Teradata Corporation (TDC)

$25.39 (As of 04/29/20)

Price Target (6-12 Months): **$27.00**

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

Summary

Teradata is expected to benefit from growing adoption of its cloud offerings. The growing traction of Teradata Vantage among megadata companies, the world's most demanding, large-scale users of data, is a key catalyst for the long haul. The company's efforts to expand features of Vantage, both on cloud and on-premise, are expected to drive top-line growth. Moreover, Teradata has largely completed its transition to a subscription-based business model, which is expected to boost recurring revenues. Nevertheless, shares have underperformed the industry on a year-to-date basis. 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.
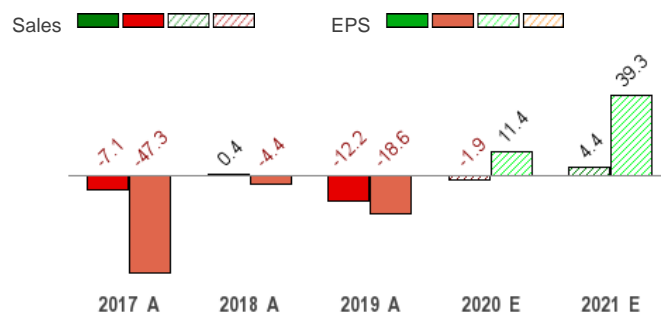
Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$45.53 - $17.62**
20 Day Average Volume (sh)	**971,537**
Market Cap	**$2.8 B**
YTD Price Change	**-5.2%**
Beta	**1.00**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Computer- Storage Devices**
Zacks Industry Rank	**Top 25% (63 out of 253)**
Last EPS Surprise	**37.5%**
Last Sales Surprise	**4.4%**
EPS F1 Est- 4 week change	**-4.4%**
Expected Report Date	**05/07/2020**
Earnings ESP	**-1.3%**
P/E TTM	**24.2**
P/E F1	**21.7**
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	465 E	478 E	486 E	517 E	1,943 E
2020	452 E	469 E	470 E	497 E	1,862 E
2019	468 A	478 A	459 A	494 A	1,899 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.29 E	$0.38 E	$0.42 E	$0.46 E	$1.63 E
2020	$0.22 E	$0.28 E	$0.32 E	$0.35 E	$1.17 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 04/29/2020. The reports text is as of 04/30/2020.

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 $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 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.
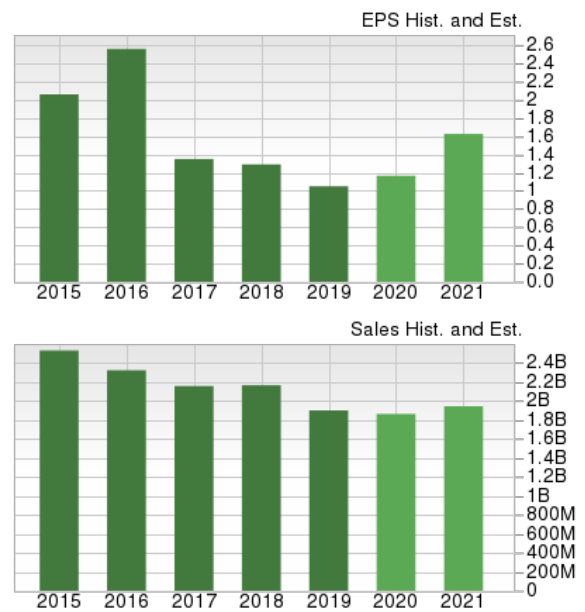
Reasons To Buy:

▲ Teradata has 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. Management expects both ARR growth and recurring revenue growth of at least 8% in 2020. Teradata's solid portfolio of solutions is also expected to drive its share in the lucrative big data market.

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

▲ 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. Teradata expects this trend to continue in 2020. Management expects total gross margin to expand another 200-300 bps 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. This is expected to aid operating margin expansion by 100 bps in 2020.

▲ 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. Moreover, the company is expanding presence in key verticals like financial services, retails, telecommunications, health care, oil & gas and government agencies, which is a key catalyst.

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. Management expects total revenues to be flat to down slightly for the full year of 2020.

▼ 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 has suffered in recent times. Free cash flow, which indicates the company's ability to invest in its existing businesses, and pursue acquisitions and repurchases declined to $89 million in 2019 from $204 million reported in 2018. Although the company expects free cash flow of $150 million for 2020, a year-over-year flat top line amid stiff competition might dent its cash flow in the near term. As of Dec 31, 2019, Teradata had net debt of $118 million compared with $83 million as of Sep 30, 2019.

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

Last Earnings Report

Teradata Q4 Earnings Beat Estimates, Revenues Fall Y/Y

Teradata reported fourth-quarter 2019 adjusted earnings of 22 cents per share, which beat the Zacks Consensus Estimate by 37.5%. The reported figure, however, plunged 55.1% year over year.

Revenues of $494 million also surpassed the consensus mark by 4.4%. However, the revenue figure declined 16% year over year. At constant currency (cc), revenues were down 15%.

Quarter Ending	12/2019
Report Date	**Feb 06, 2020**
Sales Surprise	**4.40%**
EPS Surprise	**37.50%**
Quarterly EPS	**0.22**
Annual EPS (TTM)	**1.05**

Top-Line Details

Recurring revenues (70.9% of revenues) increased 6.7% year over year (up 7% at cc) to $350 million.

Perpetual software license and hardware revenues (6.1% of revenues) plummeted 69.1% from the year-ago quarter (down 69% at cc) to $30 million.

Consulting services revenues (23.1% of revenues) slid 30.1% from the year-ago quarter (down 30% at cc) to $114 million.

Revenues from Americas decreased 11.7% year over year (down 11% at cc) to $263 million. Europe, Middle East & Africa (EMEA) revenues declined 19.2% from the year-ago quarter (down 19% at cc) to $139 million. Revenues from Asia-Pacific (APAC) were down 22% from the year-ago quarter (down 21% at cc) to $92 million.

Total annual recurring revenues (ARR) at the end of 2019 increased 9.1% year over year (up 9% at cc).

Operating Details

Non-GAAP segment gross margin expanded 120 basis points (bps) year over year to 53.2%. While Americas gross margin expanded 380 bps, EMEA and APAC gross margin contracted 250 bps and 140 bps, respectively.

Recurring revenues gross margin shrunk 260 bps to 66% from the year-ago quarter.

Perpetual software license and hardware margin declined from the year-ago quarter's 40.2% to 20%.

Consulting services operating income was $11 million, reflecting a slump of 56% year over year.

Non-GAAP operating margin contracted 290 bps on a year-over-year basis to 9.7%.

Balance Sheet & Other Details

As of Dec 31, 2019, Teradata had cash and cash equivalents of $494 million compared with $528 million as of Sep 30, 2019.

Total debt (including current portion), as of Dec 31, 2019 was $479 million compared with $596 million as of Sep 30.

In the fourth quarter, Teradata generated $54 million of cash from operating activities compared with the previous quarter's $10 million. The company's quarterly free cash flow came in at $41 million compared with the free cash outflow of $27 million witnessed in the previous quarter.

Moreover, Teradata repurchased around 2.2 million shares worth approximately $61 million.

Guidance

For 2020, Teradata expects ARR and recurring revenues to increase at least 8%.Non-GAAP earnings are projected between $1.18 and $1.22 per share for the full year.

For first-quarter 2020, recurring revenues are expected between $353 million and $355 million. Non-GAAP earnings are expected between 22 cents and 24 cents per share.

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.

Valuation

Teradata shares are down 7.5% in the year-to-date period and 44.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are down 20.7% and 2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 20.1%, while the sector is up 6.9%.

The S&P 500 index is down 8.8% in the year-to-date period but 0.2% in the past year.

The stock is currently trading at 19.28X forward 12-month earnings compared with 11.98X for the Zacks sub-industry, 21.9X for the Zacks sector and 20.16X 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 28.22X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $27 price target reflects 20.24X 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	19.28	11.98	21.9	20.16
	5-Year High	62.84	16.45	21.92	20.16
	5-Year Low	10.65	9.68	16.71	15.19
	5-Year Median	28.22	12.22	19.23	17.44
P/S F12M	Current	1.49	1.02	3.35	3.21
	5-Year High	2.81	1.43	3.59	3.44
	5-Year Low	1.06	0.82	2.32	2.54
	5-Year Median	1.88	1.16	3.09	3.01
EV/Sales TTM	Current	1.48	1.26	3.76	2.83
	5-Year High	2.58	1.71	4.44	3.45
	5-Year Low	1.07	0.55	2.58	2.16
	5-Year Median	1.6	1.34	3.57	2.82

As of 04/29/2020

Industry Analysis Zacks Industry Rank: Top 25% (63 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Amazon.com, Inc. (AMZN)	Neutral	3
Alphabet Inc. (GOOGL)	Neutral	4
International Business Machines Corporation (IBM)	Neutral	3
Microsoft Corporation (MSFT)	Neutral	3
MicroStrategy Incorporated (MSTR)	Neutral	4
Oracle Corporation (ORCL)	Neutral	3
SAP SE (SAP)	Neutral	3
Verint Systems Inc. (VRNT)	Underperform	5

Industry Comparison Industry: Computer- Storage Devices / Industry Peers

	TDC	X Industry	S&P 500	GOOGL	ORCL	VRNT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	4	3	5
VGM Score	C	-	-	C	B	C
Market Cap	2.82 B	1.22 B	20.82 B	922.46 B	169.92 B	2.98 B
# of Analysts	7	3	14	12	12	4
Dividend Yield	0.00%	0.00%	2.07%	0.00%	1.78%	0.00%
Value Score	C	-	-	D	B	C
Cash/Price	0.19	0.32	0.06	0.14	0.15	0.16
EV/EBITDA	17.74	5.50	12.12	15.90	11.20	17.52
PEG Ratio	1.63	1.54	2.51	1.95	1.27	0.91
Price/Book (P/B)	10.90	3.20	2.74	4.59	11.42	2.40
Price/Cash Flow (P/CF)	13.11	10.42	11.23	19.33	12.22	10.63
P/E (F1)	21.17	11.97	19.26	32.99	13.95	12.69
Price/Sales (P/S)	1.48	1.34	2.16	5.53	4.27	2.29
Earnings Yield	4.61%	5.58%	5.03%	3.03%	7.16%	7.89%
Debt/Equity	2.16	0.16	0.72	0.07	3.31	0.74
Cash Flow ($/share)	1.94	0.07	7.01	69.45	4.41	4.20
Growth Score	D	-	-	B	C	B
Hist. EPS Growth (3-5 yrs)	-25.28%	-3.86%	10.88%	24.24%	7.82%	4.93%
Proj. EPS Growth (F1/F0)	11.02%	12.76%	-6.94%	-17.23%	9.73%	-2.02%
Curr. Cash Flow Growth	-7.74%	-28.62%	5.92%	12.62%	-0.35%	10.44%
Hist. Cash Flow Growth (3-5 yrs)	-17.98%	6.16%	8.55%	19.91%	-1.03%	0.84%
Current Ratio	1.14	1.49	1.23	3.37	2.12	1.42
Debt/Capital	68.40%	40.71%	43.90%	6.83%	76.82%	42.63%
Net Margin	-1.26%	-2.58%	11.15%	20.71%	27.06%	2.20%
Return on Equity	16.69%	0.46%	16.47%	17.59%	64.68%	12.80%
Sales/Assets	0.90	0.90	0.54	0.63	0.39	0.44
Proj. Sales Growth (F1/F0)	-1.94%	0.00%	-1.52%	3.23%	-0.01%	3.45%
Momentum Score	B	-	-	C	C	C
Daily Price Chg	5.57%	5.38%	2.91%	8.89%	1.28%	4.40%
1 Week Price Chg	2.16%	1.57%	-1.74%	-0.19%	-2.95%	-2.09%
4 Week Price Chg	28.69%	25.97%	21.33%	21.78%	10.61%	22.20%
12 Week Price Chg	2.92%	-19.84%	-16.28%	-7.18%	-1.57%	-23.64%
52 Week Price Chg	-42.67%	-31.51%	-7.57%	14.39%	-1.82%	-25.72%
20 Day Average Volume	971,537	226,593	2,658,107	2,541,193	11,591,156	523,831
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.82%	0.00%	0.00%
(F1) EPS Est 4 week change	-4.44%	-0.94%	-6.32%	-13.98%	-0.24%	-29.44%
(F1) EPS Est 12 week change	-40.28%	-3.28%	-12.93%	-25.95%	-0.01%	-29.44%
(Q1) EPS Est Mthly Chg	0.00%	-0.65%	-11.84%	-20.73%	-1.34%	-43.68%

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	D
Momentum Score	B
VGM Score	C

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.

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