



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

TDC - NYSE - as of	7/27/17	\$31.88
Price Target		N/A
52-Week Range	\$26.27 -	\$33.32
Diluted Shares Outstanding (mil)		129.3
Market Cap. (\$mm)		\$4,122.1
1-Mo. Average Daily Volume		2,728,909
Institutional Ownership		109.3%
Debt/Total Capital (net) % Q2'17		0%
ROE		11.6%
Book Value / Share		\$6.82
Price / Book Value		0.0x
Dividend Yield		0.0%
LTM EBITDA Margin		14.0%

Non GAAP EPS FY 12/31

		Prior	Current		Prior	Current
	2016A	2017E	2017E	A	2018E	2018E
1Q	\$0.47		\$0.28	A	\$0.28	\$0.32
2Q	\$0.71		\$0.22	A	\$0.37	\$0.30
3Q	\$0.69	\$0.38	\$0.32		\$0.35	\$0.33
4Q	\$0.67	\$0.34	\$0.44		\$0.33	\$0.46
Year	\$2.58	\$1.24	\$1.25		\$1.33	\$1.40
P/E	12.4x		25.5x			22.8x

Revenue (\$mm)

		Prior	Current		Prior	Current
	2016A	2017E	2017E	A	2018E	2018E
1Q	\$511		\$491	A	\$478	\$484
2Q	\$564		\$513	A	\$511	\$509
3Q	\$552	\$512	\$512		\$505	\$513
4Q	\$626	\$597	\$580		\$578	\$580
Year	\$2,253	\$2,145	\$2,097		\$2,071	\$2,086

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

Q2'17 Results Miss Expectations; Underlying Teradata Demand Improves; Guidance Matches Our View

- Results.** Teradata reported Q2'17 non GAAP EPS of \$0.22 vs. \$0.71 a year ago and our forecast of \$0.34. Revenue of \$513 million missed our \$523 million estimate and is below the \$564 million reported last year. These figures exclude the Marketing Applications business which was previously sold and was negatively impacted by \$58 million of perpetual equivalent contract value which is now recognized over time as subscription based revenue. Taking these changes into account, revenue grew 3% y/y, in our view, and customer adoption of Teradata is increasing. Recurring revenue grew 6% y/y and represented 50% of total revenue. Perpetual licenses and hardware revenue declined 41% y/y. The tax rate was abnormally high in Q2 at 37.8%. Cash from operations totaled \$61 million vs. \$99 million in the year ago period. Free cash flow was \$45 million vs. \$72 million. Teradata has \$1.085 billion in cash and debt of \$555 million. The company plans to spend \$300 million on share repurchases in the second half of the year, or 8% of the market capitalization.
- Highlights.** Management noted positive customer reception of Teradata's strategy and underlying Teradata demand remains healthy with 20% T-core growth from the 2016 install base, although down from 30% last quarter, and recurring revenue increasing 6% y/y vs. 7% last quarter. However, this shift to a subscription model weighed on revenue as product and cloud revenue declined 26% y/y in Q2. Deferred revenue decreased 1% y/y to \$441 million.
- Outlook.** Due to the faster pace of subscription based pricing and higher spending levels management forecasts FY'17 non GAAP EPS in the range of \$1.22 to \$1.27 on revenue of \$2.09 billion to \$2.14 billion. We reduce our Q3'17 EPS to \$0.32 from \$0.38 on revenue of \$512 million. We increase our FY EPS outlook by a penny to \$1.25 on revenue of \$2.097 billion, down vs. our prior view on higher adoption of subscription services. We raise our FY'18 outlook due to increased share repurchases and slower operating expense growth.
- Opinion.** Maintain Neutral rating.

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

ADDITIONAL DISCUSSION

Product and cloud revenue was \$166 million, missing our \$176 million estimate. Management noted \$58 million of product revenue transitioned to subscription that will be recognized over time. Service revenue increased 2% y/y to \$347 million, matching our estimate. During Q2, T-core demand increased 20% y/y vs. 30% last quarter, but with better deployment and pricing models we expect customer adoption to increase to a larger extent in coming quarters. Annual recurring revenue increased to 50% of total revenue vs. 41% last year to \$257 million, increasing 6% y/y. Gross margin was 51.7%, up 60 bps vs. last quarter. Teradata's operating expenses increased 30% y/y as R&D spend on cloud initiatives impacted near-term results. The company's transition to multiple cloud deployment options includes spending aggressively on its Teradata Everywhere strategy including public cloud solutions, hybrid cloud solutions, and managed solutions. Due to the faster pace of subscription based pricing and higher spending levels, management forecasts FY'17 non GAAP EPS of \$1.22 to \$1.27 on revenue of \$2.095 billion to \$2.140 billion. We reduce our Q3'17 EPS to \$0.32 down from \$0.38 on revenue of \$512 million which remains intact. We increase our FY EPS outlook by a penny to \$1.25 on a lower tax rate and share repurchases. We anticipate revenue of \$2.097 billion, down vs. our prior view on higher adoption of subscription services vs. perpetual licenses with large upfront revenue. We raise our FY'18 outlook due to increased share repurchases and slower operating expense growth.

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. We believe TDC shares trade at a fair P/E multiple of 25x our FYE'17 EPS estimate of \$1.25 given the potential growth in coming years offset by business model risk and poor-near term results. At this juncture, we are willing to be patient for a buying opportunity as management repositions the company's offerings 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 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
Cash and cash equivalents	\$ -	\$ 270	\$ 402	\$ 661	\$ 883	\$ 772	\$ 729	\$ 695	\$ 834	\$ 839	\$ 974	\$ 1,164	\$ 1,085
Short-term investments	-	-	40										
Accounts receivable, net	379	507	451	387	402	494	668	717	619	580	548	442	356
Inventories	39	51	44	47	65	61	47	56	38	49	34	40	42
Other current assets	84	45	78	57	56	85	90	95	81	372	57	58	65
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
Property and equipment, net	64	94	88	95	105	120	150	161	159	143	138	142	143
Capitalized software, net	59	61	80	102	116	140	173	195	199	190	187	167	150
Goodwill	90	90	110	109	136	742	932	946	948	380	390	392	401
Acquired intangible assets	-	-	-	-	12	163	186	149	136	22	11	10	21
Deferred income taxes	265	140	109	84	59	28	29	24	20	37	49	50	51
Other assets	23	36	28	27	49	11	62	58	98	20	17	18	24
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
Current portion of long-term debt									273	210	30	38	45
Accounts payable	67	120	99	102	102	97	141	114	126	96	103	89	97
Payroll and benefits liabilities	78	91	83	109	134	169	158	136	125	120	139	109	129
Deferred revenue	194	246	255	256	263	339	375	390	370	367	369	514	431
Other current liabilities	54	115	103	76	70	90	132	136	101	160	78	85	90
Total current liabilities	393	572	540	543	569	695	806	776	995	953	719	835	792
Long-term debt	-	-	-	-	-	290	274	248	195	570	538	523	508
Pension and other postemployment plan liabilities	-	88	83	83	85	77	73	76	99	89	96	101	107
Long-term deferred revenue							30	25	18	15	14	14	10
Deferred tax liabilities								87	86	39	33	25	14
Other liabilities	19	3	30	33	40	60	104	27	32	27	34	31	35
Total liabilities	412	663	653	659	694	1,122	1,287	1,239	1,425	1,693	1,434	1,529	1,466
Shareholders Equity													
Preferred stock	-	-	-	-	-	-	-	-	-	-	-	-	-
Common stock	-	2	2	2	2	2	2	2	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
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)
Parent company investment	573												
Accumulated other comprehensive income	18	(5)	11	14	12	16	29	33	(4)	(76)	(89)	(83)	(77)
Total stockholders' equity	591	631	777	910	1,189	1,494	1,779	1,857	1,707	939	971	954	872
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

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	Q3'17E	Q4'17E	FY'17E	FY'18E
Total revenue	\$ 1,936	\$ 2,383	\$ 2,671	\$ 2,692	\$ 2,732	\$ 2,377	\$ 2,253	\$ 491	\$ 513	\$ 512	\$ 580	\$ 2,097	\$ 2,086
Total cost of revenue	845	1,060	1,150	1,184	1,216	1,124	1,074	240	248	255	292	1,035	1,028
Selling, general and administrative	506	614	674	702	715	635	538	127	146	144	165	582	593
Research and development	144	161	169	165	180	166	170	66	72	53	58	249	242
Total operating expenses	650	775	843	867	895	801	708	193	218	197	223	831	835
Total costs and operating expenses	1,495	1,835	1,993	2,051	2,111	1,925	1,782	433	466	452	515	1,866	1,863
Income from operations	441	557	678	641	621	452	471	58	47	60	65	231	223
Other income, net	(1)	(3)	(2)	-2	-	(6)	(17)	(1)	(2)	(2)	(4)	(9)	(10)
Income before income taxes	440	554	676	639	621	446	454	57	45	58	61	222	213
Income tax expense	123	155	187	180	169	122	118	20	17	18	8	64	50
Net income	317	399	489	459	452	324	336	37	28	40	52	158	163
Diluted Non GAAP EPS	\$ 1.86	\$ 2.32	\$ 2.85	\$ 2.76	\$ 2.86	\$ 2.28	\$ 2.56	\$ 0.28	\$ 0.22	\$ 0.32	\$ 0.44	\$ 1.25	\$ 1.40
Weighted Avg. Diluted Shrs. Outs.	170.4	171.9	171.7	166.4	157.8	141.9	131.5	131.9	129.5	124.5	120.0	126.5	116.5
Year/Year Growth Rate													
Total revenue		23.1%	12.1%	0.8%	1.5%	-13.0%	-5.2%	-3.9%	-9.0%	-7.2%	-7.4%	-6.9%	-0.5%
Total cost of revenue		25.4%	8.5%	3.0%	2.7%	-7.6%	-4.4%	-4.0%	-6.4%	0.4%	-4.3%	-3.6%	-0.7%
Total operating expenses		19.2%	8.8%	2.8%	3.2%	-10.5%	-11.6%	14.2%	29.8%	11.9%	14.4%	17.4%	0.5%
Total costs and operating expenses		22.7%	8.6%	2.9%	2.9%	-8.8%	-7.4%	3.3%	7.6%	5.1%	3.0%	4.7%	-0.2%
Income from operations		26.3%	21.7%	-5.5%	-3.1%	-27.2%	4.2%	-37.0%	-63.8%	-50.5%	-48.6%	-51.0%	-3.1%
Net income		25.9%	22.6%	-6.1%	-1.5%	-28.3%	3.7%	-40.3%	-69.7%	-55.7%	-41.3%	-53.0%	3.3%
Diluted shares outstanding		0.9%	-0.1%	-3.1%	-5.2%	-10.1%	-7.3%	0.8%	-1.5%	-5.4%	-9.1%	-3.8%	-7.9%
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%	49.8%	50.4%	49.4%	49.3%
Selling, general and administrative	26.1%	25.8%	25.2%	26.1%	26.2%	26.7%	23.9%	25.9%	28.4%	28.1%	28.5%	27.8%	28.4%
Research and development	7.4%	6.8%	6.3%	6.1%	6.6%	7.0%	7.5%	13.4%	14.0%	10.3%	10.0%	11.9%	11.6%
Total operating expenses	33.6%	32.5%	31.6%	32.2%	32.8%	33.7%	31.4%	39.3%	42.5%	38.4%	38.5%	39.6%	40.0%
Total costs and operating expenses	77.2%	77.0%	74.6%	76.2%	77.3%	81.0%	79.1%	88.2%	90.8%	88.2%	88.8%	89.0%	89.3%
Margin Analysis													
Gross Profit	56.4%	55.5%	56.9%	56.0%	55.5%	52.7%	52.3%	51.1%	51.7%	50.2%	49.6%	50.6%	50.7%
Operating Margin	22.8%	23.4%	25.4%	23.8%	22.7%	19.0%	20.9%	11.8%	9.2%	11.8%	11.2%	11.0%	10.7%
Net Profit Margin	16.4%	16.7%	18.3%	17.1%	16.5%	13.6%	14.9%	7.5%	5.5%	7.9%	9.0%	7.5%	7.8%

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

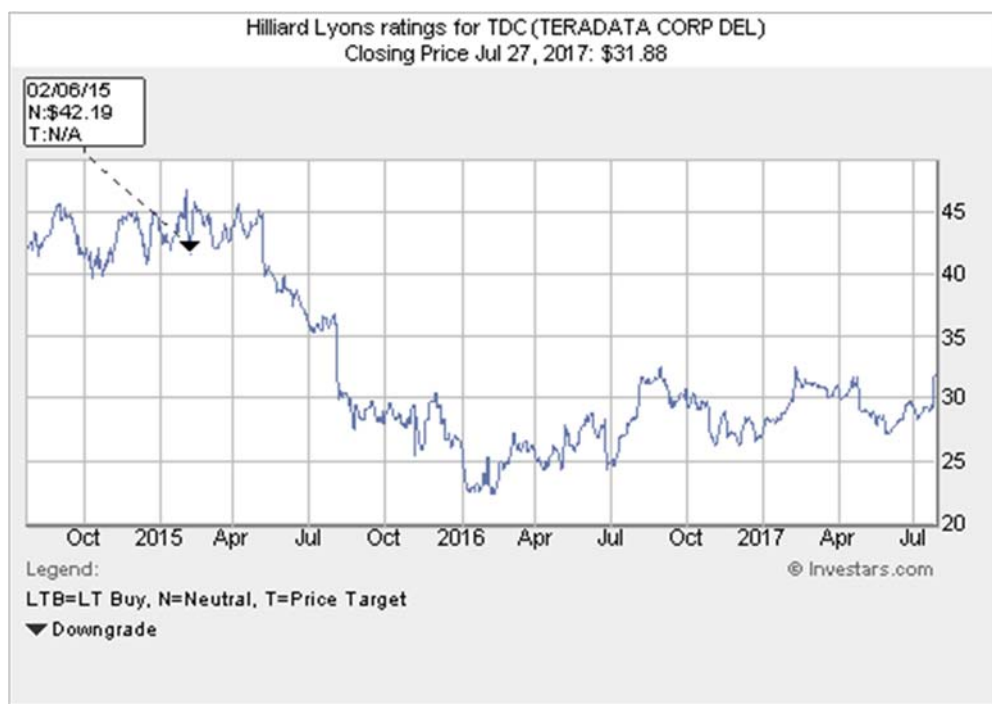
Investment Ratings

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	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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