



Technology

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COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

TDC - NYSE - as of	11/9/17	\$35.26
Price Target		N/A
52-Week Range	\$26.27 -	\$38.08
Diluted Shares Outstanding (mil)		126.0
Market Cap. (\$mm)		\$4,442.8
1-Mo. Average Daily Volume		1,418,370
Institutional Ownership		109.1%
Debt/Total Capital (net) % Q3'17		0%
ROE		7.9%
Book Value / Share		\$5.81
Price / Book Value		0.0x
Dividend Yield		0.0%
LTM EBITDA Margin		10.4%

Non GAAP EPS FY 12/31

	Prior	Current	Prior	Current
	2016A	2017E	2018E	2018E
1Q	\$0.47	\$0.28	A \$0.32	\$0.34
2Q	\$0.71	\$0.22	A \$0.30	\$0.25
3Q	\$0.69	\$0.29	A \$0.33	\$0.32
4Q	\$0.67	\$0.44	\$0.50	\$0.46
Year	\$2.56	\$1.25	\$1.28	\$1.40
P/E	13.8x	27.5x		24.5x

Revenue (\$mm)

	Prior	Current	Prior	Current
	2016A	2017E	2018E	2018E
1Q	\$511	\$491	A \$484	\$502
2Q	\$564	\$513	A \$509	\$526
3Q	\$552	\$526	A \$513	\$540
4Q	\$626	\$580	\$580	\$628
Year	\$2,253	\$2,097	\$2,086	\$2,196

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 Reports Solid Q3'17 Results; Guidance Tops Our View.

- Results.** Teradata reported Q3'17 non GAAP EPS of \$0.29 vs. \$0.69 a year ago. This was below our forecast of \$0.32. Revenue of \$526 million beat our \$512 million estimate but remains below the \$552 million figure reported last year. Customer adoption of Teradata products and services is increasing as annual recurring revenue increased 10% vs. 6% last quarter, while product recurring revenue increased 14%. Cash from operations totaled -\$8 million vs. \$45 million in the year ago period. Free cash flow was -\$40 million vs. \$12 million. The high level of spending was used to invest in the Teradata Everywhere cloud and subscription based business model. Teradata has \$1.025 billion in cash and debt of \$728 million. The company spent an impressive \$200 million on share repurchases or 5% of outstanding shares in Q3.
- Guidance.** Management provided a strong Q4 outlook including an EPS view of \$0.47 to \$0.52, above our prior \$0.44 view on revenue of \$600 million to \$620 million, also above our \$580 million view. Full year EPS was raised to \$1.26 to \$1.31 from \$1.22 to \$1.27. Management provided a FY'18 forecast of positive revenue growth with ARR in the low 20% range and EPS growth of greater than 10%, well above our prior view.
- Outlook.** We are increasing our Q4'17 EPS to \$0.50 from \$0.44 on revenue of \$611 million. We increase our FY EPS outlook by a \$0.03 to \$1.28 on revenue of \$2.142 billion. We adjust our FY'18 outlook higher due to continued adoption of Teradata cloud and subscription services, T-core growth, and solid annual recurring revenue.
- Opinion.** We maintain our Neutral rating as moderate headwinds continue to face the company despite improving results, in our opinion.

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

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
Cash and cash equivalents	\$ -	\$ 270	\$ 402	\$ 661	\$ 883	\$ 772	\$ 729	\$ 695	\$ 834	\$ 839	\$ 974	\$1,164	\$1,085	\$1,025
Short-term investments	-	-	40											
Accounts receivable, net	379	507	451	387	402	494	668	717	619	580	548	442	356	366
Inventories	39	51	44	47	65	61	47	56	38	49	34	40	42	45
Other current assets	84	45	78	57	56	85	90	95	81	372	57	58	65	72
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
Property and equipment, net	64	94	88	95	105	120	150	161	159	143	138	142	143	159
Capitalized software, net	59	61	80	102	116	140	173	195	199	190	187	167	150	136
Goodwill	90	90	110	109	136	742	932	946	948	380	390	392	401	398
Acquired intangible assets	-	-	-	-	12	163	186	149	136	22	11	10	21	23
Deferred income taxes	265	140	109	84	59	28	29	24	20	37	49	50	51	53
Other assets	23	36	28	27	49	11	62	58	98	20	17	18	24	30
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
Current portion of long-term debt									273	210	30	38	45	233
Accounts payable	67	120	99	102	102	97	141	114	126	96	103	89	97	106
Payroll and benefits liabilities	78	91	83	109	134	169	158	136	125	120	139	109	129	139
Deferred revenue	194	246	255	256	263	339	375	390	370	367	369	514	431	364
Other current liabilities	54	115	103	76	70	90	132	136	101	160	78	85	90	94
Total current liabilities	393	572	540	543	569	695	806	776	995	953	719	835	792	936
Long-term debt	-	-	-	-	-	290	274	248	195	570	538	523	508	493
Pension and other postemployment plan liabilities	-	88	83	83	85	77	73	76	99	89	96	101	107	107
Long-term deferred revenue							30	25	18	15	14	14	10	17
Deferred tax liabilities								87	86	39	33	25	14	12
Other liabilities	19	3	30	33	40	60	104	27	32	27	34	31	35	23
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
Shareholders Equity														
Preferred stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Common stock	-	2	2	2	2	2	2	2	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
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)
Parent company investment	573													
Accumulated other comprehensive income	18	(5)	11	14	12	16	29	33	(4)	(76)	(89)	(83)	(77)	(69)
Total stockholders' equity	591	631	777	910	1,189	1,494	1,779	1,857	1,707	939	971	954	872	719
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

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	Q2'17	Q3'17	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	\$ 513	\$ 526	\$ 611	\$ 2,142	\$ 2,196
Total cost of revenue	845	1,060	1,150	1,184	1,216	1,124	250	265	254	305	1,074	240	248	256	303	1,047	1,062
Selling, general and administrative	506	614	674	702	715	635	131	132	134	141	538	127	146	149	158	580	593
Research and development	144	161	169	165	180	166	38	36	42	54	170	66	72	71	70	279	288
Total operating expenses	650	775	843	867	895	801	169	168	176	195	708	193	218	220	228	859	881
Total costs and operating expenses	1,495	1,835	1,993	2,051	2,111	1,925	419	433	430	500	1,782	433	466	476	531	1,906	1,943
Income from operations	441	557	678	641	621	452	92	131	122	126	471	58	47	50	80	236	253
Other income, net	(1)	(3)	(2)	-2	-	(6)	(3)	(2)	(2)	(10)	(17)	(1)	(2)	(1)	(4)	(8)	(10)
Income before income taxes	440	554	676	639	621	446	89	129	120	116	454	57	45	49	76	228	243
Income tax expense	123	155	187	180	169	122	27	35	29	27	118	20	17	13	14	64	61
Net income	317	399	489	459	452	324	62	94	91	89	336	37	28	36	62	164	182
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	\$ 0.22	\$ 0.29	\$ 0.50	\$ 1.28	\$ 1.44
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	129.5	125.8	125.5	128.2	126.3
Year/Year Growth Rate																	
Total revenue		23.1%	12.1%	0.8%	1.5%	-13.0%	-6.1%	-3.6%	-2.8%	-7.9%	-5.2%	-3.9%	-9.0%	-4.7%	-2.4%	-4.9%	2.5%
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%	-6.4%	0.8%	-0.7%	-2.5%	1.4%
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%	29.8%	25.0%	16.9%	21.3%	2.6%
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%	7.6%	10.7%	6.2%	7.0%	1.9%
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%	-63.8%	-59.0%	-36.4%	-50.0%	7.5%
Net income		25.9%	22.6%	-6.1%	-1.5%	-28.3%	19.2%	9.3%	7.1%	-11.9%	3.7%	-40.3%	-69.7%	-60.4%	-29.9%	-51.2%	11.2%
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%	-1.5%	-4.4%	-4.9%	-2.5%	-1.5%
Percentage of Revenue																	
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%	48.3%	48.7%	49.6%	48.9%	48.4%
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%	28.4%	28.3%	25.9%	27.1%	27.0%
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%	14.0%	13.5%	11.5%	13.0%	13.1%
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%	42.5%	41.8%	37.3%	40.1%	40.1%
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%	90.8%	90.5%	86.9%	89.0%	88.5%
Margin Analysis																	
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%	51.7%	51.3%	50.4%	51.1%	51.6%
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%	9.2%	9.5%	13.1%	11.0%	11.5%
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%	5.5%	6.8%	10.2%	7.7%	8.3%

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

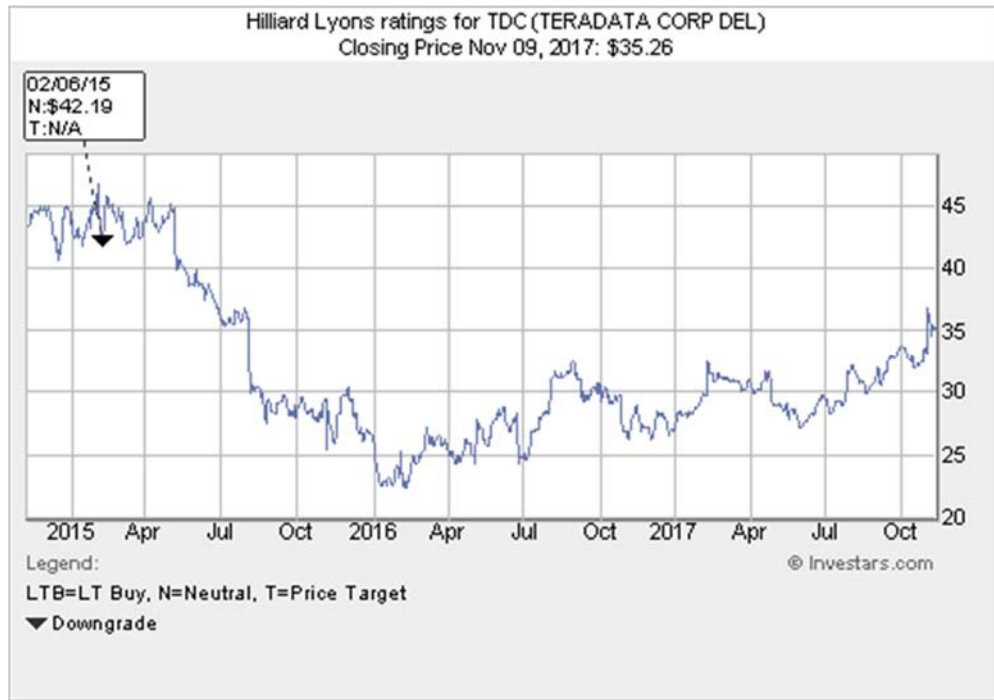
Investment Ratings

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.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Rating				
Buy	32	29%	13%	88%
Hold/Neutral	73	65%	7%	93%
Sell	7	6%	0%	100%

As of 8 November 2017

Other Disclosures

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