Teradata Corporation (TDC)

$20.69 (As of 08/07/20)

Price Target (6-12 Months): **$26.00**

Long Term: 6-12 Months	**Zacks Recommendation:** **Neutral**
	(Since: 01/30/20)
	Prior Recommendation: Underperform
Short Term: 1-3 Months	**Zacks Rank:** (1-5) **4-Sell**
	Zacks Style Scores: VGM:B
	Value: C | Growth: B | Momentum: B

Summary

Teradata's second-quarter 2020 results were negatively impacted by the coronavirus outbreak. The top line took a hit from lower consulting revenues. Gross margin was hurt by a higher mix of subscription-based revenues that carry lower margins than revenues from perpetual-related maintenance and software-upgrade rights. Nevertheless, Teradata by and large completed its transition to a subscription-based business model, which is expected to boost recurring revenues. The company's efforts to expand features of Vantage are expected to drive the top line. Further, it generates significant revenues from sectors like financial services, government and healthcare, which remain stable despite the coronavirus crisis. This provides an impetus to Teradata's top line. Markedly, shares have outperformed the industry year to date.
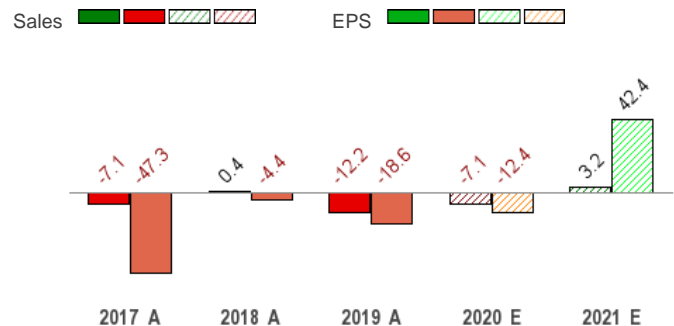
Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$35.37 - $17.62**
20 Day Average Volume (sh)	**996,785**
Market Cap	**$2.7 B**
YTD Price Change	**-8.2%**
Beta	**1.02**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Computer- Storage Devices**
Zacks Industry Rank	**Bottom 4% (242 out of 252)**
Last EPS Surprise	**0.0%**
Last Sales Surprise	**5.9%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**NA**
Earnings ESP	**0.0%**
P/E TTM	**23.4**
P/E F1	**22.5**
PEG F1	**1.7**
P/S TTM	**1.5**

Sales and EPS Growth Rates (Y/Y %)

Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	433 E	431 E	440 E	474 E	1,822 E
2020	434 A	457 A	433 E	469 E	1,765 E
2019	468 A	478 A	459 A	494 A	1,899 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.18 E	$0.26 E	$0.28 E	$0.30 E	$1.31 E
2020	$0.27 A	$0.24 A	$0.20 E	$0.21 E	$0.92 E
2019	$0.22 A	$0.29 A	$0.32 A	$0.22 A	$1.05 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 08/07/2020. The reports text is as of 08/10/2020.

Overview

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's target market includes companies, which are 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 companies need an integrated analytical solution that can accommodate massive scale and speed across secure, cloud architectures. The company's data warehouse and analytics platform, Teradata Vantage, addresses the challenges faced by these companies, whether on premises, in public or private clouds, or in a hybrid environment.

Teradata generated revenues of $1.90 billion in 2019. At the end of 2019, annual recurring revenues (ARR) were $1.43 billion, up 9% from 2018.

EPS Hist. and Est.


Sales Hist. and Est.

In the first quarter of 2018, the San Diego, CA-based 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 71.7%, 5.6% and 2.7% of total revenues, respectively, in 2019.

Effective Jan 1, 2019, Teradata manages its business under three geographic regions — the Americas region (North America and Latin America), the EMEA region (Europe, Middle East and Africa) and the APAC region (Asia Pacific and Japan).

Americas, EMEA and APAC accounted for 55.7%, 25.9% and 18.4% of total revenues, respectively, in 2019.

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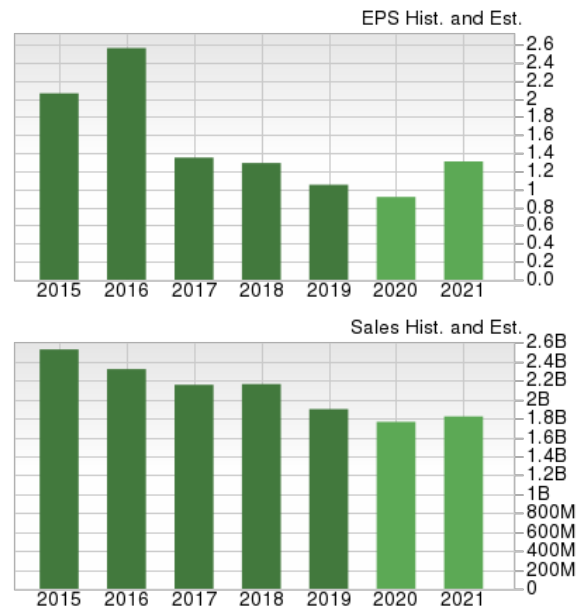
Reasons To Buy:

▲ Teradata has significant presence in the key verticals of financial services, government and healthcare that are steadily strong despite the coronavirus crisis, thereby aiding the company's top line. Customers from these sectors contribute to more than 60% of the company's revenues. Moreover, backlog was roughly $2.7 billion as of Dec 31, 2019, of which $1.4 billion is expected to be recognized as revenues in 2020..

▲ Teradata has largely completed its transition to a subscription-based business model, which is expected to be a long-term growth driver. The company's expanding cloud clientele (public cloud customers more than doubled in 2019), and growing recurring bookings (90%) and revenues are major growth drivers. Notably, subscription and cloud-related Annual Recurring Revenues (ARR) comprised 49% or nearly half of the company's total ARR in 2019. Teradata's solid portfolio of solutions is also expected to drive its share in the lucrative big data market.

▲ Moreover, gross margin expanded in 2019, up 270 basis points (bps), driven by revenue mix shift from lower-margin consulting and perpetual revenue to higher-margin recurring revenues. The trend is expected to continue in 2020. Additionally, improving operational efficiency due to the completion of the transition to a subscription business model is expected to help Teradata focus on investing more aggressively on cloud. Management expects cloud gross margin to expand substantially over the next 18 to 24 months.

▲ 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. We believe strengthening relationships with large vendors will drive revenues and bottom line over the long term.

▲ Teradata's analytics platform, Teradata Vantage, continues to gain momentum among megadata customers, having huge chunks of data. Notably, backlog grew 7% year over year in 2019, reflecting continued adoption. Further, 40% of the company's customer base is now on Vantage. The company continues to add features to the Vantage platform, both cloud and on-premise, to address customer needs for a high performance and massively scale hybrid analytics offering.

Teradata's premier market position, growing traction of Teradata Vantage, gross margin expansion opportunities and solid partner base are positives.

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.

▼ Moreover, increasing mix of cloud recurring revenues, which have a low margin compared with overall recurring revenue gross margin, is expected to hurt gross margin expansion in 2020.

▼ 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 faces severe pricing pressure that is negatively impacting profitability.

▼ Teradata's cash-flow generation ability suffered in recent times. Free cash flow, which indicates the company's capacity to invest in its existing businesses, and pursue acquisitions and repurchases declined to $89 million in 2019 from $204 million reported in 2018. Sluggish top-line growth amid stiff competition is expected to remain a drag on Teradata's ability to generate cash flow in the near term. Moreover, total debt (including current portion) as of Jun 30, 2020, was $467 million compared with $610 million as of Mar 31, 2020. Including financial lease obligations, total debt was $613 million. The company suspended its share buyback program.

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

Teradata Q2 Earnings Beat Estimates, Revenues Fall Y/Y

Teradata reported second-quarter 2020 adjusted earnings of 24 cents per share, which beat the Zacks Consensus Estimate by 14.3%. However, the figure decreased 17.2% year over year.

Revenues of $457 million also beat the consensus mark by 6%. However, the top line declined 4.4% year over year. At constant currency (cc), revenues were down 6%.

Total backlog at the end of the second quarter was $2.6 billion, up 3% year over year, driven by increased subscription bookings.

Quarter Ending	06/2020
Report Date	**Aug 06, 2020**
Sales Surprise	**5.93%**
EPS Surprise	**0.00%**
Quarterly EPS	**0.24**
Annual EPS (TTM)	**0.37**

Top-Line Details

Recurring revenues (78.3% of revenues) increased 5.9% year over year (up 8% at cc) to $358 million.

Perpetual software license and hardware revenues (3.7% of revenues) plummeted 41.4% from the year-ago quarter (down 42% at cc) to $17 million.

Consulting services' revenues (18% of revenues) dropped 26.1% from the year-ago quarter (down 24% at cc) to $82 million.

Revenues from Americas decreased 3.7% year over year (down 2% at cc) to $259 million. Europe, Middle East & Africa (EMEA) revenues declined 3.3% from the year-ago quarter (down 1% at cc) to $118 million. Revenues from the Asia-Pacific ("APAC") were down 8% from the year-ago quarter (down 7% at cc) to $80 million.

Total annual recurring revenues (ARR) at the end of the second quarter increased 7.7% year over year (up 9% at cc) to $1.45 billion.

Operating Details

Gross margin on a non-GAAP basis expanded 610 basis points (bps) year over year to 58.9%, primarily driven by higher mix of recurring revenues.

Americas and APAC gross margins expanded 340 bps and 870 bps to 62.2% and 51.3%, respectively. EMEA gross margin surged to 56.8% from 46.7% reported in the year-ago quarter.

Recurring revenues' gross margin on a non-GAAP basis contracted 120 bps on a year-over-year basis to 69.8%.The decline was due to a higher mix of subscription-based revenues that carry lower margins than revenues from perpetual-related maintenance and software-upgrade rights. Subscription business includes embedded hardware rentals and cloud offerings.

However, perpetual software license and hardware margin on a non-GAAP basis soared to 35.3% from 10.3% reported in the year-ago quarter.

Consulting services' gross profit was $8 million compared with $2 million in the year-ago quarter.

Selling, general & administrative (SG&A), as well as research & development (R&D) expenses, as a percentage of revenues, increased 580 bps and 120 bps, on a year-over-year basis.

Non-GAAP operating margin expanded 330 bps on a year-over-year basis to 14%.

Balance Sheet & Other Details

As of Jun 30, 2020, Teradata had cash and cash equivalents of $494 million compared with $394 million as of Mar 31, 2020.

Total debt (including current portion) as of Jun 30, 2020, was $467 million compared with $610 million as of Mar 31, 2020. Including financial lease obligations, total debt was $613 million.

In the second quarter, Teradata generated $130 million of cash from operating activities compared with the year-ago quarter's $55 million and previous quarter's $10 million.

The company's quarterly free cash flow was $115 million compared with $42 million in the year-ago quarter. Teradata had posted free cash outflow of $2 million in the previous quarter.

Guidance

For third-quarter 2020, recurring revenues are expected between $359 million and $361 million. Non-GAAP earnings are expected between 28 cents and 31 cents per share.

Teradata believes that its consulting business will continue to suffer in the second half of 2020, given the ongoing uncertainty due to coronavirus outbreak and continued remote-work mandates.

Recent News

On Jun 23, Teradata announced the availability of Disaster Recovery as a Service (DRaaS) offering on Vantage on Amazon Web Services (AWS) and Vantage on Microsoft Azure. Teradata DRaaS is a standardized disaster-recovery service in which an on-premises customer receives a Teradata-managed environment in the public cloud.

The company also announced feature enhancements of Vantage on Google Cloud Platform (GCP), which will be available on a limited basis in Jul 2020.

On May 7, Teradata announced the appointment of Steve McMillan as president and chief executive officer as well as a member of the board of directors, effective Jun 8, 2020.

On Apr 29, Teradata announced the commercial availability of Vantage Customer Experience (CX).

Valuation

Teradata shares are down 8.2% in the year-to-date period and 27% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 28.2%, while the same in the Zacks Computer & Technology sector are up 20.4% in the year-to-date period. Over the past year, while the Zacks sub-industry is down 12.1%, the sector is up 37.3%.

The S&P 500 index is up 3.9% in the year-to-date period and 16.4% in the past year.

The stock is currently trading at 21.31X forward 12-month earnings compared with 13.51X for the Zacks sub-industry, 26.39X for the Zacks sector and 22.83X 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 29.27X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $26 price target reflects 22.38X 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	21.31	13.51	26.39	22.83
	5-Year High	62.84	16.98	26.39	22.83
	5-Year Low	10.65	9.94	16.72	15.25
	5-Year Median	29.27	12.15	19.47	17.55
P/S F12M	Current	1.48	0.94	4.08	3.67
	5-Year High	2.81	1.41	4.08	3.67
	5-Year Low	1.06	0.8	2.32	2.53
	5-Year Median	1.81	1.13	3.14	3.04
EV/Sales TTM	Current	1.43	1.19	4.8	3.33
	5-Year High	2.58	1.71	4.8	3.43
	5-Year Low	1.07	0.55	2.59	2.1
	5-Year Median	1.55	1.34	3.62	2.82

As of 08/07/2020

Industry Analysis Zacks Industry Rank: Bottom 4% (242 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Amazon.com, Inc. (AMZN)	Neutral	3
Alphabet Inc. (GOOGL)	Neutral	3
International Business Machines Corporation (IBM)	Neutral	4
Microsoft Corporation (MSFT)	Neutral	3
MicroStrategy Incorporated (MSTR)	Neutral	3
Oracle Corporation (ORCL)	Neutral	3
SAP SE (SAP)	Neutral	2
Verint Systems Inc. (VRNT)	Neutral	3

Industry Comparison Industry: Computer- Storage Devices — Industry Peers

	TDC	X Industry	S&P 500	GOOGL	ORCL	VRNT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	B	-	-	B	C	B
Market Cap	2.67 B	884.10 M	23.30 B	1,019.14 B	169.48 B	2.86 B
# of Analysts	4	2	14	12	12	4
Dividend Yield	0.00%	0.00%	1.76%	0.00%	1.74%	0.00%
Value Score	C	-	-	C	B	B
Cash/Price	0.17	0.19	0.07	0.12	0.25	0.22
EV/EBITDA	17.38	6.83	13.32	17.76	11.49	16.79
PEG Ratio	2.04	2.26	2.94	2.05	1.24	0.99
Price/Book (P/B)	7.82	6.04	3.19	4.92	13.33	2.40
Price/Cash Flow (P/CF)	12.69	11.00	12.51	21.57	11.81	10.57
P/E (F1)	26.42	11.52	22.02	33.49	13.68	13.80
Price/Sales (P/S)	1.45	1.45	2.53	6.14	4.34	2.25
Earnings Yield	3.74%	3.74%	4.37%	2.99%	7.31%	7.25%
Debt/Equity	1.60	0.19	0.77	0.07	5.44	0.90
Cash Flow ($/share)	1.94	0.08	6.94	69.45	4.68	4.20
Growth Score	B	-	-	B	D	B
Hist. EPS Growth (3-5 yrs)	-26.49%	-6.01%	10.46%	22.11%	9.05%	6.79%
Proj. EPS Growth (F1/F0)	232.61%	0.94%	-6.80%	309.31%	131.06%	22.81%
Curr. Cash Flow Growth	-7.74%	-28.62%	5.39%	12.62%	-2.42%	10.44%
Hist. Cash Flow Growth (3-5 yrs)	-17.98%	1.84%	8.55%	19.91%	-0.39%	0.84%
Current Ratio	1.08	1.51	1.33	3.41	3.03	1.64
Debt/Capital	61.61%	43.38%	44.50%	6.63%	84.48%	47.46%
Net Margin	6.07%	-1.49%	10.13%	18.99%	25.94%	1.65%
Return on Equity	13.26%	3.31%	14.39%	15.62%	72.76%	12.14%
Sales/Assets	0.89	0.93	0.51	0.61	0.37	0.42
Proj. Sales Growth (F1/F0)	-7.06%	0.00%	-1.51%	7.25%	0.22%	-5.40%
Momentum Score	B	-	-	A	C	C
Daily Price Chg	18.80%	0.57%	0.90%	-0.44%	-0.09%	-0.56%
1 Week Price Chg	3.40%	0.00%	0.14%	-1.34%	-0.36%	4.30%
4 Week Price Chg	24.65%	0.59%	8.95%	-1.34%	-4.00%	1.95%
12 Week Price Chg	22.96%	22.54%	18.90%	10.43%	4.38%	5.54%
52 Week Price Chg	-30.62%	1.00%	1.18%	24.22%	1.06%	-21.26%
20 Day Average Volume	996,785	268,800	2,057,775	1,770,536	10,719,856	486,120
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	5.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	-0.05%	1.36%	8.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-20.64%	-15.45%	1.57%	7.38%	-2.23%	-3.50%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.54%	10.31%	0.00%	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.

Value Score	C
Growth Score	B
Momentum Score	B
VGM Score	B

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.

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.

Disclosures