guidance.** Due to the shift to recurring revenue and higher spending levels in FY'17 vs. FY'16, management is now forecasting Q2'17 non GAAP revenue of \$510 million to \$530 million vs. our prior \$532 million estimate and EPS guidance of \$0.25 to \$0.30 vs. our prior view of \$0.40.
- Outlook.** We expect Q2'17 EPS of \$0.34 on revenue of \$523 million. Our Q2 revenue estimate declines \$9 million from our prior view as variability in the size and speed of customers switching to subscriptions limit our upside view and due to a continued challenging environment for the consulting business. Lower top line growth and higher operating expenses weigh on our full year EPS outlook of \$1.24 vs. \$1.55 previously. We do not currently expect significant operating improvement in FY'18.
- Opinion.** Maintain Neutral rating.

**Note Important Disclosures on Pages 6-7**  
**Note Analyst Certification on Page 6**

**ADDITIONAL DISCUSSION**

Product and cloud revenue was \$166 million, beating the consensus view of \$164 million and our \$165 million estimate. Management noted \$50 million of product revenue transitioned to subscription that will be recognized over time. Consulting revenue declined 3% y/y to \$149 million and was significantly below the \$167 million consensus estimate. On the conference call, management described the consulting business as a difficult area within the context of transitioning the business. Maintenance revenue equaled \$176 million, an increase of 5% y/y, which was well above the consensus view of \$167 million. Teradata has retrenched during its business transition to focus largely on the top 500 data driven companies. Its long term growth strategy includes a 3x increase in T-core consumption largely from these constituents by 2021 across Teradata's product offerings. During Q1, T-core demand increased 30% y/y. Annual recurring revenue increased to 51% of total revenue vs. 44% last year to \$252 million, increasing 7% y/y. Based on these metrics, we believe management is on target to achieve its goal. Gross margin was 51.1%, in line vs. last year and compared favorably to our 50.2% estimate. Teradata's operating expenses increased 14% y/y and are set to expand further throughout FY'17, negatively impacting profitability. Operating margin was 11.8% missing our 12.5% view, but largely surpassed the consensus estimate. The re-expansion of operating expenses was the result of increased R&D spending that will support consulting service initiatives and cloud infrastructure.

The company's transition to multiple cloud deployment options includes spending aggressively on its public cloud software only solutions, hybrid cloud solution, and fully managed Teradata Cloud solution. The revenue from such services are recognized ratably over time through a subscription or based on customer usage. This differs versus an on premise transaction which is largely recognized upfront. Therefore, the company's transition period is expected to reduce near-term revenue. Longer term, we expect a broader user base, faster deployments, increased usage, improved ease of use, and other factors to boost demand for Teradata analytical solutions. Due to the shift to recurring ratable revenue and higher spending levels in FY'17 vs. FY'16, management is now forecasting Q2'17 non GAAP revenue of \$510 million to \$530 million vs. our prior \$532 million estimate and EPS guidance of \$0.25 to \$0.30 vs. our prior view of 0.40. We expect Q2'17 EPS of \$0.34 on revenue of \$523 million. Our Q2 revenue declines \$9 million from our prior view as variability in the size and speed of customers switching to subscriptions limit our upside view and a continued challenging environment for the consulting business further pressures top line growth. Lower top line growth and higher operating expenses weigh on our Q2'17 EPS estimate which decreases to \$0.34 from \$0.40 and our full year outlook of \$1.24 vs. our prior view of \$1.55. We do not currently expect significant operating improvement within our initial FY'18 forecast.

**We maintain our Neutral rating as Teradata transitions its business to a subscription based model and invests heavily within its data analytics, consulting, and cloud portfolio.** Our Neutral recommendation is based on the continued transition of Teradata's business and the high level of uncertainty in near-term results. We believe the pullback in TDC's share price is justified as Teradata shares had advanced beyond that of actual results, in our view. We believe TDC shares trade at an extended P/E multiple of 24x our FYE'17 EPS estimate of \$1.24, a four year high, based on an intraday price of \$29.55 per share. Factoring in the company's large overseas net cash balance of \$4.57 per share, TDC shares trade at a forward P/E multiple of 20x our FY'17 EPS estimate, a level we also consider expensive given the company's continued challenges as we expect revenues to remain under pressure through 2017-'18 along with significant increased spending. Teradata generates strong cash flow which is unaffected by the change in revenue recognition resulting from the shift to subscriptions. Teradata's free cash flow yield is above 8% which has typically been a strong entry point for investors. However, free cash flow is expected to be negatively impacted from increased spending on required investments going forward. **At this juncture we are willing to be patient for a strong buying opportunity as management repositions the company's offerings for the future all the while Teradata remains the leader in data management solutions/analytics.**

**SUITABILITY**

We assign shares of TDC a suitability rating of 3 on our scale of 1-4 (1 = most conservative, 4 = most aggressive). A 3 rating is given based on Teradata's lack of history as a public company, while we also incorporate the company's solid balance sheet and free cash flow generating ability. We believe a suitability rating of 3 incorporates these attributes and the effects that cloud architecture and cheaper data analytic solutions may have on future performance. Shares of TDC are suitable for growth oriented investors seeking long-term capital appreciation, in our view.

## Teradata Corp. (TDC) (\$'s in millions) FYE Dec.

Balance Sheet	FY'06	FY'07	FY'08	FY'09	FY'10	FY'11	FY'12	FY'13	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17
Cash and cash equivalents	\$ -	\$ 270	\$ 402	\$ 661	\$ 883	\$ 772	\$ 729	\$ 695	\$ 834	\$ 839	\$ 917	\$ 909	\$ 988	\$ 974	\$ 974	\$ 1,164
Short-term investments	-	-	40													
Accounts receivable, net	379	507	451	387	402	494	668	717	619	580	519	465	426	548	548	442
Inventories	39	51	44	47	65	61	47	56	38	49	54	37	44	34	34	40
Other current assets	84	45	78	57	56	85	90	95	81	372	187	184	59	57	57	58
Total current assets	502	873	1,015	1,152	1,406	1,412	1,534	1,563	1,572	1,840	1,677	1,595	1,517	1,613	1,613	1,704
Property and equipment, net	64	94	88	95	105	120	150	161	159	143	131	129	131	138	138	142
Capitalized software, net	59	61	80	102	116	140	173	195	199	190	190	192	193	187	187	167
Goodwill	90	90	110	109	136	742	932	946	948	380	384	384	396	390	390	392
Acquired intangible assets	-	-	-	-	12	163	186	149	136	22	17	15	13	11	11	10
Deferred income taxes	265	140	109	84	59	28	29	24	20	37	48	48	46	49	49	50
Other assets	23	36	28	27	49	11	62	58	98	20	17	19	18	17	17	18
Total assets	1,003	1,294	1,430	1,569	1,883	2,616	3,066	3,096	3,132	2,632	2,464	2,382	2,314	2,405	2,405	2,483
Current portion of long-term debt									273	210	110	30	30	30	30	38
Accounts payable	67	120	99	102	102	97	141	114	126	96	83	104	93	103	103	89
Payroll and benefits liabilities	78	91	83	109	134	169	158	136	125	120	118	125	125	139	139	109
Deferred revenue	194	246	255	256	263	339	375	390	370	367	506	430	361	369	369	514
Other current liabilities	54	115	103	76	70	90	132	136	101	160	151	130	79	78	78	85
Total current liabilities	393	572	540	543	569	695	806	776	995	953	968	819	688	719	719	835
Long-term debt	-	-	-	-	-	290	274	248	195	570	560	552	545	538	538	523
Pension and other postemployment plan liabilities	-	88	83	83	85	77	73	76	99	89	81	88	88	96	96	101
Long-term deferred revenue							30	25	18	15	15	16	14	14	14	14
Deferred tax liabilities								87	86	39	20	17	20	33	33	25
Other liabilities	19	3	30	33	40	60	104	27	32	27	26	26	27	34	34	31
Total liabilities	412	663	653	659	694	1,122	1,287	1,239	1,425	1,693	1,670	1,518	1,382	1,434	1,434	1,529
<b>Shareholders Equity</b>																
Preferred stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Common stock	-	2	2	2	2	2	2	2	1	1	1	1	1	1	1	1
Paid-in Capital	-	555	572	622	690	765	898	973	1,054	1,128	1,158	1,178	1,203	1,220	1,220	1,243
Treasury stock	-	-	(137)	(311)	(399)	(526)	(806)	(1,184)	-	-	-	-	-	-	-	-
Retained earnings	-	79	329	583	884	1,237	1,656	2,033	656	(114)	(297)	(246)	(206)	(161)	(161)	(207)
Parent company investment	573															
Accumulated other comprehensive income	18	(5)	11	14	12	16	29	33	(4)	(76)	(68)	(69)	(66)	(89)	(89)	(83)
Total stockholders' equity	591	631	777	910	1,189	1,494	1,779	1,857	1,707	939	794	864	932	971	971	954
Total liabilities and stockholders' equity	1,003	1,294	1,430	1,569	1,883	2,616	3,066	3,096	3,132	2,632	2,464	2,382	2,314	2,405	2,405	2,483

Source: Company data

## Teradata Corp. (TDC) (\$'s in millions) FYE Dec.

Income Statement	FY'10	FY'11	FY'12	FY'13	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Total revenue	\$ 1,936	\$ 2,383	\$ 2,671	\$ 2,692	\$ 2,732	\$ 2,377	\$ 511	\$ 564	\$ 552	\$ 626	\$ 2,253	\$ 491	\$ 523	\$ 512	\$ 587	\$ 2,114	\$ 2,071
Total cost of revenue	845	1,060	1,150	1,184	1,216	1,124	250	265	254	305	1,074	240	264	261	296	1,061	1,023
Selling, general and administrative	506	614	674	702	715	635	131	132	134	141	538	127	144	144	168	583	602
Research and development	144	161	169	165	180	166	38	36	42	54	170	66	50	53	60	229	214
Total operating expenses	650	775	843	867	895	801	169	168	176	195	708	193	194	197	228	812	816
Total costs and operating expenses	1,495	1,835	1,993	2,051	2,111	1,925	419	433	430	500	1,782	433	458	458	524	1,873	1,839
Income from operations	441	557	678	641	621	452	92	131	122	126	471	58	65	54	63	241	232
Other income, net	(1)	(3)	(2)	-2	-	(6)	(3)	(2)	(2)	(10)	(17)	(1)	(2)	(2)	(4)	(9)	(11)
Income before income taxes	440	554	676	639	621	446	89	129	120	116	454	57	63	52	59	232	221
Income tax expense	123	155	187	180	169	122	27	35	29	27	118	20	19	14	15	68	44
Net income	317	399	489	459	452	324	62	94	91	89	336	37	44	39	45	165	177
Diluted Non GAAP EPS	\$ 1.86	\$ 2.32	\$ 2.85	\$ 2.76	\$ 2.86	\$ 2.28	\$ 0.47	\$ 0.71	\$ 0.69	\$ 0.67	\$ 2.56	\$ 0.28	\$ 0.34	\$ 0.29	\$ 0.34	\$ 1.24	\$ 1.33
Weighted Avg. Diluted Shrs. Outs.	170.4	171.9	171.7	166.4	157.8	141.9	130.9	131.5	131.6	132.0	131.5	131.9	132.3	132.5	133.0	132.4	132.8
<b>Year/Year Growth Rate</b>																	
Total revenue		23.1%	12.1%	0.8%	1.5%	-13.0%	-6.1%	-3.6%	-2.8%	-7.9%	-5.2%	-3.9%	-7.2%	-7.2%	-6.2%	-6.2%	-2.0%
Total cost of revenue		25.4%	8.5%	3.0%	2.7%	-7.6%	-8.1%	0.8%	-4.9%	-5.3%	-4.4%	-4.0%	-0.4%	2.8%	-3.0%	-1.2%	-3.6%
Total operating expenses		19.2%	8.8%	2.8%	3.2%	-10.5%	-15.1%	-17.2%	-4.3%	-9.3%	-11.6%	14.2%	15.5%	11.9%	16.9%	14.7%	0.5%
Total costs and operating expenses		22.7%	8.6%	2.9%	2.9%	-8.8%	-11.0%	-7.1%	-4.7%	-6.9%	-7.4%	3.3%	5.8%	6.5%	4.8%	5.1%	-1.8%
Income from operations		26.3%	21.7%	-5.5%	-3.1%	-27.2%	26.0%	10.1%	4.3%	-11.9%	4.2%	-37.0%	-50.0%	-55.4%	-49.6%	-48.8%	-3.7%
Net income		25.9%	22.6%	-6.1%	-1.5%	-28.3%	19.2%	9.3%	7.1%	-11.9%	3.7%	-40.3%	-52.8%	-57.4%	-49.9%	-50.9%	7.4%
Diluted shares outstanding		0.9%	-0.1%	-3.1%	-5.2%	-10.1%	-11.4%	-8.9%	-6.9%	-1.5%	-7.3%	0.8%	0.6%	0.7%	0.8%	0.7%	0.2%
<b>Percentage of Revenue</b>																	
Total cost of revenue	43.6%	44.5%	43.1%	44.0%	44.5%	47.3%	48.9%	47.0%	46.0%	48.7%	47.7%	48.9%	50.4%	50.9%	50.4%	50.2%	49.4%
Selling, general and administrative	26.1%	25.8%	25.2%	26.1%	26.2%	26.7%	25.6%	23.4%	24.3%	22.5%	23.9%	25.9%	27.5%	28.1%	28.6%	27.6%	29.1%
Research and development	7.4%	6.8%	6.3%	6.1%	6.6%	7.0%	7.4%	6.4%	7.6%	8.6%	7.5%	13.4%	9.6%	10.3%	10.2%	10.8%	10.3%
Total operating expenses	33.6%	32.5%	31.6%	32.2%	32.8%	33.7%	33.1%	29.8%	31.9%	31.2%	31.4%	39.3%	37.1%	38.4%	38.8%	38.4%	39.4%
Total costs and operating expenses	77.2%	77.0%	74.6%	76.2%	77.3%	81.0%	82.0%	76.8%	77.9%	79.9%	79.1%	88.2%	87.5%	89.4%	89.2%	88.6%	88.8%
<b>Margin Analysis</b>																	
Gross Profit	56.4%	55.5%	56.9%	56.0%	55.5%	52.7%	51.1%	53.0%	54.0%	51.3%	52.3%	51.1%	49.6%	49.1%	49.6%	49.8%	50.6%
Operating Margin	22.8%	23.4%	25.4%	23.8%	22.7%	19.0%	18.0%	23.2%	22.1%	20.1%	20.9%	11.8%	12.5%	10.6%	10.8%	11.4%	11.2%
Net Profit Margin	16.4%	16.7%	18.3%	17.1%	16.5%	13.6%	12.1%	16.7%	16.5%	14.2%	14.9%	7.5%	8.5%	7.6%	7.6%	7.8%	8.5%

Source: Company reports &amp; Hilliard Lyons estimates.

**RISKS & CONSIDERATIONS**

Investment considerations and risks:

- Changes in macroeconomic conditions can affect global IT spending
- Transitioning the Teradata product portfolio to cloud based offerings may negatively impact near term performance and/or generate lower profitability
- Increased competition could result in lower prices, and new technologies could disrupt current technology trends
- Teradata's competitors are well capitalized and have significant brand recognition that could negatively impact Teradata's results
- Seasonal sales trend challenges. The company typically experiences higher revenues in the latter part of the year while first quarter revenues are typically lower. Included in this is the revenue mix; profitability can be affected based on the percentage of products versus services the company sells during a given quarter
- Reliance on third parties as key suppliers and strategic partners could materially impact results
- Retaining top talent, as Teradata creates highly advanced products and solutions that require expertise in development
- International operations pose a risk on many fronts, but can also be viewed as a significant opportunity
- Cyber-attacks to Teradata systems could result in significant customer attrition
- Teradata may acquire other companies, which may cause uncertainties if not integrated properly

*Additional information is available upon request.*

**Analyst Certification**

I, Stephen Turner, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

**Important Disclosures**

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

**Suitability Ratings**

**1** - A large cap, core holding with a solid history

**2** - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

**3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

**4** - Speculative, due to small size, inconsistent profitability, erratic revenues, volatility, low trading volume or a narrow customer or product base

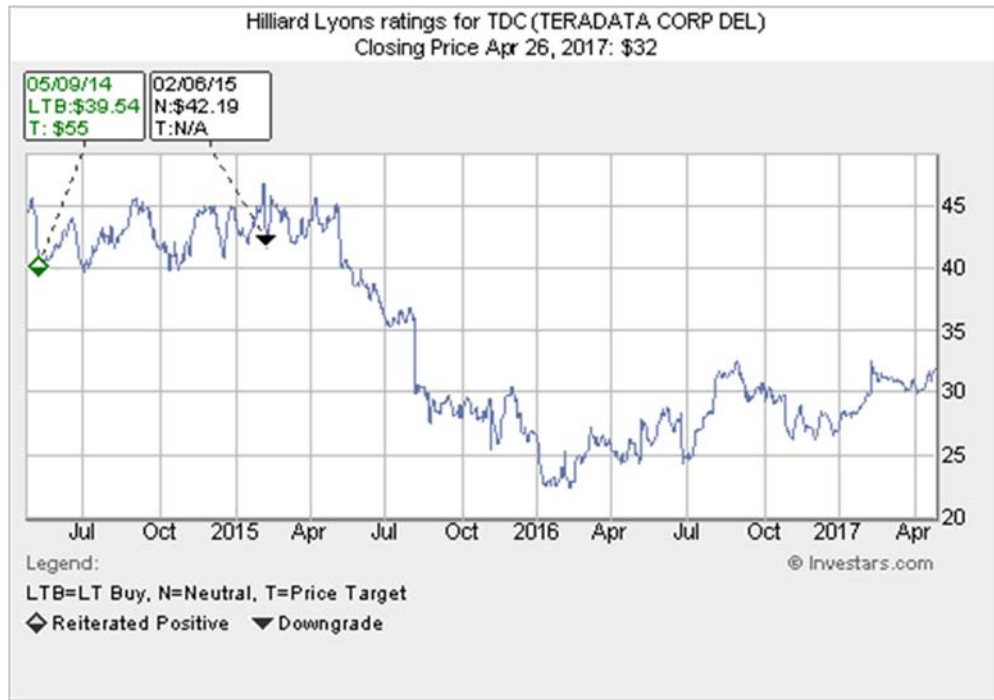
**Investment Ratings**

**Buy** - We believe the stock has significant total return potential in the coming 12 months.

**Long-term Buy** - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

**Neutral** - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

**Underperform** - We believe the stock is vulnerable to a price setback in the next 12 months.



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	30%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 2017

**Other Disclosures**

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

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