

## Teradata Corporation (TDC)

Industry View:	In-Line
Stock Rating:	Buy
Price Target:	\$60.4
Current Price:	\$48.0
Shares Outstanding:	415.52 MM
Average Daily Volume (3 months):	1.55 MM
52-Week High:	\$261.59
52-Week Low:	\$192.26

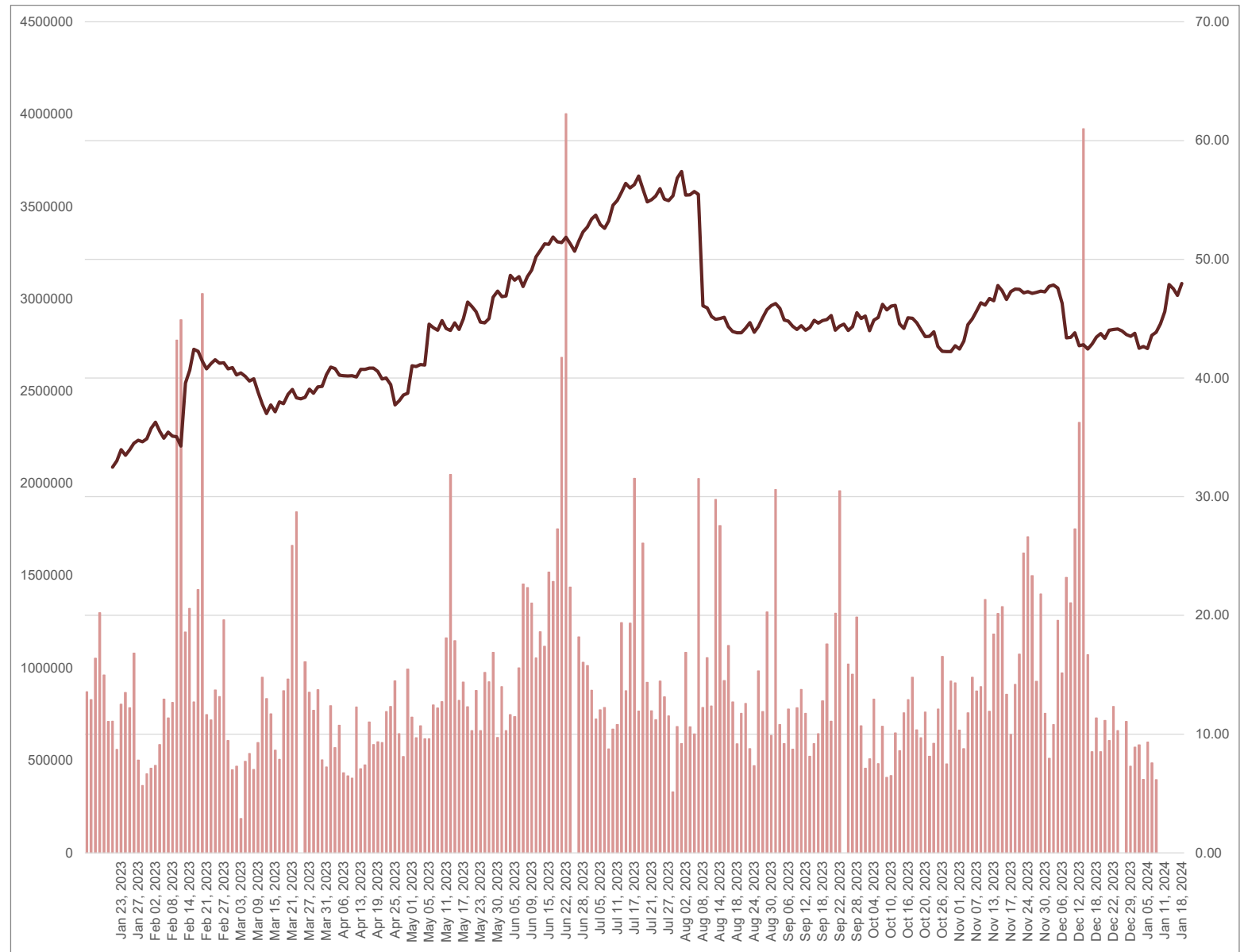
### Objective Of The Report

Baptista Research looks to evaluate the different factors that could influence the company's price in the near future and attempts to carry out an independent valuation of the company using a Discounted Cash Flow (DCF) methodology. In this report, we have carried out a fundamental analysis of the historical financial statements of the company. We have added reasonable forecasts of the annualized income statement and cash flows and carried out a DCF valuation of the company using its Weighted Average Cost of Capital (WACC) to determine a forecasted share price. We have further incorporated a sensitivity analysis/ scenario analysis to understand how changes in key assumptions could impact the valuation under 3 scenarios - a base case, a bull case, and a bear case. These additional layers of analysis serve to provide a comprehensive and robust valuation, giving investors a nuanced understanding of the inherent risks and opportunities.

### Company Overview

Teradata Corporation provides hybrid cloud analytics software. Its solutions and services comprise software, hardware, and related business consulting and support services to deliver analytics in company's analytical ecosystem. The company operates through three segments: North America and Latin America region; Europe, Middle East and Africa region; and Asia Pacific and Japan region. It offers Teradata Vantage, a data warehouse and analytics platform. The company's business consulting services include various offerings, such as consulting to help organizations establish an analytic vision, and identify and operationalize analytical opportunities, as well as enable an analytical ecosystem architecture. It serves various industries comprising communications, financial services, government, healthcare, insurance, manufacturing, media and entertainment, oil and gas, retail, travel and transportation, and utilities. The company primarily sells and markets its solutions and services through a direct sales force. Teradata Corporation has a strategic partnership with Deutsche Telekom to support the digital transformation goals of small and medium sized businesses in Germany; and partnership with dotData to create a data science solution. The company was founded in 1979 and is headquartered in San Diego, California.

## Stock Price Chart - 1 Year



## Investment Thesis & Recent Earnings Summary

This is our first report on hybrid cloud analytics software provider, Teradata Corporation. The company's 2023 Q3 earnings were recently reported and the leading cloud analytics and data platform company had delivered another strong quarter and remained confident it would achieve its 2023 forecast. The call primarily dealt with projections and did not focus heavily on specific past earnings numbers.

McMillan highlighted continued market momentum and growth in Total Annual Recurring Revenue (ARR). Despite a strong Q3 2022, he reported that cloud ARR had grown 63% year-on-year, contributing to overall growth in total ARR of 11%. Meanwhile, he reported that Teradata's cloud net expansion rate was 123%.

The CEO underscored the strength of Teradata's VantageCloud Lake software and the industry's recognition of the company's capabilities in complex data management and analytics. He emphasized the importance of reliable data to the success of Artificial Intelligence (AI), noting that Teradata provided this critical service. The company anticipates continuing its growth by delivering trusted AI and harmonized data to businesses.

The firm further strengthened its AI capabilities with the acquisition of Stemma, which enhances the company's AI capabilities by allowing for the easier discovery, use, and trust of data. The third-quarter results were bolstered by Teradata's consistent execution, market momentum, and disciplined cost management, and the Senior Vice president for Investor Relations, Christopher Lee, shared plans to continue investing in the business to ensure future growth.

On her part, CFO, Claire Bramley noted that recurring revenue represented 82% of total revenue, and spoke about Teradata taking various actions to optimize its cost structure for 2024 by investing in areas that promise a higher return on investment. She expressed optimism about the company's continued growth and profitability, projecting non-GAAP earnings per share of between \$2.01 and \$2.05 for 2023.

Bramley also highlighted 123% cloud net expansion rate, and she added that the company would likely stick to a net expansion rate of approximately 120%, which would ensure growth above the \$1 billion cloud revenue mark by 2025. The company had repurchased approximately \$141 million of stock, demonstrating confidence in its strong balance sheet and cash flow generation.

In summary, Teradata's Q3 2023 results show a positive overall performance. The company's strong growth in cloud ARR coupled with consistent execution and financial discipline bodes well for its future performance. However, the company needs to maintain this momentum to hit its ambitious cloud revenue target by the end of 2025.

The significant share repurchase indicates a sound financial position, and the company's efforts to optimize its cost structure and invest in high-growth areas highlights its strategic focus. While the company's AI capabilities and the acquisition of Stemma strengthen its offerings, it is critical for Teradata to continue offering dependable data for AI implementation to maintain its industry advantage. The progress made so far puts the company on track to achieve its 2023 outlook.

Still, potential investors should be aware of risks associated with meeting the company's targets, including fluctuations in currency exchange rates and the pressures of maintaining consistent cloud momentum. Therefore, prospective investors would do well to continue monitoring Teradata's performance to make informed decisions about whether to invest in the company. We give Teradata Corporation a 'Buy' rating.

## Key Factors Influencing The Stock Price

### Enhancement of Migration Activities

One primary driver for Teradata's growth trajectory is the planned migrations of existing customers to the cloud. Preliminary evidence suggests Teradata's customers find these migrations commercially compelling, with the transition prompting customers to expand their overall business with Teradata due to the breadth of the services offered in the cloud. The company is confident in the robust pipeline of deals supporting its outlook for 2023, underpinned by both migrations and expansions. Migrations tend to be the larger deals within the pipeline and include figures in the 7-8 figure range for Q4. Teradata's confidence in achieving targets stems from the visibility it has into these larger deals, promising startups as potential underlying strength to drive the business forward.

### Consistent High Cloud Net Expansion Rate

Meeting the best-in-class standards for SaaS businesses, Teradata is observing significant customer growth after migrating their solutions to the cloud. The company's high and consistent cloud net expansion rate is driven by not only an increase in data but also increased workloads and use cases that are showing consistent growth. The Teradata platform, especially when moved to the cloud, presents greater opportunities for integration with cloud-native services. The relevance of Teradata's cloud business is expected to continuously grow over the years, with the company modelling approximately 120% net expansion rate to meet its 2025 goals, including reaching \$1 billion of cloud revenue.

### Broadening Opportunity Base with New Customers and Partners

Teradata's strategy for widening its opportunity base involves illuminating its brand image among both existing customers and potential ones. The company's partner ecosystem is displaying promising growth, with successful partnerships established with Dell and other ISVs, consulting, and SI partners. New geographical markets are being explored, especially in the on-prem segments, that allows Teradata to offer a hybrid cloud capability. The continual development of this ecosystem will unlock new users and burgeoning analytics use cases that can be addressed by Teradata. The company is not overly reliant on new logos for Q4 executions and is expecting to increase the new logos as it steps into 2024.

### Involvement in Advanced Analytics and Gen AI use cases

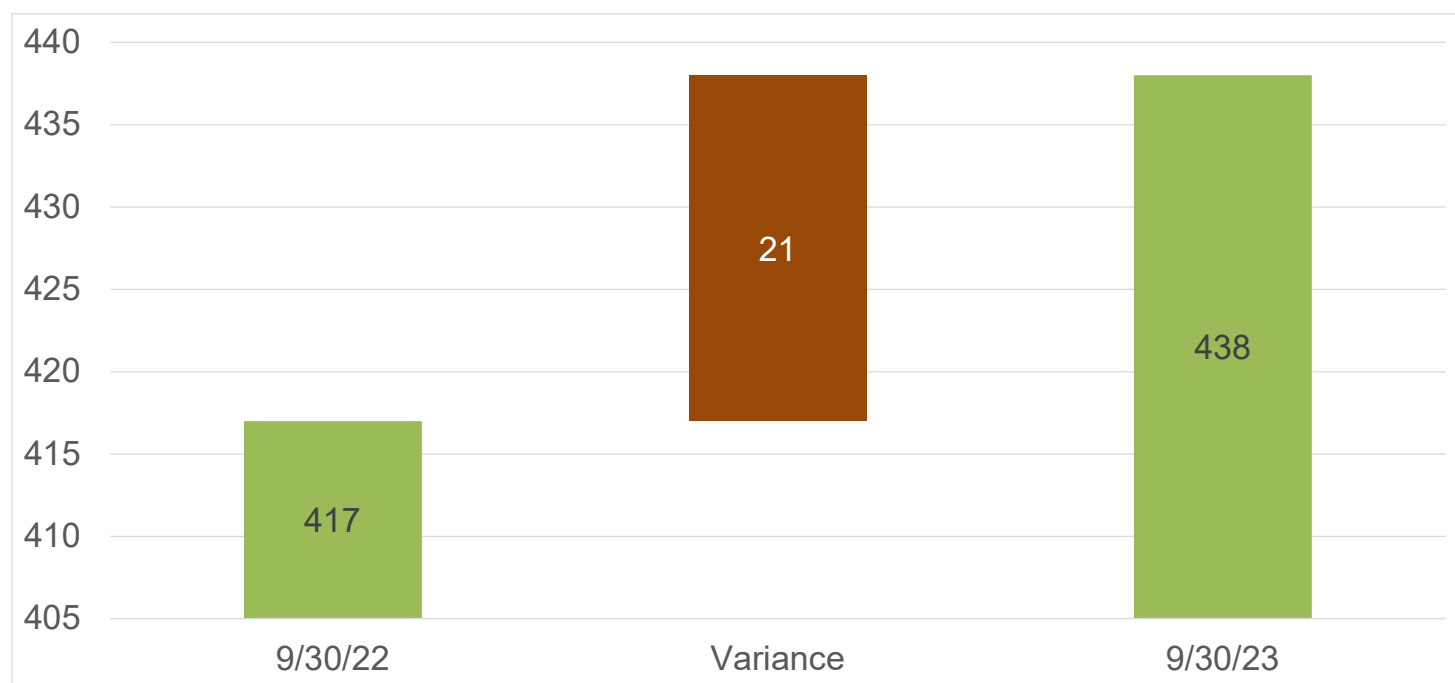
Another significant growth driver for Teradata is the increasing use of the company's trusted enterprise data by its customers to generate Gen AI systems, AI, and Advanced Analytics. These data sets give proven results, thereby improving their interactions with customers or enhancing their supply chain. The company's outdated monolithic software architecture is undergoing rapid transformation into an open platform integrating these advanced services, thereby making it capable of handling complex Gen AI use cases. This adaptation is expected to drive workload expansions in the future and keep Teradata at the forefront of the tech landscape.

## Comparative Analysis - Quarterly Income Statement (USD Million)

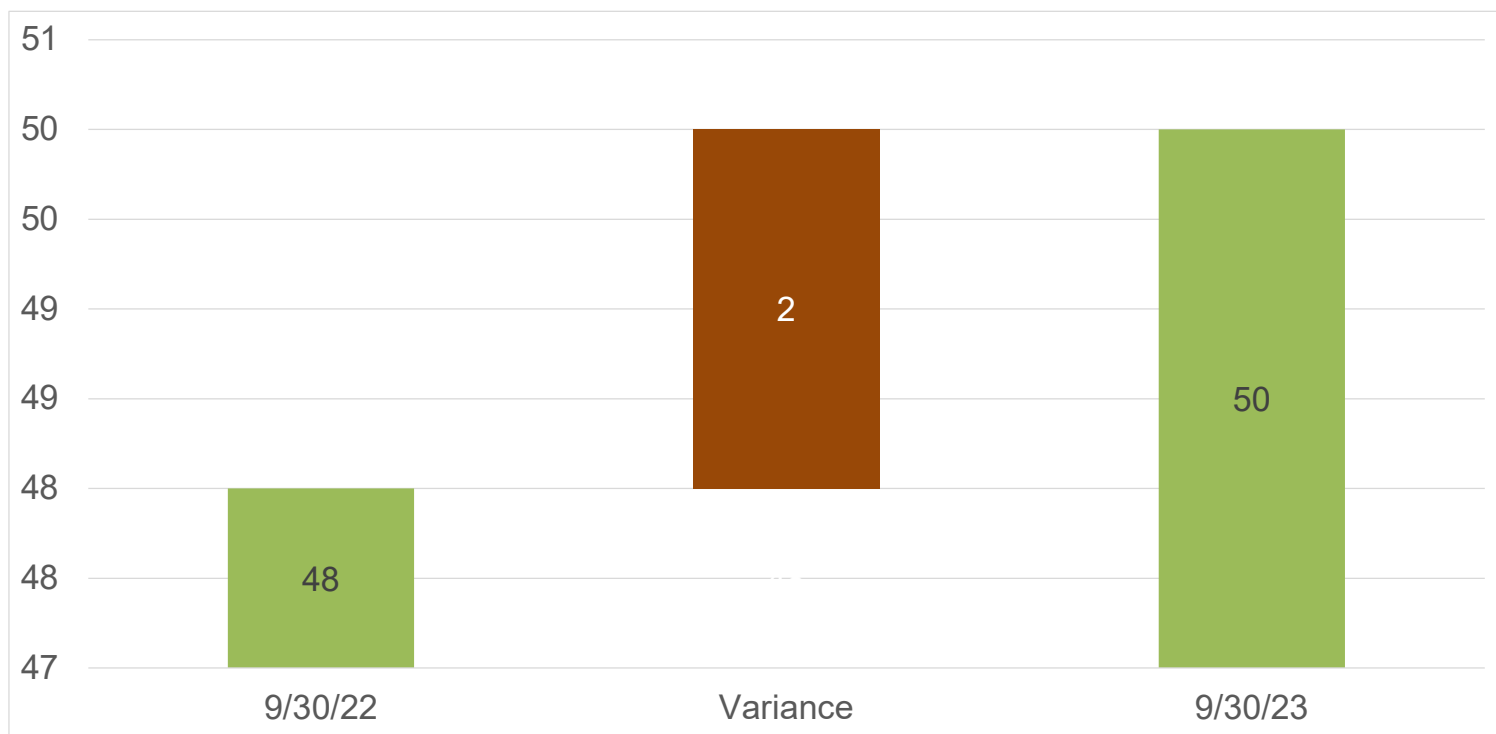
Particulars	9/30/23	9/30/22	Variance	% Variance
<b>Revenues</b>	<b>438</b>	<b>417</b>	<b>21</b>	<b>5.0%</b>
Cost of Goods Sold	-178	-159	-19	11.9%
Gross Income (excl. D&A)	260	258	2	0.8%
<b>EBITDA</b>	<b>50</b>	<b>48</b>	<b>2</b>	<b>4.2%</b>
Depreciation & Amortization	27	28	-1	-3.6%
Extraordinary Expenses	0	0	0	NA
<b>EBIT</b>	<b>23</b>	<b>20</b>	<b>3</b>	<b>15.0%</b>
Pretax Income	13	10	3	30.0%
Income Tax	1	2	-1	-50.0%
<b>Net Income</b>	<b>12</b>	<b>8</b>	<b>4</b>	<b>50.0%</b>

- \* Let us start off by doing a side-by-side comparative analysis of the company's most recent quarterly result as against the quarterly result in the corresponding quarter of the previous year.
- \* Teradata Corporation reported a top-line of \$438.00 million for the most recent quarterly result for the period ended 9/30/23 which implies a 5.04% change as compared to the \$417.00 million number reported in the corresponding quarter of the previous year.

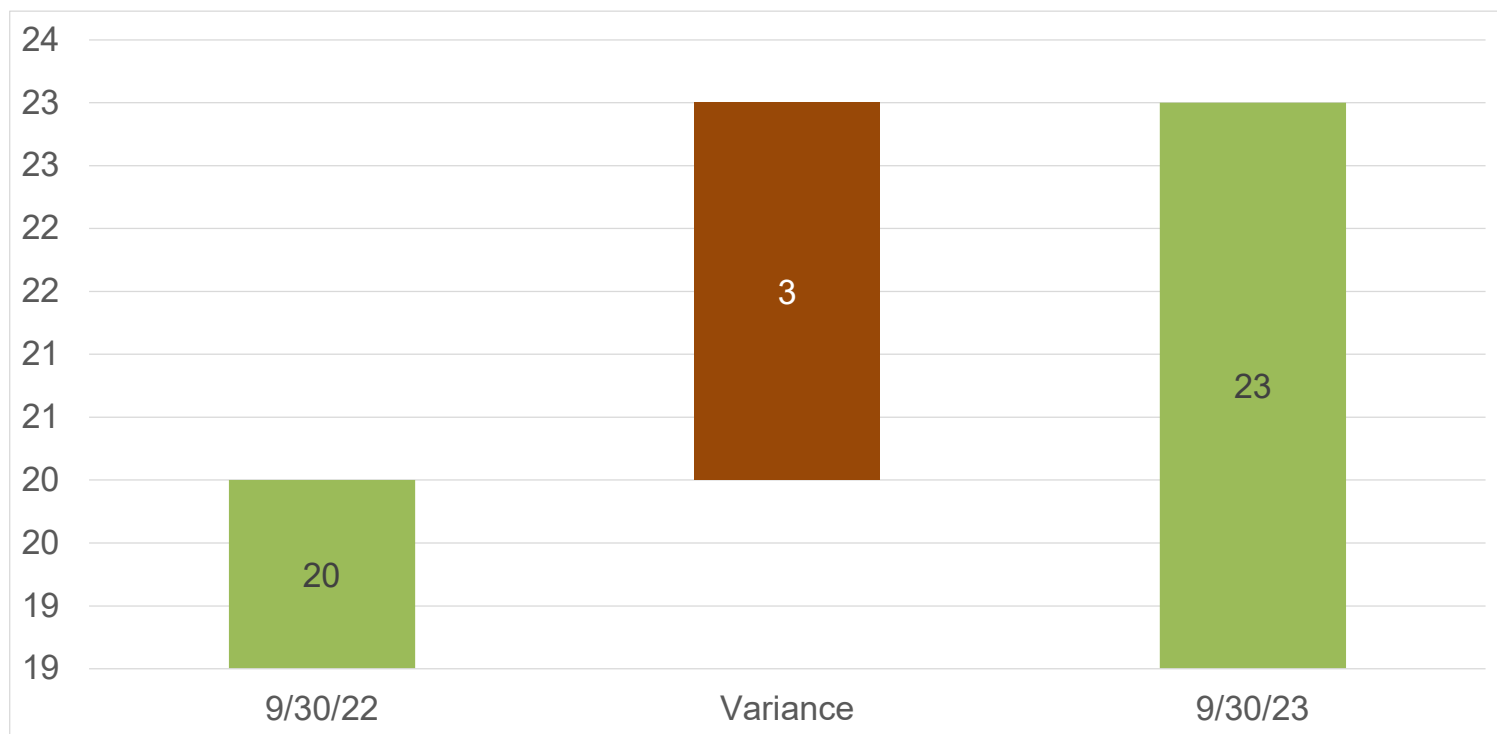
## Total Revenues - Quarter-on-Quarter Variance Bridge (USD Million)



- The company beat the analyst consensus estimate of \$0.44 billion.
- Teradata Corporation's gross profit of \$260 million showed an increase of 0.78% as compared to the value reported in the quarter ended 9/30/22.
- These revenues translated into a gross margin of 59.40% and an operating margin of 5.30% which was higher than that in the same quarter of last year.
- Teradata Corporation reported an EBITDA of \$50.00 million which translated into a Net Income of \$12.00 million. The company's adjusted EPS of \$0.42 was below the analyst consensus estimate of \$0.42.
- We can see a graphical representation of the quarter-on-quarter evolution and variance of EBITDA of the company of the corresponding quarter of the previous year versus the recent quarterly number.

**EBITDA - Quarter-on-Quarter Variance Bridge (USD Million)**

\* We can see in the below chart that Teradata Corporation's operating income/ EBIT grow from \$20 million to \$23 million, a 15.00% change.

**Operating Income - Quarter-on-Quarter Variance Bridge (USD Million)**

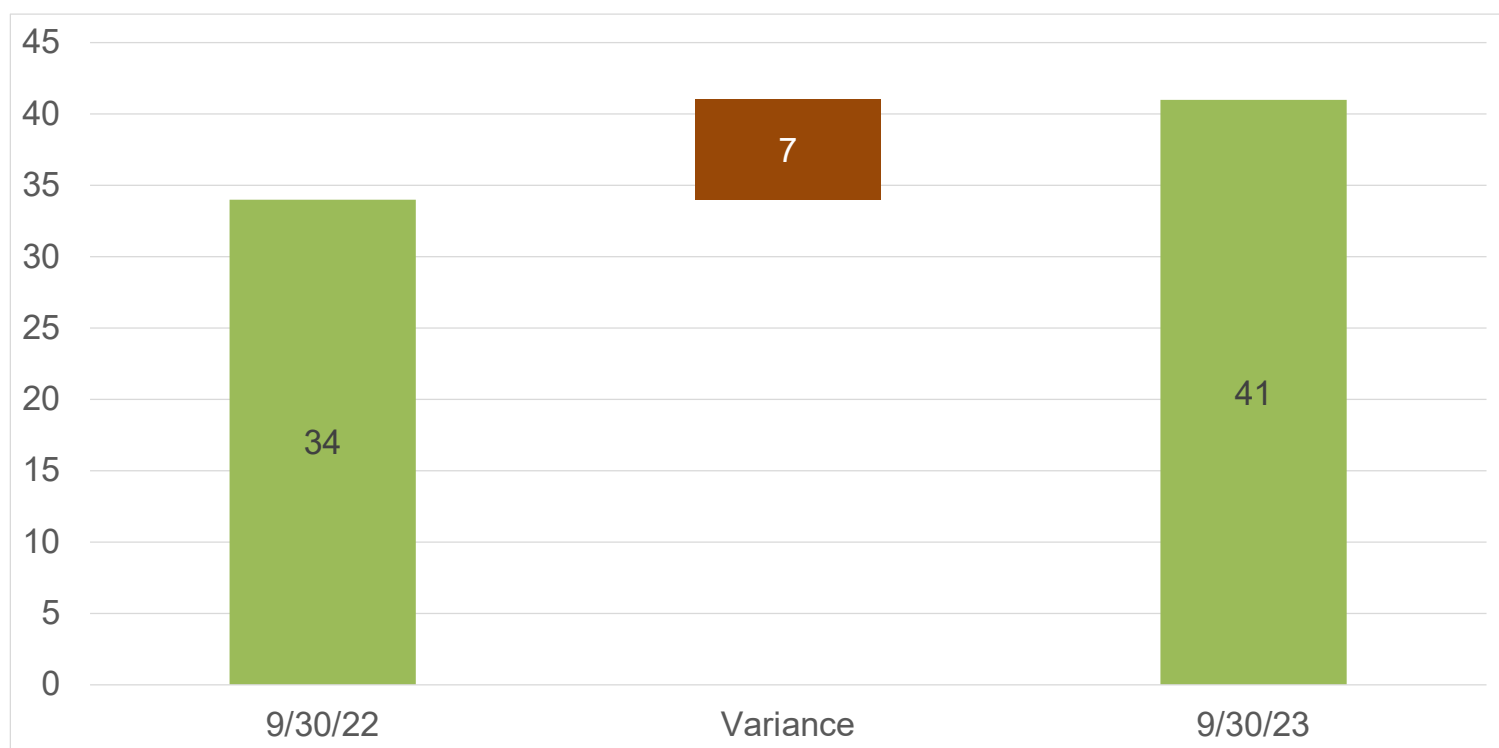
- We see a positive variance of 30.00% in the company's pretax income.
- For the coming quarterly result, we expect Teradata Corporation to report a top-line of \$0.46 billion and an adjusted EPS of \$0.5114.

## Comparative Analysis - Quarterly Cash Flow Summary (USD Million)

Particulars	9/30/23	9/30/22	Variance	% Variance
Cash from Operations	41	34	7	20.6%
Cash from Investing	-21	-3	-18	600.0%
Free Cash Flows	20	31	-11	-35.5%

- When we do a side-by-side comparative analysis of the company's most recent quarterly cash flows as against the quarterly cash flows in the corresponding quarter of the previous year, we see a 20.59% rise in the operating cash flows.

## Operating Cash Flow - Quarter-on-Quarter Variance Bridge (USD Million)

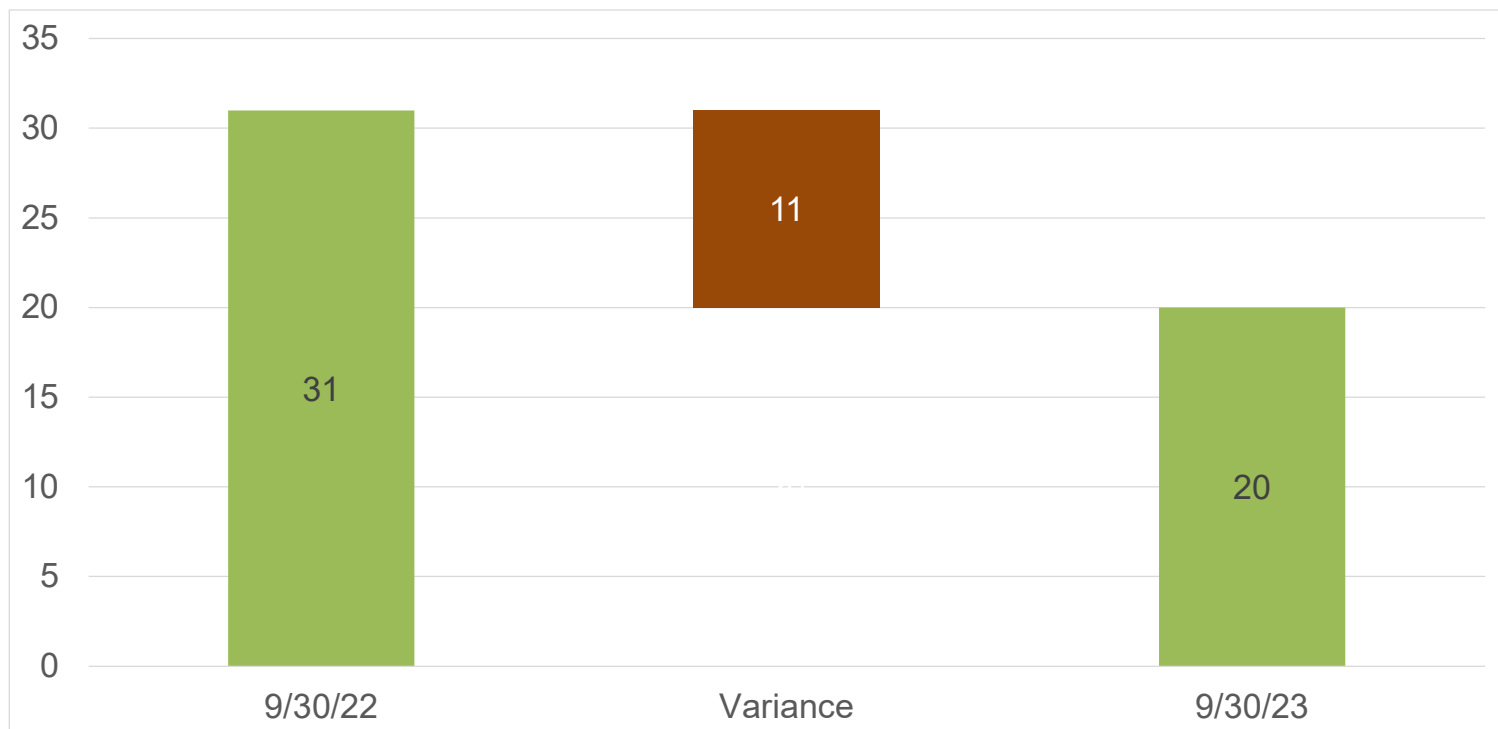




\* As compared to the prior year quarter, this year, Teradata Corporation has spent \$18 million less in Investing Activities than the previous quarter.

\* In effect, the company's free cash flows had a variance of -35.48% We can see a graphical representation of the variance in the chart below:

## Free Cash Flow - Quarter-on-Quarter Variance Bridge (USD Million)



## Comparative Analysis - Quarterly Balance Sheet (USD Million)

Balance Sheet	9/30/23	9/30/22	Variance	% Variance
<b>Assets</b>				
Net Intangible Fixed Assets	396	385	11	2.9%
Net Tangible Fixed Assets	259	249	10	4.0%
<b>Total Fixed Assets</b>	<b>655</b>	<b>634</b>	<b>21</b>	<b>3.3%</b>
LT Investments	20	14	6	42.9%

Inventories	8	13	-5	-38.5%
Accounts Receivable	297	262	35	13.4%
Cash and ST Investments	348	506	-158	-31.2%
Other Current Assets	85	74	11	14.9%
<b>Total Current Assets</b>	<b>738</b>	<b>855</b>	<b>-117</b>	<b>-13.7%</b>
Other Assets	327	315	12	3.8%
<b>Total Assets</b>	<b>1740</b>	<b>1818</b>	<b>-78</b>	<b>-4.3%</b>

### Liabilities & Shareholder's Equity

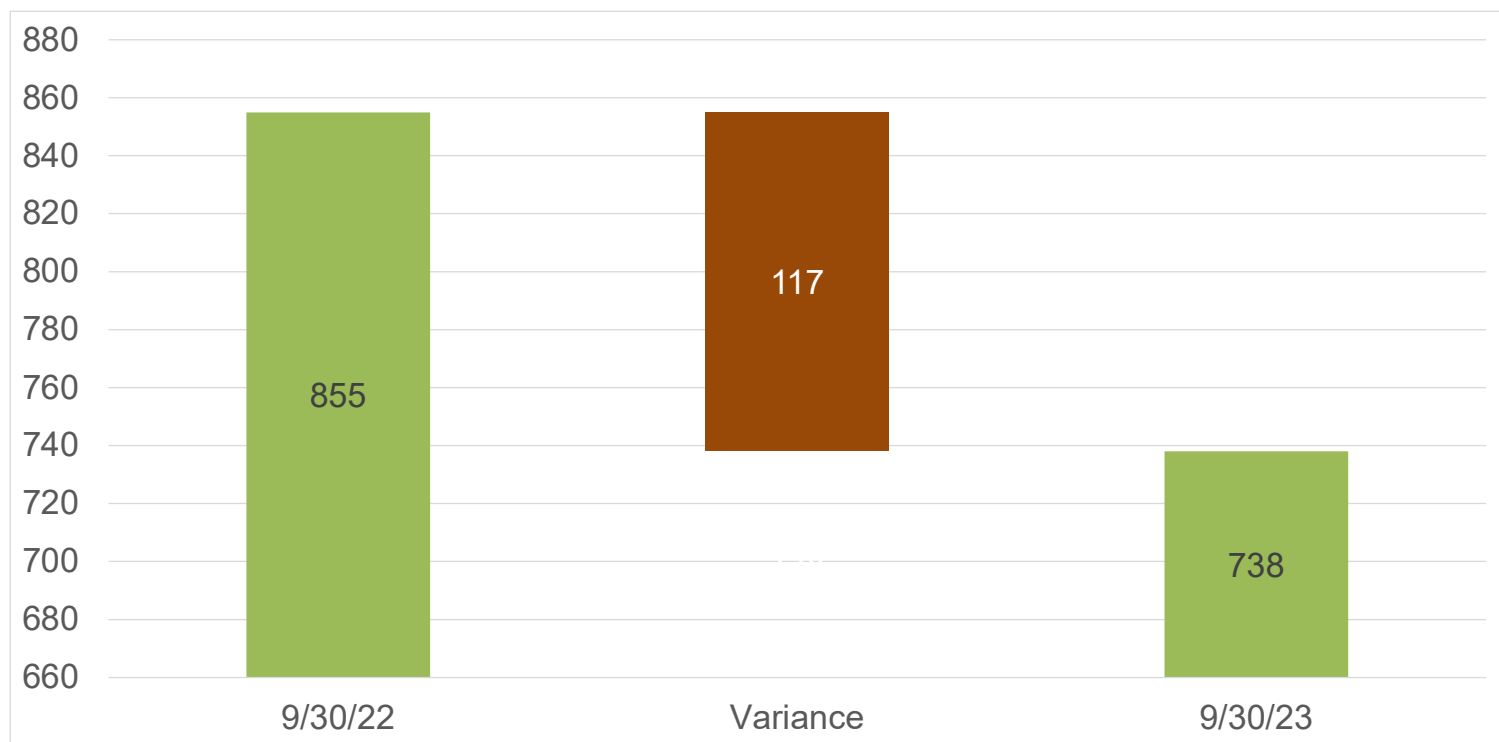
Equity & Minorities	122	235	-113	-48.1%
LT Debt	486	498	-12	-2.4%
Other LT Liabilities	247	282	-35	-12.4%
<b>Total LT Liabilities</b>	<b>733</b>	<b>780</b>	<b>-47</b>	<b>-6.0%</b>
ST Debt	0	0	0	NA
Accounts Payable	106	79	27	34.2%

Other ST Liabilities	779	724	55	7.6%
<b>Total Current Liabilities</b>	<b>885</b>	<b>803</b>	<b>82</b>	<b>10.2%</b>
<b>Total Liabilities</b>	<b>1618</b>	<b>1583</b>	<b>35</b>	<b>2.2%</b>
<b>Total Liabilities &amp; Shareholder's Equity</b>	<b>1740</b>	<b>1818</b>	<b>-78</b>	<b>-4.3%</b>

\* Now let us move on to a side-by-side comparative analysis of Teradata Corporation's most recent quarterly balance sheet versus the quarterly balance in the corresponding quarter of the previous year.

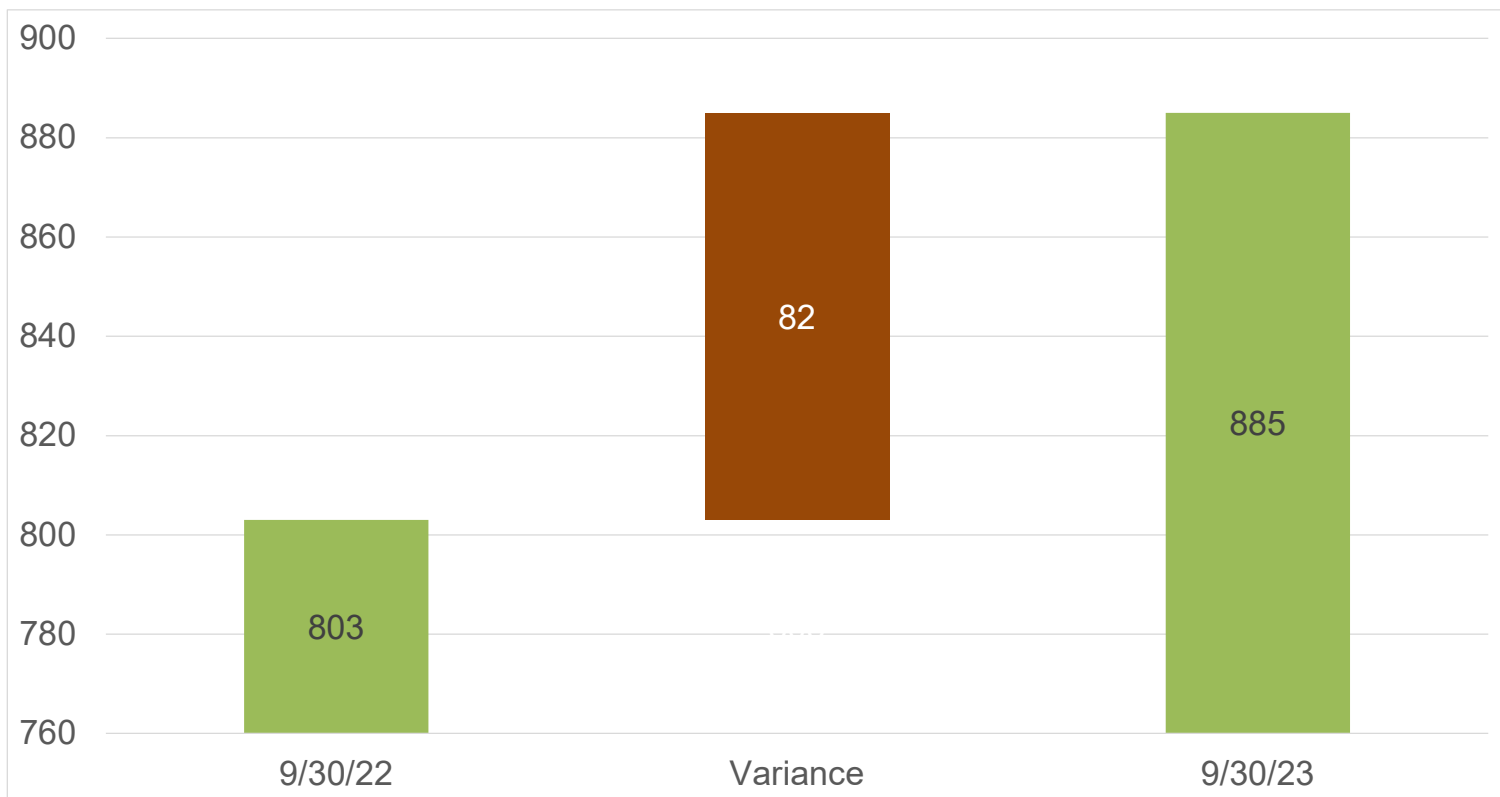
\* We can see a graphical representation of the variance in the level of the capital blocked by the company in Current Assets in the chart below.

### Current Assets - Quarter-on-Quarter Variance Bridge (USD Million)



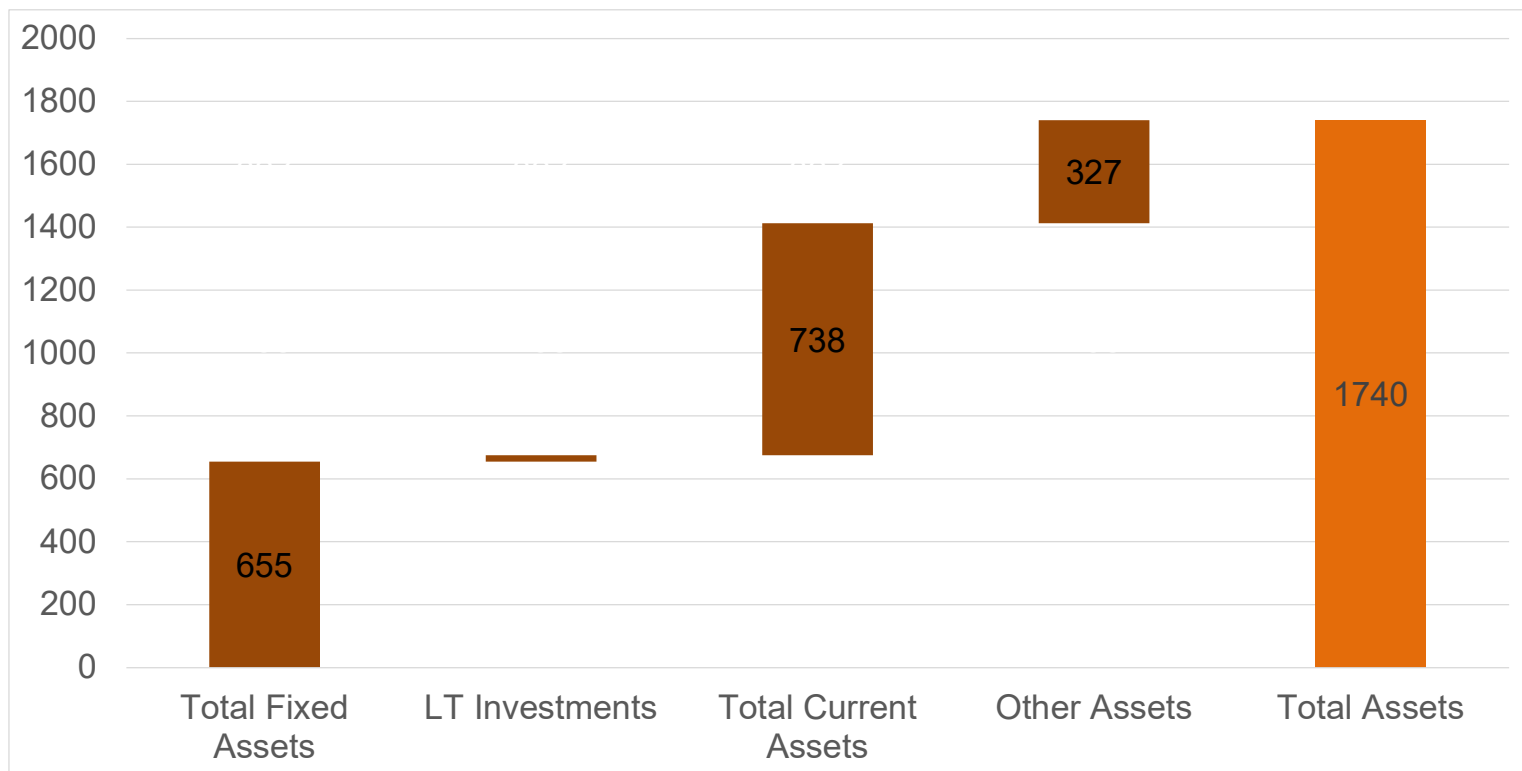
- \* On the liability side, we see that the company's total long term liabilities have decreased by \$47 million as compared to the quarter ending 9/30/22.
- \* On the other hand, Teradata Corporation's total current liabilities have increased by 10.21% versus the quarter ending 9/30/22 as shown in the chart below.

### Current Liabilities - Quarter-on-Quarter Variance Bridge (USD Million)



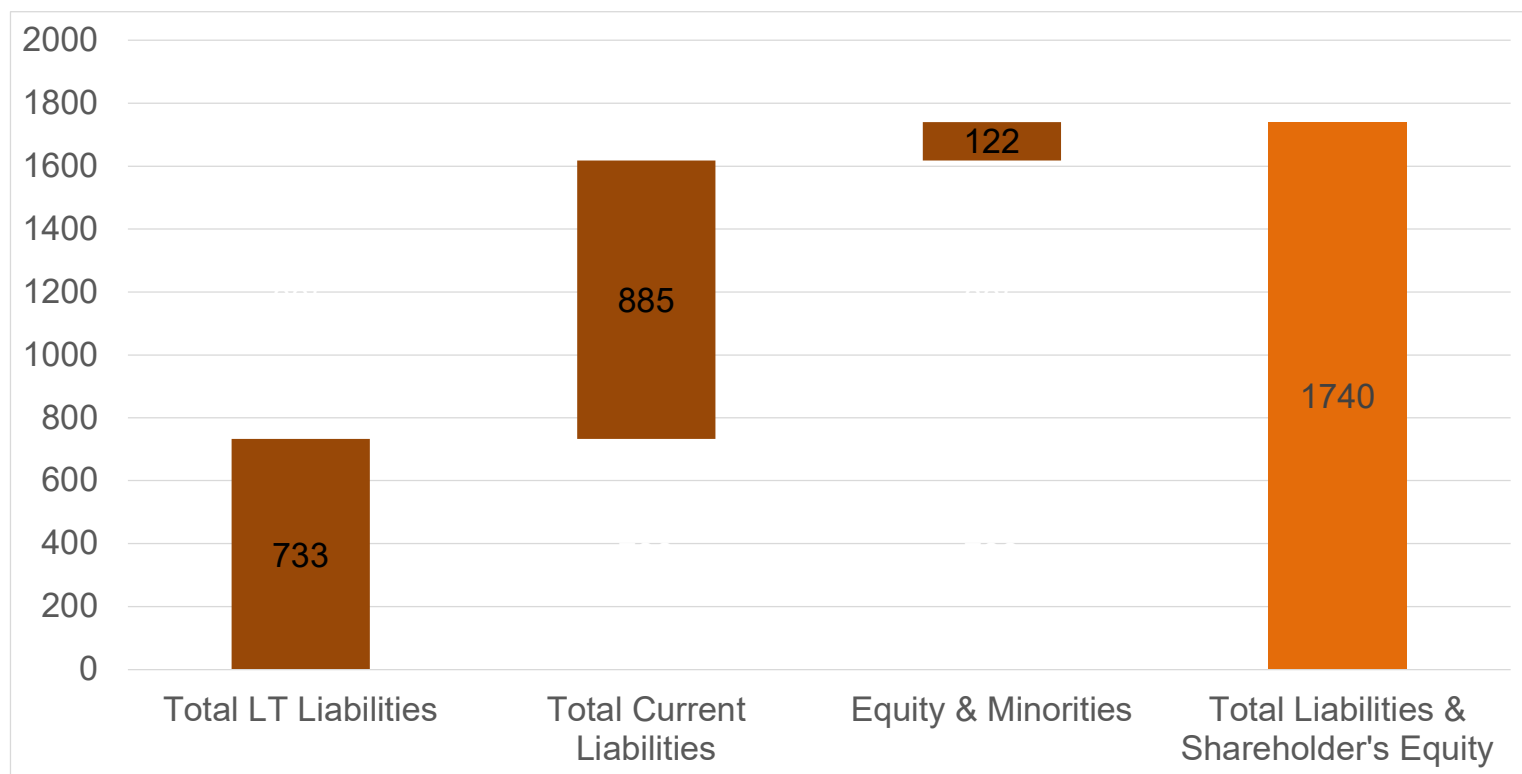
- \* We see that Teradata Corporation's total assets have decreased by -4.29% as compared to the corresponding quarter of the previous year.
- \* We can see a complete breakdown of the composition of the total assets of the company in a waterfall structure in the chart below.

## Total Assets As On 9/30/23 - Waterfall Analysis (USD Million)



- \* Moving on to the Total Liabilities & Shareholder's Equity, we can also see a complete breakdown of its composition in a waterfall structure in the chart on the following page.

## Shareholders' Equity As On 9/30/23 - Waterfall Analysis (USD Million)



## Sequential Quarter-On-Quarter Analysis - Income Statement (USD Million)

Particulars	12/31/22	3/31/23	6/30/23	9/30/23
Revenues	452	476	462	438
% growth		5.3%	-2.9%	-5.2%
Cost of Goods Sold	-187	-174	-186	-178
% of revenue	-41.4%	-36.6%	-40.3%	-40.6%
Gross Income (excl. D&A)	265	302	276	260
% of revenue	58.6%	63.4%	59.7%	59.4%
EBITDA	42	104	64	50
% of revenue	9.3%	21.8%	13.9%	11.4%
Depreciation & Amortization	28	28	31	27

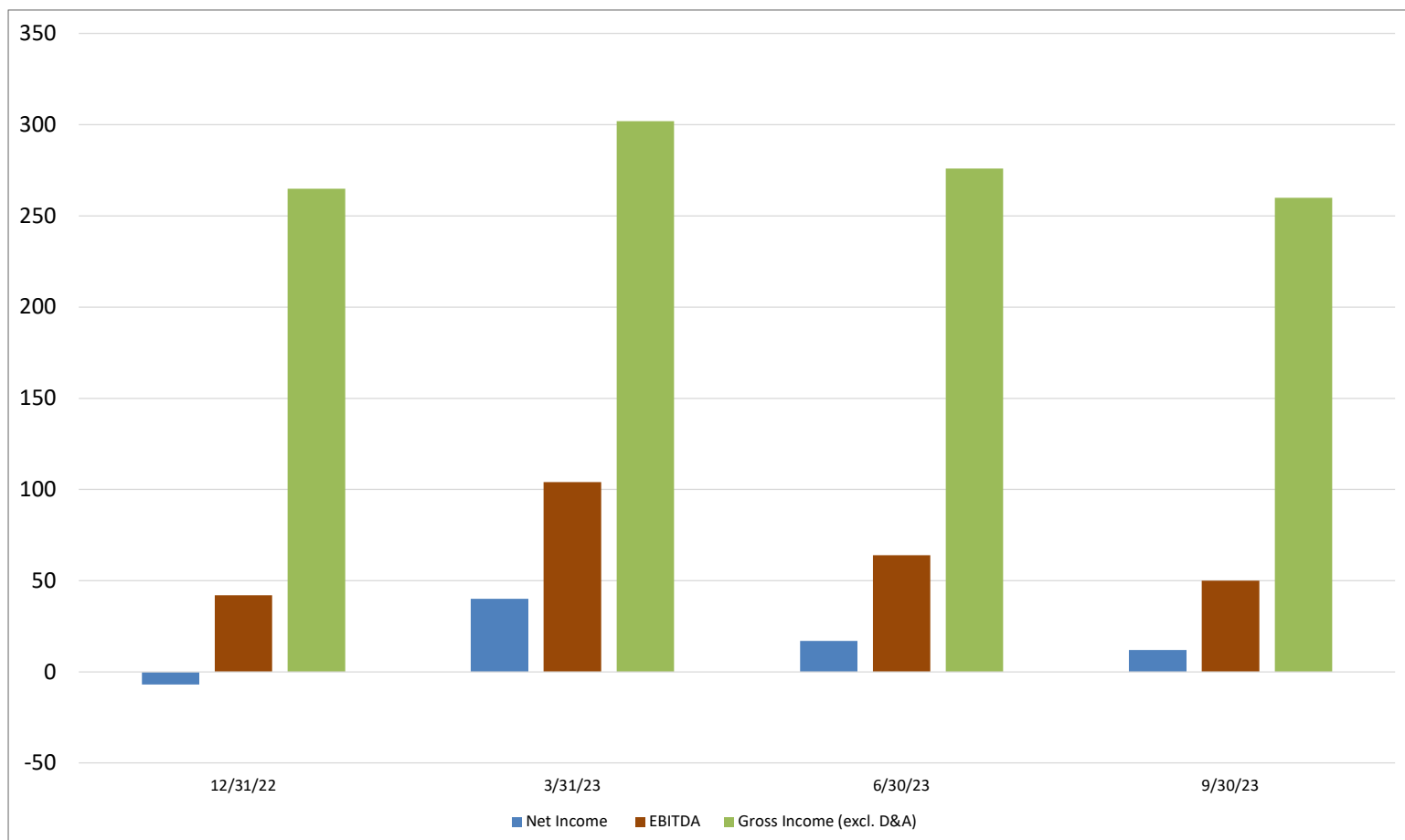
% of Fixed Assets	4.3%	4.3%	4.8%	4.1%
Extraordinary Expenses	0	0	0	0
EBIT	14	76	33	23
% of revenue	3.1%	16.0%	7.1%	5.3%
Pretax Income	2	58	24	13
% of revenue	0.4%	12.2%	5.2%	3.0%
Income Tax	9	18	7	1
% rate	450.0%	31.0%	29.2%	7.7%
Net Income	-7	40	17	12
% of revenue	-1.5%	8.4%	3.7%	2.7%

- Now let us move to a sequential, quarter-on-quarter analysis of the company's income statement as see the gradual evolution of revenues and profitability
- Teradata Corporation has reported a top-line of \$438 million in its recent quarterly result which is a -5.19% depreciation over the previous quarter.
- The company reported a positive gross margin of 59.36% for the quarter ended 9/30/23.
- Its EBITDA for the quarter was \$50 million and the EBITDA margin was 11.42%.
- This was a -2.44% margin contraction at the EBITDA level which is definitely a negative outcome.
- Teradata Corporation's operating income (EBIT) was reported at \$23 million and a margin of 5.25%.
- This EBIT margin dropped by 1.89% in this quarter.
- The company's pre-tax margin for the quarter was 2.97%.
- Teradata Corporation reported a net income of \$12 million which resulted in a diluted earnings per share (EPS) of \$0.12.
- The company's net margin was 2.74%

## Sequential Quarter-On-Quarter Analysis - Cash Flow Statement (USD Million)

Particulars	12/31/22	3/31/23	6/30/23	9/30/23
Cash from Operations	129	109	49	41
<i>% of revenue</i>	28.5%	22.9%	10.6%	9.4%
Cash from Investing	-11	-4	-3	-21
<i>% of Fixed Assets</i>	-1.7%	-0.6%	-0.5%	-3.2%
Free Cash Flows	118	105	46	20
<i>% of revenue</i>	26.1%	22.1%	10.0%	4.6%

## Evolution Of Gross Income, EBIT, & Net Income (USD Million)





- Now let us move on to the cash flow generation in the recent quarter.
- Teradata Corporation generated \$41 million in terms of operating cash flows for the quarter ended 9/30/23.
- The company was able to convert about 9.36% of its revenues into operating cash flows in the recent quarter.
- This quarter's EBITDA-to-operating cash flow conversion ratio is 82.00%
- Overall, Teradata Corporation delivered a positive free cash flow of \$20 million for the past quarter.

## Sequential Quarter-On-Quarter Analysis - Balance Sheet (USD Million)

Balance Sheet	12/31/22	3/31/23	6/30/23	9/30/23
<b>Assets</b>				
Net Intangible Fixed Assets	390	391	390	396
Net Tangible Fixed Assets	257	263	261	259
<b>Total Fixed Assets</b>	<b>647</b>	<b>654</b>	<b>651</b>	<b>655</b>
<i>% of revenue</i>	<i>143.1%</i>	<i>137.4%</i>	<i>140.9%</i>	<i>149.5%</i>
LT Investments	13	0	16	20
Inventories	8	7	9	8
<i>% of revenue</i>	<i>1.8%</i>	<i>1.5%</i>	<i>1.9%</i>	<i>1.8%</i>
Accounts Receivable	384	356	278	297
<i>% of revenue</i>	<i>85.0%</i>	<i>74.8%</i>	<i>60.2%</i>	<i>67.8%</i>
Cash and ST Investments	569	551	504	348
<i>% of revenue</i>	<i>125.9%</i>	<i>115.8%</i>	<i>109.1%</i>	<i>79.5%</i>
Other Current Assets	67	92	89	85
<b>Total Current Assets</b>	<b>1028</b>	<b>1006</b>	<b>880</b>	<b>738</b>

Other Assets	334	326	322	327
<b>Total Assets</b>	<b>2022</b>	<b>1986</b>	<b>1869</b>	<b>1740</b>
<b>Liabilities &amp; Shareholder's Equity</b>				
Equity & Minorities	258	230	218	122
<i>% of capital employed</i>	<i>25.4%</i>	<i>23.3%</i>	<i>22.7%</i>	<i>14.3%</i>
LT Debt	498	498	492	486
Other LT Liabilities	259	259	249	247
<b>Total LT Liabilities</b>	<b>757</b>	<b>757</b>	<b>741</b>	<b>733</b>
<i>% of capital employed</i>	<i>74.6%</i>	<i>76.7%</i>	<i>77.3%</i>	<i>85.7%</i>
ST Debt	0	0	0	0
<i>% of capital employed</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>
Accounts Payable	94	92	113	106
<i>% of COGS</i>	<i>20.8%</i>	<i>19.3%</i>	<i>24.5%</i>	<i>24.2%</i>
Other ST Liabilities	913	907	797	779
<i>% of revenue</i>	<i>202.0%</i>	<i>190.5%</i>	<i>172.5%</i>	<i>177.9%</i>
<b>Total Current Liabilities</b>	<b>1007</b>	<b>999</b>	<b>910</b>	<b>885</b>
<b>Total Liabilities</b>	<b>1764</b>	<b>1756</b>	<b>1651</b>	<b>1618</b>
<b>Total Liabilities &amp; Shareholder's Equity</b>	<b>2022</b>	<b>1986</b>	<b>1869</b>	<b>1740</b>

- When we look at the quarterly Balance Sheet of the company, we see that the Fixed Asset base has evolved from \$651 million to \$655 million over the last 2 quarters.
- The current level of fixed assets, including tangibles & intangibles, is around 149.54% of the company's quarterly turnover.
- The company's receivables were around 67.81% of the quarterly top-line.
- As a result of the positive free cash flows, the company had a final cash and short-term investment balance of \$348 million.
- When we analyze the capital structure of Teradata Corporation, we realize that the company relies more on debt to finance its operations.
- The company's equity accounts for 14.27% of its total capital employed whereas debt (both long-term and short-term) accounts for about 85.73% of the total capital.
- Teradata Corporation's payables account for 24.20% of its cost of goods sold.

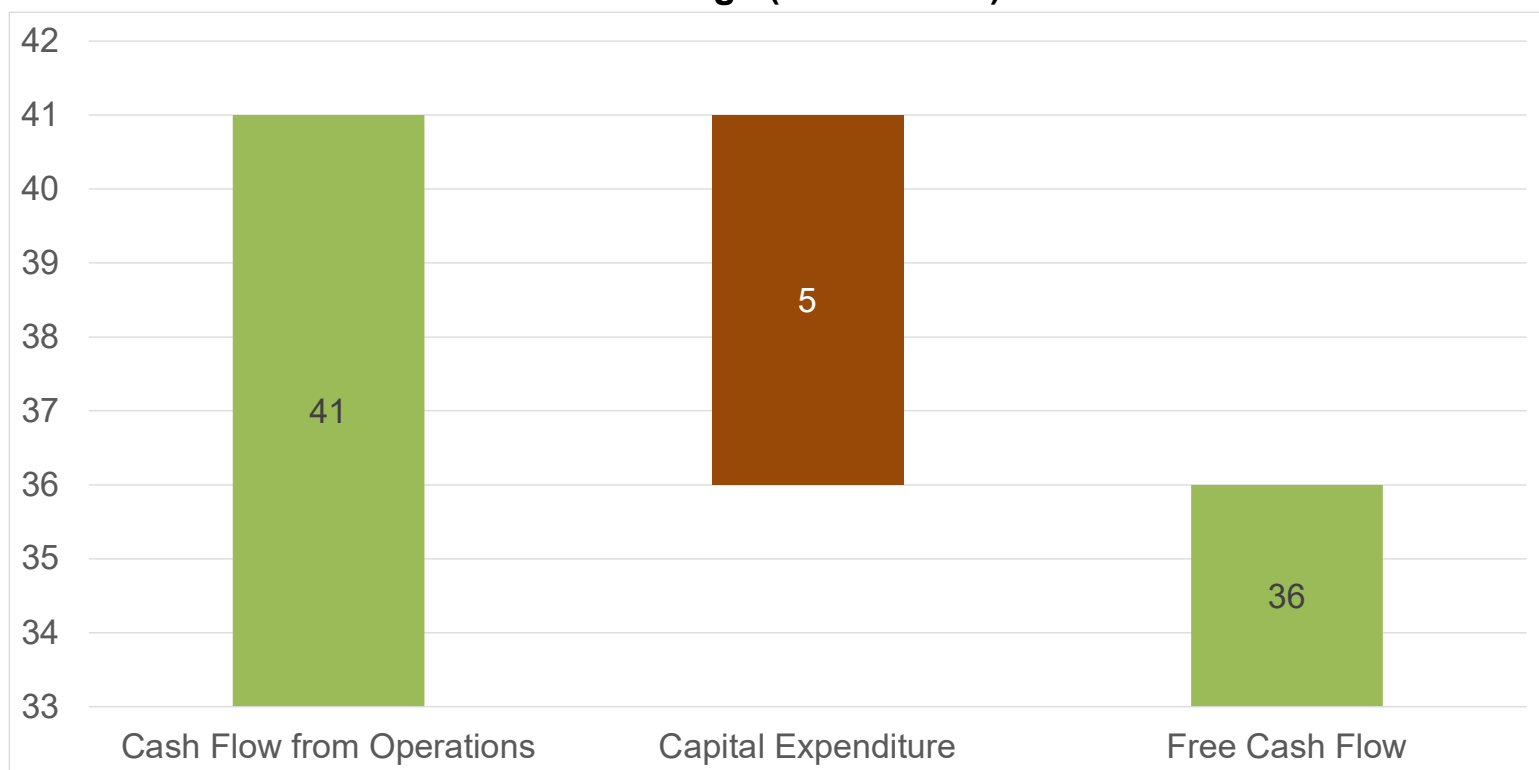
## Sequential Quarter-On-Quarter Analysis - Cash Flow Statement (USD Million)

Particulars	12/31/22	3/31/23	6/30/23	9/30/23
Net Income (GAAP)	-7	40	17	12
+ Depreciation & Amortization	28	28	31	27
+/- Working Capital, Deferred Taxes & Other Adjustments	108	41	1	2
<b>Cash Flow from Operations</b>	<b>129</b>	<b>109</b>	<b>49</b>	<b>41</b>
<i>% of EBITDA</i>	<i>307.1%</i>	<i>104.8%</i>	<i>76.6%</i>	<i>82.0%</i>
Capital Expenditure	-8	-4	-2	-5
<i>% of revenues</i>	<i>-1.8%</i>	<i>-0.8%</i>	<i>-0.4%</i>	<i>-1.1%</i>
Other Investment Cash Flow items	-3	0	-1	-16

<b>Cash Flow from Investments</b>	<b>-11</b>	<b>-4</b>	<b>-3</b>	<b>-21</b>
<b>Free Cash Flow</b>	<b>121</b>	<b>105</b>	<b>47</b>	<b>36</b>
<i>% of EBITDA</i>	<i>288.1%</i>	<i>101.0%</i>	<i>73.4%</i>	<i>72.0%</i>
<b>Cash Flow from Financing</b>	<b>-61</b>	<b>-111</b>	<b>-85</b>	<b>-161</b>
<b>Net Change In Cash</b>	<b>57</b>	<b>-6</b>	<b>-39</b>	<b>-141</b>

- \* Moving on to the company's sequential quarterly cash flow statement, we see that its EBITDA to Operating Cash Flow conversion ratio has increased from 76.56% to 82.00% in the most recent quarter.
- \* Teradata Corporation generated \$41.00 million from operating activities and reported \$-21.00 million as cash flow from investments which implies a free cash flow of \$36.00 million for the quarter ended 9/30/23.
- \* We can see a breakdown of the Free Cash Flow of the company through a waterfall chart on the following page.

### Free Cash Flow As On 9/30/23 - Bridge (USD Million)



• The company reported a Cash Flow from Financing of \$-161.00 million.

## Sequential Quarter-On-Quarter Analysis - Key Ratios (USD Million)

Working Capital Ratios	12/31/22	3/31/23	6/30/23	9/30/23
Receivables Turnover	5.86	5.36	5.83	6.09
Days Receivable	62.8	67.2	62.4	60.4
Inventory Turnover	71.24	92.80	93.00	83.76
Inventory Days	5.2	3.9	3.9	4.4
Working Capital Turnover	86.10	272.00	-61.60	-11.92
Days Payable	43.7	48.4	49.6	56.9
Current Ratio	1.02	1.01	0.97	0.83
Quick Ratio	0.95	0.91	0.86	0.73

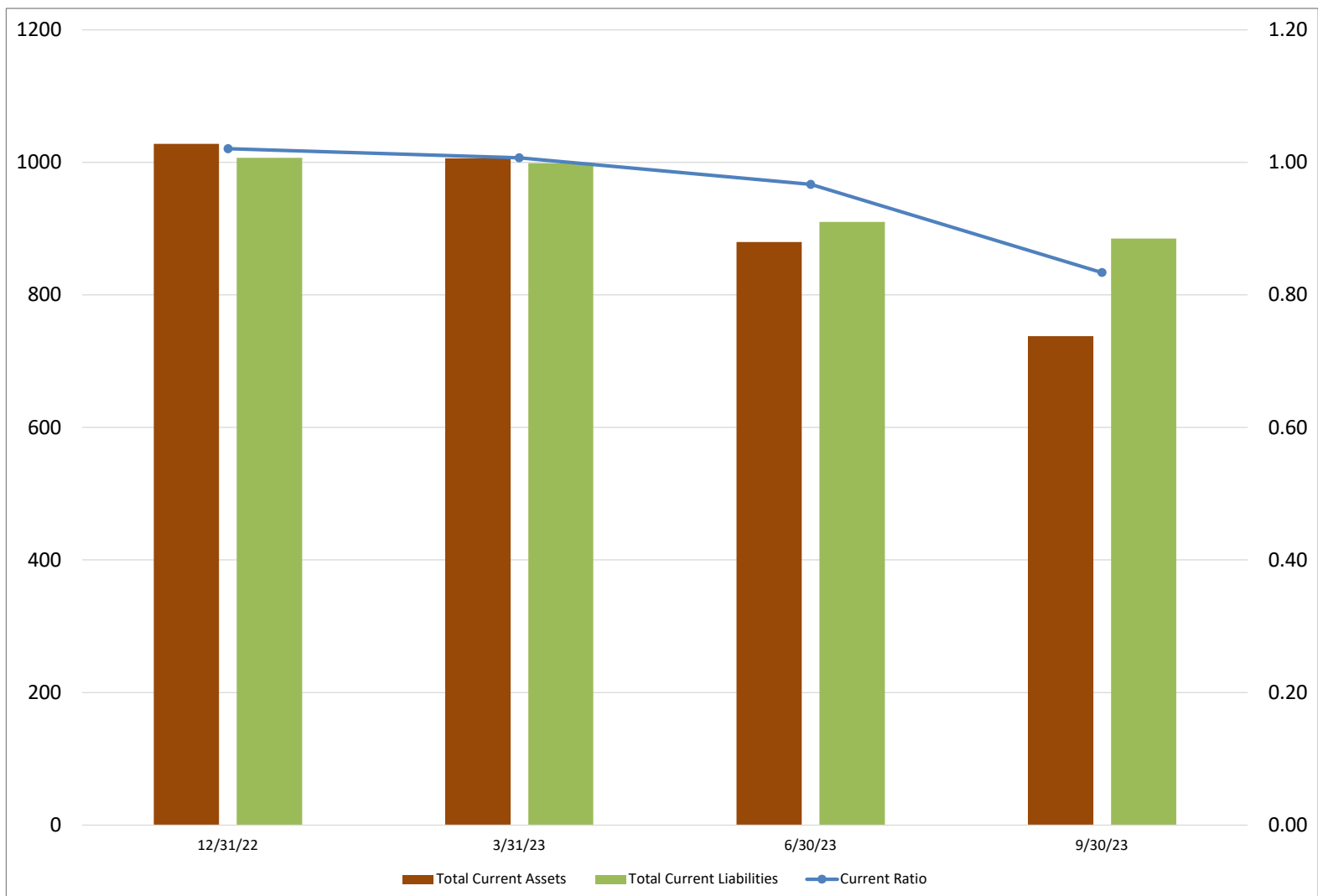
Solvency Ratios	12/31/22	3/31/23	6/30/23	9/30/23
Total Debt / Equity	246.90%	280.90%	299.50%	532.80%
Total Debt / Capital	70.60%	73.20%	74.50%	83.50%
Total Liabilities / Total Assets	87.20%	88.40%	88.30%	93.00%
EBIT / Interest Expense	2.00	10.86	4.71	2.88
EBITDA / Interest Expense	6.43	15.29	9.57	6.63
(EBITDA - Capex) / Interest Expense	5.29	14.71	9.29	6.00
FFO Interest Coverage	18.43	15.57	7.00	5.13
FFO to Total Debt (x)	0.81	0.67	0.30	0.25

Total Debt / EBITDA	3.54	1.51	2.44	3.07
Net Debt / EBITDA	0.38	0.22	0.56	1.42
Net Debt / (EBITDA - Capex)	0.46	0.23	0.57	1.57

Return Ratios	12/31/22	3/31/23	6/30/23	9/30/23
Return on Assets %	1.8%	9.5%	4.3%	3.2%
Return on Capital %	6.2%	34.4%	15.1%	11.8%
Return On Equity %	-11.4%	65.6%	30.4%	28.2%
Return on Common Equity %	-11.4%	65.6%	30.4%	28.2%

- \* Now let us take a closer look at the evolution of some of the key quarterly ratios of the company. The most important ratios to look at in terms of quarterly evolution are essentially the working capital ratios.
- \* We see Teradata Corporation's receivable days fall from 62.44 to 60.39 over the past two quarters.
- \* On the other hand, the company's days payable have risen from 49.61 to 56.92 over the past couple of quarters.
- \* When we analyze the working capital turnover over the company, we see that Teradata Corporation's revenues are as much as -11.92 times its total exposure to working capital investment.
- \* In the FFO/ Total Debt ratio, FFO stands for funds from operations. This is a leverage ratio that an investor can use to evaluate a company's financial risk. It measures the ability of a company to pay off its debt using net operating income alone.
- \* We see Teradata Corporation's FFO/ Total Debt ratio as 0.25 which means that from a financial leverage and capital gearing standpoint, the company has a VERY LOW RISK profile.

## Current Assets & Current Liabilities (USD Million)



## Historical Income Statement - Annual (USD Million)

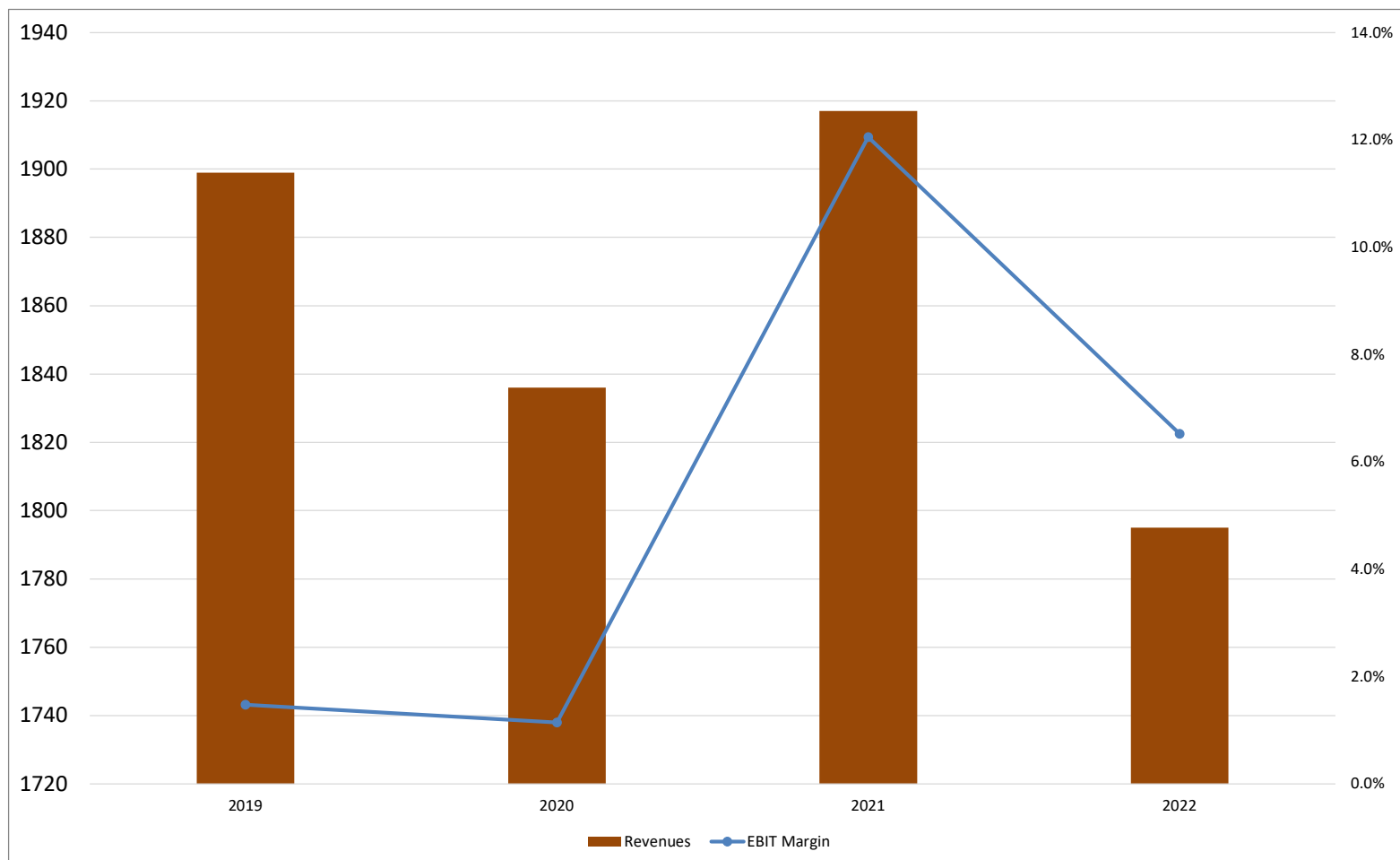
Particulars	2019	2020	2021	2022
Revenues	1899	1836	1917	1795
<i>% growth</i>		-3.3%	4.4%	-6.4%
Cost of Goods Sold	-933	-803	-720	-706
<i>% of revenue</i>	-49.1%	-43.7%	-37.6%	-39.3%
Gross Income (excl. D&A)	966	1033	1197	1089
<i>% of revenue</i>	50.9%	56.3%	62.4%	60.7%

EBITDA	131	163	374	246
<i>% of revenue</i>	6.9%	8.9%	19.5%	13.7%
Depreciation & Amortization	103	142	143	129
<i>% of Fixed Assets</i>	12.9%	18.3%	20.1%	19.9%
Extraordinary Expenses	0	0	0	0
EBIT	28	21	231	117
<i>% of revenue</i>	1.5%	1.1%	12.1%	6.5%
Pretax Income	-13	-24	192	67
<i>% of revenue</i>	-0.7%	-1.3%	10.0%	3.7%
Income Tax	7	-153	45	34
<i>% rate</i>	-53.8%	637.5%	23.4%	50.7%
Net Income	-20	129	147	33
<i>% of revenue</i>	-1.1%	7.0%	7.7%	1.8%

- \* When we analyze the company's annualized historical income statement, we see that the top-line was \$1.795 billion for the previous financial year ending in 2022.
- \* The revenue growth was -6.36% in 2022 as compared to around 4.41% in 2021.
- \* Teradata Corporation's cost of goods sold has decreased from -37.56% to -39.33% as a percentage of the top-line resulting in a rise in the gross margins.
- \* The company's overall annual EBITDA margin of 13.70% is higher than the reported quarterly EBITDA margin for the most recent quarter.
- \* Non-cash expenses in the form of depreciation and amortization have gone down as compared to the result in 2021.



## Revenue & Operating Margin (USD Million)



\* In terms of the bottom-line, Teradata Corporation reported an operating income (EBIT) of \$117 million and a net income of \$33 million resulting in an EPS of \$1.35.

\* The slightly worrying news for investors holding the stock is that its net margin had decreased from 7.67% in 2021 to 1.84% in 2022.

## Historical Balance Sheet - Annual (USD Million)

Particulars	2019	2020	2021	2022
<b>Assets</b>				
Net Intangible Fixed Assets	396	401	396	390
Net Tangible Fixed Assets	401	377	314	257
<b>Total Fixed Assets</b>	<b>797</b>	<b>778</b>	<b>710</b>	<b>647</b>

% of revenue	42.0%	42.4%	37.0%	36.0%
LT Investments	0	0	0	13
Inventories	31	29	26	8
% of revenue	1.6%	1.6%	1.4%	0.4%
Accounts Receivable	421	416	431	384
% of revenue	22.2%	22.7%	22.5%	21.4%
Cash and ST Investments	494	529	592	569
% of revenue	26.0%	28.8%	30.9%	31.7%
Other Current Assets	68	70	57	67
<b>Total Current Assets</b>	<b>1014</b>	<b>1044</b>	<b>1106</b>	<b>1028</b>
Other Assets	246	371	353	334
<b>Total Assets</b>	<b>2057</b>	<b>2193</b>	<b>2169</b>	<b>2022</b>
<b>Liabilities &amp; Shareholder's Equity</b>				
Equity & Minorities	262	400	460	258
LT Debt	473	438	336	498
Other LT Liabilities	436	403	340	259
<b>Total LT Liabilities</b>	<b>909</b>	<b>841</b>	<b>676</b>	<b>757</b>

ST Debt	0	0	0	0
Accounts Payable	66	50	67	94
% of COGS	3.5%	2.7%	3.5%	5.2%
Other ST Liabilities	820	902	966	913
<b>Total Current Liabilities</b>	<b>886</b>	<b>952</b>	<b>1033</b>	<b>1007</b>
<b>Total Liabilities</b>	<b>1795</b>	<b>1793</b>	<b>1709</b>	<b>1764</b>
<b>Total Liabilities &amp; Shareholder's Equity</b>	<b>2057</b>	<b>2193</b>	<b>2169</b>	<b>2022</b>

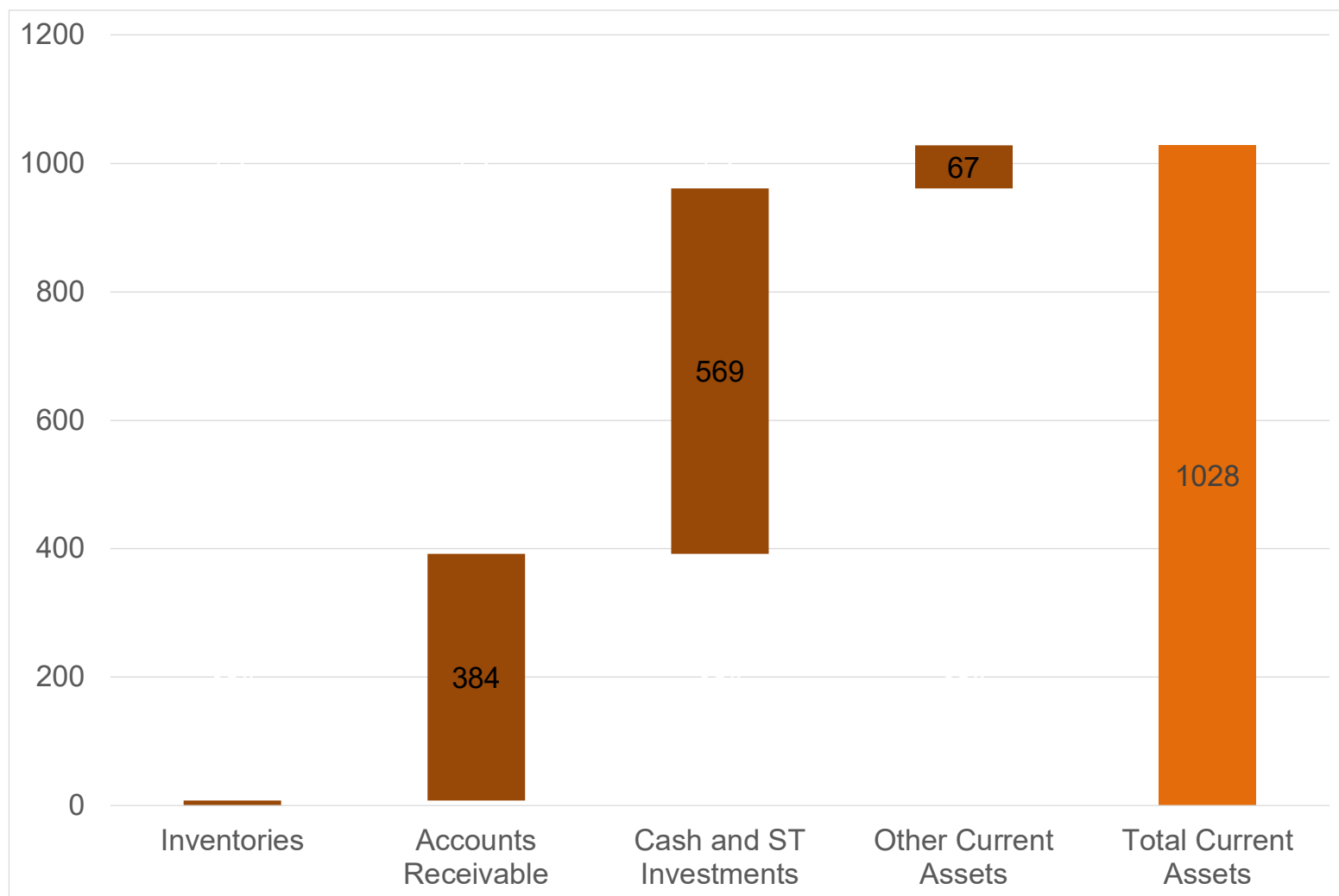
\* Moving on to the company's historical annualized balance sheet, when we analyze the fixed assets versus the revenues, we see that the percentage has evolved from 37.04% to 36.04%

\* Its receivables of \$384 million are about 21.39% of the top-line.

\* Teradata Corporation has close to \$569 million in terms of liquidity i.e. cash and short term investments.

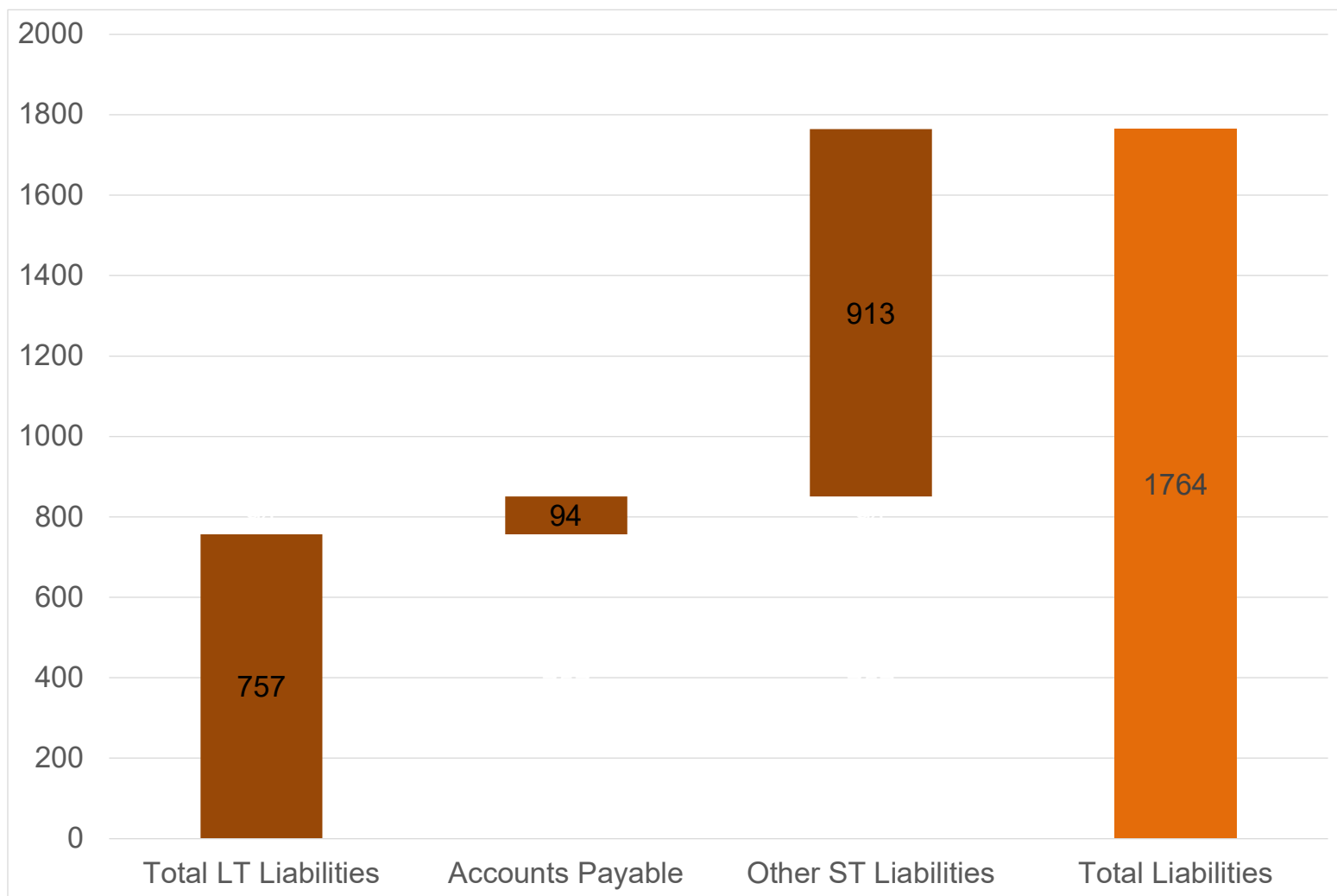
\* On the other hand, its payables for 2022 account for around 5.24% of the cost of goods sold. We can see a more detailed breakdown of the total current assets in the chart on the following page.

## Total Current Assets (2022) - Waterfall Analysis (USD Million)



- The company's long term debt is around 2.9x times its equity.
- Apart from the long term debt, we can also see the level of short term debt, equity and all other forms of long and short term liabilities and how they come together to total up to the Total Liabilities & Shareholders Equity of the company.

### Total Liabilities (2022) - Waterfall Analysis (USD Million)



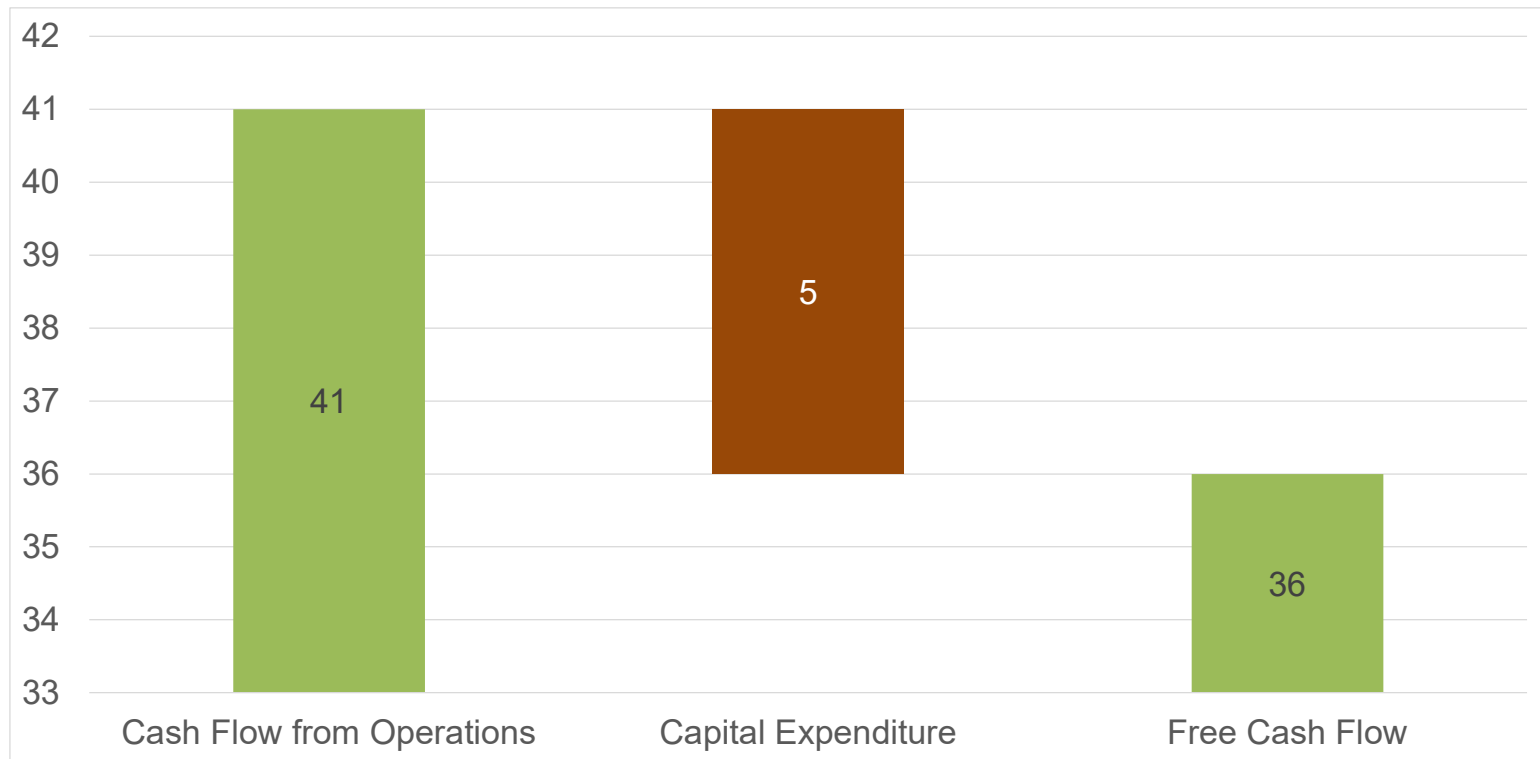
### Historical Cash Flow Statement - Annual (USD Million)

Particulars	2019	2020	2021	2022
Net Income (GAAP)	-20	129	147	33
+ Depreciation & Amortization	103	142	143	129
+/- Working Capital, Deferred Taxes & Other Adjustments	65	-4	173	257

<b>Cash Flow from Operations</b>	<b>148</b>	<b>267</b>	<b>463</b>	<b>419</b>
<i>% of EBITDA</i>	<i>113.0%</i>	<i>163.8%</i>	<i>123.8%</i>	<i>170.3%</i>
Capital Expenditure	-54	-44	-28	-14
<i>% of revenues</i>	<i>-2.8%</i>	<i>-2.4%</i>	<i>-1.5%</i>	<i>-0.8%</i>
Other Investment Cash Flow items	-5	-7	-3	-4
<b>Cash Flow from Investments</b>	<b>-59</b>	<b>-51</b>	<b>-31</b>	<b>-18</b>
<b>Free Cash Flow</b>	<b>94</b>	<b>223</b>	<b>435</b>	<b>405</b>
<i>% of EBITDA</i>	<i>71.8%</i>	<i>136.8%</i>	<i>116.3%</i>	<i>164.6%</i>
<b>Cash Flow from Financing</b>	<b>-308</b>	<b>-186</b>	<b>-356</b>	<b>-381</b>
<b>Net Change In Cash</b>	<b>-219</b>	<b>30</b>	<b>76</b>	<b>20</b>

- Teradata Corporation's Cash Flow from Operations as a % of EBITDA went up which is a good sign.
- The company delivered a positive free cash flow of \$405 million in 2022.
- It was able to convert about 164.63% into free cash flows which was higher than the previous financial year.
- Teradata Corporation reported \$-381 million as Cash Flow from Financing for 2022 which was lower than the previous year.
- We can see a complete breakdown of the Net Change in Cash of the company in the waterfall chart on the following page.

## Free Cash Flow (2022) - Bridge (USD Million)



## Key Ratios - Annual

Other Metrics	2019	2020	2021	2022
Total Cash Dividends Paid	0.00	0.00	0.00	0.00
<i>% growth</i>		NA	NA	NA
Total Common Shares Outstanding	111	109	106	101
<i>% change</i>		-1.8%	-2.7%	-5.0%
Dividend Per Share	0.00	0.00	0.00	0.00
<i>% change</i>		NA	NA	NA

Operating Ratios	2019	2020	2021	2022
Receivables Turnover	4.5	4.4	4.4	4.7

Days Receivable	80.9	82.7	82.1	78.1
Inventory Turnover	30.1	27.7	27.7	88.3
Inventory Days	12.1	13.2	13.2	4.1
Payables Turnover	14.1	16.1	10.7	7.5
Days Payable	25.8	22.7	34.0	48.6
Current Ratio	1.14	1.10	1.07	1.02
Quick Ratio	1.03	0.99	0.99	0.95
Working Capital Turnover	14.84	19.96	26.26	85.48
Fixed Asset Turnover	2.4	2.4	2.7	2.8
Total Asset Turnover	0.9	0.8	0.9	0.9

\* The company does not pay any dividend.

\* Teradata Corporation's total common shares outstanding have decreased in 2022 by -5.00% implying a share buyback.

\* The receivables turnover helps quantify a company's effectiveness in collecting the money owed by clients and demonstrates how well it uses and manages the credit it extends to customers.

\* As per the days receivable, the company takes an average period of 78.1 days to collect money from its clients which appears to be reasonable.

\* The inventory turnover shows the number of times a given company has sold and replaced inventory during the year and is an indicator of how many days of working capital is blocked in inventory.

\* As per the inventory days ratio, Teradata Corporation holds an average inventory of 4.1 days which appears to be reasonable.

\* The accounts payable turnover is a short-term liquidity measure used to quantify the rate at which a company pays off its suppliers. It shows how many days of credit a company gets from its suppliers.

\* As per the days payable, the company takes an average period of 48.6 days to pay off its creditors which appears to be reasonable.

\* The fixed asset turnover ratio measures how well a company generates sales from its tangible as well as intangible fixed assets. The higher the ratio, the greater the company's efficiency to its assets to generate revenues.

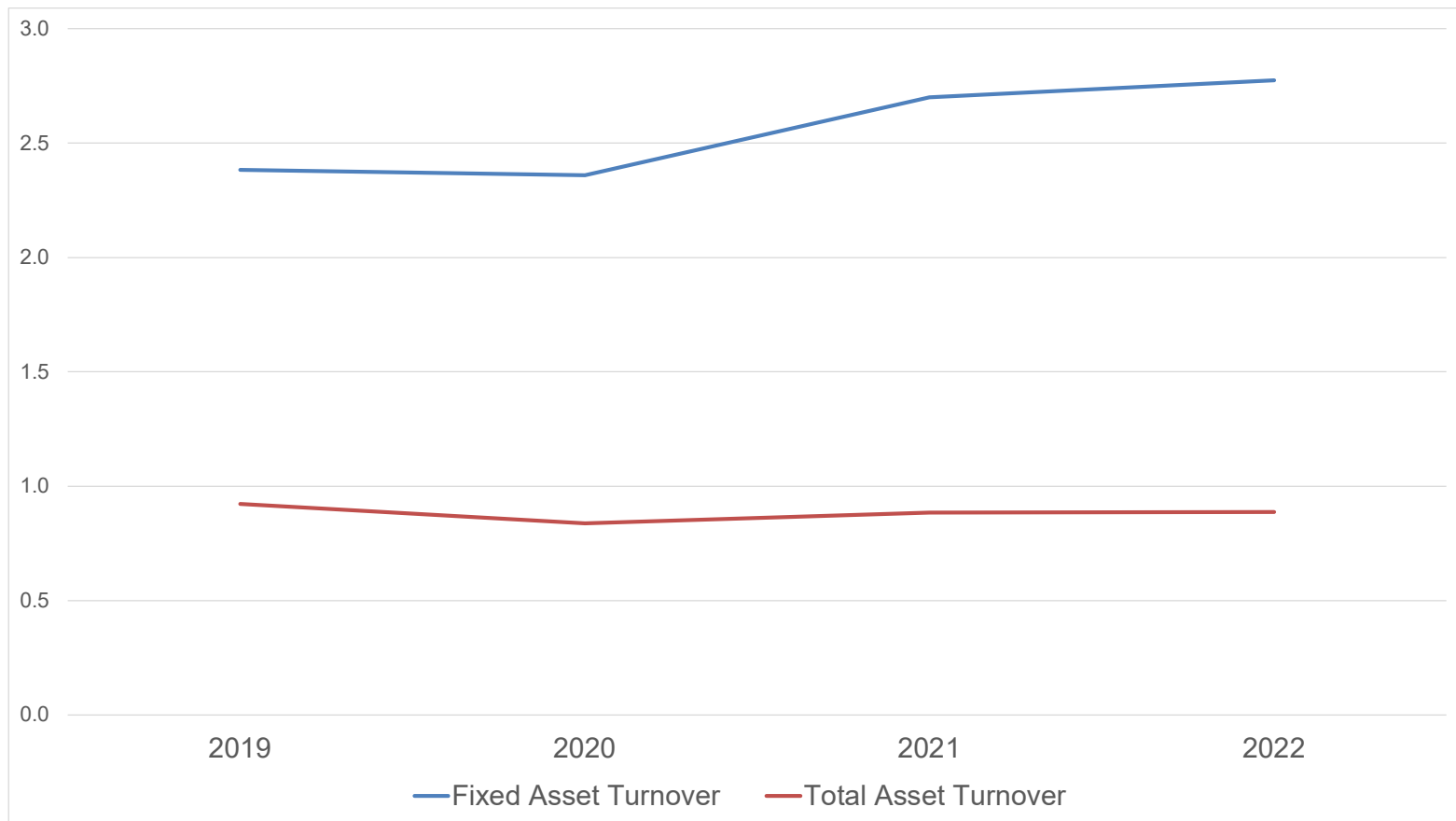
\* Teradata Corporation's fixed assets turnover ratio of 2.8 has increased in 2022 indicating that the company is generating greater revenues from its fixed assets.



\* The total asset turnover ratio measures the value of a company's sales or revenues relative to the value of its assets. The higher the asset turnover ratio, the more efficient a company is, with respect to using its assets to generate revenues.

\* Teradata Corporation's total assets turnover has increased to 0.89 in 2022.

## Evolution of Fixed Assets Turnover & Total Assets Turnover



Operating Ratios	2019	2020	2021	2022
Total Debt / Equity	261.80%	167.50%	127.00%	246.90%
Total Debt / Capital	71.90%	62.30%	55.60%	70.60%
Total Liabilities / Total Assets	87.30%	81.80%	78.80%	87.20%
EBIT / Interest Expense	1.08	0.78	8.88	4.88
EBITDA / Interest Expense	6.23	6.93	15.04	10.75

(EBITDA - Capex) / Interest Expense	4.15	5.30	13.96	10.17
FFO Interest Coverage	5.69	9.89	17.81	17.46
FFO to Total Debt (x)	0.22	0.40	0.79	0.66
Total Debt / EBITDA	4.23	3.58	1.49	2.47
Net Debt / EBITDA	1.19	0.75	-0.02	0.26
Net Debt / (EBITDA - Capex)	1.78	0.99	-0.02	0.28

Other Ratios	2019	2020	2021	2022
Return on Assets %	0.8%	0.6%	6.6%	3.5%
Return on Capital %	2.9%	2.0%	22.0%	13.0%
Return On Equity %	-5.3%	39.0%	34.2%	9.2%
Return on Common Equity %	-5.3%	39.0%	34.2%	9.2%

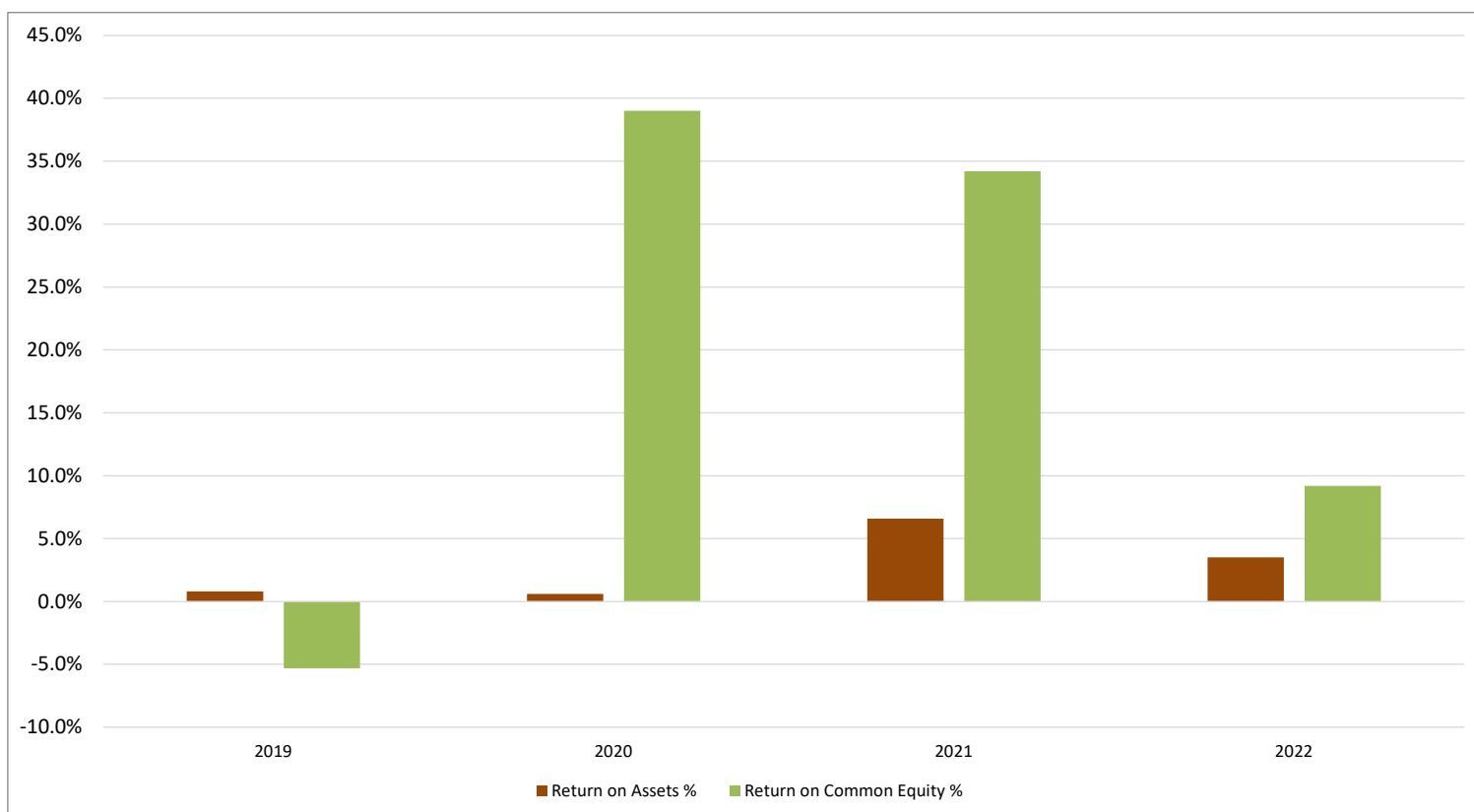
\* Return on assets is an excellent indicator of how efficient a company's management is in generating earnings from their economic resources or assets on their balance sheet.

\* On the other hand, the return on equity of a company measures the value creation of the management and profitability in relation to stockholders' equity.

\* The company's overall Return on Assets is 3.50%.

\* Teradata Corporation's Return on Equity is 9.20%. The company's Return on Equity is higher than its Return on Assets and this is because it uses debt to maximize shareholder returns.

## Evolution of Return on Equity & Return on Assets



- In the above chart, we see the evolution of the company's return on equity and its return on assets.

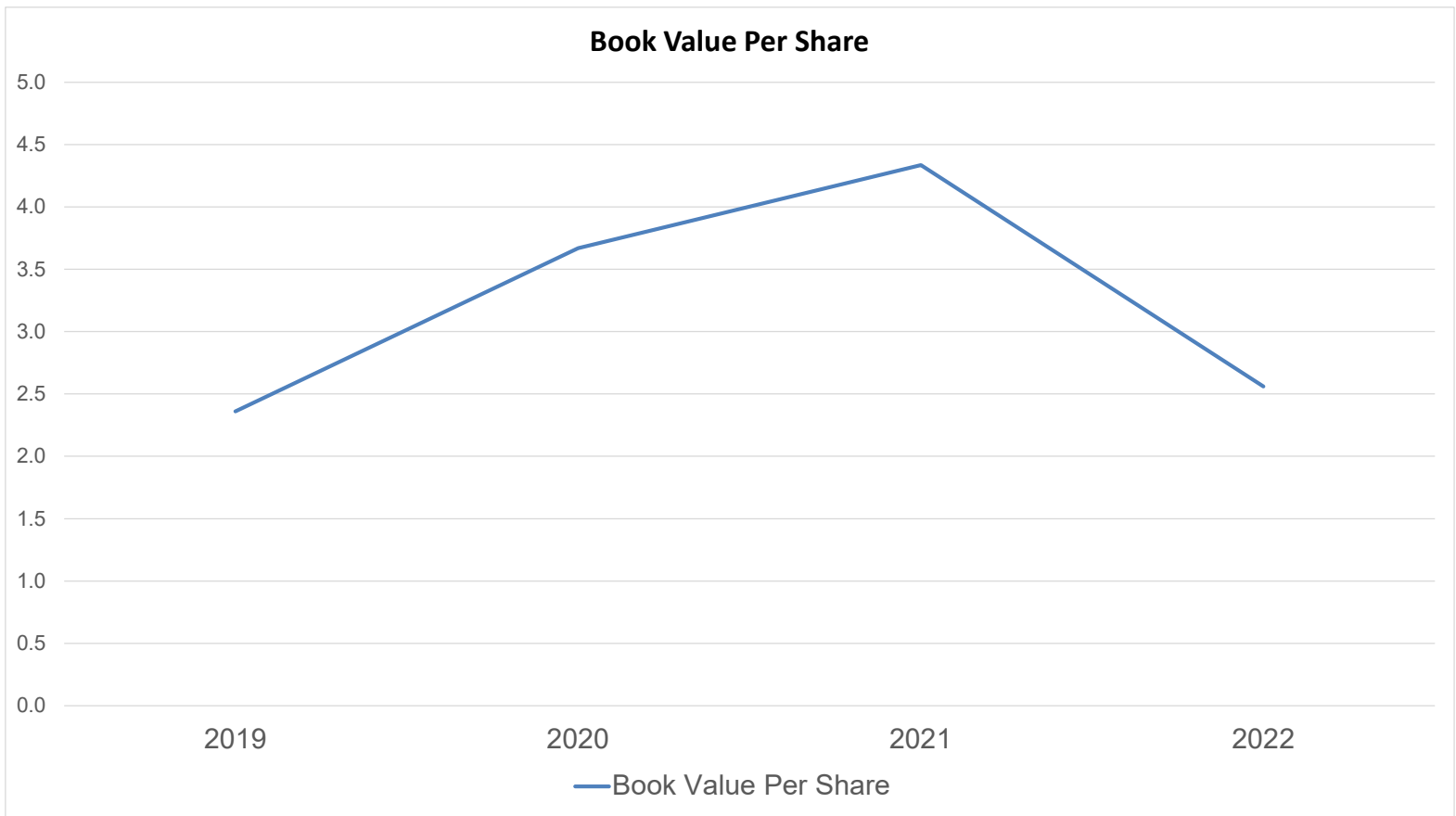
## Book Value Per Share, Price-to-Book Ratio & Graham Number Analysis

We can see the evolution of the book value per share and the Graham Number of the company in the table below:

Particulars	2019	2020	2021	2022
Book Value Per Share	2.4	3.7	4.3	2.6
Graham Number	NA	9.8	11.3	4.2

- \* We can see that Teradata Corporation's Book Value Per Share is 2.56 which results in a Price-to-Book ratio of 18.74.
- \* You can also see in the above table that we have shown the evolution of the Graham number, a popular metric evaluates a stock's fundamental worth by examining the company's earnings per share (EPS) and book value per share.
- \* This concept was developed by renowned value investor and 'father of value investing', Benjamin Graham and sets a maximum price an investor should pay for a stock.
- \* It is calculated as the geometric mean of 2 components: the stock price assuming a Price-to-Earnings ratio of 15x and the stock price assuming a book value per share of 1.5x.
- \* This is the reason why the Graham Number metric incorporates a factor of 22.5, stemming from Graham's criteria that a price-to-earnings ratio below 15x and a book value per share below 1.5x are the maximum valuation multiples an investor should pay for a stock.
- \* While useful, the Graham number omits some critical investment factors like management quality, industry insights, and the competitive environment; fundamental analysis of stocks often considers these alongside key metrics to gauge value.
- \* Teradata Corporation's Graham Number as per its latest annual balance sheet is 4.23 which is well below the current market price indicating that the stock might be overvalued.
- \* We can see an evolution of the company's Book Value Per Share & its Graham Number in the chart on the following page.

## Evolution Of Book Value Per Share



## Top Institutional Shareholders

Investor Name	Value of Shares Held (MM)	% Of Shares Outstanding Held	# Shares Held	% Change in # of Shares Held	This Holding as % of Firm's Portfolio
The Vanguard Group, Inc.	558.8	11.91%	11648753	4.45%	0.01%
BlackRock Institutional Trust Company, N.A.	440.8	9.40%	9189139	-1.35%	0.01%
Columbia Threadneedle Investments (US)	278.8	5.94%	5811794	-15.26%	0.09%
Lynrock Lake LP	243	5.18%	5066666	1.83%	57.20%
State Street Global Advisors (US)	141.8	3.02%	2955806	0.10%	0.01%
American Century Investment Management, Inc.	124	2.64%	2585939	21.17%	0.07%
Capital International Investors	97	2.07%	2022331	0.00%	0.02%
Renaissance Technologies LLC	83.2	1.77%	1733936	74.83%	0.13%
Alyeska Investment Group, L.P.	81.3	1.73%	1694367	0.86%	0.01%
Geode Capital Management, L.L.C.	72.8	1.55%	1516688	0.00%	0.00%

\* We can see the list of the largest institutional shareholders of Teradata Corporation in the above table.

- \* As we can see above The Vanguard Group, Inc. is the currently the largest institutional shareholder in the company and currently holds 11.91% of the total outstanding shares of the company.
- \* They are followed by BlackRock Institutional Trust Company, N.A. which holds a 9.40% in Teradata Corporation.
- \* In the above list of institutions, we see that Renaissance Technologies LLC has shown a particular interest in increasing their stake in Teradata Corporation.
- \* Similarly, if we analyze the Teradata Corporation stock as a percentage of the total holdings of the above mentioned institutions, we see that Lynrock Lake LP in the above list, has the highest exposure to the company i.e.,57.20%.
- \* We can see the list of the recent list of the insider transactions in Teradata Corporation in the table below:

## Recent Insider Transactions

Insider	Date	# Shares	Price	Type	Filing
Treese (Margaret A)	11/9/22	-2731	29.88	DIR	Form 4
Ashton (Hillary)	9/2/22	-1833	32.74	DIR	Form 4
Treese (Margaret A)	9/1/22	-73	32.55	DIR	Form 4
Ashton (Hillary)	9/1/22	-3605	32.55	DIR	Form 4
Cullen-Cote (Kathleen R)	8/5/22	-2711	35.71	DIR	Form 4
Cullen-Cote (Kathleen R)	8/5/22	-9035	35.71	DIR	Form 4
Hutchinson (Michael D)	7/6/22	-2493	37.37	DIR	Form 4
Bramley (Claire)	6/15/22	-3485	36.24	DIR	Form 4
Bramley (Claire)	6/15/22	-8037	36.24	DIR	Form 4
McMillan (Stephen)	6/9/22	-12080	38.37	DIR	Form 4

## Forecasted Income Statement - Annual (USD Million)

Particulars	2021	2022	2023E	2024E	2025E
Revenue	1917	1795	1835	1909	2019
% growth		-6.4%	2.2%	4.1%	5.8%
Cost of Goods Sold	-720	-706	-720	-749	-791
% of revenue	-37.6%	-39.3%	-39.3%	-39.2%	-39.1%
Gross Income (excl. D&A)	1197	1089	1114	1161	1229
% of revenue	62.4%	60.7%	60.7%	60.8%	60.9%
EBITDA	374	246	441	484	559
% of revenue	19.5%	13.7%	24.0%	25.3%	27.7%
Depreciation & Amortization	143	129	120	120	118
EBIT	231	117	321	364	441
% of revenue	12.1%	6.5%	17.5%	19.1%	21.8%
EBT (GAAP) Actual	192	67	127	197	241
% of revenue	10.0%	3.7%	6.9%	10.3%	11.9%
Net Income (GAAP)	147	33	82	126	173
% of revenue	7.7%	1.8%	4.5%	6.6%	8.5%
EPS (GAAP)	0.32	1.35	0.60	1.28	1.76

\* Now let us move on to Baptista Research's forecasts for Teradata Corporation's income statement and cash flows.

\* We forecast a top-line growth of 2.2% for 2023, around 4.1% for 2024, and about 4.1% for 2025.

\* This growth is expected to translate into an EBITDA of \$441.0882 million in 2023 with a margin of 24.04%

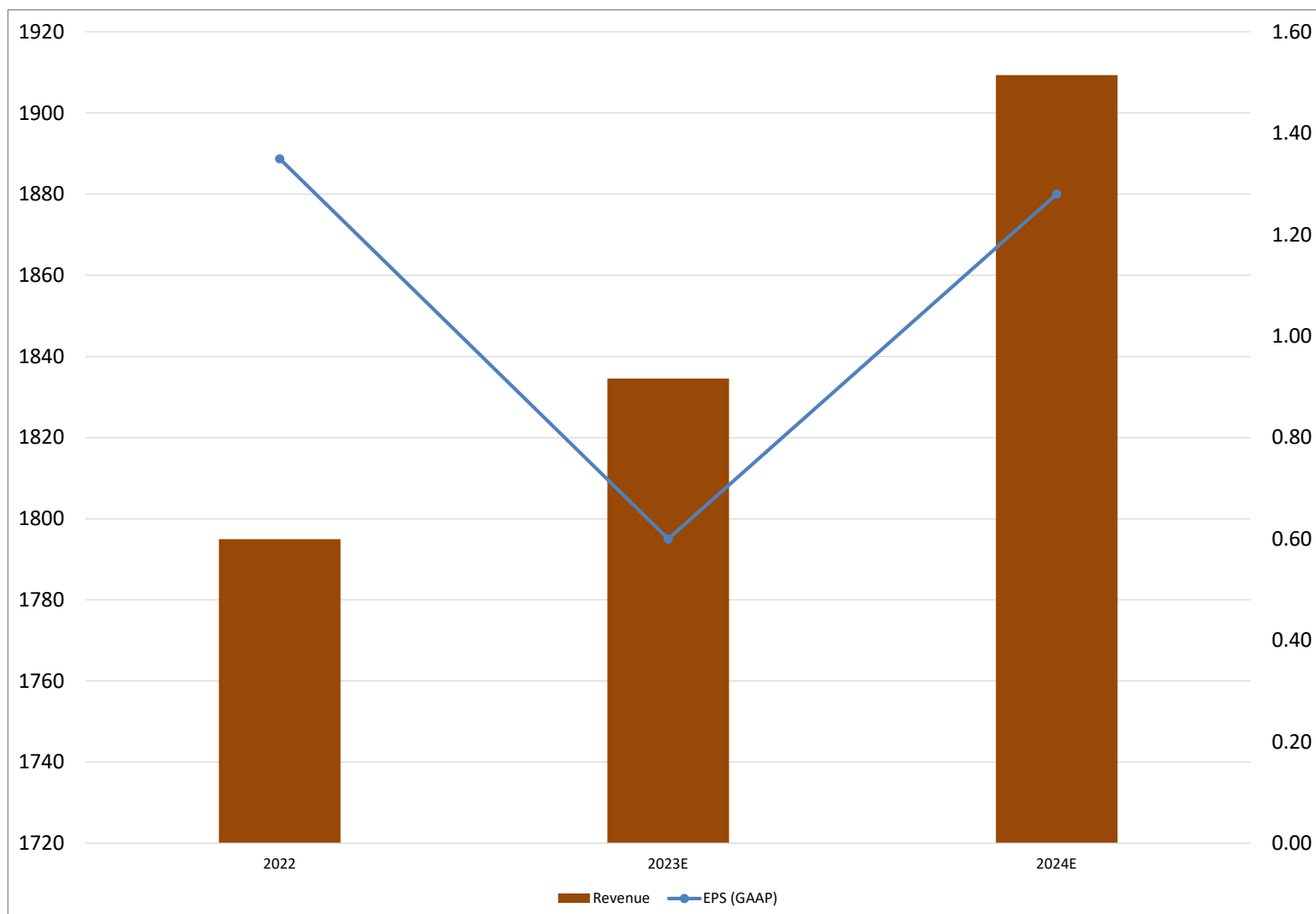
\* Teradata Corporation's EBIT margin is expected to be 17.52% in 2023, about 19.07% in 2024, and 19.07% in 2025.



• Our estimate for the company's Net Income (GAAP) is \$81.686334 million implying a net margin of 4.45% and resulting in an earnings per share of \$0.60.

• We expect the growth to follow a similar trend in 2024 and 2025.

## Forecasted Revenues & Earnings Per Share



## Forecasted Cash Flow Statement (USD Million)

Particulars	2021	2022	2023E	2024E	2025E
Net Income (GAAP)	147	33	82	126	173
+ Depreciation & Amortization	143	129	120	120	118
+/- Working Capital, Deferred Taxes & Other Adjustments	173	257	154	164	192
<b>Cash from Operations</b>	<b>463</b>	<b>419</b>	<b>355</b>	<b>410</b>	<b>482</b>
<i>% of EBITDA</i>	<i>123.8%</i>	<i>170.3%</i>	<i>80.6%</i>	<i>84.7%</i>	<i>86.3%</i>
Capital Expenditure	-28	-14	-17	-19	-22
<i>% of revenues</i>	<i>1.5%</i>	<i>0.8%</i>	<i>0.9%</i>	<i>1.0%</i>	<i>1.1%</i>
Other Investment Cash Flow items	59	32	32	32	32
<b>Cash Flow after Investments</b>	<b>31</b>	<b>18</b>	<b>15</b>	<b>13</b>	<b>9</b>
<b>Free Cash Flow</b>	<b>435</b>	<b>405</b>	<b>339</b>	<b>391</b>	<b>460</b>

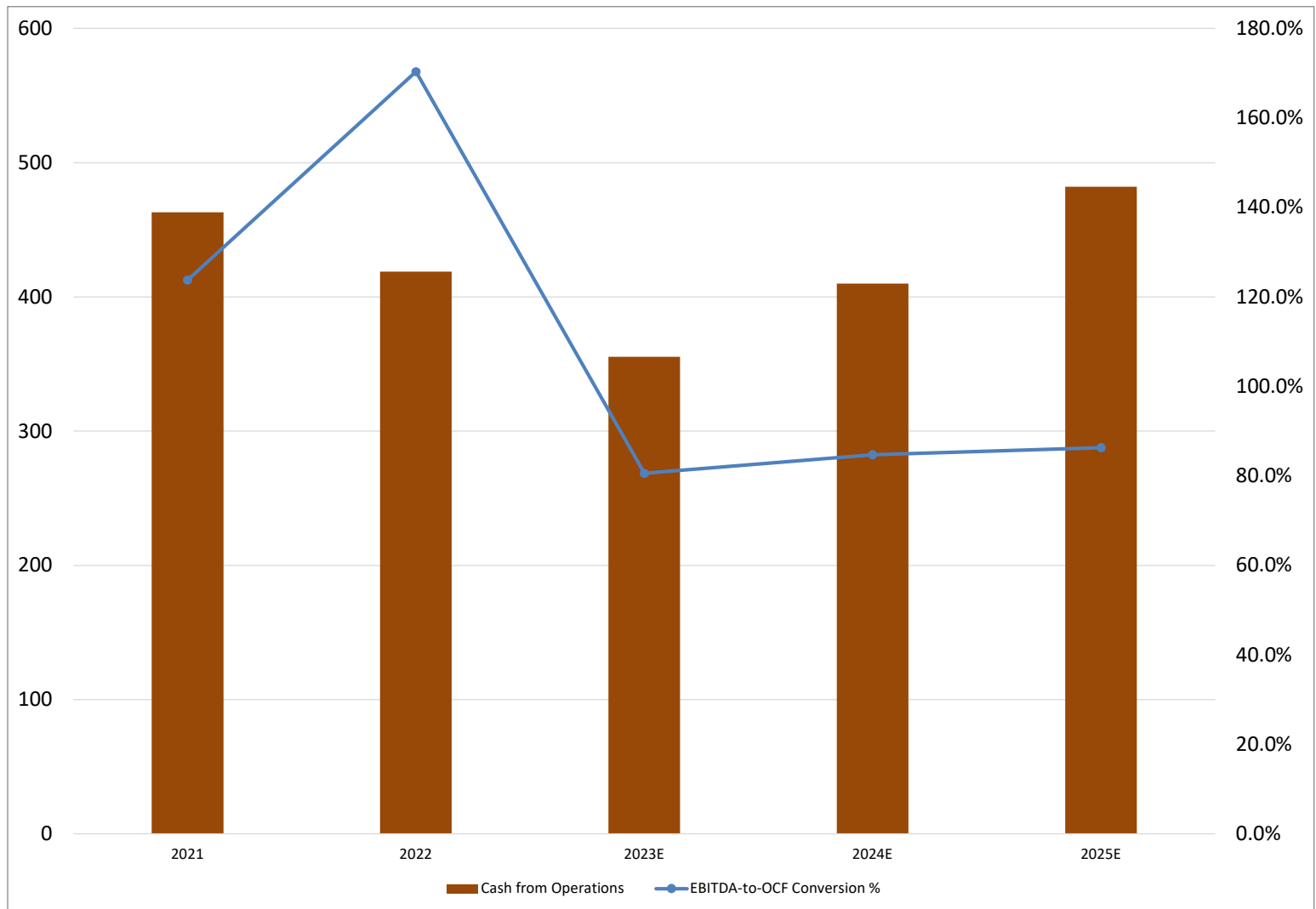
\* In terms of the cash flows, we expect Teradata Corporation to generate around \$355.411068 million in operating cash flows in 2023.

\* This implies an EBITDA-to-Operating-Cash-Flow conversion ratio of 80.58%

\* Teradata Corporation is expected to invest a higher amount in capex and other investing activities in 2023.

\* Overall, the company is expected to generate free cash flows to the tune of \$338.787744 million in 2023.

## Forecasted Operating Cash Flows & EBITDA-to-OCF Conversion %



\* We can see the evolution of the operating cash flows and the conversion of EBITDA into operating cash in the above chart. We can also see the margin assumption summary and other elements in the tables below.

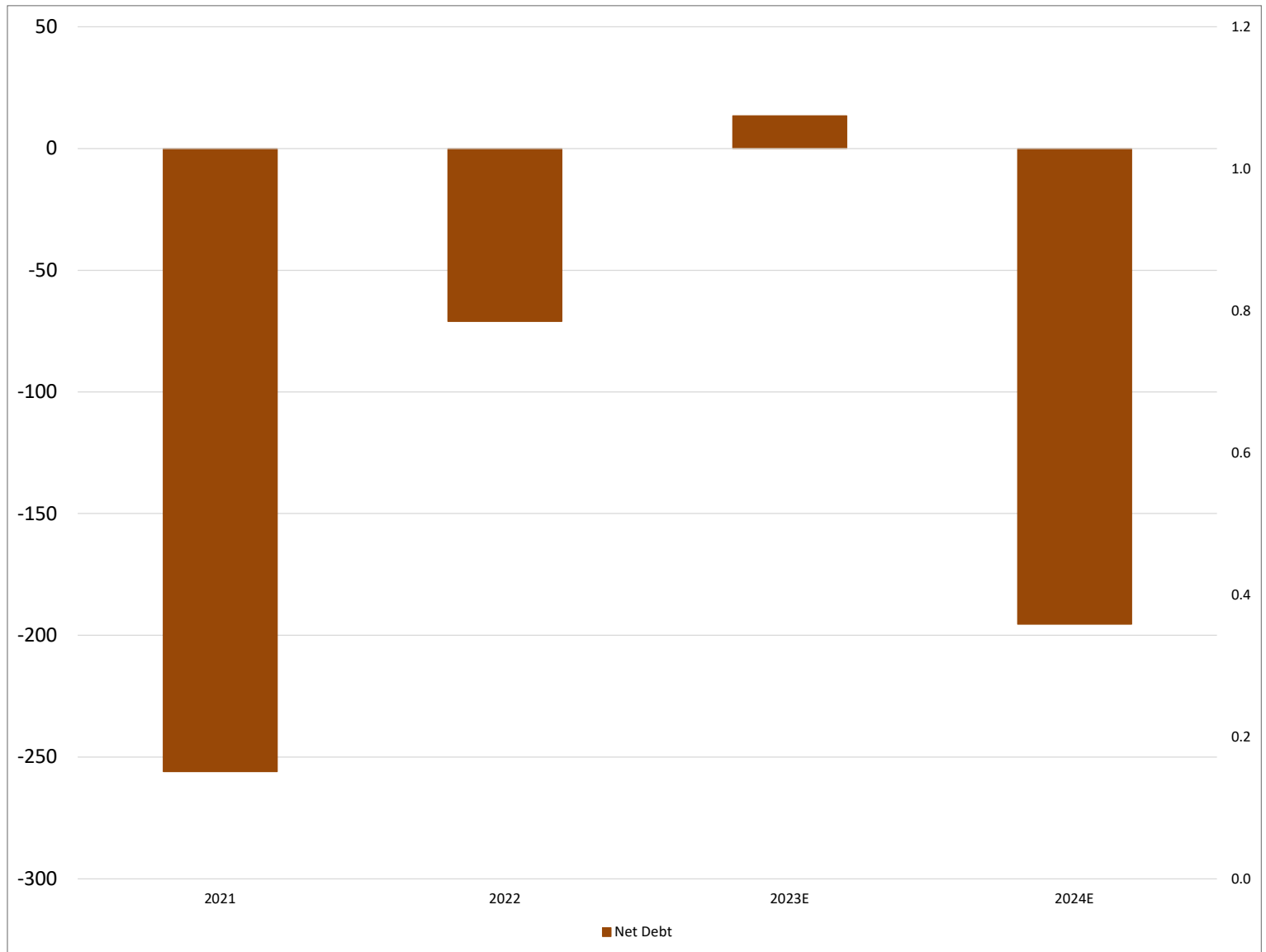
## Key Ratios

Growth & Margins	2021	2022	2023E	2024E	2025E
Sales Growth	4.4%	-6.4%	2.2%	4.1%	5.8%
EBITDA Margin	19.5%	13.7%	24.0%	25.3%	27.7%
EBIT Margin	12.1%	6.5%	17.5%	19.1%	21.8%
Net Profit Margin	7.7%	1.8%	4.5%	6.6%	8.5%

Leverage Ratios	2021	2022	2023E	2024E	2025E
Net Debt	-256	-71	13	-195	-429
Net Debt/ Equity	-0.6	-0.3			
Net Debt/ EBITDA	NA	NA	0.0	NA	NA

- \* Teradata Corporation's Net Debt is expected to increase in 2023 and is expected to follow a similar trend over the coming years.
- \* The Net Debt-to-EBITDA ratio is a measure of leverage, calculated as a company's interest-bearing liabilities minus cash or cash equivalents, divided by its EBITDA. It shows how many years it would take for a company to pay back its debt if net debt and EBITDA are held constant.
- \* Teradata Corporation's Net Debt-to-EBITDA ratio is expected to be 0.03 in 2023 which indicates that the company is not leveraged.
- \* Net-Debt-to-Equity ratio, also known as the gearing ratio shows how encumbered a company is with its debt.
- \* The company's Net Debt-to-Equity ratio for 2022 is -0.28 and it indicates that the company has no gearing.

## Evolution of Net Debt Levels



## Discounted Cash Flow Valuation With A Scenario Analysis

- \* Baptista Research looks to provide a comprehensive discounted cash flow (DCF) valuation for Teradata Corporation coupled with a detailed sensitivity analysis for key assumptions in three main scenarios - a base case scenario, a bull case scenario, and a bear case scenario.
- \* Based on our analysis, we have provided a target price for the company's stock for the next three years, in each of the 3 scenarios, offering investors a forward-looking assessment of the company's potential market value. However, the Base Case scenario is the most realistic scenario in our view and that is how the main target price in this report is determined.

### Base Case Scenario

#### Key DCF Assumptions

WACC	10.9%
CoD	2.9%
CoE	10.8%
Market Rate	6.0%
Risk Free Rate	4.8%
Beta	0.993
Perpetual Growth Rate (g)	4.1%
Terminal Value	6757
Tax Rate	50.7%

- \* For the purpose of carrying out the discounted cash flow valuation of Teradata Corporation, we have used the standard capital asset pricing model (CAPM).
- \* We have used a 6.0% equity market risk premium based on the S&P 500 returns for the past 5 years.
- \* The risk-free rate has been assumed as the 10-year Treasury Constant Maturity Rate of the U.S. at 4.84%.
- \* The company's stock is more volatile than the market as a whole and has a beta of 1.0 which we shall use without leveraging the same as we are going for the enterprise value approach.
- \* This is used in order to arrive at the cost of equity (CoE) of 10.8% which appears reasonable for a company like Teradata Corporation.
- \* Based on the company's long term debt and interest payments, the cost of debt is 2.9%.

- After incorporating the CoE and the CoD and average tax rate of 50.7%, we arrive at a Weighted Average Cost of Capital (WACC) of 10.9%.
- The terminal value is a key component of any DCF valuation as it accounts for the largest chunk of the total projected value of the company. There are a number of methodologies used to determine the same such as the perpetual growth rate method or the multiples method.
- In this case, we have gone ahead and determined the terminal value by applying the current EV/Sales ratio of 3.5 to our forecasted revenues of 2025 which has resulted in an assumed perpetual growth rate of 4.11%.
- It is important to note that the Perpetual Growth rate and the EV/ Sales ratio (along with the other resultant valuation ratios) are the key differentiators between the Base Case, the Bull Case, & the Bear Case scenarios.

EV and Market Cap	Current	2023E	2024E	2025E
Price (\$)	47.97	60.4	63.7	75.6
Outstanding Number of shares (million)	98	98	98	98
Total Market Cap (billion)	4.69	5.91	6.23	7.40
Net Debt	-71	13	-195	-429
Enterprise Value (billion)	4.62	5.92	6.04	6.98

- After applying the discount rate (WACC) of 10.9%, we arrive at a price target of \$60.4 for 2023.
- Our target price at the end of 2024 is \$63.7 and for 2025 is \$75.6 which implies a total appreciation of nearly 57.5% in the coming 3 years in the stock price.

Valuation Ratios	Current	2023E	2024E	2025E
EV/ Sales	2.6	3.2	3.2	3.5
EV/ EBITDA	18.8	13.4	12.5	12.5
EV/ EBIT	39.5	18.4	18.8	19.2
Price/Earnings	142.2	72.3	49.3	42.9

- During this phase, we see the EV/ EBITDA to be in the range of 12.48 and 13.42
- The EV/ EBIT will be in the range of 18.42 to 19.16 over the coming 3 years.

- As a part of the comparables analysis for the sake of valuation, we are looking to establish a peer group consisting of similar companies in the same industry and compare their valuation multiples with those of Teradata Corporation.

## Bull Case Scenario

### Key DCF Assumptions

WACC	10.9%
CoD	2.9%
CoE	10.8%
Market Rate	6.0%
Risk Free Rate	4.8%
Beta	0.993
Perpetual Growth Rate (g)	5.5%
Terminal Value	8521
Tax Rate	50.7%

- For the purpose of carrying out the discounted cash flow valuation of Teradata Corporation, we have used the standard capital asset pricing model (CAPM).
- We have used a 6.0% equity market risk premium based on the S&P 500 returns for the past 5 years.
- The risk-free rate has been assumed as the 10-year Treasury Constant Maturity Rate of the U.S. at 4.84%.
- The company's stock is more volatile than the market as a whole and has a beta of 1.0 which we shall use without leveraging the same as we are going for the enterprise value approach.
- This is used in order to arrive at the cost of equity (CoE) of 10.8% which appears reasonable for a company like Teradata Corporation.
- Based on the company's long term debt and interest payments, the cost of debt is 2.9%.
- After incorporating the CoE and the CoD and average tax rate of 50.7%, we arrive at a Weighted Average Cost of Capital (WACC) of 10.9%.



- The terminal value is a key component of any DCF valuation as it accounts for the largest chunk of the total projected value of the company. There are a number of methodologies used to determine the same such as the perpetual growth rate method or the multiples method.
- In this case, we have gone ahead and determined the terminal value by applying the current EV/Sales ratio of 4.2 to our forecasted revenues of 2025 which has resulted in an assumed perpetual growth rate of 5.52%.
- It is important to note that the Perpetual Growth rate and the EV/ Sales ratio (along with the other resultant valuation ratios) are the key differentiators between the Base Case, the Bull Case, & the Bear Case scenarios.

EV and Market Cap	Current	2023E	2024E	2025E
Price (\$)	47.97	74.3	77.9	91.8
Outstanding Number of shares (million)	98	98	98	98
Total Market Cap (billion)	4.69	7.26	7.62	9.00
Net Debt	-71	13	-195	-429
Enterprise Value (billion)	4.62	7.28	7.42	8.57

- After applying the discount rate (WACC) of 10.9%, we arrive at a price target of \$74.3 for 2023.
- Our target price at the end of 2024 is \$63.7 and for 2025 is \$75.6 which implies a total appreciation of nearly 57.5% in the coming 3 years in the stock price.

Valuation Ratios	Current	2023E	2024E	2025E
EV/ Sales	2.6	4.0	3.9	4.2
EV/ EBITDA	18.8	16.5	15.3	15.3
EV/ EBIT	39.5	22.6	23.1	23.5
Price/Earnings	142.2	88.9	60.3	52.2

- During this phase, we see the EV/ EBITDA to be in the range of 12.48 and 13.42

- The EV/ EBIT will be in the range of 18.42 to 19.16 over the coming 3 years.

## Bear Case Scenario

### Key DCF Assumptions

WACC	10.9%
CoD	2.9%
CoE	10.8%
Market Rate	6.0%
Risk Free Rate	4.8%
Beta	0.993
Perpetual Growth Rate (g)	1.7%
Terminal Value	4984
Tax Rate	50.7%

- For the purpose of carrying out the discounted cash flow valuation of Teradata Corporation, we have used the standard capital asset pricing model (CAPM).
- We have used a 6.0% equity market risk premium based on the S&P 500 returns for the past 5 years.
- The risk-free rate has been assumed as the 10-year Treasury Constant Maturity Rate of the U.S. at 4.84%.
- The company's stock is more volatile than the market as a whole and has a beta of 1.0 which we shall use without leveraging the same as we are going for the enterprise value approach.
- This is used in order to arrive at the cost of equity (CoE) of 10.8% which appears reasonable for a company like Teradata Corporation.
- Based on the company's long term debt and interest payments, the cost of debt is 2.9%.
- After incorporating the CoE and the CoD and average tax rate of 50.7%, we arrive at a Weighted Average Cost of Capital (WACC) of 10.9%.

- \* The terminal value is a key component of any DCF valuation as it accounts for the largest chunk of the total projected value of the company. There are a number of methodologies used to determine the same such as the perpetual growth rate method or the multiples method.
- \* In this case, we have gone ahead and determined the terminal value by applying the current EV/Sales ratio of 2.4 to our forecasted revenues of 2025 which has resulted in an assumed perpetual growth rate of 1.69%.
- \* It is important to note that the Perpetual Growth rate and the EV/ Sales ratio (along with the other resultant valuation ratios) are the key differentiators between the Base Case, the Bull Case, & the Bear Case scenarios.

EV and Market Cap	Current	2023E	2024E	2025E
Price (\$)	47.97	46.5	50.0	53.3
Outstanding Number of shares (million)	98	98	98	98
Total Market Cap (billion)	4.69	4.54	4.89	5.22
Net Debt	-71	13	-195	-429
Enterprise Value (billion)	4.62	4.56	4.70	4.79

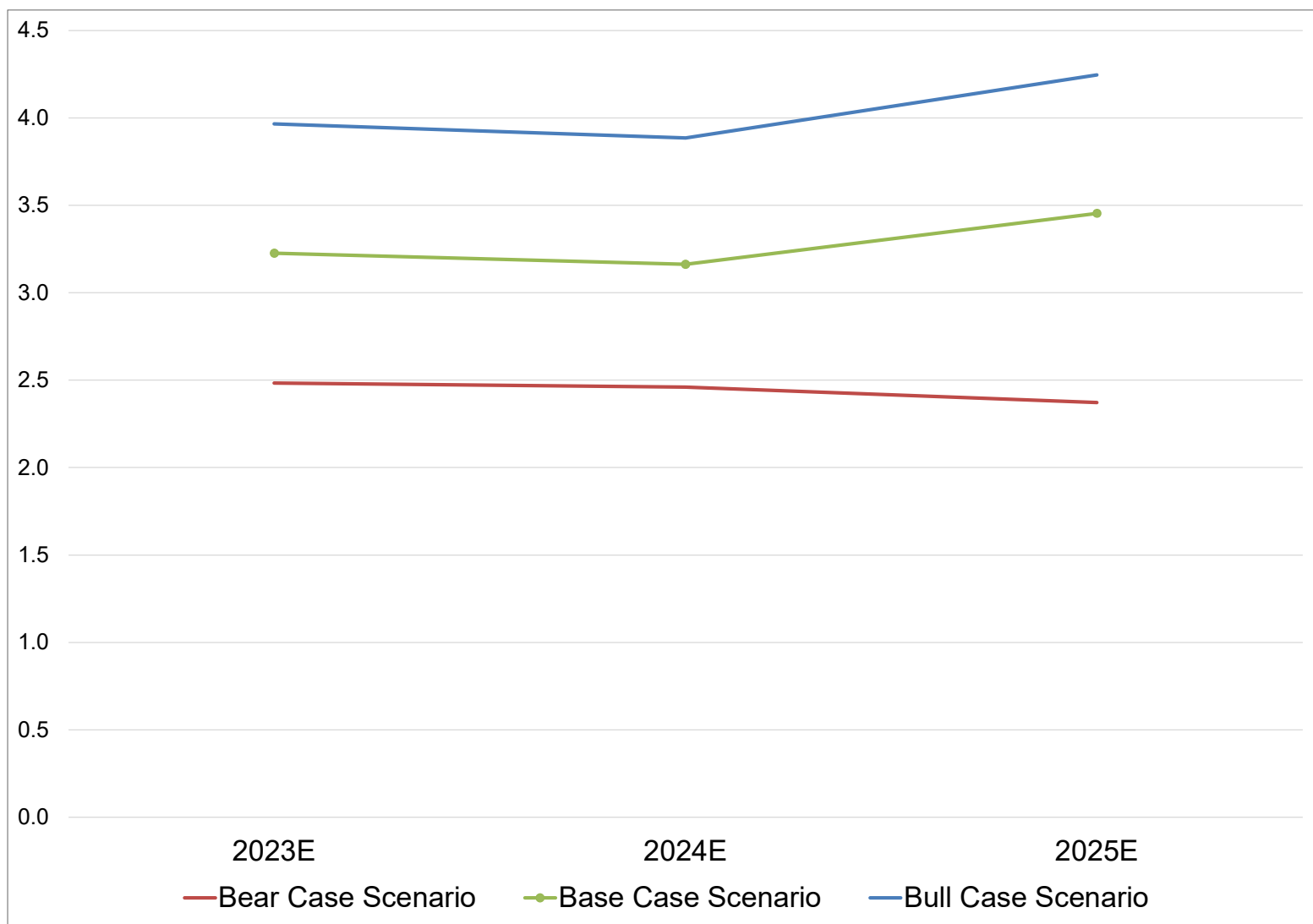
- \* After applying the discount rate (WACC) of 10.9%, we arrive at a price target of \$46.5 for 2023.
- \* Our target price at the end of 2024 is \$63.7 and for 2025 is \$75.6 which implies a total appreciation of nearly 57.5% in the coming 3 years in the stock price.

Valuation Ratios	Current	2023E	2024E	2025E
EV/ Sales	2.6	2.5	2.5	2.4
EV/ EBITDA	18.8	10.3	9.7	8.6
EV/ EBIT	39.5	14.2	12.9	13.2
Price/Earnings	142.2	55.6	38.7	30.3

- \* During this phase, we see the EV/ EBITDA to be in the range of 12.48 and 13.42

- The EV/ EBIT will be in the range of 18.42 to 19.16 over the coming 3 years.

## Comparative Analysis Of EV/ Sales In The Bull Case, Bear Case & Base Case Scenarios



- We can see a brief summary of the different assumptions in each of the 3 scenarios and the different target prices in the table below:

## Scenario Analysis Summary For 2023

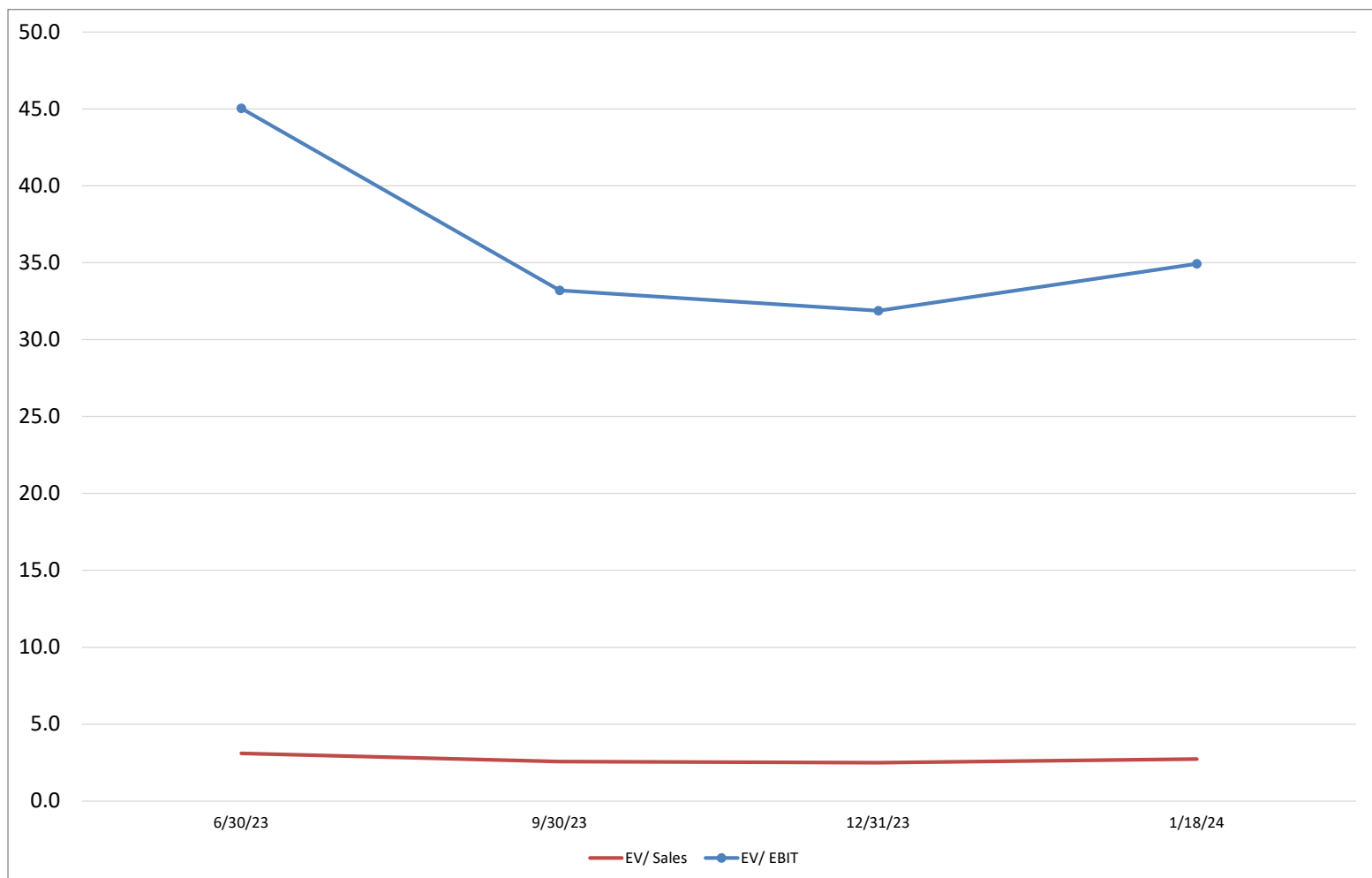
Particulars	Bull Case	Base Case	Bear Case
Target Price - 2023	74.3	<b>60.4</b>	46.5
EV/ Sales	4.0	<b>3.2</b>	2.5
EV/ EBITDA	16.5	<b>13.4</b>	10.3
EV/ EBIT	22.6	<b>18.4</b>	14.2
Price/Earnings	88.9	<b>72.3</b>	55.6
Perpetual Growth Rate (g)	5.5%	<b>4.1%</b>	1.7%
Terminal Value	8521	<b>6757</b>	4984

## Evolution Of Key Valuation Multiples - Quarter-on-Quarter Data

Valuation Ratios	6/30/23	9/30/23	12/31/23	1/18/24
EV/ Sales	3.1	2.6	2.5	2.7
EV/ Gross Profit	5.1	4.2	4.1	4.5
EV/ EBITDA	23.0	18.2	17.7	19.4
EV/ EBIT	45.0	33.2	31.9	34.9
Price/ Book Value	23.6	20.8	34.9	38.5
EV / Unlevered Free Cash Flow	13.9	13.6	13.1	14.4
Market Cap / Levered Free Cash Flow	14.2	13.9	12.9	14.3

- The valuation multiples of any company are a measure of the market perception of its value. In isolation, those numbers may mean very little but when compared to other industry peers/ the historical values, we can see the evolution of the market perception of a company's value.
- First, let us take a closer look at the evolution of Teradata Corporation's valuation multiples over the past 4 quarters before moving on to the year-on-year evolution.
- In the above table as well as the below chart, we see Teradata Corporation's EV/ Sales multiple rising, indicating an improvement in market perception of the company's stock.
- We also see the company's EV/ EBIT evolving from 33.19 to 34.92 over the past 3 quarters.
- Teradata Corporation's Price to Book ratio has increased from 23.64 to 38.49 over the past four quarters.

## Evolution Of EV/ Sales & EV/ EBIT Valuation Multiples - Quarter-on-Quarter Performance

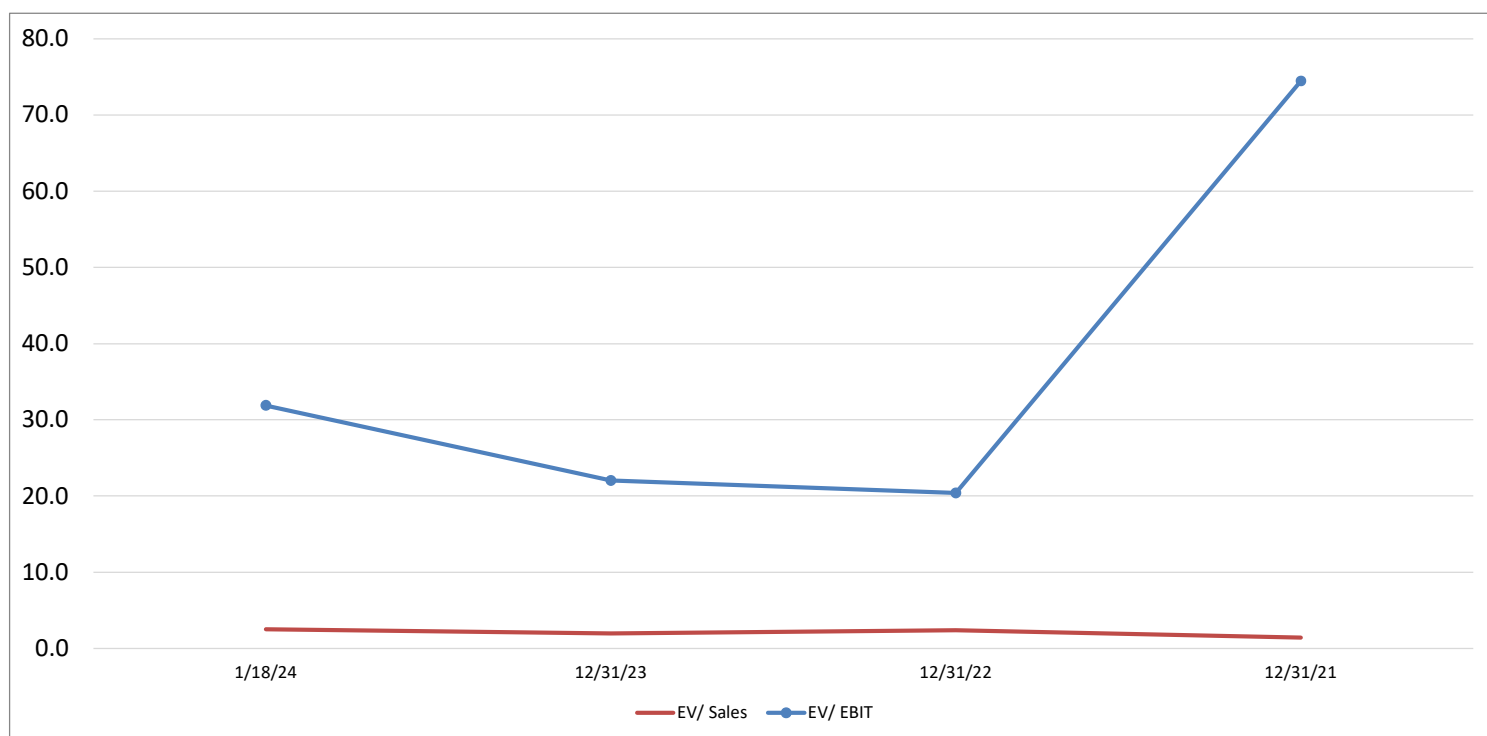


## Evolution Of Key Valuation Multiples - Year-on-Year Data

Valuation Ratios	1/18/24	12/31/23	12/31/22	12/31/21
EV/ Sales	2.5	2.0	2.4	1.4
EV/ Gross Profit	4.1	3.2	3.9	2.6
EV/ EBITDA	17.7	12.2	13.1	16.2
EV/ EBIT	31.9	22.0	20.4	74.5
Price/ Book Value	34.9	14.7	10.1	6.4
EV / Unlevered Free Cash Flow	13.1	9.1	12.5	8.0
Market Cap / Levered Free Cash Flow	12.9	9.2	13.1	8.0

- Now, let us move on to look at the year-on-year evolution of Teradata Corporation's valuation multiples.
- If we focus on the most fundamental valuation multiple i.e., the EV/ Sales, we see that it has decreased from 2.38 to 1.42 over the past year.
- Over a 4-year horizon, we see that Teradata Corporation's EV/ Sales has fallen from 2.49 to 1.42 which is an interesting development.
- On the other hand, the company's EV/ EBITDA has evolved from 13.05 to 16.19 over the past year which means that its market perception has improved.
- Teradata Corporation's Price to Book ratio has evolved from 14.71 to 6.39 over the past 3 years which is a definite decline in the market perception of the company.

## Evolution Of EV/ Sales & EV/ EBIT Valuation Multiples - Year-on-Year Performance



## Valuation Multiples Of Comparables

Comparable Name	Forward EV/ Revenue	Forward EV/ EBITDA	Forward P/E	Forward Market Cap/ FCF
Teradata Corporation	3.23x	13.42x	72.30x	17.43x
Microsoft Corporation	11.48x	22.96x	35.16x	44.42x
SAP SE	5.16x	19.66x	27.29x	30.42x
Autodesk, Inc.	8.94x	23.70x	30.69x	38.41x
Fair Isaac Corporation	19.21x	35.36x	52.06x	47.18x



PTC Inc.	9.61x	24.38x	35.64x	28.79x
Check Point Software Technologies Ltd.	6.25x	14.01x	17.91x	17.20x
The Sage Group plc	5.19x	20.99x	32.16x	25.72x
Dolby Laboratories, Inc.	5.54x	14.80x	22.77x	22.01x
MicroStrategy Incorporated	19.11x	101.33x	56.76x	102.48x

Median	8.94x	22.96x	32.16x	30.42x
Mean	10.05x	30.80x	34.49x	39.63x
Max	19.21x	101.33x	56.76x	102.48x
Min	5.16x	14.01x	17.91x	17.20x

- As we can see in the above table, the forward EV/ Revenue multiple of Teradata Corporation is above that of the industry median.
- We also see that the industry mean of Teradata Corporation is less than the forward EV/ Revenue multiple of the company.
- As compared to the peer group, we can say that the company is leaning towards being overvalued.

## Key Risks

It is important to highlight the key risks associated with an investment in Teradata Corporation as well as the inherent risks associated with the financial projections and price forecasts presented in this report.

Although Teradata's strategy of migrating existing customers to the cloud shows promise, it also brings significant challenges. The process of transitioning large-scale data systems to the cloud can be complex and risky. Any issues in migration, such as data security, system integration, or performance dips, could impact customer satisfaction and slow down Teradata's growth.

Teradata's reliance on large deals, particularly migrations which are the larger deals within their pipeline, introduces a risk. If these deals are delayed or fail to close, it could significantly impact Teradata's revenue projections and growth trajectory.

Teradata's transition to an open platform capable of handling complex Gen AI use cases is crucial for its future growth. However, revamping the company's software architecture to integrate advanced analytics and AI poses risks.

Global economic, political and other conditions may adversely affect trends in consumer, business and government spending, which may adversely impact the demand for the company's services and its revenue and profitability.

Teradata Corporation operates in highly competitive markets for its products and services. Competitive risk is the risk of losing market share, customers or revenues to competitors who may offer more attractive products, prices, services or distribution channels. Competitive risk can also arise from new entrants or disruptive innovations that could challenge Teradata Corporation's business model or value proposition.

Teradata Corporation operates in highly regulated jurisdictions, where it is subject to various laws, rules and regulations that govern its products, services, operations and capital requirements. Regulatory risk is the risk of changes in the regulatory environment that could adversely affect Teradata Corporation's business, financial condition and results of operations. For example, changes in tax laws, data privacy laws, environmental laws, consumer protection laws or antitrust laws could increase its costs, liabilities, compliance burdens or competitive pressures.

Teradata Corporation invests heavily in research and development to create new products and services that meet the evolving needs and preferences of its customers. Innovation risk is the risk of failing to innovate effectively or efficiently that could affect its growth potential or competitive advantage. For example, Teradata Corporation could face challenges such as technological obsolescence, customer dissatisfaction, market saturation or intellectual property infringement due to factors such as changing customer demands, emerging technologies, shifting industry trends or aggressive competition.

Teradata Corporation often has a high valuation compared to its peers and the market. High valuation is the risk of a downward adjustment in its stock price due to factors such as earnings misses, growth slowdowns, margin compressions or market corrections. For example, Teradata Corporation could face a lower valuation due to factors such as lower-than-expected earnings growth, higher-than-expected expenses or taxes, lower-than-expected margins or returns on capital or higher-than-expected discount rates.

Teradata Corporation is exposed to various legal claims and disputes arising from its business activities or transactions. Legal risk is the risk of litigation that could result in significant costs, liabilities or penalties for the company or its affiliates.

Teradata Corporation relies on various systems, processes, people and third parties to support its business operations and customer service. It faces the risk of cyberattacks, data breaches, fraud or system failures that could compromise its data security, business continuity or customer satisfaction. The company also faces the risk of reputational damage or regulatory actions that could result from cyber incidents.

Teradata Corporation pursues an active acquisition strategy to expand its geographic presence, product offerings and customer base. The company faces the risk of integration challenges, goodwill impairments, contingent liabilities or unexpected costs associated with its acquisitions. The company also faces the risk of failing to achieve the expected synergies, benefits or returns from its acquisitions.

With respect to our price projection, we would like to clarify that the valuation of Teradata Corporation in this report is specific to the date of the analysis i.e. 19-01-2024.

We must emphasize that the projected valuation and the share price of Teradata Corporation are dependent on the realization of the revenue growth, free cash flows and the other assumptions taken into account. Our analysis cannot be directed to providing any assurance about the achievability of these financial forecasts.

There is a possibility that the actual results of the company are different from the projected results as a result of unexpected events and circumstances such as the realization of the threats mentioned in the paragraph above. Lastly, we would like to clarify that we had no interaction with the management of the company and they did not comment on the achievability or the reasonableness of the assumptions underlying the financial forecasts. Please check out our detailed disclosures at the end for further details.

## Analyst Ratings

**Buy:** Expected to outperform market over next 6 to 12 months. Minimal risk to fundamentals and valuation. Good long-term investment.

**Outperform:** Expected to outperform the market over next 6 to 12 months but there is a moderate risk to fundamentals and valuation.

**Sell:** Expected to significantly underperform the market over next 6 to 12 months. There is a strong likelihood of the security delivering negative returns and a very high risk to fundamentals and valuation.

**Underperform:** Expected to underperform the market over next 6 to 12. There is a moderate to high risk to fundamentals and valuation.

**Hold:** Expected to perform in line with the market over next 6 to 12 months. However, there is a moderate to high risk to fundamentals and valuation.

## Analyst Industry Views

**Attractive:** The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

**In-Line:** The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

**Cautious:** The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America – MSCI Emerging Markets Latin America; Europe – MSCI Europe; Japan - TOPIX; Asia - relevant country index or sub-regional index. Please contact us to know the relevant index in case it is not specified in the report.

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**Contact Us**

Analyst Name: Ishan Majumdar

Designation: Founder, CEO of Baptista Research

Contact Email: [ishan@baptistaresearch.com](mailto:ishan@baptistaresearch.com)

Website: <https://baptistaresearch.com/>



