



Technology

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COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

TDC - NYSE - as of	2/12/18	\$35.93
Price Target		N/A
52-Week Range	\$27.05 -	\$42.74
Diluted Shares Outstanding (mil)		121.0
Market Cap. (\$mm)		\$4,347.5
1-Mo. Average Daily Volume		1,503,203
Institutional Ownership		110.9%
Debt/Total Capital (net) % Q4'17		0%
ROE		-8.2%
Book Value / Share		\$5.52
Price / Book Value		0.0x
Dividend Yield		0.0%
LTM EBITDA Margin		9.0%

Non GAAP EPS FY 12/31

	Prior	Current	Prior	Current
	2016A	2017E	2018E	2018E
1Q	\$0.47	\$0.28	\$0.34	\$0.20
2Q	\$0.71	\$0.22	\$0.25	\$0.34
3Q	\$0.69	\$0.29	\$0.32	\$0.34
4Q	\$0.67	\$0.58	\$0.52	\$0.64
Year	\$2.56	\$1.36	\$1.44	\$1.53
P/E	14.0x	26.4x		23.5x

Revenue (\$mm)

	Prior	Current	Prior	Current
	2016A	2017E	2018E	2018E
1Q	\$511	\$491	\$502	\$498
2Q	\$564	\$513	\$526	\$525
3Q	\$552	\$526	\$540	\$537
4Q	\$626	\$626	\$628	\$640
Year	\$2,253	\$2,156	\$2,196	\$2,200

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

Teradata Q4'17 Results; Transition Continues...

- Results.** Teradata reported Q4'17 non GAAP EPS of \$0.58 vs. \$0.67 a year ago. This was significantly above our forecast of \$0.50 as the company recognized a greater amount of perpetual software licenses in the quarter. Revenue of \$626 million beat our \$611 million estimate and was flat y/y. Customer adoption of Teradata is increasing as annual recurring revenue (ARR) increased 10% vs. 6% last quarter, while product ARR increased 23%. Cash from operations totaled \$23 million vs. \$52 million in the year ago period. Free cash flow was \$2 million vs. \$20 million. The high level of spending is transforming Teradata's business to a cloud/subscription based model. Teradata has \$1.089 billion in cash and debt of \$780 million. The Board upped its share repurchase authorization to \$500 million or ~12% of the current market capitalization, and has already bought back 28% of outstanding shares since 2012.
- Guidance.** Management provided a Q1 outlook including an EPS view of \$0.13 to \$0.16, significantly below our prior \$0.34 on increased spending to support its transition. Q1 revenue is expected between \$490 million to \$500 million vs. our prior \$502 million view. Full year non GAAP EPS was provided of \$1.50 to \$1.60 which is better than our prior view \$1.44 on a lower tax rate. FY'18 revenue was guided to \$2.15 billion to \$2.20 billion vs. our prior view of \$2.19 billion.
- Outlook.** We reduce our Q1'18 EPS estimate to \$0.20 from \$0.34 on revenue of \$498 million on higher investment spending. However, we increase our FY'18 EPS outlook to \$1.53 on revenue of \$2.2 billion. We adjust our FY'18 outlook higher on tax reform, we also expect continued adoption of Teradata cloud and subscription services, T-core growth, and solid annual recurring revenue.
- Opinion.** We maintain our Neutral rating as 2018 guidance suggests another year of significant investment spending, however 2019 may begin to show some margin expansion which could boost our thesis on the shares.

Note Important Disclosures on Pages 5-6
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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	FY'16	Q1'17	Q2'17	Q3'17	Q4'17	FY'17
Cash and cash equivalents	\$ -	\$ 270	\$ 402	\$ 661	\$ 883	\$ 772	\$ 729	\$ 695	\$ 834	\$ 839	\$ 974	\$1,164	\$1,085	\$1,025	\$ 1,089	\$ 1,089
Short-term investments	-	-	40													
Accounts receivable, net	379	507	451	387	402	494	668	717	619	580	548	442	356	366	554	554
Inventories	39	51	44	47	65	61	47	56	38	49	34	40	42	45	30	30
Other current assets	84	45	78	57	56	85	90	95	81	372	57	58	65	72	77	77
Total current assets	502	873	1,015	1,152	1,406	1,412	1,534	1,563	1,572	1,840	1,613	1,704	1,548	1,508	1,750	1,750
Property and equipment, net	64	94	88	95	105	120	150	161	159	143	138	142	143	159	162	162
Capitalized software, net	59	61	80	102	116	140	173	195	199	190	187	167	150	136	121	121
Goodwill	90	90	110	109	136	742	932	946	948	380	390	392	401	398	399	399
Acquired intangible assets	-	-	-	-	12	163	186	149	136	22	11	10	21	23	23	23
Deferred income taxes	265	140	109	84	59	28	29	24	20	37	49	50	51	53	57	57
Other assets	23	36	28	27	49	11	62	58	98	20	17	18	24	30	44	44
Total assets	1,003	1,294	1,430	1,569	1,883	2,616	3,066	3,096	3,132	2,632	2,405	2,483	2,338	2,307	2,556	2,556
Current portion of long-term debt									273	210	30	38	45	233	300	300
Accounts payable	67	120	99	102	102	97	141	114	126	96	103	89	97	106	74	74
Payroll and benefits liabilities	78	91	83	109	134	169	158	136	125	120	139	109	129	139	173	173
Deferred revenue	194	246	255	256	263	339	375	390	370	367	369	514	431	364	414	414
Other current liabilities	54	115	103	76	70	90	132	136	101	160	78	85	90	94	102	102
Total current liabilities	393	572	540	543	569	695	806	776	995	953	719	835	792	936	1,063	1,063
Long-term debt	-	-	-	-	-	290	274	248	195	570	538	523	508	493	478	478
Pension and other postemployment plan liabilities	-	88	83	83	85	77	73	76	99	89	96	101	107	107	109	109
Long-term deferred revenue							30	25	18	15	14	14	10	17	85	85
Deferred tax liabilities								87	86	39	33	25	14	12	4	4
Other liabilities	19	3	30	33	40	60	104	27	32	27	34	31	35	23	149	149
Total liabilities	412	663	653	659	694	1,122	1,287	1,239	1,425	1,693	1,434	1,529	1,466	1,588	1,888	1,888
Shareholders Equity																
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	1,220	1,243	1,266	1,292	1,321	1,321
Treasury stock	-	-	(137)	(311)	(399)	(526)	(806)	(1,184)	-	-	-	-	-	-	-	-
Retained earnings	-	79	329	583	884	1,237	1,656	2,033	656	(114)	(161)	(207)	(318)	(505)	(580)	(580)
Parent company investment	573															
Accumulated other comprehensive income	18	(5)	11	14	12	16	29	33	(4)	(76)	(89)	(83)	(77)	(69)	(74)	(74)
Total stockholders' equity	591	631	777	910	1,189	1,494	1,779	1,857	1,707	939	971	954	872	719	668	668
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	2,405	2,483	2,338	2,307	2,556	2,556

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	FY'16	Q1'17	Q2'17	Q3'17	Q4'17	FY'17	Q1'18E	Q2'18E	Q3'18E	Q4'18E	FY'18E
Total revenue	\$ 1,936	\$ 2,383	\$ 2,671	\$ 2,692	\$ 2,732	\$ 2,377	\$ 2,253	\$ 491	\$ 513	\$ 526	\$ 626	\$ 2,156	\$ 498	\$ 525	\$ 537	\$ 640	\$ 2,200
Total cost of revenue	845	1,060	1,150	1,184	1,216	1,124	1,074	240	248	256	302	1,046	243	250	260	306	1,059
Selling, general and administrative	506	614	674	702	715	635	538	127	146	149	162	584	150	149	150	164	613
Research and development	144	161	169	165	180	166	170	66	72	71	71	280	72	70	71	71	284
Total operating expenses	650	775	843	867	895	801	708	193	218	220	233	864	222	219	223	235	897
Total costs and operating expenses	1,495	1,835	1,993	2,051	2,111	1,925	1,782	433	466	476	535	1,910	465	469	483	541	1,956
Income from operations	441	557	678	641	621	452	471	58	47	50	91	246	33	56	54	99	244
Other income, net	(1)	(3)	(2)	-2	-	(6)	(17)	(1)	(2)	(1)	(2)	(6)	(1)	(2)	(2)	(2)	(7)
Income before income taxes	440	554	676	639	621	446	454	57	45	49	89	240	32	54	52	97	237
Income tax expense	123	155	187	180	169	122	118	20	17	13	17	67	7	12	10	18	48
Net income	317	399	489	459	452	324	336	37	28	36	72	173	24	43	42	78	189
Diluted Non GAAP EPS	\$ 1.86	\$ 2.32	\$ 2.85	\$ 2.76	\$ 2.86	\$ 2.28	\$ 2.56	\$ 0.28	\$ 0.22	\$ 0.29	\$ 0.58	\$ 1.36	\$ 0.20	\$ 0.34	\$ 0.34	\$ 0.64	\$ 1.53
Weighted Avg. Diluted Shrs. Outs.	170.4	171.9	171.7	166.4	157.8	141.9	131.5	131.9	129.5	125.8	123.5	127.8	124.5	124.0	123.5	123.0	123.8
Year/Year Growth Rate																	
Total revenue		23.1%	12.1%	0.8%	1.5%	-13.0%	-5.2%	-3.9%	-9.0%	-4.7%	0.0%	-4.3%	1.3%	2.3%	2.1%	2.2%	2.0%
Total cost of revenue		25.4%	8.5%	3.0%	2.7%	-7.6%	-4.4%	-4.0%	-6.4%	0.8%	-1.0%	-2.6%	1.3%	0.8%	1.6%	1.3%	1.2%
Total operating expenses		19.2%	8.8%	2.8%	3.2%	-10.5%	-11.6%	14.2%	29.8%	25.0%	19.5%	22.0%	15.0%	0.5%	1.4%	0.9%	3.8%
Total costs and operating expenses		22.7%	8.6%	2.9%	2.9%	-8.8%	-7.4%	3.3%	7.6%	10.7%	7.0%	7.2%	7.4%	0.6%	1.5%	1.1%	2.4%
Income from operations		26.3%	21.7%	-5.5%	-3.1%	-27.2%	4.2%	-37.0%	-63.8%	-59.0%	-27.8%	-47.7%	-43.9%	18.8%	8.5%	8.5%	-1.0%
Net income		25.9%	22.6%	-6.1%	-1.5%	-28.3%	3.7%	-40.3%	-69.7%	-60.4%	-19.1%	-48.4%	-34.4%	50.1%	16.1%	8.8%	9.0%
Diluted shares outstanding		0.9%	-0.1%	-3.1%	-5.2%	-10.1%	-7.3%	0.8%	-1.5%	-4.4%	-6.4%	-2.8%	-5.6%	-4.2%	-1.8%	-0.4%	-3.2%
Percentage of Revenue																	
Total cost of revenue	43.6%	44.5%	43.1%	44.0%	44.5%	47.3%	47.7%	48.9%	48.3%	48.7%	48.2%	48.5%	48.8%	47.6%	48.4%	47.8%	48.1%
Selling, general and administrative	26.1%	25.8%	25.2%	26.1%	26.2%	26.7%	23.9%	25.9%	28.4%	28.3%	25.9%	27.1%	30.1%	28.4%	27.9%	25.6%	27.9%
Research and development	7.4%	6.8%	6.3%	6.1%	6.6%	7.0%	7.5%	13.4%	14.0%	13.5%	11.3%	13.0%	14.5%	13.3%	13.2%	11.1%	12.9%
Total operating expenses	33.6%	32.5%	31.6%	32.2%	32.8%	33.7%	31.4%	39.3%	42.5%	41.8%	37.2%	40.1%	44.6%	41.7%	41.5%	36.7%	40.8%
Total costs and operating expenses	77.2%	77.0%	74.6%	76.2%	77.3%	81.0%	79.1%	88.2%	90.8%	90.5%	85.5%	88.6%	93.5%	89.3%	89.9%	84.6%	88.9%
Margin Analysis																	
Gross Profit	56.4%	55.5%	56.9%	56.0%	55.5%	52.7%	52.3%	51.1%	51.7%	51.3%	51.8%	51.5%	51.2%	52.4%	51.6%	52.2%	51.9%
Operating Margin	22.8%	23.4%	25.4%	23.8%	22.7%	19.0%	20.9%	11.8%	9.2%	9.5%	14.5%	11.4%	6.5%	10.7%	10.1%	15.4%	11.1%
Net Profit Margin	16.4%	16.7%	18.3%	17.1%	16.5%	13.6%	14.9%	7.5%	5.5%	6.8%	11.5%	8.0%	4.9%	8.1%	7.8%	12.2%	8.6%

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.



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	31	28%	10%	90%
Hold/Neutral	74	66%	9%	91%
Sell	7	6%	0%	100%

As of 7 February 2018

Other Disclosures

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