

Teradata Corporation

Deceleration in F24 raises more questions; Downgrade to Neutral

Rating Change: NEUTRAL | PO: 48.00 USD | Price: 48.79 USD

Secular trajectory comes into question

We are downgrading shares of TDC to Neutral, from Buy, given (1) weaker trajectory in F24 leading to higher hurdle to achieve F25 goals, (2) on-prem erosion creating risks of future migration pipeline, (3) marginal improvement in FCF creates increased risk to long-term guidance. TDC reported F4Q23 Public Cloud ARR growth of 48% y/y (46% in CC) accounting for 34% of total ARR in 4Q. FY23 total recurring revenue growth was 5% y/y (7% y/y in CC). Cloud net expansion rate was strong at 124% (vs. 123% in F3Q). Upfront recurring revenue had a net negative impact of \$1mn in F4Q (-\$20mn for F23). Management highlighted that a few large on-prem erosions will negatively impact total ARR in F1H24. FY24 EPS was guided to \$2.23 at the mid-point (range \$2.15 to \$2.31), below Street estimates of \$2.37. Our Neutral rating weighs near-term negatives including on-prem erosion which we see as a risk that can continue, tougher hurdle to get to F25 ARR goals, and little improvement in free cash flow, against longer-term positives including the shift to a subscription model which could lead to more stable revenues, margins and free cash flow.

FY24 guidance below our expectations

FY24 Public cloud ARR growth guide is 35-41% y/y CC with total ARR growth of 4-8% y/y in constant currency. FX is a -1.0 to -1.5% y/y negative impact. The company guided F24 total revenue to be flat to +2% y/y CC (below our previous estimate of +3% y/y reported) and FCF of \$340mn to \$380mn (below our previous estimate of \$437mn)

Capital returns remain strong; 87% of FCF returned

FY23 FCF came in at \$355mn (\$168mn in F4Q), towards the high-end of the guided range for FY23 (\$320-360mn). FY23 share repurchases totaled \$308mn, resulting in the company returning 87% of FCF to shareholders in the year. Mgmt is committed to returning a minimum of at least 75% FCF to shareholders in FY24. The company is seeing initial strong interest in its new Teradata AI Unlimited offering.

Downgrade to Neutral; PO moves to \$48 (from \$58)

Our F24 rev/eps move to \$1.83bn/\$2.22, from \$1.88bn/\$2.24. PO moves to \$48 (from \$58) on 13x (unchanged) C24 FCF/share of \$3.61 (vs. prior \$4.32). Risks factors are 1) faster-than-expected growth in ARR and 2) large contract wins in the near-term.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	2.43	1.65	2.07	2.22	2.74
GAAP EPS	1.40	0.31	0.61	1.24	1.70
EPS Change (YoY)	84.1%	-32.1%	25.5%	7.2%	23.4%
Consensus EPS (Bloomberg)			2.02	2.37	2.94
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	20.1x	29.6x	23.6x	22.0x	17.8x
GAAP P/E	34.9x	157.4x	80.0x	39.3x	28.7x
EV / EBITDA*	9.3x	11.9x	11.2x	11.0x	10.1x
Free Cash Flow Yield*	9.1%	8.5%	7.5%	7.5%	10.0%

* For full definitions of *IQmethod*SM measures, see page 6.

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12658983

Timestamp: 13 February 2024 09:37AM EST

13 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	C-1-9	C-2-9
Inv. Rating	BUY	NEUTRAL
Price Obj.	58.00	48.00
2023E Rev (m)	1,828.8	1,833.0
2024E Rev (m)	1,884.7	1,828.6
2025E Rev (m)	1,994.7	1,933.0
2023E EPS	2.01	2.07
2024E EPS	2.24	2.22
2025E EPS	2.71	2.74

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Stock Data

Price	48.79 USD
Price Objective	48.00 USD
Date Established	13-Feb-2024
Investment Opinion	C-2-9
52-Week Range	36.32 USD - 57.73 USD
Mkt Val (mn) / Shares Out	4,772 USD / 97.8 (mn)
Free Float	98.4%
Average Daily Value (mn)	37.47 USD
BofA Ticker / Exchange	TDC / NYS
Bloomberg / Reuters	TDC US / TDC.N
ROE (2023E)	107.9%
Net Dbt to Eqty (Dec-2022A)	-27.5%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

iQprofileSM Teradata Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	24.5%	19.1%	26.9%	24.9%	23.5%
Return on Equity	63.7%	48.5%	107.9%	86.7%	52.0%
Operating Margin	20.5%	15.9%	18.1%	18.2%	20.4%
Free Cash Flow	435	405	356	360	479

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.7x	2.4x	1.8x	1.7x	1.9x
Asset Replacement Ratio	0.2x	0.1x	0.2x	0.2x	0.2x
Tax Rate	22.4%	26.0%	23.5%	24.5%	24.5%
Net Debt-to-Equity Ratio	-39.1%	-27.5%	9.6%	-73.8%	-105.2%
Interest Cover	NA	NA	14.2x	12.7x	NA

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	1,917	1,795	1,833	1,829	1,933
% Change	4.4%	-6.4%	2.1%	-0.2%	5.7%
Gross Profit	1,215	1,105	1,133	1,125	1,231
% Change	13.3%	-9.1%	2.5%	-0.7%	9.4%
EBITDA	542	420	448	457	498
% Change	34.8%	-22.5%	6.7%	2.0%	8.9%
Net Interest & Other Income	(40)	(51)	(55)	(40)	(40)
Net Income (Adjusted)	274	174	212	221	267
% Change	87.7%	-36.5%	21.8%	4.3%	20.8%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	274	174	212	221	267
Depreciation & Amortization	149	134	116	124	104
Change in Working Capital	41	152	69	6	113
Deferred Taxation Charge	14	(26)	(11)	1	(13)
Other Adjustments, Net	(15)	(15)	(11)	32	33
Capital Expenditure	(28)	(14)	(19)	(23)	(25)
Free Cash Flow	435	405	356	360	479
% Change	95.1%	-6.8%	-12.2%	1.1%	33.2%
Share / Issue Repurchase	(244)	(387)	(308)	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(122)	87	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	592	569	486	775	1,185
Trade Receivables	336	364	286	301	302
Other Current Assets	178	95	97	97	93
Property, Plant & Equipment	288	244	239	200	173
Other Non-Current Assets	775	750	765	759	771
Total Assets	2,169	2,022	1,873	2,132	2,524
Short-Term Debt	88	0	19	19	19
Other Current Liabilities	945	1,007	977	998	1,104
Long-Term Debt	324	498	480	480	480
Other Non-Current Liabilities	352	259	262	262	269
Total Liabilities	1,709	1,764	1,738	1,758	1,872
Total Equity	460	258	135	375	652
Total Equity & Liabilities	2,169	2,022	1,873	2,133	2,524

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

IT Hardware

Company Description

Teradata is the world's leading provider of business analytics solutions, data and analytics solutions, and hybrid cloud products and services and consulting services.

Investment Rationale

Our Neutral rating weighs near-term negatives including on-prem erosion which we see as a risk that can continue, tougher hurdle to get to F25 ARR goals, and little improvement in free cash flow, against longer-term positives including the shift to a subscription model which can lead to more stable revenues, margins and free cash flow.

Stock Data

Average Daily Volume

768,046

Quarterly Earnings Estimates

	2022	2023
Q1	0.65A	0.61A
Q2	0.33A	0.48A
Q3	0.31A	0.42E
Q4	0.35A	0.56E

Abbreviations

ARR: Annual Recurring Revenue

FCF: Free Cash Flow

CC: Constant currency



Model

Exhibit 1: TDC Income Statement

We model F24 rev/EPS of \$1.83bn/\$2.22

(\$ in millions except EPS)

	2023E			2024E						2022A	2023E	2024E	2025E	2026E
	1Q23A	2Q23A	3Q23A	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E						
Recurring	389	371	360	372	393	375	364	376		1,419	1,492	1,507	1,629	1,762
Perpetual software licences and hardware	13	13	7	12	12	12	6	11		65	45	41	36	33
Consulting services	74	78	71	73	70	74	67	69		311	296	281	267	254
Sales	476	462	438	457	475	461	437	456		1,795	1,833	1,829	1,933	2,048
Cost of Recurring	96	105	102	105	120	109	100	103		382	408	432	451	470
Cost of Perpetual SW licences & HW	11	12	7	8	10	10	5	7		46	38	33	27	24
Cost of Consulting services	63	65	65	61	65	61	56	57		262	254	239	224	211
Cost of Sales	170	182	174	174	195	180	161	168		690	700	704	702	705
Gross Profit - Recurring	293	266	258	267	273	266	264	272		1,037	1,084	1,075	1,179	1,292
Gross Profit - Perpetual SW licences & HW	2	1	-	4	1	2	1	4		19	7	8	9	8
Gross Profit - Consulting services	11	13	6	12	6	13	11	12		49	42	42	43	43
Gross Profit	306	280	264	283	280	281	276	288		1,105	1,133	1,125	1,231	1,344
SG&A	134	141	133	131	132	141	133	131		545	539	536	567	601
R&D	64	67	68	63	62	65	67	61		274	262	256	270	287
Operating Income	108	72	63	89	85	75	77	96		286	332	333	394	456
Interest and Other Expense (Income), Net	21	9	14	11	10	10	10	10		51	55	40	40	40
Pretax Income	87	63	49	78	75	65	67	86		235	277	293	354	416
Taxes	24	14	6	21	18	16	16	21		61	65	72	87	102
Tax rate	28%	22%	12%	27%	25%	25%	25%	25%		26%	23%	25%	25%	25%
Net Income excl FAS123	63	49	43	57	57	49	50	65		174	212	221	267	314
Dil EPS Incl FAS123	\$0.34	\$0.14	\$0.10	\$0.27	\$0.28	\$0.13	\$0.16	\$0.35		\$0.51	\$0.84	\$0.92	\$1.36	\$1.81
Dil EPS Excl FAS 123	\$0.61	\$0.48	\$0.42	\$0.56	\$0.56	\$0.49	\$0.51	\$0.67		\$1.65	\$2.07	\$2.22	\$2.74	\$3.23
GAAP EPS	\$0.39	\$0.17	\$0.12	(\$0.07)	\$0.35	\$0.22	\$0.25	\$0.43		\$0.31	\$0.61	\$1.24	\$1.70	\$2.16
Average Shares (Diluted)	104	103	102	101	101	100	99	97		106	102	99	97	97
As a % of Revenue														
Cost of Recurring	24.7%	28.3%	28.3%	28.2%	30.5%	29.0%	27.5%	27.5%		26.9%	27.3%	28.7%	27.7%	26.7%
Cost of Perpetual SW licences & HW	84.6%	92.3%	100.0%	66.7%	88.0%	86.0%	86.0%	66.7%		70.8%	84.4%	81.4%	74.5%	74.5%
Cost of Consulting services	85.1%	83.3%	91.5%	83.6%	92.0%	82.3%	83.0%	82.6%		84.2%	85.8%	85.0%	84.0%	83.0%
Cost of sales	35.7%	39.4%	39.7%	38.1%	41.0%	39.0%	36.9%	36.8%		38.4%	38.2%	38.5%	36.3%	34.4%
Gross Profit - Recurring	75.3%	71.7%	71.7%	71.8%	69.5%	71.0%	72.5%	72.5%		73.1%	72.7%	71.3%	72.3%	73.3%
Gross Profit - Perpetual SW licences & HW	15.4%	7.7%	0.0%	33.3%	12.0%	14.0%	14.0%	33.3%		29.2%	15.6%	18.6%	25.5%	25.5%
Gross Profit - Consulting services	14.9%	16.7%	8.5%	16.4%	8.0%	17.7%	17.0%	17.4%		15.8%	14.2%	15.0%	16.0%	17.0%
Gross Profit	64.3%	60.6%	60.3%	61.9%	59.0%	61.0%	63.1%	63.2%		61.6%	61.8%	61.5%	63.7%	65.6%
SG&A	28.2%	30.5%	30.4%	28.7%	27.9%	30.5%	30.4%	28.7%		30.4%	29.4%	29.3%	29.3%	29.3%
R&D	13.4%	14.5%	15.5%	13.8%	13.1%	14.2%	15.2%	13.5%		15.3%	14.3%	14.0%	14.0%	14.0%
Operating Income	22.7%	15.6%	14.4%	19.5%	18.0%	16.2%	17.5%	21.0%		15.9%	18.1%	18.2%	20.4%	22.3%
Interest and Other Expense, net	-4.4%	-1.9%	-3.2%	-2.4%	-2.1%	-2.2%	-2.3%	-2.2%		-2.8%	-3.0%	-2.2%	-2.1%	-2.0%
Pretax Income	18.3%	13.6%	11.2%	17.1%	15.9%	14.1%	15.2%	18.9%		13.1%	15.1%	16.0%	18.3%	20.3%
Net Income Excl FAS123	13.2%	10.6%	9.8%	12.5%	12.0%	10.6%	11.5%	14.2%		9.7%	11.6%	12.1%	13.8%	15.3%
Net Income Incl FAS123	7.4%	3.0%	2.3%	5.9%	5.9%	2.8%	3.7%	7.4%		3.0%	4.7%	5.0%	6.9%	8.6%
Year-Over-Year Growth														
Recurring	1%	8%	9%	4%	1%	1%	1%	1%		-3%	5%	1%	8%	8%
Perpetual software licences and hardware	-50%	63%	-50%	-29%	-10%	-10%	-10%	-10%		-16%	-31%	-10%	-10%	-10%
Consulting services	-12%	1%	-1%	-6%	-5%	-5%	-5%	-5%		-17%	-5%	-5%	-5%	-5%
Total Revenue	-4%	7%	5%	1%	0%	0%	0%	0%		-6%	2%	0%	6%	6%
Gross Profit	-2%	6%	1%	5%	-8%	0%	5%	2%		-9%	3%	-1%	9%	9%
SG&A	4%	4%	-1%	-10%	-1%	0%	0%	0%		0%	-1%	-1%	6%	6%
R&D	-6%	-7%	-6%	2%	-2%	-2%	-2%	-2%		-1%	-4%	-2%	6%	6%
Operating Income	-6%	31%	17%	44%	-21%	4%	22%	8%		-27%	16%	0%	18%	16%
Pretax Income	-15%	54%	26%	47%	-13%	3%	36%	10%		-33%	18%	6%	21%	18%
Net Income Incl FAS123	-11%	40%	34%	58%	-10%	0%	17%	14%		-36%	22%	4%	21%	18%
Net Income Excl FAS123	-17%	367%	43%	1250%	-20%	-8%	63%	25%		-68%	59%	6%	46%	33%
EPS Incl FAS123	-13%	379%	47%	1287%	-18%	-5%	68%	30%		-66%	64%	9%	49%	33%
EPS Excl FAS123	-7%	44%	38%	63%	-7%	2%	21%	18%		-32%	26%	7%	23%	18%

Source: Company reports, BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

Teradata Corporation (TDC)

Our price objective on the shares of Teradata of \$48 is based on 13x our C24E FCF/share of \$3.61. We use a FCF multiple given the shift to a subscription model, which defers revenue recognition but generates higher free cash flow to the company. Our 13x multiple is lower than other software peers with subscription models (20-25x) as we see FCF negatively impacted by restructuring payments and business strategy transition.

Downside risks to our price objective are slower-than-expected growth in recurring revenues, weaker-than-expected consulting revenue growth, increasing competition from new entrants and larger competitors, inability to derive incremental revenues from past and future investments in new territories, and operational risk with cost-cutting actions.

Upside risks to our price objective are a faster-than-expected growth in recurring revenue and faster margin improvement than expected, unexpected share gains and large contract wins.

Analyst Certification

I, Wamsi Mohan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - IT Hardware and Technology Supply Chain Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Amphenol	APH	APH US	Wamsi Mohan
	Apple Inc.	AAPL	AAPL US	Wamsi Mohan
	Corning Inc.	GLW	GLW US	Wamsi Mohan
	Dell Technologies Inc.	DELL	DELL US	Wamsi Mohan
	Flex Ltd.	FLEX	FLEX US	Ruplu Bhattacharya
	HP Inc.	HPQ	HPQ US	Wamsi Mohan
	International Business Machines Corp.	IBM	IBM US	Wamsi Mohan
	Jabil Inc.	JBL	JBL US	Ruplu Bhattacharya
	Nutanix Inc	NTNX	NTNX US	Wamsi Mohan
	Roku, Inc.	ROKU	ROKU US	Ruplu Bhattacharya
	Seagate Technology	STX	STX US	Wamsi Mohan
	TD Synnex Corp	SNX	SNX US	Ruplu Bhattacharya
	TE Connectivity Ltd.	TEL	TEL US	Wamsi Mohan
	Western Digital Corporation	WDC	WDC US	Wamsi Mohan
NEUTRAL				
	Arrow Electronics Inc.	ARW	ARW US	Ruplu Bhattacharya
	Avnet Inc.	AVT	AVT US	Ruplu Bhattacharya
	CDW Corp	CDW	CDW US	Ruplu Bhattacharya
	Concentrix Corporation	CNXC	CNXC US	Ruplu Bhattacharya
	Hewlett-Packard Enterprise	HPE	HPE US	Wamsi Mohan
	Pure Storage	PSTG	PSTG US	Wamsi Mohan
	Sensata Technologies Holdings Plc	ST	ST US	Wamsi Mohan
	Teradata Corporation	TDC	TDC US	Wamsi Mohan
UNDERPERFORM				
	DigitalOcean	DOCN	DOCN US	Wamsi Mohan
	NetApp Inc.	NTAP	NTAP US	Wamsi Mohan
	Sanmina Corporation	SANM	SANM US	Ruplu Bhattacharya
	Vishay Intertechnology, Inc.	VSH	VSH US	Ruplu Bhattacharya
	Vizio	VZIO	VZIO US	Wamsi Mohan



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

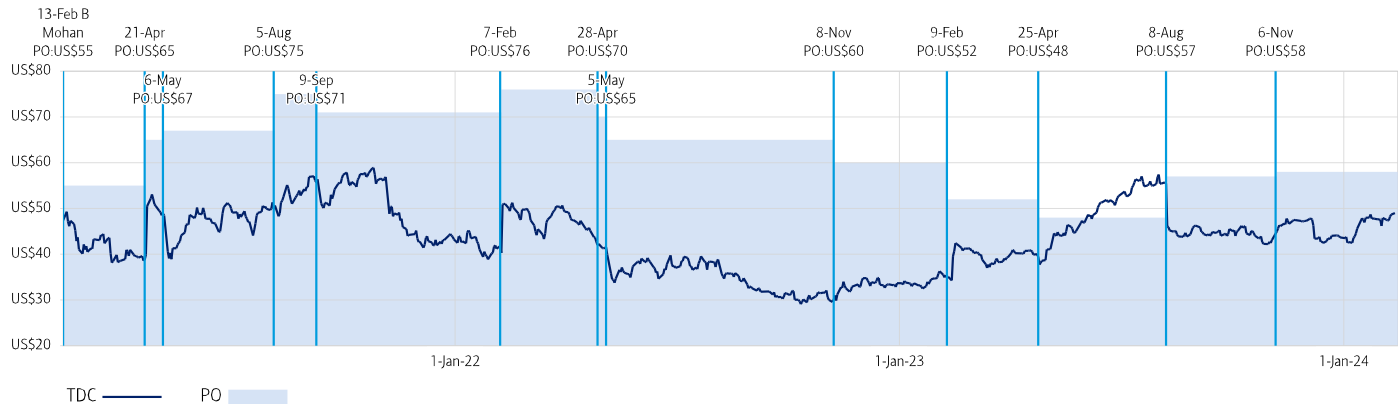
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Disclosures

Important Disclosures

Teradata (TDC) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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