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COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

TDC - NYSE - as of	2/9/17	$32.74
Price Target		N/A
52-Week Range		$22.10 - $33.32
Diluted Shares Outstanding (mil)		132.0
Market Cap. ($mm)		$4,321.7
1-Mo. Average Daily Volume		2,500,000
Institutional Ownership		99.0%
Debt/Total Capital (net) % Q4'16		0%
ROE		34.2%
Book Value / Share		$6.50
Price / Book Value		3.6x
Dividend Yield		0.0%
LTM EBITDA Margin		1.4%

Non GAAP EPS FY 12/31

	2015A	Prior 2016A	Current 2016A	Prior 2017E	Current 2017E
1Q	$0.35		$0.47	$0.35	$0.32
2Q	$0.60		$0.71	$0.44	$0.40
3Q	$0.60		$0.69	$0.46	$0.38
4Q	$0.75		$0.67	$0.56	$0.45
Year	$2.28		$2.58	$1.80	$1.55
P/E	14.4x		12.7x		21.1x

Revenue ($mm)

	2015A	Prior 2016A	Current 2016A	Prior 2017E	Current 2017E
1Q	$544		$511	$491	$ 498
2Q	$585		$564	$538	$ 532
3Q	$568		$552	$533	$ 518
4Q	$680		$626	$617	$ 597
Year	$2,377		$2,253	$2,179	$2,145

Company Description: *Dayton, OH–based Teradata Corp. provides integrated (hardware & software) enterprise-wide data warehousing solutions, big data analytic solutions, and services that help companies gain a competitive advantage from data. Customers include those within financial service, government, healthcare, communications, and retail industries among others.*

Teradata Corp.

TDC - NYSE – Neutral - 3

Mixed Q4'16 Results; Transition to Subscription Model to Increase Costs and Reduce Revenue in FY'17

- **Results.** Teradata reported Q4'16 non GAAP EPS of $0.67 vs. $0.75 a year ago on revenue of $626 million vs. $680 million last year. This excludes the Marketing Applications business which generated $39 million in the year ago quarter, $40 million of product revenue that shifted to subscription revenue recognized over time, and $7 million of F/X headwinds. Teradata missed our $630 million revenue estimate but with the above noted adjustments, Teradata experienced solid core results, in our view. Teradata beat our EPS estimate of $0.60 by $0.07. Cash from operations totaled $52 million vs. $31 million in the year ago period. Free cash flow was $20 million vs $5 million, but we expect higher cap ex spending in 2017. Teradata has $974 million in cash and debt of $568 million.
- **Guidance.** The transition to subscription services is expected to lower revenue in Q1 and throughout FY'17. Due to this shift and a higher expected cost basis in FY'17, management is now expecting Q1'17 non GAAP revenue of $500 million, above our prior $491 million view and EPS guidance of $0.25 to $0.30, below our prior view of $0.35. No full year outlook was provided.
- **Outlook.** We expect Q1'17 EPS of $0.32 on revenue of $498 million. While our FY'17 view decreases, we believe earnings and the resulting TDC share price could remain volatile in future periods from the business model transition and the pending ASC 606 revenue recognition policy changes. We believe Teradata's turnaround strategy is accelerating and look to new metrics including T-core growth and annual recurring revenue vs. top line growth as an indication of the company's success. We forecast Teradata results to improve more significantly in outer years starting in FY'18 and '19 as new costs are absorbed.
- **Opinion.** We reaffirm our Neutral rating.

Note Important Disclosures on Pages 5-6
Note Analyst Certification on Page 5

ADDITIONAL DISCUSSION

Teradata's level of earnings in FY'16 may not be repeatable in FY'17. The company beat our EPS view by $0.07 after exiting the high cost Marketing Application business and significantly cutting SG&A costs y/y. We expect a re-expansion of operating expenses from increased spending on consulting service initiatives and cloud infrastructure in 2017 to support these growth areas. The increased spending among three consulting solutions includes Analytic Business Consulting, Analytic Solutions, and Ecosystem Architecture Consulting which are expected to boost Teradata usage and customer demand. The Teradata Everywhere software deployment strategy which makes Teradata available on-premise, through a managed cloud deployment, private cloud, and public cloud providers is gaining traction. Management noted $40 million of product revenue transitioned to subscription. Teradata remains focused on its top 500 data driven companies and its long term growth strategy which includes a 3x increase in T-core consumption from 2016-2021 agnostic of deployment strategy. This growth is driven by recurring revenue from new hybrid cloud solutions and consulting services. Management noted annual recurring revenue was 42% of total revenue in 2016 and grew in the high single digits. Management expects annual recurring revenue to represent almost half of total revenue following 2017.

Our Q1'17 revenue outlook improves to $498 million vs. our overly cautious prior estimate of $491 million. Our EPS view however has been reduced to $0.32 from our prior view of $0.35 on higher than expected spending increases. As we previously noted, we expect all cost savings in 2016 to be reinvested into R&D and other infrastructure spending in 2017 which is one reason we have maintained our Neutral rating despite higher near term earnings in 2016. 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. As a result of these initiatives, our FY'17 outlook declines significantly. Our FY'17 EPS estimate declines to $1.55 from our prior view of $1.80 and our revenue estimate declines to $2.145 billion from $2.179 billion.

We maintain our Neutral rating as Teradata transitions its product lineup and invests heavily within its data analytics 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. Following yesterday's roughly 10% increase in TDC share price, we believe investor expectations have gotten ahead of actual results and that Teradata's future results may take longer than expected to return to prior levels. TDC shares trade at a P/E multiple of 21x our FYE'17 EPS estimate of $1.55, a four year high. Factoring in the company's large cash balance, shares trade at a forward P/E multiple of 19x our FY'17 EPS estimate, a level we consider high and a significant premium to peers based on Teradata's continued challenges as we expect revenues to remain under pressure through 2017 and expenses to rise. Our forward estimates are however above the consensus view, and as such we expect less downside risk to TDC shares despite the current premium valuation resulting in our Neutral opinion. Teradata also generates significant cash flow, which will be negatively impacted through the current heavy investment period. We will look for a buying opportunity as the management team positions the company for the future.

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 affects 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
Cash and cash equivalents	$ -	$ 270	$ 402	$ 661	$ 883	$ 772	$ 729	$ 695	$ 834	$ 839	$ 917	$ 909	$ 988	$ 974	$ 974
Short-term investments	-	-	40												
Accounts receivable, net	379	507	451	387	402	494	668	717	619	580	519	465	426	548	548
Inventories	39	51	44	47	65	61	47	56	38	49	54	37	44	34	34
Other current assets	84	45	78	57	56	85	90	95	81	372	187	184	59	57	57
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
Property and equipment, net	64	94	88	95	105	120	150	161	159	143	131	129	131	138	138
Capitalized software, net	59	61	80	102	116	140	173	195	199	190	190	192	193	187	187
Goodwill	90	90	110	109	136	742	932	946	948	380	384	384	396	390	390
Acquired intangible assets	-	-	-	-	12	163	186	149	136	22	17	15	13	11	11
Deferred income taxes	265	140	109	84	59	28	29	24	20	37	48	48	46	49	49
Other assets	23	36	28	27	49	11	62	58	98	20	17	19	18	17	17
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
Current portion of long-term debt									273	210	110	30	30	30	30
Accounts payable	67	120	99	102	102	97	141	114	126	96	83	104	93	103	103
Payroll and benefits liabilities	78	91	83	109	134	169	158	136	125	120	118	125	125	139	139
Deferred revenue	194	246	255	256	263	339	375	390	370	367	506	430	361	369	369
Other current liabilities	54	115	103	76	70	90	132	136	101	160	151	130	79	78	78
Total current liabilities	393	572	540	543	569	695	806	776	995	953	968	819	688	719	719
Long-term debt	-	-	-	-	-	290	274	248	195	570	560	552	545	538	538
Pension and other postemployment plan liabilities	-	88	83	83	85	77	73	76	99	89	81	88	88	96	96
Long-term deferred revenue							30	25	18	15	15	16	14	14	14
Deferred tax liabilities								87	86	39	20	17	20	33	33
Other liabilities	19	3	30	33	40	60	104	27	32	27	26	26	27	34	34
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
Shareholders Equity															
Preferred stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Common stock	-	2	2	2	2	2	2	2	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
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)
Parent company investment	573														
Accumulated other comprehensive income	18	(5)	11	14	12	16	29	33	(4)	(76)	(68)	(69)	(66)	(89)	(89)
Total stockholders' equity	591	631	777	910	1,189	1,494	1,779	1,857	1,707	939	794	864	932	971	971
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

Source: Company data

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

Income Statement	FY'10	FY'11	FY'12	FY'13	FY'14	Q1'15	Q2'15	Q3'15	Q4'15	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17E	Q2'17E	Q3'17E	Q4'17E	FY'17E
Total revenue	$1,936	$2,383	$2,671	$2,692	$2,732	$ 544	$ 585	$ 568	$ 680	$2,377	$ 511	$ 564	$ 552	$ 626	$ 2,253	$ 498	$ 532	$ 518	$ 597	$ 2,145
Total cost of revenue	845	1,060	1,150	1,184	1,216	272	263	267	322	1,124	250	265	254	305	1,074	248	259	255	288	1,050
Selling, general and administrative	506	614	674	702	715	152	160	148	175	635	131	132	134	141	538	138	152	144	168	602
Research and development	144	161	169	165	180	47	43	36	40	166	38	36	42	54	170	50	46	50	56	202
Total operating expenses	650	775	843	867	895	199	203	184	215	801	169	168	176	195	708	188	198	194	224	804
Total costs and operating expenses	1,495	1,835	1,993	2,051	2,111	471	466	451	537	1,925	419	433	430	500	1,782	436	457	449	512	1,854
Income from operations	441	557	678	641	621	73	119	117	143	452	92	131	122	126	471	62	75	69	85	291
Other income, net	(1)	(3)	(2)	-2	-	(1)	(1)	(2)	(2)	(6)	(3)	(2)	(2)	(10)	(17)	(2)	(2)	(2)	(4)	(10)
Income before income taxes	440	554	676	639	621	72	118	115	141	446	89	129	120	116	454	60	73	67	81	281
Income tax expense	123	155	187	180	169	20	32	30	40	122	27	35	29	27	118	18	20	17	20	75
Net income	317	399	489	459	452	52	86	85	101	324	62	94	91	89	336	42	53	50	60	206
Diluted Non GAAP EPS	$ 1.86	$ 2.32	$ 2.85	$ 2.76	$ 2.86	$ 0.35	$ 0.60	$ 0.60	$ 0.75	$ 2.28	$ 0.47	$ 0.71	$ 0.69	$ 0.67	$ 2.56	$ 0.32	$ 0.40	$ 0.38	$ 0.45	$ 1.55
Weighted Avg. Diluted Shrs. Outs.	170.4	171.9	171.7	166.4	157.8	147.7	144.4	141.4	134.0	141.9	130.9	131.5	131.6	132.0	131.5	131.5	132.0	132.5	133.0	132.3
Year/Year Growth Rate																				
Total revenue		23.1%	12.1%	0.8%	1.5%	-13.4%	-13.5%	-14.8%	-10.6%	-13.0%	-6.1%	-3.6%	-2.8%	-7.9%	-5.2%	-2.5%	-5.7%	-6.1%	-4.7%	-4.8%
Total cost of revenue		25.4%	8.5%	3.0%	2.7%	-3.9%	-11.4%	-13.3%	-1.8%	-7.6%	-8.1%	0.8%	-4.9%	-5.3%	-4.4%	-0.8%	-2.3%	0.4%	-5.6%	-2.2%
Total operating expenses		19.2%	8.8%	2.8%	3.2%	-9.5%	-7.7%	-12.0%	-12.6%	-10.5%	-15.1%	-17.2%	-4.3%	-9.3%	-11.6%	11.2%	17.9%	10.2%	14.9%	13.6%
Total costs and operating expenses		22.7%	8.6%	2.9%	2.9%	-6.4%	-9.9%	-12.8%	-6.4%	-8.8%	-11.0%	-7.1%	-4.7%	-6.9%	-7.4%	4.1%	5.5%	4.4%	2.4%	4.0%
Income from operations		26.3%	21.7%	-5.5%	-3.1%	-41.6%	-25.2%	-22.0%	-23.5%	-27.2%	26.0%	10.1%	4.3%	-11.9%	4.2%	-32.5%	-42.7%	-43.2%	-32.8%	-38.2%
Net income		25.9%	22.6%	-6.1%	-1.5%	-40.2%	-24.6%	-23.4%	-27.9%	-28.3%	19.2%	9.3%	7.1%	-11.9%	3.7%	-31.6%	-43.7%	-45.3%	-32.0%	-38.8%
Diluted shares outstanding		0.9%	-0.1%	-3.1%	-5.2%	-8.2%	-9.4%	-10.0%	-13.0%	-10.1%	-11.4%	-8.9%	-6.9%	-1.5%	-7.3%	0.5%	0.4%	0.7%	0.8%	0.6%
Percentage of Revenue																				
Total cost of revenue	43.6%	44.5%	43.1%	44.0%	44.5%	50.0%	45.0%	47.0%	47.4%	47.3%	48.9%	47.0%	46.0%	48.7%	47.7%	49.8%	48.7%	49.2%	48.3%	48.9%
Selling, general and administrative	26.1%	25.8%	25.2%	26.1%	26.2%	27.9%	27.4%	26.1%	25.7%	26.7%	25.6%	23.4%	24.3%	22.5%	23.9%	27.7%	28.6%	27.8%	28.2%	28.1%
Research and development	7.4%	6.8%	6.3%	6.1%	6.6%	8.6%	7.4%	6.3%	5.9%	7.0%	7.4%	6.4%	7.6%	8.6%	7.5%	10.0%	8.6%	9.6%	9.4%	9.4%
Total operating expenses	33.6%	32.5%	31.6%	32.2%	32.8%	36.6%	34.7%	32.4%	31.6%	33.7%	33.1%	29.8%	31.9%	31.2%	31.4%	37.7%	37.2%	37.4%	37.5%	37.5%
Total costs and operating expenses	77.2%	77.0%	74.6%	76.2%	77.3%	86.6%	79.7%	79.4%	79.0%	81.0%	82.0%	76.8%	77.9%	79.9%	79.1%	87.5%	85.9%	86.6%	85.8%	86.4%
Margin Analysis																				
Gross Profit	56.4%	55.5%	56.9%	56.0%	55.5%	50.0%	55.0%	53.0%	52.6%	52.7%	51.1%	53.0%	54.0%	51.3%	52.3%	50.2%	51.3%	50.8%	51.7%	51.1%
Operating Margin	22.8%	23.4%	25.4%	23.8%	22.7%	13.4%	20.3%	20.6%	21.0%	19.0%	18.0%	23.2%	22.1%	20.1%	20.9%	12.5%	14.1%	13.4%	14.2%	13.6%
Net Profit Margin	16.4%	16.7%	18.3%	17.1%	16.5%	9.6%	14.7%	15.0%	14.9%	13.6%	12.1%	16.7%	16.5%	14.2%	14.9%	8.5%	10.0%	9.6%	10.1%	9.6%

Source: Company reports & 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.

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	**# of Stocks Covered**	**% of Stocks Covered**	**Banking**	**No Banking**
Buy	36	30%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 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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