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Teradata Corp. (TDC)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Joel and I will be your conference operator today. At this time, I would like to welcome everyone to the Teradata 2024 Fourth Quarter and Full Year Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

I would now like to hand the conference over to your host today, Chad Bennett, Senior Vice President of Investor Relations and Corporate Development. You may begin your conference.

Chad Michael Bennett

Senior Vice President, Investor Relations & Corporate Development, Teradata Corp.

Good afternoon and welcome to Teradata's fourth quarter and full year 2024 Earnings Call. Steve McMillan, Teradata's President and Chief Executive Officer will lead our call today. Followed by Claire Bramley, Teradata's Chief Financial Officer, who will discuss our financial results and outlook. Our discussion today includes forecasts and other information that are considered forward-looking statements. While these statements reflect our current outlook, they are subject to a number of risks and uncertainties that could cause actual results to differ materially. These risk factors are described in today's earnings release and in our SEC filings. Please note that Teradata intends to file the Form 10-K for the year ended December 31, 2024, later this month.

These forward-looking statements are made as of today, and we undertake no duty or obligation to update them. On today's call, we will be discussing certain non-GAAP financial measures which exclude such items as stock-based compensation expense or other special items described in our earnings release.

We will also discuss other non-GAAP items such as free cash flow, constant currency comparisons, and 2025 revenue and ARR growth outlook in constant currency. Unless stated otherwise, all numbers and results discussed on today's call are on a non-GAAP basis. A reconciliation of non-GAAP to GAAP measures is included in our earnings release, which is accessible on the Investor Relations page of our website at investor.teradata.com. A replay of this conference call will be available later today on our website.

And now, I will turn the call over to Steve.

Steve McMillan

President, Chief Executive Officer & Director, Teradata Corp.

Thank you, Chad. And hello, everyone. Thanks for joining us today. In 2024, we delivered $609 million in cloud ARR and $1.474 billion of total ARR. As we advanced in our strategy with our hybrid cloud platform for trusted AI. As we discussed on the last call, we see that companies everywhere are exploring how to best leverage the potential of AI and GenAI, and they are realizing the requirement for managing massive volumes of data that will grow exponentially. Before we get into the details of our results, we also announce that Claire Bramley is moving on from Teradata to take a Chief Financial Officer position at another company outside of our industry. We have a search process underway. And Charles Smotherman, our Chief Accounting Officer, will assume the Interim CFO position. Charles will continue to work closely with clear to ensure a seamless transition until her departure on March 31st. Claire has been instrumental in supporting the company's transformation to a cloud leader. We are grateful for her operational excellence and outstanding financial leadership in driving durable profitability and free cash flow during her tenure. Claire, on behalf of everyone at Teradata, we wish you the best in your new role.

Shifting back to our results. Despite a challenging year, we took significant actions in 2024 that position us to return to total ARR growth this year. We named a new CRO, restructured our go-to-market organization, and executed cost actions that reduced expenses across the business. We also reoriented the organization to win with AI, and introduced a sweeping set of innovations designed to strongly position us with our hybrid trusted AI platform. As we pivoted to AI, we also launched new partnerships, with, for example, NVIDIA, and strengthened partnerships with the major CSPs. We are firmly focused on returning the company to growth in 2025. And execution is job number one.

Our go-to-market organization has settled in from the midyear restructuring and we are expecting continued improvement in execution from our go-to-market teams. As an example, the financial services team we created is allowing us to pursue emerging AI-based industry use cases that we believe our technology best enables. We also have proof-of-concepts underway for generative AI for CX, a major GenAI use case. Additionally, we are releasing a series of customer experience AI use cases that customers can quickly implement and are designed to drive improved results around customer churn, next best action, customer journey, and hyper-personalization.

Our customer success team is doubling down on delivering innovation based, curated to each customer's needs, and helping to extend the deployment of our technology across their base. In 2025, we are expecting a meaningful improvement in retention rates over 2024 for both total and on-prem ARR. We started to see improvement in retention rates in the second half of 2024 and are looking to carry that forward this year. With these initiatives taking hold, we believe we are well-positioned to execute and return to growth this year.

Just as we made a pivot in 2020 to cloud-first we started to pivot in 2024 towards being the trusted hybrid AI platform at enterprise scale. Companies have data both in the cloud and on-prem, and we see them becoming more sophisticated in how they think about leveraging and balancing hybrid capabilities. It's not about choosing between environments anymore, it's about effectively operating across both in order to meet diverse business needs, and drive faster decision-making at the scale they require. Our teams are taking our hybrid cloud platform and trusted AI positioning to our customers. We believe our hybrid capabilities of cloud and on-prem, along with our open and connected approach are unmatched.

We are continuing our disciplined approach to managing our financial plan, investing and extending our technology strengths, and promoting Teradata as a leader in data analytics, trusted AI, and hybrid cloud technology while prudently managing costs. In 2025, we are adding to our strong tech stack building upon the broad set of innovations we delivered in 2024. As more companies look to hybrid compute environments in both cloud and on-prem, increasingly adopt technologies to support AI, and embrace the industry move to open table formats, we believe we are well-positioned.

On our last call, I talked about the innovations we introduced last quarter. Among those were, new bring your own large language model capabilities designed to help customers take advantage of small or mid-sized open LLMs, including domain-specific models to deploy GenAI use cases or minimizing expensive data movement. Integration of NVIDIA's AI accelerated compute platform to accelerate AI workloads, and our Customer Complaint Analyzer solution designed to help companies leverage AI to improve customer experiences.

We introduced rapid start GenAI use cases with the integration of our VantageCloud platform with Amazon Bedrock. With this integration, customers gain access to more than 60 GenAI use cases that can help them deliver exceptional customer experiences, boost productivity, and streamline business processes. Additionally, Teradata was one of the early vendors with AI solutions offered in the new Microsoft Fabric Workload Hub. We also announced API integration with Google Cloud Gemini models designed to take advantage of more data for better GenAI outcomes. As we start 2025, our focus is on the future as we work to bring out significant new capabilities designed to help companies bring trusted AI to enterprise scale in the cloud, and in the hybrid environment customers need.

Let's look at our new Enterprise Vector Store as one example. To get the most value out of generative AI and the Agentic AI applications, enterprises are looking to extract insights from both structured and unstructured data. Unstructured data has been difficult to leverage in traditional data management practices, yet is growing three times faster than other data types. Teradata supports vectors in our Vantage system today for AI applications that are built on a bring your own large language model capabilities. Now we are bringing it to full enterprise scale.

Our Teradata Enterprise Vector Store is in private preview this quarter, and brings a scalable, in-database solution that supports the full lifecycle of vector data management at Enterprise Scale. From embedding generation and indexing to metadata management and intelligent search, all processes are seamlessly integrated within our existing Vantage environment. Here, we are also partnering with NVIDIA to provide GPU-accelerated document processing or autonomous AI agent use cases such as augmented call centers. You'll be hearing more in the coming weeks about this exciting addition that we believe will kick start RAG and Agentic AI applications.

Then, coming shortly afterwards, we are planning to bring our on-prem customers new ways to accelerate AI opportunities, providing them with an easy way to enable AI/ML capabilities, including large scale AI RAG pipelines while honoring data sovereignty requirements. We have many customers in regulated industries that have strict requirements for data security and our new capabilities are designed to enable independent AI without impacting their EDW service levels.

We believe our deep analytics, our open and connected platform, and bring your own model integrations are the foundation enterprises will demand and we have these now.

Our strong capabilities were recently recognized in the 2025 Gartner Critical Capabilities report for Cloud Database Management Systems for Analytical Use Cases. We placed among the top five companies across every evaluated use case.

Now I'll walk you through a few examples that illustrate how our customers are investing in Teradata to help address new AI and analytics use cases. One of the largest life insurance companies in India signed a multiyear deal for a platform and consulting services. This new customer selected Teradata because of the comprehensive AI capabilities included in ClearScape Analytics, such as model lifecycle management with ModelOps, enterprise feature store, and in-database language models, as well as our strongly competitive pricing. A large Japanese bank has shown it can successfully reduce costs and improve processing times by replacing a legacy HPC cluster used to perform Monte Carlo simulations at huge scale with a system that relies on native massive parallelism over Vantage platform in conjunction with NVIDIA GPUs.

A global technology leader spent significant time and millions of dollars trying to implement competitive offerings. After demonstrating our VantageCloud and ClearScape capabilities, this large enterprise decided to focus on a hybrid environment of cloud and on-prem. We have a fast start in 2025 to help them establish their new data and AI capabilities, including taking advantage of our GenAI capabilities.

As I close, I want to emphasize that we are laser focused on returning to total ARR growth. Building upon our technology and innovation foundation in the cloud, we believe we have the trusted hybrid AI platform at the enterprise scale that the world's leading organizations require.

We're excited about our capabilities in delivering AI and agentic AI solutions at scale, especially in the hybrid environments customers need now.

We are seeing positive traction from our go-to-market restructuring and improvement in pipeline quality. The pace of technology innovations, both organically and with partners, has increased, and we look forward to monetizing these advancements this year.

In 2025, we expect to achieve cloud ARR growth of 14% to 18% and flat to 2% growth in total ARR as we build our future.

Now I'll turn the call over to Claire.

Claire Bramley

Chief Financial Officer, Teradata Corp.

Thank you, Steve, and good afternoon, everyone. In Q4, Teradata met its guidance ranges for cloud ARR and total ARR. Cloud ARR grew 18% year-over-year and total ARR declined 4% year-over-year, both in constant currency.

The cloud net expansion rate was 117% in Q4 2024. Non-GAAP earnings per share exceeded our guidance range, primarily driven by continued cost optimization efforts implemented in the second half of the year.

While fiscal year 2024 presented challenges in terms of ARR growth, we continue to demonstrate the free cash flow and earnings durability of the business by exceeding our non-GAAP EPS guidance that we gave at the beginning of the year.

Fiscal year 2024, free cash flow of $277 million represents a healthy 16% margin. We also returned 78% of free cash flow to investors in the form of share repurchases.

As Steve mentioned, we took swift actions last year that we believe will improve execution in 2025. We see multiple drivers that can enable a return to total ARR growth this year.

These include last year's go-to-market changes that are designed to bring additional rigor to our pipeline and sales cycles, giving us greater visibility into sales productivity improvements. We also expect improved full year retention rates.

Lastly, we anticipate monetizing all the innovation we introduced in 2024 and plan to deliver in 2025.

As we exit 2024, cloud ARR is over 40% of total ARR and should approach close to 50% at the end of 2025. We continue to expect healthy cloud ARR growth of approximately 16% this year. We also see increasing interest in our hybrid AI differentiation, which should lead to higher on-prem expansion net of migrations.

Let me now share more details on our quarterly and fiscal year financial results, starting with revenue. Fourth quarter recurring revenue was $351 million, down 6% year-over-year as reported, and down 4% year-over-year in constant currency.

The year-over-year growth rate was negatively impacted by 3 points from upfront revenue. Recurring revenue as a percentage of total revenue was 86%, up from 81% from the prior year period.

Fourth quarter total revenue was $409 million, down 11% year-over-year as reported, and 9% in constant currency. For the full year, recurring revenue exceeded the high end of our outlook range at $1.479 billion, a decrease of 1% as reported, and an increase of 1% in constant currency.

Total revenue was also within our outlook range at $1.750 billion, down 5% as reported, and 3% in constant currency.

Moving to profitability and free cash flow. Total gross margin for the quarter was 60.9%, down 100 basis points year-over-year. Operating margin was 17.6%, down 190 basis points year-over-year.

Both gross margin and operating margin year-over-year changes were primarily driven by the upfront revenue impact. Non-GAAP diluted earnings per share was $0.53 exceeding the top end of our guidance range.

We generated $148 million of free cash flow in the quarter, which is a $79 million increase sequentially and a $20 million decrease on a year-over-year basis.

In the fourth quarter, we repurchased approximately $29 million or approximately 1 million shares. For the full year, we repurchased $215 million or 5.8 million shares.

Before I provide our annual financial outlook for 2025, I'd like to provide some additional context. In line with historical seasonality, Q1 is our largest renewal, highest erosion and lowest growth quarter.

As such, we expect both total and cloud ARR to decline sequentially in Q1 and anticipate a significant weighting of growth to the second half of 2025.

In the first half, we expect the growth rate for total ARR to be below our guidance range and cloud ARR to be at the low end of our range before both accelerating in the second half. We expect to return to total ARR growth in the fourth quarter.

Our 2024 total ARR growth rate is the primary driver for our 2025 recurring revenue outlook. We anticipate a 1% headwind in 2025 related to upfront recurring revenue.

With respect to total revenue, we anticipate consulting revenue will decline in the high single digit range on a constant currency basis.

Using the currency rates at the end of December 2024, we anticipate a negative currency impact year-over-year of 150 to 200 basis points to our 2025 revenue outlook.

Compared to three months ago, the currency exchange rate movement created an approximately $20 million headwind on 2025 operating income.

On total gross margin, we expect approximately 100 basis points decline due to currency and cloud mix, partially offset by cloud rate improvement.

Regarding expenses, we remain on track with our previously announced cost actions. On operating margin, we expect to maintain our 2024 rate as we benefit from last year's cost actions and continue to optimize expenses across the company, while continuing to prioritize key investments.

Regarding free cash flow, our fiscal year free cash flow is being impacted by FX headwinds and total ARR exit rate in 2024.

These items have negatively impacted our free cash flow by approximately $25 million since last quarter. We anticipate Q1 free cash flow to be slightly negative due to the lower Q4 2024 bookings and 2025 ARR linearity.

Our annual outlook for 2025, which is on a constant currency basis for ARR and revenue, is as follows. Cloud ARR is anticipated to grow year-on-year in the range of 14% to 18%. Total ARR is projected to grow year-on-year in the range of flat to 2%.

Total recurring revenue is expected to be in the range of minus 3% to minus 5% year-over-year. Total revenue is anticipated to be in the range of minus 4% to minus 6% year-over-year.

Non-GAAP diluted earnings per share is expected to be in the range of $2.15 to $2.25. Free cash flow is anticipated to be in the range of $250 million to $280 million.

Here are some modeling assumptions for 2025. A non-GAAP tax rate of approximately 23%. Weighted average shares outstanding of 97.4 million. Other expense of approximately $43 million.

On capital allocation, we are pleased with the progress we have made on our share repurchase program to-date. Our weighted average shares outstanding is at an all-time low. And our balance sheet remains solid.

Our first priority for 2025 is a return to ARR growth. Based on our guidance of revenue decline, which presents a headwind to free cash flow, we plan to balance growth investments and capital return to shareholders.

We are targeting a return of over 50% of free cash flow to shareholders in the form of share repurchases, which we expect will more than offset dilution and continue to improve our net debt position in 2025.

For the first quarter of 2025, we anticipate recurring revenue to be in the range of minus 4% to minus 6% year-over-year on a constant currency basis. We expect total revenues to be in the range of minus 6% to minus 8% year-over-year on a constant currency basis.

We anticipate a negative currency impact year-over-year of approximately 200 basis points. We anticipate non-GAAP diluted earnings per share to be in the range of $0.55 to $0.59. We project the non-GAAP tax rate to be approximately 24.3% and the weighted average shares outstanding to be 97.9 million.

As I prepare to transition from my role as CFO, I want to express my heartfelt gratitude to our dedicated team, loyal customers, and our supportive shareholders. It has been an honor to be part of the transformation journey over the past four years.

Teradata has a strong foundation to build from driven by the strategic initiatives we have set in motion and continued innovation. The company is well-positioned to return to ARR growth in 2025 and end the year with cloud ARR approaching 50% of total ARR.

I have no doubt that the upcoming year will bring new opportunities and achievements for the company.

Thank you all for your time today. Now let's open the call for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] In the interest of giving everyone an opportunity, we appreciate that you limit yourself to one question and one follow-up. The first question is from the line of Chirag Ved with Evercore ISI. Your line is now open.

Chirag Ved
Analyst, Evercore ISI

Q

Thanks for taking the question and congratulations on the new job and Claire congratulations on the new job. It's been a pleasure partnering with you and your team over the last several quarters.

Steve, maybe first for you. Are you able to comment on how your customers and prospective customers are thinking about cloud migrations at this point? Cloud growth from the hyperscalers came in a little lower than I think a lot of investors anticipated. Just wondering if you could double click on what you're seeing internally with data platforms? Thank you.

Steve McMillan
President, Chief Executive Officer & Director, Teradata Corp.

A

Chirag, yes. Thanks for the question. We did see deal elongation process for Q4 2024 along with, as you pointed out, some more staged migrations in terms of customers looking at how they balance their on-prem footprint with their cloud footprint.

I think, Chirag, that plays into a real opportunity area for us from our hybrid technology capabilities and we are starting to see the conversations on what their customers change.

For example, even as I look at the portfolio today, we've got around 30 different GenAI POCs in place and executing today. And these customers are looking at what's the best way to take these into production.

And a number of the different innovations that we delivered in Q4 of 2024 are helping our customers progress those GenAI projects. But they are balancing that between executing in the cloud and executing it on-prem and clearly the Teradata technology set being consistent across all of those environments gives us what we believe is a unique capability in the marketplace.

Chirag Ved
Analyst, Evercore ISI

Q

Got it. And Claire, one for you. Can you speak to the factors that give you confidence in the ARR guide, which is stable and slightly decel in cloud ARR growth, you've seen improved retention rates in the back half of 2024. But at the same time, cloud ARR has decel-ed. So, would appreciate any clarity you can provide here. Thanks.

Claire Bramley
Chief Financial Officer, Teradata Corp.

A

Yeah. Absolutely, Chirag. And thank you for your kind words as well regarding my transition. It's been a pleasure on my side, too.

So, just with regard to the cloud ARR guidance that we gave. So, let me give you a little bit of perspective about how we set the guidance in 2025.

We took a slightly different approach to this time last year in the fact that because we learnt from those trends and the patterns that we were seeing in 2024, so, the stage migrations that Steve was just talking about, the deal timing, we factored that in.

And what we've also done is limited the reliance on large eight figure deals. So, we've made sure that the fact that our guide can be met without those large eight figure deals, obviously once they don't happen, they're very difficult to replace.

So, little bit of a different approach that gives me confidence from a cloud ARR guidance standpoint.

And as you mentioned, some of the other drivers that we're seeing include an improved retention rate across both on-premise and total ARR and also some of the changes that we made within the go-to-market organization is giving us really good visibility in terms of our pipeline, in terms of our erosion, which is significantly improved at the beginning of the year as well.

Operator: Thank you. The next question is from the line of Tyler Radke with Citi. Your line is now open.

Q

Hi, thanks for taking the question. This is [ph] YC (00:28:59) for Tyler here. Good luck, Claire on your future endeavors. It's been a pleasure working with you. And I guess for Claire to start.

Thanks for providing all the incremental color on the growth of 2025. I guess could you give us some finer grain details on how to help us understand the mix of the pipeline that gives you better confidence, is it more new logos, expansion? And if there is also any other impacts from Open Table Formats that you're expecting?

Claire Bramley
Chief Financial Officer, Teradata Corp.

A

Yeah, absolutely. So, yes. So first of all, from an expansion migration standpoint, we're anticipating approximately a 50:50 approach. I think it will be more migrations at the beginning of the year with expansions coming as we progress throughout the year.

With regards to new logos, we continue to see a good pipeline of new logos, but we still anticipate new logos in 2025 specifically to be a small contributor to our overall growth.

And then I think, as I mentioned in my prepared remarks, some of the innovations that we saw in 2024, again, we'll start to see the benefits of that as we progress through 2025. And maybe I'll just pass over to Steve to talk a little bit more about the 2025 innovation.

Steve McMillan
President, Chief Executive Officer & Director, Teradata Corp.

A

Yeah. Thanks, [ph] YC (00:30:17). Thanks for the question. As we look at the GenAI and AI marketplace, we see some real opportunity for Teradata to open up a new target addressable market for us in terms of the AI solutions that we're delivering to our customers.

That's why I highlighted, for example, our Enterprise Vector Store capability, a number of our partners, NVIDIA and AWS have actually said that our capabilities from an Enterprise Vector Store perspective are unique in the marketplace.

And taking those capabilities to our customers, enabling them to have real GenAI and AI solutions operating inside their environment would be a unique differentiation delivered by Teradata. So, we're super excited about that.

But as we look at the outlook for 2025, we haven't factored in a lot of that new business and new business opportunity. So, we see that as potential upside as we execute through the year.

Q

Thanks, Steve. That was actually going to be my next question. So, I'm good here. Thanks.

Claire Bramley
Chief Financial Officer, Teradata Corp.

A

Thanks, [ph] YC (00:31:26). Thanks for the kind words.

Operator: Thank you. The next question is from the line of Erik Woodring with Morgan Stanley. Your line is now open.

Erik W. Woodring
Analyst, Morgan Stanley & Co. LLC

Q

Hey, guys, thanks so much for taking the question. And Claire, I'll echo everyone's comments, we'll greatly miss you. Good luck with everything.

Steve, if we take a step back, I appreciate the work you and the team have done here. There's been a lot of work, kind of, across the stack, both from a technology, go-to-market, people, personnel approach, etcetera, but for the better part of 10 years Teradata has been in a period of transformation.

And I would argue as we look to 2025, it's nice to see some expectations for a bit of growth on the total ARR side. But recurring revenue is still down, cloud ARR growing, I think, below some expectations.

And so I guess my broad question is just, does there a need to be more kind of divisive action taken to accelerate this company, turn around and kind of get back to a regular cadence of growth, just as I think about the backdrop of probably the most prolific AI spending environment that we're going to see in our lifetime.

Just help me understand what needs to get done to move on from transformation to, this is the normal Teradata, kind of, growing consistently etcetera? And then I have a quick follow-up. Thanks.

Steve McMillan
President, Chief Executive Officer & Director, Teradata Corp.

A

Okay. Thank you. What I would say is, over the last four years, we have pivoted the company considerably. We've taken the business from essentially a nascent, close to zero dollar cloud business to over $0.5 billion has been the focus.

That cloud-first focus has really laid the foundation of the turnaround of the company. And having that presence in the cloud in a high growth marketplace will start to – as that becomes a more and more meaningful part of our overall ARR picture, contribute more and more dollars from that perspective.

But every company has to continue that transformation journey. And I think we are in the next pivot in terms of how we address the AI and GenAI opportunity that's in front of us.

And I think some of the capabilities that we delivered in 2024 highlighted by our partnerships with NVIDIA, our integration with AWS Bedrock, our integrations with Google Gemini and also being native into the Microsoft Fabric from an AI perspective, really starts to set apart the Teradata technology set and gives us a foundation to build on in this new AI and GenAI marketplace as we move forward.

What we're doing is continuing to transform our sales capability and sales execution so that they can take those messages to the marketplace, capture this new TAM for Teradata and utilize technologies either our new AI on-prem offering that we're looking to release this year or our Enterprise Vector Store, which allows our customers to manage vectors on an end-to-end basis, is a very new market and a very new sales motion, but we believe will underpin some very strong growth as we move into the future.

Erik W. Woodring
Analyst, Morgan Stanley & Co. LLC

Q

Okay. I appreciate all that feedback. Thank you, Steve. And then, Claire, you're guiding to free cash flow and EPS at the midpoint, that's down slightly year-over-year.

I understand FX has become an incremental headwind, but you've also gone through a period of kind of cost cutting and cost transformation.

And so can you maybe just help me understand why it might not be paying off as much next year, kind of, the building blocks to how you get to slight declines in those metrics and especially, if you believe you've embedded some conservatism in there, just how we should be thinking about that? Thank you so much.

Claire Bramley
Chief Financial Officer, Teradata Corp.
A

Yeah. Thanks, Erik. So, yeah, with regard to both EPS and free cash flow, to your point, I think the two big headwinds that we see year-over-year, first of all, is the FX impact that I talked about, which is approximately $20 million. So, fairly sizable year-over-year and that did actually materialize in the last three months or so.

The other area, I would say is, naturally, as we finish 2024 with negative ARR, that means a decline in revenue in 2025, so that impacts, from a free cash flow standpoint, obviously, our billing and from a P&L standpoint, our revenue and profitability.

Now the actions that we took last year are helping us to offset any negative headwinds coming from lower revenue. They're also helping us to offset any negative impact from our mix, so cloud mix impact.

So, we're definitely offsetting that. What we're not able to offset in our EPS guide is the full impact of the currency. And the reason that we've not decided to do that is we want to really make sure that we can reinvest some of these savings back into growth.

As you mentioned, really important for us in 2025 to get total ARR back to growth. So, we want to make sure that we keep that availability of investment.

Naturally we've got a lot of learnings from 2024. So, we'd like to think that we're being prudent as we set this guidance. But most of the reason is that we can reinvest some of these savings back to get to total 2025 ARR growth.

Operator: Thank you. The next question is from the line of Nehal Chokshi with Northland Capital Markets. Your line is now open.

Nehal Chokshi
Analyst, Northland Capital Markets
Q

All right. Thank you. So, Claire, you mentioned that you expect ARR and cloud ARR to improve as you go through calendar 2024. In order for that to happen on a bookings basis over the next two quarters, can you describe what that trajectory needs to be?

Is it a similar level of acceleration that you're expecting in the back half to drive that or is it going to be significantly more greater acceleration to drive that overall ARR and cloud ARR acceleration?

Claire Bramley
Chief Financial Officer, Teradata Corp.
A

Yeah. So, it's in line with what we saw in 2024, and in line with, kind of, the historical seasonality. So, as I mentioned in the prepared remarks, Q1 is always our lowest growth, biggest renewal and highest erosion quarter.

No exception, just for example, in Q1, about 45% of our erosion happened in Q1 for total ARR and about 70% in H1.

That is what we tend to see historically. So, it is that kind of erosion piece that does drive the linearity trend that we see. So, it's not necessarily requiring a huge acceleration in additional bookings. It's just the fact that those erosions tend to drop off in the second half of the year.

Nehal Chokshi
Analyst, Northland Capital Markets

Q

I see. And then can you characterize exactly how much was on-premise erosion in calendar 2024? And what's your expectation for calendar 2025 in millions of dollars?

Claire Bramley
Chief Financial Officer, Teradata Corp.

A

Yes. We haven't disclosed the exact amount. What I would say, though, as we've mentioned, is that we do see a meaningful improvement as we exit 2024, so we saw that improvement happen in the fourth quarter of 2024, and we're expecting that improvement to continue into 2025. We're also very pleased with the visibility that we have going into the start of the year for 2025 activity.

Operator: Thank you. The next question is from the line of Matt Hedberg with RBC. Your line is now open.

Matthew Swanson
Analyst, RBC Capital Markets LLC

Q

Yeah, thank you. This is Matt Swanson on for Matt. Steve, a little bit earlier, you mentioned 30 different GenAI proof-of-concepts. And I was just wondering if you could go a little bit deeper into maybe the commonalities between those, and why they're choosing Teradata. It sounds like maybe it's a little early for those to be driven by some of the exciting stuff coming in, like the vector store, AI on-prem. But just if there's any sort of common characteristics that you're seeing.

Steve McMillan
President, Chief Executive Officer & Director, Teradata Corp.

A

Yeah. Thanks for the question, Matt. Yeah, these solutions are actually leveraging technologies which are in Teradata today. So, for example, bringing language models into the Teradata environment, and actually running small language models like Hugging Face in the Teradata environment. We see a lot of the solutions that our customers are looking at, being in the CX space. So taking customer interaction data, it may be very unstructured data, emails, it may be chat logs, and then utilizing those to essentially make next best action predictions for call center agents or proactive recommendations to drive different CX solutions.

We've seen a number of different banks in the US look at this technology and the deployment of this technology. And the reason that they look at Teradata is the long standing fact that Teradata can execute some of the world's most complicated workloads in the most efficient and effective way. And if you think about that in terms of the economics of AI, and GenAI, we have a path to enable our customers to deploy GenAI and AI solutions at enterprise scale in a very cost efficient and cost effective way. And that's why we're really excited with some of the new language models that are coming out, that are highlighting that requirement that DeepSeek has pointed to as an example of actually reducing the cost of the enterprise scale of these kind of solutions. So it's great for us to be able to demonstrate those characteristics to our customers.

Matthew Swanson
Analyst, RBC Capital Markets LLC

Q

Thank you. And then, Claire, I think you mentioned, kind of, the three pieces of return to ARR growth was the go-to-market changes last year, improved full-year retention rates, and then monetize the innovations in 2024. They're obviously very interrelated. But is there a way to, kind of, think about how you rank those in terms of contribution to ARR next year, or how you're kind of thinking about the progression to get to your guidance?

Claire Bramley
Chief Financial Officer, Teradata Corp.

A

Yeah, I think, to your point, they're very interrelated. So I think one of the things that we have been working on over the last 6 or 12 months is that visibility and improvement in our retention rates. So I think that is, as I mentioned, a big impact in terms of our linearity, and is a big help from a total ARR standpoint in terms of getting back to growth. So that year-over-year, meaningful improvement I would say is one of the strongest areas. Obviously, the go-to-market team changes are helping us in terms of improved visibility to that erosion, improved visibility to our pipeline.

So I wouldn't say that that necessarily is a huge driver of the actual growth, but makes us feel good about the guidance that we're giving at this point in the year. And then to your point, in terms of innovation, obviously, anything that we can talk to our customers about with regards to the development of that product and the different offerings that we give them ultimately is what drives growth. So that, I think, is very interrelated to the other areas. But obviously is a huge factor in terms us of driving cloud ARR growth at midpoint of 16%, and getting back to total ARR growth in 2025.

Operator: Thank you. The next question is from the line of Derrick Wood with TD Cowen. Your line is now open.

Q

Great. Thanks, guys. This is Cole on for Derrick. Steve, I'll start with you. Could you just provide us with an update on open table format? I know you guys have been excited about that as a TAM expander, but just any color on where customers might be in trying that out with your bring your own query engine capabilities and when we could see production workloads start to spin up?

Steve McMillan
President, Chief Executive Officer & Director, Teradata Corp.

A

Yeah, thanks for the question. We see open table format is still a critical capability that we're going to deliver and continue to improve on in the Teradata platform. One of the key tenets that we have is to be open and connected. So we want to support both Apache Iceberg and Delta Lake, that really opens up massive swaths of data inside our customer organization. And then thinking about the Teradata query engine and the analytical capabilities that we have within that engine, the new AI capabilities that we're bringing to bear and putting those against these massive volumes of open table format data that we expect to become more and more common inside our customer environments is absolutely essential and critical for us. And our product roadmap continues to deliver new capabilities there to support our customers' execution. We are seeing it as early days, although every single customer, I think is talking to us about open table format.

And it's really very interesting to see customers think about their data workloads and data execution, both from an enterprise data warehouse perspective where they need a really performance storage layer. But then a lake environment where critical performance may not be that important, but they still want to bring some fantastic analytical, or GenAI, or AI capabilities into that data to make it meaningful for them. And that's really what our strategy is and from an execution perspective. And I think the proof-of-concepts that we're seeing, that we're executing in terms of taking even some of the unstructured data on a different topic to OTFs, and making that real and analyzable for our customers is super interesting.

Q

Great. Very helpful. And then, Claire, one for you. The cloud NRR number downticked again, you've talked about better retention across on-prem in total that you've been seeing the last couple of months. But can you just give us a sense of, in the medium term, the shape of that cloud NRR, and when we could maybe think about potential reacceleration there?

Claire Bramley
Chief Financial Officer, Teradata Corp.

A

Absolutely. So first of all, just to mention that 2024 net expansion rate did finish in line with what we were expecting. So that was good, so, no surprises there. As we look out to 2025, linked to some of the comments that I've already made, in the sense of, we anticipate the, kind of, the first half of the year to see the impact of the churn and erosion and more migrations. And the second half of the year to be more weighted in expansion. Our net expansion rate with regards to cloud will reflect that as well. So it'll decelerate before it then re-accelerates over time.

Operator: Thank you. The next question is from the line of Raimo Lenschow with Barclays. Your line is now open.

Raimo Lenschow
Analyst, Barclays Capital, Inc.

Q

Perfect. Thank you. And Claire, we will miss you, first of all, let's start with that. And a more fundamental question to start. If you think about the open table format, obviously there's a big discussion, but obviously you guys come out of the structured world. How do you see that relationship evolving between open table format, which is kind of, not dumping, but like having everything in one massive data lake versus, kind of, the more structured data, kind of, data warehousing that you guys grew up with. Like, how do you think that relationship will grow out over time? And how is that, how your – how do you think you can play this? And maybe play this differently? And then I had one follow-up.

Steve McMillan
President, Chief Executive Officer & Director, Teradata Corp.

A

Yeah. Hi, Raimo. Thank you for the questions. Yeah, we see open table format as a fantastic opportunity to make those more performant, and to take all the benefits of Teradata technology and our massive parallel computing architectures to make OTF environment more performant even with large swaths of data which has always been Teradata's core business. How to get the best out of massive volumes of data even in an EDW construct. But one of the things that AI and GenAI world needs as a really enterprise scale vector store capability. And that is something that we already have inside the Teradata technology set in terms of being able to store vectors.

So taking that OTF data or taking unstructured data, doing vector analysis against that in conjunction with language models, and taking and managing the massive numbers of vectors largely enable organizations to get the best out of data no matter where it's stored, whether it's in OTF or whether it's in unstructured data. And no, we're just looking at the amount of data that's stored in unstructured files as an example and by putting Teradata's Enterprise Vector Store next to those files, you can actually get meaningful results, and meaningful insights into the world's most unstructured data, which by far and away outnumbers the structured data pools that we have in the world today. So exciting times ahead.

Raimo Lenschow
Analyst, Barclays Capital, Inc.

Q

Yeah. And then, Claire, one for you like, obviously we're kind of looking at the, kind of the lead – we're trying to look at leading indicators. If you think about like can you talk a little bit about some of the dynamics like billings this quarter, probably quarter-after-quarter like, to us, they came on more on the weaker side. Is there some one-off stuff that we, kind of, need to be aware of? And you might have answered that earlier in the call, I apologize, if you've kind of discussed it already.

Claire Bramley
Chief Financial Officer, Teradata Corp.

A

Yeah, I think, Raimo, what you're looking for is, kind of, some linearity narrative. So, what I said in my prepared remarks was that we anticipate our cloud ARR to be the low end of the range that I gave for the full year. So just to give you a view on that and then from a total ARR standpoint, because of the erosion activity that happens in the first half of the year, as previously mentioned. The total ARR will actually be below at the low end of the full year range that I gave. So just cloud ARR at the low end and total ARR below. I also did give some guidance on our recurring revenue and total revenue in Q1. So that, I mean, as you would expect, recurring revenue in Q1 is closely following our exit of total ARR. So we're giving a range in constant currency of minus 4% to minus 6% for recurring, and minus 6% to minus 8% total revenue. Hopefully, that helps in terms of some linearity with our modeling.

Operator: Thank you. [Operator Instructions] There are no further questions at this time. I will now turn the call back over to Steve McMillan for his final remarks.

Steve McMillan
President, Chief Executive Officer & Director, Teradata Corp.

Thanks, everyone, for joining us today. We're building on that foundation that we built in 2024, and we're really excited about the capabilities in delivering AI and GenAI solutions for our customers. We know that we've got the trusted hybrid AI platform at enterprise scale that the world's leading organizations really need right now, and we're going to continue to innovate and deliver capabilities which can expand our TAM, whilst also empowering our customers with the analytics they need today. We look forward to returning Teradata to growth in 2025. Thank you very much.

Operator: This concludes today's conference call. You may now disconnect.