

Teradata Corporation (TDC)

\$26.68 (As of 01/02/20)

Price Target (6-12 Months): **\$23.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 01/01/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: B

Summary

Teradata's shares have underperformed the industry in the past year. A sluggish spending environment in the domestic market and increasing competition continue to weigh on its financials. Higher percentage of low-margin, subscription-based revenues are affecting the company's profitability amid intensifying competition. Although the company is prioritizing high-value, high-margin, business-related consulting, the strategy is expected to hurt consulting profitability in the near term. Additionally, intensifying competition in the analytic data solutions market is a concern. Teradata is facing severe pricing pressure in this space. These along with the ongoing management transition is expected to remain an overhang on the stock in the near term.

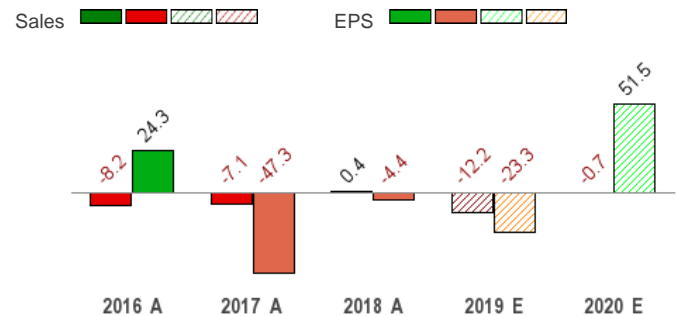
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$49.42 - \$23.71
20 Day Average Volume (sh)	967,786
Market Cap	\$3.0 B
YTD Price Change	-0.3%
Beta	1.11
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computer- Storage Devices
Zacks Industry Rank	Bottom 31% (175 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-20.0%
Last Sales Surprise	-5.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/06/2020
Earnings ESP	0.0%
P/E TTM	20.2
P/E F1	17.8
PEG F1	1.4
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	461 E	471 E	469 E	499 E	1,885 E
2019	468 A	478 A	459 A	493 E	1,899 E
2018	506 A	544 A	526 A	588 A	2,164 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.30 E	\$0.37 E	\$0.44 E	\$0.46 E	\$1.50 E
2019	\$0.22 A	\$0.29 A	\$0.32 A	\$0.16 E	\$0.99 E
2018	\$0.19 A	\$0.26 A	\$0.36 A	\$0.49 A	\$1.29 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/02/2020. The reports text is as of 01/03/2020.

Overview

Headquartered in Dayton, OH, Teradata Corporation is a leading provider of hybrid cloud analytics software. It has evolved from an enterprise database company to an enterprise analytics platform provider. The company was spun off from NCR Corporation in August 2007.

Teradata's analytics platform helps customers integrate and simplify their analytics ecosystem, access and manage data, and use analytics to extract answers and derive business value from data. The company is currently targeting "megadata" companies, the world's most demanding, large-scale users of data. These companies are experiencing a massive increase in data due to the digital revolution and an increase in the complexity, cost, and risk associated with managing the large number of data silos across heterogeneous environments.

Teradata believes that these "megadata" companies need an integrated analytical solution that can accommodate massive scale and speed across secure, hybrid-cloud architectures. The company's new analytics platform, Teradata Vantage, addresses the challenges faced by the "megadata" companies.

Teradata generated revenues of \$2.16 billion in 2018. At the end of 2018, annual recurring revenues (ARR) were \$1.31 billion, up 10% from 2017.

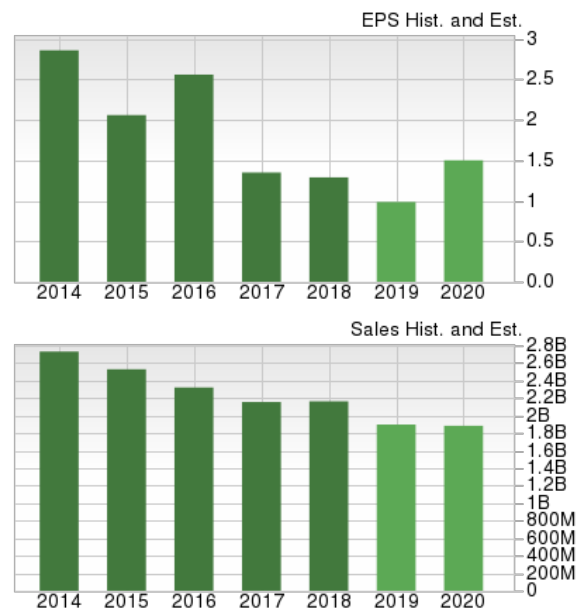
In the first quarter of 2018, the company changed its reporting segments to – Recurring (comprising revenues from subscription-based transactions and services and perpetual license related software upgrade rights and maintenance), Perpetual software licenses & hardware (which include revenues from on-premise perpetual transactions) and Consulting services.

Recurring, Perpetual software licenses & hardware and Consulting services accounted for 57.9%, 15.7% and 26.3% of total revenues, respectively, in 2018.

The company offers its products in two geographic regions – Americas – comprising the North American and Latin American region, and the International region comprising Europe, Middle East, Africa, Asia-Pacific and Japan.

Americas and International accounted for 52% and 48% of total revenues, respectively, in 2018.

Teradata competes with large players such as Oracle, IBM, Microsoft, SAP and Dell to name a few.



Reasons To Sell:

- ▼ Teradata's focus on high margin "megadata" consumers is hurting consulting revenues. This is expected to continue at least in the near term. The company is prioritizing higher value, higher margin, business-related consulting that leads to increasing adoption of Teradata Vantage. This strategy is also expected to hurt consulting profitability in the near term.
- ▼ Teradata's top line is also being affected by the ongoing restructuring initiatives. The company is offering subscription pricing plan and sales are likely to lag as long as the transition of clients takes place. This trend is expected to continue in the near term. Notably, Perpetual software license and hardware revenues plunged 70.1% from the year-ago quarter to \$29 million in the second- quarter 2019. Moreover, subscription-based revenues carry lower gross margin compared with Perpetual software. Increasing mix of subscription-based revenues is negatively impacting gross margin expansion, which is anticipated to continue in the near term.
- ▼ Teradata competes with the likes of IBM and Oracle in the analytic data solutions markets. These IT bellwethers have a lot of financial flexibility and diverse revenue streams. These competitors are well-equipped to provide data warehousing and analytical services at a much lower cost. As a result, Teradata is facing severe pricing pressure that is negatively impacting profitability.
- ▼ Teradata continues to acquire a large number of companies. Though this improves revenue opportunities, it increases integration risks. These large acquisitions deteriorate the quality of its balance sheet in the form of a high level of goodwill and intangible assets. Moreover, frequent acquisitions are a distraction for management and can impact organic growth as the acquired assets will take some time to generate expected return.

Focus on getting high margin "metadata" business, increasing mix of low-margin subscription-based revenues and intensifying competition are negatively impacting Teradata's growth.

Risks

- Teradata is a leading provider of data warehousing and enterprise analytics. The company is now undergoing a transition especially with regards to new subscription pricing programs which are expected to be long term growth drivers. In line with its growth strategy, the company divested its Marketing Application business last year to focus more on its Data and Analytics business. Among other things, Teradata is also offering a cloud version of its offerings to provide more flexible options to its clients. We believe these initiatives will help Teradata to increase its share in the lucrative big data market.
 - We expect long-term growth to come from strategic partnerships with companies such as Accenture, Capgemini, Deloitte, Cognizant, IBM, Wipro Limited, among others in the same niche market. The company's extended partnership with GE Aviation will help it to focus on analytics driven airline business. Teradata announced its partnership with Sasol, a major international chemicals and energy company, aimed at creating a robust analytical ecosystem. We believe strengthening relationships with large vendors will drive revenues and profits over the long term.
 - Teradata's new analytics platform, Teradata Vantage is gaining momentum among megadata customers, having huge chunks of data. Vantage is the only platform that allows customers to work with the tools and languages to quickly build and use the analytics they need. Management stated that Vantage holds the record for the fastest customized option of any release in Teradata's history. Notably, strong adoption of Teradata Vantage is a major growth driver for ARR.
 - Acquisitions have been a key growth catalyst for Teradata over the past few years. We believe that the company will continue to pursue strategic acquisitions that can be easily integrated into its existing scale of operations and also enhances its competitive position. The company acquired a prominent data analytics company StackIQ, which will help the company automate the deployment of Teradata Everywhere.
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Last Earnings Report

Teradata Q3 Earnings Lag Estimates, Revenues Fall Y/Y

Teradata reported third-quarter 2019 adjusted earnings of 32 cents per share, which missed the Zacks Consensus Estimate by 20% and decreased 11.1% year over year.

Revenues of \$459 million also lagged the consensus mark by 5.5% and declined 12.7% year over year. At constant currency (cc), revenues declined 11%.

Moreover, the company revised its fourth-quarter and full-year 2019 guidance for revenues and earnings downward. Additionally, Teradata announced that its chief executive officer stepped down from his position on Nov 5.

Recurring revenues (74.7% of revenues) increased 9.9% year over year (up 11% at cc) to \$343 million. The segment includes revenues from subscription-based transactions and perpetual license-related maintenance and upgrade rights.

The growth was driven by faster transition to a subscription-based business model. Notably, subscription-based transactions comprised 90% of bookings in the reported quarter.

Perpetual software license and hardware revenues (3.5% of revenues) plunged 79.2% from the year-ago quarter (down 78% at cc) to \$16 million.

Consulting services revenues (21.8% of revenues) declined 27% from the year-ago quarter (down 26% at cc) to \$100 million.

Revenues from Americas decreased 7.6% year over year (down 7% at cc) to \$256 million. Europe, Middle East & Africa (EMEA) revenues declined 15.1% from the year-ago quarter (down 12% at cc) to \$118 million. Revenues from Asia-Pacific (APAC) declined 22.7% from the year-ago quarter (down 21% at cc) to \$85 million.

Total annual recurring revenues (ARR) at the end of the quarter increased 12% year over year (up 14% at cc).

Non-GAAP gross margin expanded 310 basis points (bps) year over year to 56%. Americas and EMEA gross margin expanded 470 bps and 430 bps, respectively.

Recurring revenues gross margin contracted 230 bps to 67.9% from the year-ago quarter due to lower margins from subscription-based revenues.

Perpetual software license and hardware margin declined from 44.2% in the year-ago quarter to 43.8%.

Consulting services operating income was \$7 million, reflecting a decline of 36.4% year over year.

Non-GAAP operating margin contracted 130 bps on a year-over-year basis to 9.4%.

As of Sep 30, 2019, Teradata had cash and cash equivalents of \$528 million compared with \$635 million as of Jun 30, 2019. Total debt (including current portion), as of Sep 30, 2019 was \$596 million compared with \$580 million as of Jun 30.

In the third quarter, Teradata generated \$10 million of cash from operating activities compared with \$33 million in the previous quarter. The company's third-quarter free cash outflow came in at \$27 million, while free cash flow was \$42 million in the previous quarter.

Moreover, Teradata repurchased around 1.9 million shares worth approximately \$64 million.

Guidance

For 2019, Teradata expects ARR to increase at least 8% and recurring revenues to grow between 8% and 9%.

The company expects a perpetual year-over-year revenue decline of roughly \$250 million due to the continued shift to subscription-based bookings, which is expected to be completed by the end of 2019.

Teradata now expects 2019 consulting revenues to decline 25% year over year from its previously provided guidance of 20% decline. Non-GAAP earnings are projected between 95 cents and \$1 per share.

For fourth-quarter 2019, recurring revenues are expected between \$348 million and \$350 million. Non-GAAP earnings are expected between 13 cents and 18 cents per share.

Quarter Ending **09/2019**

Report Date	Nov 07, 2019
Sales Surprise	-5.49%
EPS Surprise	-20.00%
Quarterly EPS	0.32
Annual EPS (TTM)	1.32

Recent News

On Dec 4, Teradata announced that it achieved the Amazon Web Services (AWS) PrivateLink Ready designation, which recognizes that Teradata demonstrated successful integration between Vantage and AWS PrivateLink at AWS re:Invent 2019.

The company also showcased its cloud capabilities with speaking sessions, technical sessions, in-booth education, participation in the AWS Marketplace Partner Solution Expo, and 1:1 meetings with partners, customers, analysts and media.

On Nov 7, Teradata appointed Victor Lund, the executive chairman of the company's board of directors, as the interim president and the chief executive officer, effective immediately in place of Oliver Ratzesberger.

On Oct 30, Teradata and Deutsche Telekom announced a partnership to support the digital transformation goals of small and medium-sized businesses (SMBs) in Germany,

On Oct 22, Teradata announced the availability of Vantage Customer Experience (CX). The company also announced Vantage Analyst.

Moreover, the company will soon expand its public cloud offerings to include Google Cloud Platform (GCP). Teradata is adding native support for low-cost storage via object stores Amazon S3, Azure Blob and eventually, Google Cloud Storage, to ensure that Teradata Vantage customers can cost-effectively access and query 100% of their data to get a complete and integrated view of their business.

Valuation

Teradata shares are down 28.5% in the six-months period and 30.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 12.4% and 11.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 24.5% and 32.6% respectively.

The S&P 500 index is up 8.3% in the six-months period and 26.3% in the past year.

The stock is currently trading at 26.99X forward 12-month earnings compared with 18.51X for the Zacks sub-industry, 23.04X for the Zacks sector and 19.07X for the S&P 500 index.

Over the past five years, the stock has traded as high as 62.84X and as low as 10.65X, with a 5-year median of 27.25X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$23 price target reflects 23.23X forward 12-month earnings.

The table below shows summary valuation data for TDC

Valuation Multiples - TDC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	26.99	18.51	23.04	19.07
	5-Year High	62.84	18.51	23.04	19.34
	5-Year Low	10.65	10.16	16.86	15.17
	5-Year Median	27.25	12.08	19.11	17.44
P/S F12M	Current	1.58	1.15	3.55	3.46
	5-Year High	2.81	1.58	3.55	3.46
	5-Year Low	1.27	0.84	2.29	2.54
	5-Year Median	1.95	1.22	2.99	3
EV/Sales TTM	Current	1.51	1.66	4.17	3.22
	5-Year High	2.58	1.79	4.19	3.3
	5-Year Low	1.08	0.56	2.54	2.14
	5-Year Median	1.74	1.39	3.42	2.79

As of 01/02/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (175 out of 253)



Top Peers

Amazon.com, Inc. (AMZN)	Neutral
Alphabet Inc. (GOOGL)	Neutral
International Business Machines Corporation (IBM)	Neutral
Microsoft Corporation (MSFT)	Neutral
MicroStrategy Incorporated (MSTR)	Neutral
Oracle Corporation (ORCL)	Neutral
SAP SE (SAP)	Neutral
Verint Systems Inc. (VRNT)	Neutral

Industry Comparison Industry: Computer- Storage Devices				Industry Peers		
	TDC Underperform	X Industry	S&P 500	GOOGL Neutral	ORCL Neutral	VRNT Neutral
VGM Score	D	-	-	C	B	B
Market Cap	3.00 B	759.55 M	23.76 B	943.96 B	173.05 B	3.83 B
# of Analysts	7	7.5	13	13	13	4
Dividend Yield	0.00%	0.00%	1.78%	0.00%	1.78%	0.00%
Value Score	D	-	-	C	B	C
Cash/Price	0.18	0.19	0.04	0.13	0.16	0.12
EV/EBITDA	16.99	8.01	13.97	19.03	11.37	19.72
PEG Ratio	1.36	3.32	2.02	1.50	1.42	1.12
Price/Book (P/B)	9.28	7.47	3.38	4.85	10.69	2.87
Price/Cash Flow (P/CF)	13.35	12.24	13.70	22.43	12.23	14.72
P/E (F1)	17.61	16.18	18.83	25.03	13.87	15.74
Price/Sales (P/S)	1.51	1.51	2.68	6.09	4.37	2.96
Earnings Yield	5.62%	4.76%	5.30%	4.00%	7.21%	6.35%
Debt/Equity	1.73	0.37	0.72	0.07	3.13	0.66
Cash Flow (\$/share)	2.00	0.42	6.94	61.03	4.41	3.89
Growth Score	D	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	-23.72%	1.83%	10.56%	23.64%	6.17%	2.37%
Proj. EPS Growth (F1/F0)	52.32%	1.65%	7.41%	17.38%	10.47%	13.40%
Curr. Cash Flow Growth	-2.80%	-3.92%	14.83%	44.22%	-0.35%	11.19%
Hist. Cash Flow Growth (3-5 yrs)	-16.24%	-0.23%	9.00%	21.13%	-1.03%	7.84%
Current Ratio	1.27	1.45	1.23	3.78	2.37	1.57
Debt/Capital	63.35%	41.09%	42.92%	6.59%	75.79%	39.72%
Net Margin	0.70%	0.51%	11.08%	21.04%	27.62%	3.95%
Return on Equity	23.17%	5.88%	17.10%	18.34%	56.86%	13.50%
Sales/Assets	0.91	0.91	0.55	0.62	0.37	0.44
Proj. Sales Growth (F1/F0)	-0.73%	0.29%	4.20%	18.10%	1.07%	8.85%
Momentum Score	B	-	-	C	A	C
Daily Price Chg	-0.34%	0.40%	0.33%	2.19%	1.83%	3.50%
1 Week Price Chg	-0.45%	-0.03%	0.13%	0.25%	-0.26%	1.84%
4 Week Price Chg	3.81%	3.01%	3.31%	3.14%	-1.34%	12.15%
12 Week Price Chg	-7.68%	-0.24%	9.70%	13.16%	-2.78%	32.18%
52 Week Price Chg	-27.87%	15.36%	30.28%	33.47%	20.48%	40.96%
20 Day Average Volume	967,786	115,438	1,603,615	1,191,893	11,413,907	529,698
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.05%	0.49%	0.00%
(F1) EPS Est 12 week change	-35.62%	-2.22%	-0.57%	-2.18%	-0.05%	0.00%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.07%	0.93%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	B
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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