

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 001-33458

TERADATA CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

75-3236470
(I.R.S. Employer
Identification No.)

17095 Via Del Campo
San Diego, California 92127
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (866) 548-8348

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Trading Symbol	Name of Each Exchange on which Registered:
Common Stock, \$0.01 par value	TDC	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

At October 31, 2020, the registrant had approximately 109.3 million shares of common stock outstanding.

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Part 1—FINANCIAL INFORMATION

Item 1. Financial Statements.

Teradata Corporation

Condensed Consolidated Statements of (Loss) Income (Unaudited)

In millions, except per share amounts	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenue				
Recurring	\$ 365	\$ 343	\$ 1,068	\$ 1,012
Perpetual software licenses and hardware	17	16	48	76
Consulting services	72	100	229	317
Total revenue	454	459	1,345	1,405
Cost of revenue				
Cost of recurring	123	110	359	323
Cost of perpetual software licenses and hardware	7	9	27	60
Cost of consulting services	70	93	224	315
Total cost of revenue	200	212	610	698
Gross profit	254	247	735	707
Operating expenses				
Selling, general and administrative expenses	163	151	486	447
Research and development expenses	90	86	246	245
Total operating expenses	253	237	732	692
Income from operations	1	10	3	15
Other expense, net				
Interest expense	(7)	(8)	(21)	(19)
Interest income	1	4	4	10
Other expense	(5)	(2)	(13)	(7)
Total other expense, net	(11)	(6)	(30)	(16)
(Loss) income before income taxes	(10)	4	(27)	(1)
Income tax benefit	(9)	(6)	(151)	—
Net (loss) income	\$ (1)	\$ 10	\$ 124	\$ (1)
Net (loss) income per common share				
Basic	\$ (0.01)	\$ 0.09	\$ 1.13	\$ (0.01)
Diluted	\$ (0.01)	\$ 0.09	\$ 1.12	\$ (0.01)
Weighted average common shares outstanding				
Basic	109.1	113.2	109.3	115.2
Diluted	109.1	114.2	110.9	115.2

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Teradata Corporation
Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

In millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net (loss) income	\$ (1)	\$ 10	\$ 124	\$ (1)
Other comprehensive income (loss):				
Foreign currency translation adjustments	6	(11)	(11)	(18)
Derivatives:				
Unrealized gain (loss) on derivatives, before tax	3	(2)	(10)	(15)
Unrealized gain (loss) on derivatives, tax portion	(1)	1	2	4
Unrealized gain (loss) on derivatives, net of tax	2	(1)	(8)	(11)
Defined benefit plans:				
Defined benefit plan adjustment, before tax	3	2	7	4
Defined benefit plan adjustment, tax portion	(1)	(1)	(2)	(1)
Defined benefit plan adjustment, net of tax	2	1	5	3
Other comprehensive income (loss)	10	(11)	(14)	(26)
Comprehensive income (loss)	<u>\$ 9</u>	<u>\$ (1)</u>	<u>\$ 110</u>	<u>\$ (27)</u>

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Teradata Corporation
Condensed Consolidated Balance Sheets (Unaudited)

In millions, except per share amounts	September 30, 2020	December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	\$ 533	\$ 494
Accounts receivable, net	321	398
Inventories	14	31
Other current assets	97	91
Total current assets	965	1,014
Property and equipment, net	336	350
Capitalized software, net	19	36
Right of use assets - operating lease, net	42	51
Goodwill	397	396
Capitalized contract costs, net	89	91
Deferred income taxes	238	87
Other assets	31	32
Total assets	\$ 2,117	\$ 2,057
Liabilities and stockholders' equity		
Current liabilities		
Current portion of long-term debt	\$ 38	\$ 25
Current portion of finance lease liability	75	55
Current portion of operating lease liability	17	20
Accounts payable	59	66
Payroll and benefits liabilities	131	157
Deferred revenue	482	472
Other current liabilities	93	91
Total current liabilities	895	886
Long-term debt	423	454
Finance lease liability	70	75
Operating lease liability	30	38
Pension and other postemployment plan liabilities	136	137
Long-term deferred revenue	38	61
Deferred tax liabilities	6	6
Other liabilities	135	138
Total liabilities	1,733	1,795
Commitments and contingencies (Note 8)		
Stockholders' equity		
Preferred stock: par value \$0.01 per share, 100.0 shares authorized, no shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively	—	—
Common stock: par value \$0.01 per share, 500.0 shares authorized, 109.2 and 110.9 shares issued at September 30, 2020 and December 31, 2019, respectively	1	1
Paid-in capital	1,632	1,545
Accumulated deficit	(1,094)	(1,143)
Accumulated other comprehensive loss	(155)	(141)
Total stockholders' equity	384	262
Total liabilities and stockholders' equity	\$ 2,117	\$ 2,057

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Teradata Corporation
Condensed Consolidated Statements of Cash Flows (Unaudited)

In millions	Nine Months Ended September 30,	
	2020	2019
Operating activities		
Net income (loss)	\$ 124	\$ (1)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	126	113
Stock-based compensation expense	79	59
Deferred income taxes	(152)	1
Changes in assets and liabilities:		
Receivables	77	260
Inventories	17	(8)
Current payables and accrued expenses	(24)	(156)
Deferred revenue	(13)	(119)
Other assets and liabilities	(23)	(55)
Net cash provided by operating activities	211	94
Investing activities		
Expenditures for property and equipment	(34)	(43)
Additions to capitalized software	(6)	(3)
Net cash used in investing activities	(40)	(46)
Financing activities		
Repurchases of common stock	(75)	(239)
Repayments of long-term borrowings	(19)	(12)
Payments of finance leases	(43)	(18)
Other financing activities, net	7	40
Net cash used in financing activities	(130)	(229)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(3)	(6)
Increase (decrease) in cash, cash equivalents and restricted cash	38	(187)
Cash, cash equivalents and restricted cash at beginning of period	496	716
Cash, cash equivalents and restricted cash at end of period	\$ 534	\$ 529
Supplemental cash flow disclosure:		
Assets acquired under operating lease	\$ 6	\$ 5
Assets acquired under finance lease	\$ 58	\$ 78

Reconciliation of cash, cash equivalents and restricted cash to the Condensed Consolidated Balance Sheets:

	September 30, 2020	December 31, 2019
Cash and cash equivalents	\$ 533	\$ 494
Restricted cash	1	2
Total cash, cash equivalents and restricted cash	\$ 534	\$ 496

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Teradata Corporation
Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

In millions	Common Stock		Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
December 31, 2019	111	\$ 1	\$ 1,545	\$ (1,143)	\$ (141)	\$ 262
Net income	—	—	—	168	—	168
Employee stock compensation, employee stock purchase programs and option exercises, net of tax	1	—	22	—	—	22
Repurchases of common stock, retired	(4)	—	—	(75)	—	(75)
Pension and postemployment benefit plans, net of tax	—	—	—	—	2	2
Unrealized loss on derivatives, net of tax	—	—	—	—	(11)	(11)
Currency translation adjustment	—	—	—	—	(19)	(19)
March 31, 2020	108	\$ 1	\$ 1,567	\$ (1,050)	\$ (169)	\$ 349
Net loss	—	—	—	(43)	—	(43)
Employee stock compensation, employee stock purchase programs and option exercises, net of tax	1	—	36	—	—	36
Pension and postemployment benefit plans, net of tax	—	—	—	—	1	1
Unrealized gain on derivatives, net of tax	—	—	—	—	1	1
Currency translation adjustment	—	—	—	—	2	2
June 30, 2020	109	\$ 1	\$ 1,603	\$ (1,093)	\$ (165)	\$ 346
Net loss	—	—	—	(1)	—	(1)
Employee stock compensation, employee stock purchase programs and option exercises, net of tax	—	—	29	—	—	29
Pension and postemployment benefit plans, net of tax	—	—	—	—	2	2
Unrealized gain on derivatives, net of tax	—	—	—	—	2	2
Currency translation adjustment	—	—	—	—	6	6
September 30, 2020	109	\$ 1	\$ 1,632	\$ (1,094)	\$ (155)	\$ 384

In millions	Common Stock		Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
December 31, 2018	117	\$ 1	\$ 1,418	\$ (823)	\$ (101)	\$ 495
Net loss	—	—	—	(10)	—	(10)
Employee stock compensation, employee stock purchase programs and option exercises, net of tax	1	—	48	—	—	48
Repurchases of common stock, retired	(1)	—	—	(58)	—	(58)
Pension and postemployment benefit plans, net of tax	—	—	—	—	1	1
Unrealized loss on derivatives, net of tax	—	—	—	—	(3)	(3)
Currency translation adjustment	—	—	—	—	(6)	(6)
March 31, 2019	117	\$ 1	\$ 1,466	\$ (891)	\$ (109)	\$ 467
Net loss	—	—	—	(1)	—	(1)
Employee stock compensation, employee stock purchase programs and option exercises, net of tax	—	—	25	—	—	25
Repurchases of common stock, retired	(3)	—	—	(117)	—	(117)
Pension and postemployment benefit plans, net of tax	—	—	—	—	1	1
Unrealized loss on derivatives, net of tax	—	—	—	—	(7)	(7)
Currency translation adjustment	—	—	—	—	(1)	(1)
June 30, 2019	114	\$ 1	\$ 1,491	\$ (1,009)	\$ (116)	\$ 367
Net income	—	—	—	10	—	10
Employee stock compensation, employee stock purchase programs and option exercises, net of tax	—	—	26	—	—	26
Repurchases of common stock, retired	(2)	—	—	(64)	—	(64)
Pension and postemployment benefit plans, net of tax	—	—	—	—	1	1
Unrealized loss on derivatives, net of tax	—	—	—	—	(1)	(1)
Currency translation adjustment	—	—	—	—	(11)	(11)
September 30, 2019	112	\$ 1	\$ 1,517	\$ (1,063)	\$ (127)	\$ 328

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

These statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC") and, in accordance with those rules and regulations, do not include all information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In the opinion of management, the condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to fairly state the results of operations, financial position and cash flows of Teradata Corporation ("Teradata" or the "Company") for the interim periods presented herein. The year-end 2019 condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make use of estimates and assumptions that affect the reported amounts and disclosures. Actual results may vary from these estimates.

These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Teradata's most recent Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (the "2019 Annual Report"). The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the full year.

2. New Accounting Pronouncements

Compensation-Retirement Benefits-Defined Benefit Plans-General. In August 2018, the Financial Accounting Standards Board ("FASB") issued new guidance that modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. For public companies, the amendments in this update are effective for fiscal years beginning after December 15, 2020, with early adoption permitted, and is to be applied on a retrospective basis to all periods presented. The Company is currently evaluating this guidance to determine the impact it may have on its disclosures.

Accounting for Income Taxes. In December 2019, the FASB issued new guidance to simplify the accounting for income taxes. The new guidance changes various subtopics of accounting for income taxes including, but not limited to, accounting for "hybrid" tax regimes, tax basis step-up in goodwill obtained in a transaction that is not a business combination, intraperiod tax allocation exception to incremental approach, ownership changes in investments, interim-period accounting for enacted changes in tax law, and year-to-date loss limitation in interim-period tax accounting. The guidance is effective for fiscal years beginning after December 15, 2020 with early adoption permitted, including interim periods within those years. The Company is currently evaluating this new guidance to determine the impact it may have on our financial position, results of operations or cash flows.

Reference Rate Reform. In March 2020, the FASB issued new guidance to provide relief to companies that will be impacted by the expected change in benchmark interest rates at the end of 2021, when participating banks will no longer be required to submit London Interbank Offered Rate ("LIBOR") quotes by the UK Financial Conduct Authority. The new guidance allows companies to, provided the only change to existing contracts are a change to an approved benchmark interest rate, account for modifications as a continuance of the existing contract without additional analysis. For new and existing contracts, companies may elect to apply the amendments as of March 12, 2020 through December 31, 2022. The Company is currently evaluating this new guidance to determine the impact it may have on our financial statements and disclosures.

Recently Adopted Guidance

Fair Value Measurement. In August 2018, the FASB issued new guidance that modifies disclosure requirements related to fair value measurement. The Company adopted this guidance on January 1, 2020, which did not have a material impact on our condensed consolidated financial statements.

Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. In August 2018, the FASB issued new guidance that reduces complexity for the accounting for costs of implementing a cloud computing service arrangement and aligns the requirements for capitalizing

implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The Company adopted this guidance on January 1, 2020, which did not have a material impact on our condensed consolidated financial statements.

Codification Improvements to Financial Instruments-Credit Losses, Derivatives and Hedging, and Financial Instruments. In June 2016, the FASB issued Accounting Standards, Measurement of Credit Losses on Financial Instruments, which introduced the expected credit losses methodology for the measurement of credit losses on financial assets measured at amortized cost basis, replacing the previous incurred loss methodology. Since the issuance of this accounting standard, the FASB has identified certain areas that require clarification and improvement. In May 2019, the FASB issued guidance that allows entities to make an irrevocable one-time election upon adoption of the new credit losses standard to measure financial assets measured at amortized cost (except held-to-maturity securities) using the fair value option. The election is to be applied on an instrument-by-instrument basis. The Company adopted this guidance on January 1, 2020, which did not have a material impact on our condensed consolidated financial statements.

3. Revenue from Contracts with Customers

Disaggregation of Revenue from Contracts with Customers

The following table presents a disaggregation of revenue:

in millions	Three Months Ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Americas				
Recurring	\$ 221	\$ 222	\$ 656	\$ 652
Perpetual software licenses and hardware	14	—	28	31
Consulting services	26	34	80	111
Total Americas	261	256	764	794
EMEA				
Recurring	92	75	263	223
Perpetual software licenses and hardware	1	12	14	29
Consulting services	22	31	74	101
Total EMEA	115	118	351	353
APJ				
Recurring	52	46	149	137
Perpetual software licenses and hardware	2	4	6	16
Consulting services	24	35	75	105
Total APJ	78	85	230	258
Total Revenue	<u>\$ 454</u>	<u>\$ 459</u>	<u>\$ 1,345</u>	<u>\$ 1,405</u>

Rental revenue, which is included in recurring revenue in the above table, was as follows:

in millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Rental revenue*	\$ 28	\$ 22	\$ 72	\$ 52

*Rental revenue includes hardware maintenance.

Contract Balances

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, contract assets, and customer advances and deposits (deferred revenue or contract liabilities) on the condensed consolidated balance sheet. Accounts receivable include amounts due from customers that are unconditional. Contract assets relate to the Company's rights to consideration for goods delivered or services completed and recognized as revenue but billing and the right to receive payment is conditional upon the completion of other performance obligations. Contract assets are included in Other current assets on the balance sheet and are transferred to accounts receivable when the rights become unconditional. Deferred revenue consists of advance payments and billings in excess of revenue recognized. Deferred revenue is classified as either current or noncurrent based on the timing of when the Company expects to recognize revenue. These assets and liabilities are reported on a contract-by-contract basis at the end of each reporting period. The following table provides information about receivables, contract assets and deferred revenue from contracts with customers:

in millions	As of	
	September 30, 2020	December 31, 2019
Accounts receivable, net	\$ 321	\$ 398
Contract assets	\$ 11	\$ 8
Current deferred revenue	\$ 482	\$ 472
Long-term deferred revenue	\$ 38	\$ 61

Revenue recognized during the nine months ended September 30, 2020 from amounts included in deferred revenue at the beginning of the period was \$370 million.

Transaction Price Allocated to Unsatisfied Obligations

The following table includes estimated revenue expected to be recognized in the future related to the Company's unsatisfied (or partially satisfied) obligations at September 30, 2020:

in millions	Total at September 30, 2020	Year 1	Year 2 and Thereafter
Remaining unsatisfied obligations	\$ 2,577	\$ 1,393	\$ 1,184

The amounts above represent the price of firm orders for which work has not been performed or goods have not been delivered and exclude unexercised contract options outside the stated contractual term that do not represent material rights to the customer. Although the Company believes that the contract value in the above table is firm, approximately \$1,772 million of the amount is under contracts that are subject to customer-only general cancellation for convenience terms that the Company is contractually obligated to perform unless the customer notifies us of cancellation. The Company expects to recognize revenue of approximately \$322 million in the next year from contracts that are non-cancelable. Customers typically do not cancel before the end of the contractual term and historically the Company has not seen significant churn in its customer base. The Company believes the inclusion of this information is important to understanding the obligations that the Company is contractually required to perform and provides useful information regarding the remaining obligations related to these executed contracts.

4. Contract Costs

The Company capitalizes sales commissions and other contract costs that are incremental direct costs of obtaining customer contracts if the expected amortization period of the asset is greater than one year. These costs are recorded in Capitalized contract costs, net on the Company's balance sheet. The capitalized amounts are calculated based on the annual recurring revenue and total contract value for individual multi-term contracts. The judgments made in determining the amount of costs incurred include whether the commissions are in fact incremental and would not have occurred absent the customer contract. Costs to obtain a contract are amortized as selling, general and administrative expenses on a straight-line basis over the expected period of benefit, which is typically around four years. These costs are periodically reviewed for impairment. The following table identifies the activity relating to capitalized contract costs:

in millions	December 31, 2019	Capitalized	Amortization	September 30, 2020
Capitalized contract costs	\$ 91	\$ 23	\$ (25)	\$ 89

in millions	December 31, 2018	Capitalized	Amortization	September 30, 2019
Capitalized contract costs	\$ 54	\$ 37	\$ (14)	\$ 77

5. Supplemental Financial Information

In millions	As of	
	September 30, 2020	December 31, 2019
Inventories		
Finished goods	\$ 3	\$ 19
Service parts	11	12
Total inventories	<u>\$ 14</u>	<u>\$ 31</u>
Deferred revenue		
Deferred revenue, current	\$ 482	\$ 472
Long-term deferred revenue	38	61
Total deferred revenue	<u>\$ 520</u>	<u>\$ 533</u>

6. Income Taxes

Income tax provisions for interim periods are based on estimated annual income tax rates, adjusted to reflect the effects of any significant infrequent or unusual items which are required to be discretely recognized within the current interim period. As a result of the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act"), the Company changed its indefinite reversal assertion related to its undistributed earnings of its foreign subsidiaries and no longer considers a majority of its foreign earnings permanently reinvested outside of the United States ("U.S."). As a result, the effective tax rates in the periods presented are largely based upon the forecasted pre-tax earnings mix and allocation of certain expenses in various taxing jurisdictions where the Company conducts its business.

The effective tax rate is as follows:

In millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Effective tax rate	90.0 %	(150.0)%	559.3 %	— %

For the three months ended September 30, 2020, the Company recorded \$9 million of discrete tax benefit, a majority of which related to the adjustment of the marginal tax rate from the second quarter based on revised full-year forecasted earnings. As a result, the Company recorded income tax benefit of \$9 million on a pre-tax net loss of \$10 million for the three months ended September 30, 2020, resulting in an effective income tax rate of 90.0%.

For the nine months ended September 30, 2020, the Company recorded \$122 million of discrete tax benefit. The year to date discrete tax expense of \$29 million recorded for marginal tax rate adjustments based on revised full year forecasted earnings was offset by \$152 million of discrete tax benefit recorded in the first quarter, a majority of which related to an intra-entity asset transfer of certain of the Company's intellectual property ("IP") to one of its Irish subsidiaries, which occurred on January 1, 2020. As a result, the Company recorded income tax benefit of \$151 million on a pre-tax net loss of \$27 million for the nine months ended September 30, 2020, resulting in an effective income tax rate of 559.3%.

For the three months ended September 30, 2019, the Company recorded a \$5 million discrete tax benefit related to the reversal of an uncertain tax position resulting from the expiration of the statute of limitations.

For the nine months ended September 30, 2019, the \$5 million discrete tax benefit was partially offset by \$4 million of discrete tax expense recorded in the second quarter related to the reversal of the United States Tax Court's decision in the Altera Corp. v. Commissioner case by the Ninth Circuit Court of Appeals on June 7, 2019. The Altera case focused on whether current U.S. Treasury Regulations requiring the inclusion of stock-based compensation expense in a taxpayer's cost-sharing calculations are valid. As a result of these discrete items and incremental tax expense related to equity compensation, the Company recorded insignificant income tax expense on

a pre-tax net loss of \$1 million for the nine months ended September 30, 2019, resulting in an effective income tax rate of zero percent.

The Company estimates its annual effective tax rate for 2020 to be approximately 279%, which takes into consideration, among other things, the forecasted earnings mix by jurisdiction, and the impact of discrete tax items to be recognized in 2020, which includes the \$157 million of discrete tax benefit recognized in the first quarter of 2020 related to the intra-entity IP transfer described above. The 2017 Tax Act subjects U.S. shareholders to a tax on global intangible low-taxed income ("GILTI") earned by certain foreign subsidiaries. The Company has elected to provide for the tax expense related to GILTI in the year in which the tax is incurred. The Company does not expect a material amount of tax expense related to GILTI based on our forecasted marginal effective tax rate for 2020.

7. Derivative Instruments and Hedging Activities

As a portion of Teradata's operations is conducted outside the U.S. and in currencies other than the U.S. dollar, the Company is exposed to potential gains and losses from changes in foreign currency exchange rates. In an attempt to mitigate the impact of currency fluctuations, the Company uses foreign exchange forward contracts to hedge transactional exposures resulting predominantly from foreign currency denominated inter-company receivables and payables. The forward contracts are designated as fair value hedges of specified foreign currency denominated inter-company receivables and payables and generally mature in three months or less. The fair values of foreign exchange contracts are based on market spot and forward exchange rates and represent estimates of possible value that may not be realized in the future. Across its portfolio of contracts, Teradata has both long and short positions relative to the U.S. dollar. As a result, Teradata's net involvement is less than the total contract notional amount of the Company's foreign exchange forward contracts.

Gains and losses from foreign exchange forward contracts are fully recognized each period and reported along with the offsetting gain or loss of the related hedged item, either in cost of revenues, operating expenses or in other income (expense), depending on the nature of the related hedged item.

In June 2018, Teradata executed a five-year interest rate swap with a \$500 million initial notional amount to hedge the floating interest rate of its term loan, as more fully described in Note 10. The Company uses interest rate swaps to manage interest rate risks on future interest payments caused by interest rate changes on its variable rate term loan. The notional amount of the hedge steps down according to the amortization schedule of the term loan. The notional amount of the hedge was \$463 million as of September 30, 2020.

The Company performed an initial effectiveness assessment in the third quarter of 2018 on the interest rate swap, and the hedge was determined to be effective. The hedge is being evaluated qualitatively on a quarterly basis for effectiveness. Changes in fair value are recorded in Accumulated Other Comprehensive Loss and periodic settlements of the swap will be recorded in interest expense along with the interest on amounts outstanding under the term loan.

The following table identifies the contract notional amount of the Company's derivative financial instruments:

In millions	As of	
	September 30, 2020	December 31, 2019
Contract notional amount of foreign exchange forward contracts	\$ 124	\$ 150
Net contract notional amount of foreign exchange forward contracts	\$ 34	\$ 41
Contract notional amount of interest rate swap	\$ 463	\$ 482

All derivatives are recognized in the condensed consolidated balance sheets at their fair value. The notional amounts represent agreed-upon amounts on which calculations of dollars to be exchanged are based and are an indication of the extent of Teradata's involvement in such instruments. These notional amounts do not represent amounts exchanged by the parties and, therefore, are not a measure of the instruments. Refer to Note 9 for disclosures related to the fair value of all derivative assets and liabilities.

The Company does not hold or issue derivative financial instruments for trading purposes, nor does it hold or issue leveraged derivative instruments. By using derivative financial instruments to hedge exposures to changes in foreign

exchange and interest rates, the Company exposes itself to credit risk. The Company manages exposure to counterparty credit risk by entering into derivative financial instruments with highly rated institutions that can be expected to fully perform under the terms of the applicable contracts.

8. Commitments and Contingencies

From time to time in the ordinary course of business, the Company is subject to legal proceedings, governmental investigations, claims and other matters, including those that relate to the environment, health and safety, employee benefits, export compliance, IP, tax matters and other regulatory compliance and general matters. We are not currently a party to any legal proceeding, nor are we aware of any threatened legal proceeding against us, that we believe would materially adversely affect our business, operating results, financial condition or cash flows.

Guarantees and Product Warranties. Guarantees associated with the Company's business activities are reviewed for appropriateness and impact to the Company's financial statements. Periodically, the Company's customers enter into various leasing arrangements with a third-party leasing company as part of a revenue transaction, whereby the leasing company purchases equipment from Teradata and leases it to the customer. In some instances, the Company guarantees the leasing company a minimum value at the end of the lease term on the leased equipment. As of September 30, 2020, the maximum future payment obligation of this guaranteed value and the associated liability balance was \$1 million.

For customers that purchase hardware, the Company provides a standard manufacturer's warranty and records, at the time of the sale, a corresponding estimated liability for potential warranty costs. The estimated liabilities for warranty costs are not material, given that most customers do not purchase hardware under the perpetual model. The Company also offers extended and/or enhanced coverage to its customers in the form of maintenance contracts. Teradata accounts for these contracts by deferring the related maintenance revenue over the extended and/or enhanced coverage period. Costs associated with maintenance support are expensed as incurred.

In addition, the Company provides its customers with certain indemnification rights. In general, the Company agrees to indemnify the customer if a third party asserts a patent or other IP infringement claim against the customer for its use of the Company's offerings. The Company has indemnification obligations under its charter and bylaws to its officers and directors, and has entered into indemnification agreements with the officers and directors of its subsidiaries. From time to time, the Company also enters into agreements in connection with its acquisition and divestiture activities that include indemnification obligations by the Company. The fair value of these indemnification obligations is typically not readily determinable due to the conditional nature of the Company's potential obligations and the specific facts and circumstances involved with each particular agreement. As such, the Company has generally not recorded a liability in connection with these indemnification arrangements. Historically, payments made by the Company under these types of agreements have not had a material effect on the Company's consolidated financial condition, results of operations or cash flows.

Concentrations of Risk. The Company is potentially subject to concentrations of credit risk on accounts receivable and financial instruments such as hedging instruments, and cash and cash equivalents. Credit risk includes the risk of nonperformance by counterparties. The maximum potential loss may exceed the amount recognized on the balance sheet. Exposure to credit risk is managed through credit approvals, credit limits, selecting major international financial institutions (as counterparties to hedging transactions) and monitoring procedures. Teradata's business often involves large transactions with customers, and if one or more of those customers were to default in its obligations under applicable contractual arrangements, the Company could be exposed to potentially significant losses. However, management believes that the reserves for potential losses were adequate at September 30, 2020 and December 31, 2019.

The Company is also potentially subject to concentrations of supplier risk. Our hardware components are assembled exclusively by Flex Ltd. ("Flex"). Flex procures a wide variety of components used in the manufacturing process on behalf of the Company. Although many of these components are available from multiple sources, Teradata utilizes preferred supplier relationships to provide more consistent and optimal quality, cost and delivery. Typically, these preferred suppliers maintain alternative processes and/or facilities to ensure continuity of supply. Given the Company's strategy to outsource its manufacturing activities to Flex and to source certain components from single suppliers, a disruption in production at Flex or at a supplier could impact the timing of customer shipments and/or

Teradata's operating results. In addition, a significant change in the forecasts to any of these preferred suppliers could result in purchase obligations for components that may be in excess of demand.

9. Fair Value Measurements

Fair value measurements are established utilizing a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets for identical assets or liabilities; Level 2, defined as significant other observable inputs, such as quoted prices in active markets for similar assets or liabilities, or quoted prices in less-active markets for identical assets; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The Company's assets and liabilities measured at fair value on a recurring basis include money market funds, interest rate swaps and foreign currency exchange contracts. A portion of the Company's excess cash reserves are held in money market funds which generate interest income based on the prevailing market rates. Money market funds are included in cash and cash equivalents in the Company's balance sheet. Money market fund holdings are measured at fair value using quoted market prices and are classified within Level 1 of the valuation hierarchy.

When deemed appropriate, the Company minimizes its exposure to changes in foreign currency exchange rates through the use of derivative financial instruments, specifically, foreign exchange forward contracts. Additionally, in June 2018, Teradata executed a five-year interest rate swap with a \$500 million initial notional amount in order to hedge the floating interest rate on its term loan. The fair value of these contracts and swaps are measured at the end of each interim reporting period using observable inputs other than quoted prices, specifically market spot and forward exchange rates. As such, these derivative instruments are classified within Level 2 of the valuation hierarchy. Fair value of unrealized gains for open contracts are recorded in other assets and the fair value of unrealized losses are recorded in other liabilities in the Company's balance sheet. The fair value of foreign exchange forward contracts recorded in other assets was \$1 million at September 30, 2020 and not material at December 31, 2019. The fair value of foreign exchange liabilities at September 30, 2020 and December 31, 2019 was not material. Realized gains and losses from the Company's fair value hedges net of corresponding gains or losses on the underlying exposures were immaterial for the three and nine months ended September 30, 2020 and 2019.

The Company's other assets and liabilities measured at fair value on a recurring basis and subject to fair value disclosure requirements at September 30, 2020 and December 31, 2019 were as follows:

		Fair Value Measurements at Reporting Date Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
In millions	Total				
Assets					
Money market funds at September 30, 2020	\$ 126	\$ 126	\$ —	\$ —	
Money market funds at December 31, 2019	\$ 141	\$ 141	\$ —	\$ —	
Liabilities					
Interest rate swap at September 30, 2020	\$ 30	\$ —	\$ 30	\$ —	
Interest rate swap at December 31, 2019	\$ 19	\$ —	\$ 19	\$ —	

10. Debt

In June 2018, Teradata replaced an existing 5 year, \$400 million revolving credit facility with a new \$400 million revolving credit facility (the "Credit Facility"). The Credit Facility expires in June 2023, at which point any remaining outstanding borrowings would be due for repayment unless extended by agreement of the parties for up to two additional one-year periods. In addition, under the terms of the Credit Facility, Teradata from time to time and subject to certain conditions may increase the lending commitments under the Credit Facility in an aggregate principal amount up to an additional \$200 million, to the extent that existing or new lenders agree to provide such

additional commitments. The outstanding principal amount of the Credit Facility bears interest at a floating rate based upon, at Teradata's option, a negotiated base rate or a Eurodollar rate plus, in each case, a margin based on Teradata's leverage ratio. In the near term, Teradata would anticipate choosing a floating rate based on LIBOR. The Credit Facility is unsecured but is guaranteed by certain of Teradata's material domestic subsidiaries and contains certain representations and warranties, conditions, affirmative, negative and financial covenants, and events of default customary for such facilities. As of September 30, 2020, the Company had no borrowings outstanding under the Credit Facility, leaving \$400 million in borrowing capacity available under the Credit Facility. The Company was in compliance with all covenants under the Credit Facility as of September 30, 2020.

Also, in June 2018, Teradata closed on a new senior unsecured \$500 million five-year term loan, the proceeds of which plus additional cash-on-hand were used to pay off the remaining \$525 million of principal on its previous term loan. The term loan is payable in quarterly installments, which commenced on September 30, 2019, with 1.25% of the initial principal amount due on each of the first eight payment dates; 2.50% of the initial principal amount due on each of the next four payment dates; 5.0% of the initial principal amount due on each of the next three payment dates; and all remaining principal due in June 2023. The outstanding principal amount of the term loan bears interest at a floating rate based upon a negotiated base rate or a Eurodollar rate, plus in each case, a margin based on the leverage ratio of the Company. As of September 30, 2020, the term loan principal outstanding was \$463 million. As disclosed in Note 7, Teradata entered into an interest rate swap to hedge the floating interest rate of the term loan. As a result of the swap, Teradata's fixed rate on the term loan equals 2.86% plus the applicable leverage-based margin as defined in the term loan agreement. As of September 30, 2020, the all-in fixed rate is 4.36%. The Company was in compliance with all covenants under the term loan as of September 30, 2020.

Teradata's term loan is recognized on the Company's balance sheet at its unpaid principal balance, net of deferred issuance costs, and is not subject to fair value measurement. However, given that the loan carries a variable rate, the Company estimates that the unpaid principal balance of the term loan would approximate its fair value. If measured at fair value in the financial statements, the Company's term loan would be classified as Level 2 in the fair value hierarchy.

11. Earnings per Share

Basic earnings per share is calculated by dividing net income by the weighted average number of shares outstanding during the reported period. The calculation of diluted earnings per share is similar to basic earnings per share, except that the weighted average number of shares outstanding includes the dilution from potential shares resulting from stock options, restricted stock awards and other stock awards. The components of basic and diluted earnings per share are as follows:

In millions, except per share amounts	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net (loss) income attributable to common stockholders	\$ (1)	\$ 10	\$ 124	\$ (1)
Weighted average outstanding shares of common stock	109.1	113.2	109.3	115.2
Dilutive effect of employee stock options, restricted stock and other stock awards	—	1.0	1.6	—
Common stock and common stock equivalents	109.1	114.2	110.9	115.2
Net (loss) income per share:				
Basic	\$ (0.01)	\$ 0.09	\$ 1.13	\$ (0.01)
Diluted	\$ (0.01)	\$ 0.09	\$ 1.12	\$ (0.01)

For the three months ended September 30, 2020 and nine months ended September 30, 2019, due to the net loss attributable to Teradata common stockholders, potential common shares that would cause dilution, such as employee stock options, restricted shares and other stock awards, have been excluded from the diluted share count because their effect would have been anti-dilutive. The fully diluted shares would have been 111.1 million for the three months ended September 30, 2020 and 116.6 million for the nine months ended September 30, 2019.

Options to purchase 2.1 million shares of common stock for the three and nine months ended September 30, 2020 and 1.6 million shares of common stock for the three and nine months ended September 30, 2019 were not included in the computation of diluted earnings per share because the exercise prices of these options were greater than the average market price of the common shares for the period, and therefore would have been anti-dilutive.

12. Segment and Other Supplemental Information

Teradata manages its business under three geographic regions, which are also the Company's operating segments: (1) Americas region (North America and Latin America); (2) EMEA region (Europe, Middle East and Africa) and (3) APJ region (Asia Pacific and Japan). For purposes of discussing results by segment, management excludes the impact of certain items, consistent with the manner by which management evaluates the performance of each segment. This format is useful to investors because it allows analysis and comparability of operating trends. It also includes the same information that is used by Teradata management to make decisions regarding the segments and to assess financial performance. The chief operating decision maker, who is our President and Chief Executive Officer, evaluates the performance of the segments based on revenue and multiple profit measures, including segment gross profit. For management reporting purposes assets are not allocated to the segments.

The following table presents segment revenue and segment gross profit for the Company:

In millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Segment revenue				
Americas	\$ 261	\$ 256	\$ 764	\$ 794
EMEA	115	118	351	353
APJ	78	85	230	258
Total revenue	454	459	1,345	1,405
Segment gross profit				
Americas	165	158	470	473
EMEA	69	62	197	169
APJ	43	37	114	108
Total segment gross profit	277	257	781	750
Stock-based compensation costs	5	5	13	12
Acquisition, integration, reorganization and transformation-related costs	12	(1)	16	4
Amortization of capitalized software costs	6	6	17	27
Total gross profit	254	247	735	707
Selling, general and administrative expenses	163	151	486	447
Research and development expenses	90	86	246	245
Income from operations	\$ 1	\$ 10	\$ 3	\$ 15

13. Reorganization and Business Transformation

In September 2020, the Company offered a voluntary separation program ("VSP") to certain tenured employees. This global program was generally made available to active employees in good standing who (1) were at least 55 years old as of October 1, 2020 and (2) had at least ten years of service with Teradata. This program was implemented as part of the Company's efforts to improve its cost structure.

The Company accrued a liability and recognized costs of \$27 million for the nine months ended September 30, 2020 for the VSP. A majority of the benefits will be paid within a nominal period. Certain benefits are being expensed over the time period that the employees have to work to earn them to the extent the required service period extends beyond the nominal period. The Company estimates that it will incur total costs and charges of approximately

\$32 million related to VSP and expects that majority of the actions will be completed in fourth quarter of 2020. No cash was paid out for the VSP during the nine months ended September 30, 2020.

14. Subsequent Event

Workforce Reduction and Real Estate Rationalization Plan.

The Company is in the process of realigning and streamlining its operations as it pursues its business transformation and strategy to become a cloud-first profitable growth company. As part of these activities, on November 2, 2020, the Company approved a plan to realign and reduce its workforce and rationalize its real estate footprint. The workforce measures involve involuntary headcount reduction actions. These actions are separate from the VSP discussed in Note 13. The rationalization of the Company's real estate footprint involves terminating leases relating to certain of the Company's offices globally and transitioning impacted employees to a permanent virtual working environment, co-working space or a smaller facility, depending on business need. The Company is continuing to evaluate and implement additional measures that would be expected to result in further cost savings.

The Company expects that the costs relating to these workforce reduction and real estate rationalization measures will include one-time employee separation benefits, transition support, outside services and other exit-related costs. The Company expects that it will incur total costs and charges related to these actions in the range of approximately \$70 to \$80 million, consisting primarily of the following:

- \$16 to \$18 million for employee severance and other employee-related costs, which is separate from the \$32 to \$37 million for costs related to the Voluntary Separation Program,
- \$11 to \$12 million charge for facilities lease related costs, and
- \$11 to \$13 million for outside service, legal and other associated costs.

The Company expects to incur these costs and charges in 2020 and 2021, with the majority of the expenditures recorded in 2020. The actions related to these current planned workforce reduction and real estate rationalization measures are expected to be completed in 2021. Cash expenditures related to these actions are estimated at approximately \$75 to \$85 million. Approximately \$15 to \$18 million of the cash expenditures relate to cash payments to international employees and will not have a material impact on the Condensed Consolidated Statements of Income (Loss) due to the Company accounting for its International postemployment benefits under Accounting Standards Codification 712, Compensation - Nonretirement Postemployment Benefits ("ASC 712"), which uses actuarial estimates and defers the immediate recognition of gains or losses..

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A").

You should read the following discussion in conjunction with the Condensed Consolidated Financial Statements and the notes to those statements included elsewhere in this Quarterly Report on Form 10-Q. This Quarterly Report on Form 10-Q contains certain statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Certain statements contained in the MD&A are forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those discussed in other sections of this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (the "2019 Annual Report"). The Company does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Overview

Teradata Corporation ("we," "us," "Teradata," or the "Company") is a leading hybrid cloud data and analytics software platform provider focused on helping companies leverage their data across an enterprise to uncover real-time intelligence, at scale. In doing so, we enable them to find answers to their toughest challenges. Our solutions enable customers to integrate and simplify their analytics ecosystem, access and manage data, and use analytics to extract answers and derive business value from data. Our solutions are composed of cloud and on premises software, hardware, and related business consulting and support services to deliver analytics across a company's entire analytic ecosystem.

Teradata's strategy is based on our mission of transforming how businesses work and people live through the power of data. Our target market is made up of companies that we believe are the world's most demanding, large-scale users of data. These companies face significant challenges including siloed data and conflicting and duplicative solutions that typically result in considerable expense to maintain and difficulty to manage the complexity. Our target market includes companies that are looking for a best in-breed solution that allows them to rapidly grow without limits on data complexity and size. Our strategy is to provide a differentiated set of offerings to our target market through an extensible data and analytic platform. Teradata Vantage™ is an extremely scalable, secure, highly concurrent and resilient multi-cloud data analytics platform that solves the world's most complex data challenges at scale.

We offer customers full integration of their datasets, tools, analytics languages, functions, and engines in one cloud data analytical platform; Vantage reduces customers' complexity, risk, and costs. Our Vantage platform embraces leading commercial and open source analytics technologies, is built for a hybrid multi-cloud world, and is available in Amazon Web Services, Microsoft Azure, and Google Cloud as well as on-premises.

All subscription-based Teradata software licenses enable portability of the software license between cloud and on-premises deployment options; this flexibility is designed to reduce risk associated with customers' buying decisions. In the near term, the movement to subscription-based transactions is negatively impacting the timing of our reported revenue and our cash flows because revenue and cash related to subscription-based transactions are recognized and received over time versus upfront as was the case with the capital purchase model. The transition to a subscription-based model is expected to increase our recurring revenue, create more predictable operating results and improve cash flow generation over time. Near-term impacts, however, can fluctuate based on the pace of customer adoption, which can be difficult to predict. In the longer term, we expect our reported operating results and cash flow to normalize and increase as customers increasingly transition to these subscription-based offerings.

We are continuing to execute on our key priorities, including significant product expansion of our Vantage multi-cloud hybrid data analytics platform offerings, expanding our footprint with existing customer and adding net new customers, increasing our focus on diversity and inclusiveness, and driving operational excellence and agility across the company.

We are in the process of realigning and streamlining our operations as we pursue our business transformation and strategy to become a cloud-first profitable growth company. As part of these activities, on November 2, 2020, the Company approved a plan to realign and reduce its workforce and rationalize its real estate footprint. The workforce measures involve involuntary headcount reduction actions. Separately, in September 2020, we offered a voluntary separation program ("VSP") to certain tenured employees as part of our efforts to improve our cost structure. For more information regarding the VSP, see Note 13 to Notes to Condensed Consolidated Financial Statements (Unaudited). The rationalization of the Company's real estate footprint involves terminating leases relating to certain of the Company's offices globally and transitioning impacted employees to a permanent virtual working environment, co-working space or a smaller facility, depending on business need.

The Company expects that it will incur total costs and charges related to these actions in the range of approximately \$70 million to \$80 million in 2020 and 2021, with the majority of the expenditures recorded in 2020. These actions are expected to result in ongoing annual cost savings between \$80 million and \$90 million before considering any reinvestment towards our strategic initiatives for 2021 and beyond. The majority of the cost savings are expected to result in reductions in operating expenses and cost of revenue. The Company is continuing to evaluate and implement additional measures that would be expected to result in further cost savings. For more information regarding these workforce reduction and real estate rationalization measures, see Note 14 of Notes to Condensed Consolidated Financial Statements (Unaudited). Our ability to realize the expected cost savings and other benefits from these measures are subject to risks and uncertainties, including those set forth under "Risk

Factors" in Part I, Item 1A of the 2019 Annual Report and in Part II, Item 1A of this Quarterly Report on Form 10-Q.

To allow for greater transparency regarding the progress we are making toward achieving our strategic objectives, we utilize the following financial and performance metrics:

- Annual Recurring Revenue ("ARR") - annual contract value for all active and contractually binding term-based contracts at the end of a period. ARR includes maintenance, software upgrade rights, subscription-based transactions and managed services.
- Backlog - the price of firm orders for which work has not been performed or goods have not been delivered and the Company is contractually required to perform

COVID-19 Update

During the nine months ended September 30, 2020, the effects of the coronavirus disease 2019 ("COVID-19") pandemic and the related actions by governments around the world to attempt to contain the spread of the virus have impacted our business globally, and we expect our business will continue to be impacted for the foreseeable future. In particular, the outbreak and related preventive measures taken to contain COVID-19 beginning late in the first quarter of 2020 negatively impacted our ability to close transactions with customers and timely collect receivables in certain instances, which impacted our revenue and cash flow results for the first quarter. However, during the second quarter of 2020, we recovered from this impact, and as a result, we experienced a more favorable trend in the second and third quarters with meaningful ARR growth, strong cash flows and recurring revenue growth generated in these quarters, although we continued to see COVID-19 negatively impact our consulting business as described below.

In response to the pandemic, we have taken actions to manage expenses and costs appropriately in light of the uncertainty COVID-19 has created, which has had a positive impact on our operating performance. We continue to keep a watchful eye on COVID-19 impacts to our business and have undertaken additional expense management and cost measures to further drive our operating performance and provide agility in the event of an unforeseen reduction in demand should it occur. During the first nine months of 2020, we also experienced increased volatility in foreign currency exchange rates, in part related to the uncertainty from COVID-19, as well as actions taken by governments and central banks in response to COVID-19. Certain foreign currency rates have depreciated significantly against the U.S. dollar during this period. We expect continued volatility in foreign currency exchange rates during the remainder of 2020.

Our supply chain has been relatively stable with respect to manufacturing and distribution capabilities; however, our supply chain is susceptible to volatility due to ongoing uncertainty as a result of ongoing international and domestic pandemic response and recovery efforts. Operationally, we have been able to run our business without significant interruptions, with the vast majority of employees having shifted quickly as of mid-March 2020 to a work-from-home model, which remains in effect. However, our consulting business has been negatively impacted during the transition to work from home and shelter-in-place orders. Our customers' reduction in discretionary spending in light of COVID-19 uncertainties has also impacted our consulting business, with consulting projects being delayed or suspended by our customers. We implemented several employee engagement and communication programs designed to support employees' health and well-being while also enhancing their productivity during the pandemic.

Our priorities in formulating and implementing our response to the COVID-19 pandemic and related business disruption include the following:

- People - protecting the health and well-being of our employees,
- Customers - proactively connecting with our customers to support their needs and meet our service level commitments,
- Supply Chain - proactively working to monitor existing inventory, supplier availability and securing inventory for future quarters,
- Financial - responsibly managing expenses and costs to provide financial agility during the extended period of global economic uncertainty,
- Global Community - making our technology available to customers, partners and communities, particularly in healthcare and government, where collectively we can positively impact efforts in combating COVID-19, and

- Future of Work - planning to best position the Company to emerge as strong as possible when the COVID-19 pandemic ends.

As of the date of this Quarterly Report on Form 10-Q, we are continuing to execute our pandemic response plan, and the Teradata Pandemic Response Team is refining and executing return-to-office plans with "safety first" considerations. Customer-facing teams are also proactively working to identify ways to assist customers, meet service level commitments, and engage with customers via virtual events.

Despite these efforts, there remains a fair degree of uncertainty regarding the potential impact of the pandemic on our business, from both a financial and operational perspective, and the scope and costs associated with additional measures that may be necessary in response to the pandemic going forward. We will continue our diligent efforts to monitor and respond as appropriate to the impacts of the pandemic on our business, including the status of our workforce, supply chain, customers, suppliers, and vendors, based on the priorities described above. Our actions will continue to be informed by the requirements and recommendations of the federal, state or local authorities. We will remain agile and have contingency plans in place to appropriately respond to conditions as they unfold. For more information, see "Risk Factors" under Part II, Item 1A of this Quarterly Report on Form 10-Q.

Third Quarter Financial Overview

As more fully discussed in later sections of this MD&A, the following were significant financial items for the third quarter of 2020:

- At the end of the third quarter of 2020, ARR was \$1.501 billion, an 8% increase from the third quarter of 2019, including a 1% positive impact from foreign currency translation, as compared to the third quarter of 2019.
- Total revenue was \$454 million for the third quarter of 2020, a 1% decrease compared to the third quarter of 2019, with an underlying 6% increase in recurring revenue primarily driven by our transition from perpetual to subscription-based transactions. Perpetual software licenses and hardware revenue increased 6% and consulting services revenue decreased 28%. The decline in consulting service revenue is in alignment with our strategy as well as due to the impact of COVID-19 as discussed above. Foreign currency fluctuations had a 1% positive impact on total revenue for the quarter compared to the prior year.
- Gross margin increased to 55.9% in the third quarter of 2020 from 53.8% in the third quarter of 2019, primarily due to a higher recurring revenue mix as compared to the prior period.
- Operating expenses for the third quarter of 2020 increased by 7% compared to the third quarter of 2019, primarily due to expenses related to the voluntary separation program ("VSP") offered to employees, an increase in investments in cloud transformation, and equity compensation expense.
- Operating income was \$1 million in the third quarter of 2020, compared to \$10 million in the third quarter 2019.
- Net loss in the third quarter of 2020 was \$1 million, compared to net income of \$10 million in the third quarter of 2019, primarily due to higher operating expenses and discrete tax items during the quarter.
- Total backlog was \$2.577 billion at the end of the third quarter of 2020, up 1% from the prior year.

Results of Operations for the Three Months Ended September 30, 2020
Compared to the Three Months Ended September 30, 2019

Revenue

In millions	2020	% of Revenue	2019	% of Revenue
Recurring	\$ 365	80.4 %	\$ 343	74.7 %
Perpetual software licenses and hardware	17	3.7 %	16	3.5 %
Consulting services	72	15.9 %	100	21.8 %
Total revenue	\$ 454	100.0 %	\$ 459	100.0 %

Total revenue decreased \$5 million, or 1%, in third quarter of 2020 and included a 1% positive impact from foreign currency fluctuations. Recurring revenue grew 6%, primarily driven by our movement to subscription-based transactions from perpetual software licenses and hardware transactions, consistent with our strategy. Under subscription models, we recognize revenue over time as opposed to the upfront recognition under the perpetual model. For full year 2020, we expect ARR growth and recurring revenue growth compared to 2019. Taking into consideration the growth in recurring revenue offset by reduced perpetual software licenses and hardware revenue and reduced consulting services revenue, we expect that total revenues will decrease for full year 2020 compared to 2019, although the amount of decline is difficult to predict due to the uncertain global environment caused by COVID-19.

Revenues from perpetual software licenses and hardware increased 6%, including a 1% positive impact from foreign currency fluctuations. We expect perpetual revenues to decline as customers continue to transition to our subscription-based offerings. However, some customers continue to purchase on a perpetual basis, and COVID-19 impacts might result in some additional customers preferring this option. Perpetual revenue is primarily hardware-related, as software is generally being sold on subscription. We expect that perpetual revenue will continue to decline in 2020 and will continue to be predominantly hardware-related.

Consulting services revenue decreased 28%, including a 1% positive impact from foreign currency fluctuations, as we are realigning and focusing our consulting resources on higher-margin engagements that drive increased software consumption within our targeted customer base. Consulting revenue was also impacted by the transition to work from home and shelter-in-place orders that went in effect late in the first quarter in response to COVID-19 as well as delays and/or cancellations of consulting projects due to customers' reduced spending in light of COVID-19. We expect consulting revenue to decline longer term as we build a deepening partner ecosystem and our product simplification efforts reduce our customers' need for consulting services. We also expect consulting revenue to continue to be impacted by COVID-19, as we anticipate delays and/or cancellation of new projects.

As a portion of the Company's operations and revenue occur outside the United States, and in currencies other than the U.S. dollar, the Company is exposed to fluctuations in foreign currency exchange rates. Based on currency rates as of October 30, 2020, Teradata is expecting less than one percentage point of negative impact from currency translation on our 2020 full-year total revenues.

Gross Profit

In millions	2020	% of Revenue	2019	% of Revenue
Recurring	\$ 242	66.3 %	\$ 233	67.9 %
Perpetual software licenses and hardware	10	58.8 %	7	43.8 %
Consulting services	2	2.8 %	7	7.0 %
Total gross profit	\$ 254	55.9 %	\$ 247	53.8 %

The decrease in recurring revenue gross profit as a percentage of revenue was primarily driven by expenses related to the VSP and a higher mix of subscription-based revenue that includes hardware. For more information regarding the VSP, see Note 13 of Notes to Condensed Consolidated Financial Statements (Unaudited).

The increase in perpetual software licenses and hardware gross profit as a percentage of revenue was primarily driven by deal mix compared to the same period a year ago.

Consulting services gross profit as a percentage of revenue decreased as compared to the prior-year period, primarily due to lower volume and expenses related to the VSP offered to employees. As indicated above, the consulting business was negatively impacted due to the COVID-19 pandemic during the quarter. We expect consulting gross margins to be in the low single digits for the year.

Operating Expenses

In millions	2020	% of Revenue	2019	% of Revenue
Selling, general and administrative expenses	\$ 163	35.9 %	\$ 151	32.9 %
Research and development expenses	90	19.9 %	86	18.6 %
Total operating expenses	\$ 253	55.7 %	\$ 237	51.6 %

The selling, general and administrative ("SG&A") expense increase was primarily driven by expenses related to the VSP offered to employees and an increase in equity compensation expense, as well as additional investments in our go-to-market and customer success teams, partially offset by a decrease in expenses due to several actions taken to manage operating expenses, including limiting travel and other discretionary spend. In November 2020, we approved a workforce reduction and real estate rationalization plan as described earlier in this MD&A under "Overview." For the full year, we will continue to look for areas to optimize our cost structure while investing in our key strategic initiatives in cloud and transforming our go-to-market organization to support our recurring revenue model and expand our opportunities in the market. These actions are expected to be more than offset by the charges incurred related to the VSP as well as the workforce reduction and real estate rationalization plan.

Research and development ("R&D") expenses increased primarily due to spending focused on accelerating our cloud initiatives and the VSP discussed in Note 13. For the full year, we expect R&D expense to be slightly up as we reallocate spending to accelerate our cloud initiatives.

Other Expense, net

In millions	2020	2019
Interest income	\$ 1	\$ 4
Interest expense	(7)	(8)
Other	(5)	(2)
Other expense, net	\$ (11)	\$ (6)

Other expense, net in the third quarter of 2020 and 2019 is comprised primarily of interest expense on long-term debt and finance leases, partially offset by interest income earned on our cash and cash equivalents. Other expense, net increased compared to the prior year primarily due to lower interest income generated on investments, increased benefit costs for our pension and postemployment plans, and losses resulting from foreign currency transactions.

Provision for Income Taxes

Income tax provisions for interim periods are based on estimated annual income tax rates, adjusted to reflect the effects of any significant infrequent or unusual items which are required to be discretely recognized within the current interim period.

As a result of the 2017 Tax Act, the Company changed its indefinite reversal assertion related to its foreign subsidiary undistributed earnings and no longer considers a majority of its foreign earnings permanently reinvested outside of the U.S. The effective tax rates in the periods presented are largely based upon the forecasted pre-tax earnings mix between the U.S. and other foreign taxing jurisdictions where the Company conducts its business. The Company estimates its full-year effective tax rate for 2020 to be approximately 279%, which takes into consideration, among other things, the forecasted earnings mix by jurisdiction and the estimated discrete items to be recognized in 2020, which includes a \$157 million one-time discrete tax benefit recognized in the first quarter of 2020 related to an intra-entity asset transfer of certain of the Company's intellectual property ("IP") to one of its Irish subsidiaries, which occurred on January 1, 2020. The forecasted tax rate is based on the overseas profits being

taxed at an overall effective tax rate of approximately 250%, as compared to the U.S. federal statutory tax rate of 21%.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits net operating loss ("NOL") carryovers and carry backs to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOL's incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. It also allows deferral of certain payroll tax payments to 2021 and 2022. We are currently evaluating the impact of the CARES Act, particularly whether the NOL carry back provision of the CARES Act would result in a cash and tax benefit to us. Deferred payroll taxes as of September 30, 2020 were approximately \$10 million.

The effective tax rate for the three months ended September 30, 2020 and 2019 were as follows:

	2020	2019
Effective tax rate	90.0 %	(150.0)%

For the three months ended September 30, 2020, the Company recorded \$9 million of discrete tax benefit, a majority of which related to the true-up of the marginal tax rate from the second quarter based on revised full-year forecasted earnings. As a result, the Company recorded income tax benefit of \$9 million on a pre-tax net loss of \$10 million for the three months ended September 30, 2020, resulting in an effective income tax rate of 90.0%.

For the three months ended September 30, 2019, the Company recorded a \$5 million discrete tax benefit related to the reversal of an uncertain tax position resulting from the expiration of the statute of limitations.

Revenue and Gross Profit by Operating Segment

Teradata manages its business under three geographic regions, which are also the Company's operating segments: (1) Americas region (North America and Latin America); (2) EMEA region (Europe, Middle East, and Africa) and (3) APJ region (Asia Pacific and Japan). For purposes of discussing results by segment, management excludes the impact of certain items, consistent with the manner by which management evaluates the performance of each segment. This format is useful to investors because it allows analysis and comparability of operating trends. It also includes the same information that is used by Teradata management to make decisions regarding the segments and to assess financial performance. The chief operating decision maker, who is our President and Chief Executive Officer, evaluates the performance of the segments based on revenue and multiple profit measures, including segment gross profit. For management reporting purposes, assets are not allocated to the segments. Our segment results are reconciled to total company results reported under GAAP in Note 12 of Notes to Condensed Consolidated Financial Statements (Unaudited).

The following table presents segment revenue and segment gross profit for the Company for the three months ended September 30:

In millions	2020	% of Revenue	2019	% of Revenue
Segment revenue				
Americas	\$ 261	57.5 %	\$ 256	55.8 %
EMEA	115	25.3 %	118	25.7 %
APJ	78	17.2 %	85	18.5 %
Total segment revenue	\$ 454	100 %	\$ 459	100 %
Segment gross profit				
Americas	\$ 165	63.2 %	\$ 158	61.7 %
EMEA	69	60.0 %	62	52.5 %
APJ	43	55.1 %	37	43.5 %
Total segment gross profit	\$ 277	61.0 %	\$ 257	56.0 %

Americas

Americas revenue increased 2% and included a 1% negative impact from foreign currency fluctuations. Recurring revenue was down \$1 million and perpetual revenue increased by \$14 million. Consulting revenue decreased 24% as compared to prior year. Segment gross profit as a percentage of revenues was higher primarily due to an overall higher mix of recurring revenue.

EMEA

EMEA revenue decreased 3%, which included a 3% favorable impact from foreign currency fluctuations. An increase of 23% in recurring revenue was offset by a decrease of 92% in perpetual software licenses and hardware revenue and a decrease in consulting revenue of 29%. Segment gross profit as a percentage of revenues was higher primarily due to a higher mix of recurring revenue.

APJ

APJ revenue decreased 8%, which included a 1% favorable impact from foreign currency fluctuations. An increase in recurring revenue of 13% was offset by a decrease of 50% in perpetual software licenses and hardware revenue and a decrease in consulting revenue of 31%. Segment gross profit as a percentage of revenues was higher primarily due to a higher mix of recurring revenue.

Results of Operations for the Nine Months Ended September 30, 2020

Compared to the Nine Months Ended September 30, 2019

Revenue

In millions	2020	% of Revenue	2019	% of Revenue
Recurring	\$ 1,068	79.4 %	\$ 1,012	72.0 %
Perpetual software licenses and hardware	48	3.6 %	76	5.4 %
Consulting services	229	17.0 %	317	22.6 %
Total revenue	\$ 1,345	100 %	\$ 1,405	100 %

Total revenue decreased \$60 million, or 4%, for the nine months ended September 30, 2020 compared to the prior period and included a 1% negative impact from foreign currency fluctuations. Recurring revenue increased 6%, which included a 1% negative impact from foreign currency fluctuations. This increase in recurring revenue was primarily driven by our movement to subscription-based transactions from perpetual software licenses and hardware transactions consistent with our strategy.

Revenues from perpetual software licenses and hardware decreased 37% as customers continue to transition to subscription-based offerings. Consulting services revenue decreased 28%, including a 1% negative impact from foreign currency fluctuations, as we are realigning and focusing our consulting resources on higher-margin engagements that drive increased software consumption within our targeted customer base. Consulting revenue was also impacted by the transition to work from home and shelter-in-place orders that went in effect late in the first quarter in response to COVID-19 as well as delays and/or cancellations of consulting projects due to customers' reduced spending in light of COVID-19.

Gross Profit

In millions	2020	% of Revenue	2019	% of Revenue
Recurring	\$ 709	66.4 %	\$ 689	68.1 %
Perpetual software licenses and hardware	21	43.8 %	16	21.1 %
Consulting services	5	2.2 %	2	0.6 %
Total gross profit	\$ 735	54.6 %	\$ 707	50.3 %

The decrease in recurring gross profit as a percentage of revenue was primarily driven by a higher mix of subscription-based revenue as compared to the prior-year period. Subscription-based transactions are typically lower margin as compared to the recurring revenue from legacy software maintenance and software upgrade rights, due to the higher mix of rental hardware included in subscription-based transactions.

The increase in perpetual software licenses and hardware gross profit as a percentage of revenue was primarily driven by deal mix compared to the same period a year ago.

Consulting services gross profit as a percentage of revenue increased as compared to the prior-year period primarily due to improved resource mix utilization as well as increased price realization and our continued strategic focus to improve consulting margins. The Company continues to refocus our consulting organization on Vantage-oriented offerings and reduce our footprint in non-core consulting engagements.

Operating Expenses

In millions	2020	% of Revenue	2019	% of Revenue
Operating expenses				
Selling, general and administrative expenses	\$ 486	36.1 %	\$ 447	31.8 %
Research and development expenses	246	18.3 %	245	17.4 %
Total operating expenses	\$ 732	54.4 %	\$ 692	49.3 %

The SG&A expense increase was primarily driven by an increase in equity compensation expense, the VSP, amortization of capitalized sales compensation, as well as additional investments in our go-to-market and customer success teams.

R&D expenses increased primarily due to the VSP and a re-prioritization of our R&D organization on strategic initiatives and reduced spending on de-prioritized initiatives, while increasing investments in Cloud transformation.

Other Expense, net

In millions	2020	2019
Interest income	\$ 4	\$ 10
Interest expense	(21)	(19)
Other	(13)	(7)
Other expense, net	\$ (30)	\$ (16)

Other expense, net in the first nine months of 2020 and 2019 is comprised primarily of interest expense on long-term debt and finance leases, partially offset by interest income earned on our cash and cash equivalents. Other expense, net increased compared to the prior year primarily due to lower interest income generated on investments, increased benefit costs for our pension and postemployment plans, and losses resulting from foreign currency transactions.

Provision for Income Taxes

The effective tax rate for the nine months ended September 30, 2020 and 2019 were as follows:

	2020	2019
Effective tax rate	559.3 %	— %

For the nine months ended September 30, 2020, the Company recorded \$122 million of discrete tax benefit. The year to date discrete tax expense of \$29 million recorded for marginal tax rate adjustments based on revised full year forecasted earnings was offset by \$152 million of discrete tax benefit recorded in the first quarter, a majority of which related to the intra-entity IP transfer described above. As a result, the Company recorded income tax benefit of \$151 million on a pre-tax loss of \$27 million for the nine months ended September 30, 2020, resulting in an effective income tax rate of 559.3%.

For the nine months ended September 30, 2019, the \$5 million discrete tax benefit as described above recorded in the third quarter was partially offset by \$4 million in discrete tax expense recorded in the second quarter related to the reversal of the United States Tax Court's decision in the Altera Corp. v. Commissioner case by the Ninth Circuit Court of Appeals on June 7, 2019. The Altera case focused on whether current U.S. Treasury Regulations requiring the inclusion of stock-based compensation expense in a taxpayer's cost-sharing calculations are valid. As a result of these discrete items and incremental tax expense related to equity compensation, the Company recorded insignificant income tax expense on a pre-tax net loss of \$1 million for the nine months ended September 30, 2019, resulting in an effective income tax rate of zero percent.

Revenue and Gross Profit by Operating Segment

The following table presents segment revenue and segment gross profit for the Company for the nine months ended September 30:

In millions	2020	% of Revenue	2019	% of Revenue
Segment revenue				
Americas	\$ 764	56.8 %	\$ 794	56.5 %
EMEA	351	26.1 %	353	25.1 %
APJ	230	17.1 %	258	18.4 %
Total segment revenue	\$ 1,345	100 %	\$ 1,405	100 %
Segment gross profit				
Americas	\$ 470	61.5 %	\$ 473	59.6 %
EMEA	197	56.1 %	169	47.9 %
APJ	114	49.6 %	108	41.9 %
Total segment gross profit	\$ 781	58.1 %	\$ 750	53.4 %

Americas

Americas revenue decreased 4%, which included a 1% negative impact from foreign currency fluctuations. An increase of 1% in recurring revenue was offset by a decrease in perpetual software licenses and hardware revenue of 10% and a 28% decrease in consulting revenue. Segment gross profit as a percentage of revenues was higher primarily due to an overall higher mix of recurring revenue.

EMEA

EMEA revenue decreased 1%, which included a 1% negative impact from foreign currency fluctuations. An increase of 18% in recurring revenue was offset by a decrease of 52% in perpetual software licenses and hardware

revenue as well as a decrease in consulting revenue of 27%. Segment gross profit as a percentage of revenues was higher primarily due to a higher mix of recurring revenue.

APJ

APJ revenue decreased 11%, which included a 1% negative impact from foreign currency fluctuations. An increase in recurring revenue of 9% was offset by a decrease of 63% in perpetual software licenses and hardware revenue and a decrease in consulting revenue of 29%. Segment gross profit as a percentage of revenues was higher primarily due to a higher mix of recurring revenue.

Financial Condition, Liquidity and Capital Resources

Cash provided by operating activities increased by \$117 million in the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019. Teradata used approximately \$32 million of cash in the first nine months of 2020 for reorganizing and restructuring its operations and go-to-market functions to align to its strategy, as compared to \$54 million in the first nine months of 2019. The increase in cash provided by operating activities was primarily due to improved management of working capital. Although the COVID-19 pandemic did not have a significant adverse impact on our financial results for the third quarter of 2020, we have reviewed our capital projects to ensure that we are only spending on projects that are deemed to be essential in the current environment. We have taken steps to manage spending on travel, third-party services and other operating expenses, and we continue to focus on cash flow generation. Terms of payments have been extended for certain customers in impacted industries; however, the majority of these extensions do not run beyond the end of the fiscal year and are not significant in aggregate. We do not expect the pandemic to have a significant adverse effect on our liquidity, as we believe that operating cash flows and available liquidity are sufficient to support operational needs for at least the next 12 months.

Teradata's management uses a non-GAAP measure called "free cash flow," which is not a measure defined under GAAP. We use free cash flow (which we define as net cash provided by operating activities less investing activities related to capital expenditures for property and equipment and additions to capitalized software) as one measure of assessing the financial performance of the Company, and this may differ from the definitions used by other companies. The components that are used to calculate free cash flow are GAAP measures taken directly from the Condensed Consolidated Statements of Cash Flows (Unaudited). We believe that free cash flow information is useful for investors because it relates the operating cash flow of the Company to the capital that is spent to continue and improve business operations. In particular, free cash flow indicates the amount of cash available after capital expenditures, for among other things, investments in the Company's existing businesses, strategic acquisitions and repurchases of Teradata common stock. Free cash flow does not represent the residual cash flow available for discretionary expenditures since there may be other non-discretionary expenditures that are not deducted from the measure. This non-GAAP measure should not be considered a substitute for, or superior to, cash flows from operating activities under GAAP.

The table below shows net cash provided by operating activities and net cash used in investing activities related to capital expenditures, along with free cash flow, for the following periods:

In millions	Nine Months Ended September 30, 2020	
	2020	2019
Net cash provided by operating activities	\$ 211	\$ 94
Less:		
Expenditures for property and equipment	(34)	(43)
Additions to capitalized software	(6)	(3)
Free cash flow	\$ 171	\$ 48

Financing activities and certain other investing activities are not included in our calculation of free cash flow. There were no other investing activities for the nine months ended September 30, 2020 and 2019.

Teradata's financing activities for the nine months ended September 30, 2020 and 2019 primarily consisted of cash outflows for share repurchases and payments on the Company's finance leases, and long-term debt. At September 30, 2020, the Company had no outstanding borrowings on its \$400 million revolving credit facility entered into in June 2018 (the "Credit Facility"). The Company repurchased approximately 3.7 million shares of its common stock at an average price per share of \$20.52 in the nine months ended September 30, 2020, and 6.2 million shares at an average price per share of \$38.31 in the nine months ended September 30, 2019 under the two share repurchase programs that were authorized by our Board of Directors. The first program (the "dilution offset program") allows the Company to repurchase Teradata common stock to the extent of cash received from the exercise of stock options and the Teradata Employee Stock Purchase Plan ("ESPP") to offset dilution from shares issued pursuant to these plans. On July 28, 2019, Teradata's Board of Directors authorized an additional \$500 million to be utilized to repurchase Teradata common stock under the Company's second share repurchase program (the "general share repurchase program"). As of September 30, 2020, the Company had \$432 million of authorization remaining under this program to repurchase outstanding shares of Teradata common stock. Share repurchases made by the Company are reported on a trade date basis. Our share repurchase activity depends on factors such as our working capital needs, our cash requirements for capital investments, our stock price, and economic and market conditions. As a precautionary measure, due to the uncertainty of the impact of COVID-19 on our business, in the second quarter of 2020, the Company suspended repurchases under its share repurchase programs but currently anticipates it will opportunistically consider repurchases under its share repurchase program.

Proceeds from the ESPP and the exercise of stock options, net of tax, were \$7 million for the nine months ended September 30, 2020 and \$40 million for the nine months ended September 30, 2019. These proceeds are included in other financing activities, net in the Condensed Consolidated Statements of Cash Flows (Unaudited).

Our total cash and cash equivalents held outside the United States in various foreign subsidiaries was \$361 million as of September 30, 2020 and \$344 million as of December 31, 2019. The remaining balance held in the United States was \$172 million as of September 30, 2020 and \$150 million as of December 31, 2019. Prior to the enactment of the 2017 Tax Act, the Company either reinvested or intended to reinvest its earnings outside of the United States. As a result of the 2017 Tax Act, the Company has changed its indefinite reinvestment assertion related to foreign earnings that have been taxed in the United States and now considers a majority of these earnings no longer indefinitely reinvested. Effective January 1, 2018, the United States moved to a territorial system of international taxation, and as such will generally not subject future foreign earnings to United States taxation upon repatriation in future years.

Management believes current cash, cash generated from operations and the \$400 million available under the Credit Facility will be sufficient to satisfy future working capital, research and development activities, capital expenditures, pension contributions, and other financing requirements for at least the next twelve months. The Company principally holds its cash and cash equivalents in bank deposits and highly-rated money market funds.

The Company's ability to generate positive cash flows from operations is dependent on general economic conditions, competitive pressures, and other business and risk factors described in the 2019 Annual Report and elsewhere in this Quarterly Report on Form 10-Q. If the Company is unable to generate sufficient cash flows from operations, or otherwise comply with the terms of the Credit Facility or its term loan agreement, the Company may be required to seek additional financing alternatives.

Long-term Debt. There has been no significant change in our long-term debt as described in the 2019 Annual Report. Our long-term debt is discussed in Note 10 of Notes to Condensed Consolidated Financial Statements (Unaudited).

Contractual and Other Commercial Commitments. There has been no significant change in our contractual and other commercial commitments as described in the 2019 Annual Report. Our guarantees and product warranties are discussed in Note 8 of Notes to Condensed Consolidated Financial Statements (Unaudited).

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with GAAP. In connection with the preparation of these financial statements, we are required to make assumptions, estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and the related disclosure of contingent liabilities. These assumptions, estimates and judgments are based on historical experience and assumptions that are believed to be reasonable at the

time. However, because future events and their effects cannot be determined with certainty, the determination of estimates requires the exercise of judgment. Our critical accounting policies are those that require assumptions to be made about matters that are highly uncertain. Different estimates could have a material impact on our financial results. Judgments and uncertainties affecting the application of these policies and estimates may result in materially different amounts being reported under different conditions or circumstances. Our management periodically reviews these estimates and assumptions to ensure that our financial statements are presented fairly and are materially correct. We assessed certain accounting matters that generally require consideration of forecasted financial information in context with the information reasonably available to us and the unknown future impacts of COVID-19 as of September 30, 2020 and through the date of this report. The accounting matters assessed included, but were not limited to, our allowance for doubtful accounts, stock-based compensation, the carrying value of our goodwill and other long-lived assets, financial assets, valuation allowances for tax assets and revenue recognition. While there was not a material impact to our consolidated financial statements as of and for the nine months ended September 30, 2020, resulting from our assessments, our future assessment of our current expectations at that time of the magnitude and duration of COVID-19, as well as other factors, could result in material impacts to our consolidated financial statements in future reporting periods.

In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require significant management judgment in its application. There are also areas in which management's judgment in selecting among available alternatives would not produce a materially different result. The significant accounting policies and estimates that we believe are the most critical to aid in fully understanding and evaluating our reported financial results are discussed in the 2019 Annual Report. Teradata's senior management has reviewed these critical accounting policies and related disclosures and determined that there were no significant changes in our critical accounting policies in the nine months ended September 30, 2020.

New Accounting Pronouncements

See discussion in Note 2 of Notes to Condensed Consolidated Financial Statements (Unaudited) for new accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have not been any material changes to the market risk factors previously disclosed in Part II, Item 7A of the 2019 Annual Report.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Teradata maintains a system of disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) that are designed to provide reasonable assurance that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including, as appropriate, the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Based on their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2020, our disclosure controls and procedures were effective to provide reasonable assurance that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material adverse impact to our internal controls over financial reporting as a result of most of our employees working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact on their design and operating effectiveness.

Part II—OTHER INFORMATION

Item 1. Legal Proceedings.

On June 19, 2018, the Company and certain of its subsidiaries filed a lawsuit in the U.S. District Court for the Northern District of California against SAP SE, SAP America, Inc., and SAP Labs, LLC (collectively, "SAP"). In the lawsuit, the Company alleges, among other things, that SAP misappropriated certain of the Company's trade secrets within the Company's enterprise data analytics and warehousing products and used them to help develop, improve, introduce, and sell one or more competing products. The Company further alleges that SAP has employed anticompetitive practices using its substantial market position in the enterprise resource planning applications market to pressure the Company's customers and prospective customers to use SAP's one or more competing products and reduce or eliminate customers' and prospective customers' use of the Company's offerings. The Company seeks an injunction barring SAP's alleged conduct, monetary damages, and other available legal and equitable relief. In July 2019, SAP filed patent infringement counterclaims against Teradata based on five SAP patents, and we plan to vigorously defend against these counterclaims. Currently, it is not possible to determine the likelihood of a loss or a reasonably estimated range of loss, if any, pertaining to the counterclaims. On August 31, 2020, the Company filed a second lawsuit against SAP in the U.S. District Court for the Northern District of California. In this lawsuit, Teradata alleges infringement by SAP of five Teradata patents, and seeks an injunction barring SAP from further infringement, monetary damages, and other available legal and equitable relief.

Item 1A. Risk Factors.

With the exception of the risk factor listed below, there have not been any material changes to the risk factors previously disclosed in Part I, Item 1A of the 2019 Annual Report.

The Company's business, results of operations, and financial condition have been adversely affected, and could in the future be materially adversely affected, by the COVID-19 pandemic.

As more fully described elsewhere in this Quarterly Report on Form 10-Q, our business, results of operations, and financial condition have been adversely affected by the COVID-19 pandemic. The degree to which the COVID-19 pandemic in the future affects our business, financial condition, and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the duration and spread of the unprecedented pandemic, its severity, the actions to contain the virus or respond to its impact, and how quickly and to what extent normal economic and operating conditions can resume. The COVID-19 pandemic or any other adverse public health development could also inhibit our ability to execute our strategic initiatives including, without limitation, improving the experience of our customers, investing identified strategic growth platforms and shifting the mix of revenue in our business to cloud as well as subscription revenue.

Furthermore, negative economic conditions related to the COVID-19 pandemic have impacted, and may in the future impact, our ability to close transactions and/or collect receivables from customers on a timely basis, or at all, and may also impact our customers' willingness to maintain or increase spending on data analytics, their ability to obtain adequate financing for the purchase of our products and services, or the amount of disposable income available to consumers, which may adversely impact the businesses of our customers in consumer-facing industries.

Additionally, governmental restrictions and public perceptions of the risks associated with the COVID-19 pandemic have caused, and may continue to cause, consumers to avoid or limit gatherings in public places or social interactions, which could adversely affect the businesses of our customers in certain industries, such as transportation, entertainment and hospitality. Such customers have experienced, and may continue to experience,

significant near-term working capital and cash flow adverse impacts as a result of the COVID-19 pandemic, which, in turn, could adversely impact our ability to maintain or increase revenue from such customers.

In addition, the global supply chain risks present a level of uncertainty due to the international and domestic pandemic recovery efforts. The uncertainty of an increase in the number of COVID-19 infections in areas where our suppliers source their parts could present sourcing challenges to our suppliers. Further, if countries in which we do business close their borders, it may impact the timing of closing sales transactions or the ability to service our customers in select geographies.

We have experienced, and expect to continue to experience, adverse fluctuations in foreign currency exchange rates, particularly an increase in the value of the U.S. dollar against certain key foreign currencies, which negatively affected, and we expect will continue to negatively affect, our reported results of operations and financial condition.

As a result of the COVID-19 pandemic, including related governmental guidance or directives, we have required most employees to work remotely. We may experience reductions in productivity and disruptions to our business routines while our remote work policy remains in place.

Governmental authorities in the United States and throughout the world may increase or impose new income taxes or indirect taxes, or revise interpretations of existing tax rules and regulations, as a means of financing the costs of stimulus and other measures enacted or taken, or that may be enacted or taken in the future, to protect populations and economies from the impact of the COVID-19 pandemic. Such actions could have an adverse effect on our results of operations and cash flows.

While we have implemented programs to mitigate the impact of these risks on our results of operations, there can be no assurance that these programs will be successful and there are many aspects of this pandemic, particularly its impact on our customers, that are beyond our control. The spread of COVID-19 has caused us to modify our business practices, such as employee work locations, and we may take further actions as may be required by government authorities or that we determine is in the best interests of our employees, customers, distributors, suppliers and contractors. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus, and our ability to perform critical functions could be harmed. Moreover, these measures, and similar measures at our customers, have resulted in, and in the future may result in, installation and payment delays. In addition, we have experienced, and expect to continue to experience, delays and cancellations of consulting projects due to work from home and shelter-in-place orders and also because of the discretionary nature of consulting projects which may be delayed or suspended as a result of more conservative spending patterns by our customers in light of the economic impacts of the pandemic.

Even after the COVID-19 pandemic has subsided, we may continue to experience adverse impacts to our business as a result of the economic recession that has occurred and any economic recession that may occur in the future. The COVID-19 pandemic could also exacerbate or trigger other risks discussed in our "Risk Factors" in Part I, Item 1A of the 2019 Annual Report, any of which could have a material adverse effect on our business, results of operations and financial condition.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Purchases of Company Common Stock

From time to time, the Company's Section 16 officers sell to the Company shares of the Company's common stock received upon vesting of restricted share units at the current market price to cover their withholding taxes. For the nine months ended September 30, 2020, the total of these purchases was 126,324 shares at an average price of \$22.61 per share.

The following table provides information relating to the Company's share repurchase programs for the nine months ended September 30, 2020:

Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Dilution Offset Program ⁽¹⁾	Total Number of Shares Purchased as Part of Publicly Announced General Share Repurchase Program ⁽²⁾	Maximum Dollar Value that May Yet Be Purchased Under the Dilution Offset Program	Maximum Dollar Value that May Yet Be Purchased Under the General Share Repurchase Program
First Quarter Total	3,656,766	\$ 20.52	208,078	3,448,688	\$ 1,317,522	\$ 432,248,874
Second Quarter Total	—	—	—	—	\$ 4,374,148	\$ 432,248,874
July 2020	—	—	—	—	5,762,174	432,248,874
August 2020	—	—	—	—	6,630,310	432,248,874
September 2020	—	—	—	—	7,538,584	432,248,874
Third Quarter Total	—	—	—	—	\$ 7,538,584	\$ 432,248,874

(1) The dilution offset program allows the Company to repurchase Teradata common stock to the extent of cash received from the exercise of stock options and purchases under the ESPP to offset dilution from shares issued pursuant to these plans.

(2) The general share repurchase program authorized by the Board allows the Company to repurchase outstanding shares of Teradata common stock. Share repurchases made by the Company are reported on a trade date basis. On July 28, 2019, Teradata's Board of Directors authorized an additional \$500 million to be utilized to repurchase Teradata common stock under this share repurchase program. The general share repurchase program expires on July 27, 2022.

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

None

Item 5. Other Information.

None

Item 6. Exhibits.

**Reference Number
per Item 601 of
Regulation S-K**

Description

-
- | | |
|-------|---|
| 2.1 | <u>Form of Separation and Distribution Agreement between Teradata Corporation and NCR Corporation (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated September 11, 2007 (SEC file number 001-33458)).</u> |
| 3.1 | <u>Amended and Restated Certificate of Incorporation of Teradata Corporation as amended and restated on September 24, 2007 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K dated September 25, 2007 (SEC file number 001-33458)).</u> |
| 3.2 | <u>Amended and Restated By-Laws of Teradata Corporation, as amended and restated on July 26, 2016 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K dated August 1, 2016).</u> |
| 4.1 | <u>Common Stock Certificate of Teradata Corporation (incorporated by reference to Exhibit 4.1 to the Quarterly Report on Form 10-Q dated November 13, 2007 (SEC file number 001-33458)).</u> |
| 10.1* | <u>Offer Letter from Teradata Corporation to Hillary Ashton dated August 31, 2020.</u> |
| 31.1 | <u>Certification pursuant to Rule 13a-14(a), dated November 6, 2020.</u> |
| 31.2 | <u>Certification pursuant to Rule 13a-14(a), dated November 6, 2020.</u> |
| 32 | <u>Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 6, 2020.</u> |
| 101 | Inline interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Statements of (Loss) Income for the three and nine months period ended September 30, 2020 and 2019, (ii) the Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months period ended September 30, 2020 and 2019, (iii) the Condensed Consolidated Balance Sheets at September 30, 2020 and December 31, 2019, (iv) the Condensed Consolidated Statements of Cash Flows for the nine months period ended September 30, 2020 and 2019, (v) the Condensed Consolidated Statements of Changes in Stockholders' Equity for the three and nine months period ended September 30, 2020 and 2019 and (vi) the Notes to Condensed Consolidated Financial Statements. |
| 104 | Cover page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). |

* Management contract or compensatory plan, contract or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TERADATA CORPORATION

Date: November 6, 2020

By: /s/ Mark A. Culhane
Mark A. Culhane
Chief Financial Officer



PERSONAL AND CONFIDENTIAL

August 25, 2020

Hillary Ashton

Dear Hillary,

I am delighted to extend you this promotional offer with Teradata Corporation and its affiliates ("Teradata" or "Company") as Chief Product Officer, effective as of August 31, 2020 (the "Effective Date"), based in San Diego, CA, and reporting to Steve McMillan, President & CEO.

Base Salary: Your new base salary, as of the Effective Date, will be paid at an annualized rate of \$430,000.00, less applicable taxes and withholdings, and paid to you on Teradata's normal bi-weekly payroll schedule.

Management Incentive Plan (MIP). In addition to your new base salary, you will continue to participate in Teradata's Management Incentive Plan (the "MIP"). Teradata's MIP is a performance-based annual incentive program for executive officers. Under the MIP, the Compensation and Human Resources Committee of the Board (the "Committee") establishes an annual bonus program based upon financial and/or strategic performance results achieved by Teradata, as well as your individual performance against your business objectives. As of the Effective Date, your new MIP target incentive opportunity shall equal 100% of your eligible gross base salary, which would bring your new total targeted annual compensation to \$860,000.00. In 2020, your annual target incentive will be prorated for the period of time you were in each role. MIP bonuses, if earned, will be paid in the first calendar quarter following the Plan year. No MIP award is guaranteed, and unless an exception applies as expressly set forth in the MIP Guidelines, you must be employed by Teradata on the date MIP awards are paid to be eligible to receive an MIP award. The MIP Guidelines are subject to amendment by Teradata in accordance with the terms of the Plan.

Annual Equity Award (Performance-Based / Restricted Share Units): You will continue to be eligible to participate in Teradata's annual equity award program for executive officers. Annual awards are typically determined by the Committee together with the other independent members of the Board in the first quarter of each year and are generally comprised of a mixture of performance-based restricted share units ("PBRsUs") and service-based restricted share units ("RSUs"). The precise nature of the award and vesting schedules will be determined by the Committee together with the other independent members of the Board in its discretion.

Subject to approval by the Committee, Teradata anticipates awarding you with a supplemental 2020 annual equity award with a target value of \$1,300,000 (the "2020 Equity Award"). The actual number of shares for this supplemental 2020 Equity Award will be determined by dividing the target value by the preceding 20-day average of Teradata's common stock prior to, but not including, the Effective Date. This supplemental 2020 Equity Award shall be effective September 1 2020, the first business day following your promotion date and allocated 60% to PBRsUs (subject to a three (3)-year performance period commencing January 1, 2020 and achievement of the same goals applicable to other senior executives of

Teradata) and 40% to RSUs (vesting in three (3) equal annual installments as of September 1, 2020). The Annual Equity Award will be governed by the terms and conditions of the Teradata 2012 Stock Incentive Plan, as amended ("Plan") and your PBRSU and RSU equity award agreements, which you will be required to accept in connection with the award.

In addition, for avoidance of doubt, with respect to the settlement of the supplemental PBRSU award, the award will distribute any vested shares earned in connection with such awards promptly after the performance achievement is certified by the Committee in the first quarter following the end of the applicable performance period. The RSU portion of this supplemental award will vest in three (3) equal annual installments aligned to the grant date of September 1, 2020.

Stock Ownership Guidelines: The Chief Product Officer position is subject to Teradata's Stock Ownership Guidelines holding requirement as established by the Committee, currently, 3x annual base pay for the Officers, which are subject to change from time to time at the Committee's discretion.

Executive Severance Plan and Change in Control Plan: You will continue to participate as a Level I participant in the Teradata Executive Severance Plan and a participate in the Teradata Change in Control Plan. These plans are subject to amendment or termination by Teradata in accordance with its terms, and your participation is subject to your signing a participation agreement under the ESP.

Benefits: As an employee of the Company, you will continue to be eligible to participate in the standard benefit plans offered to similarly situated employees by Teradata, subject to plan terms and generally applicable company policies. Teradata may change its benefit programs from time to time in its discretion.

This letter, together with the Employee Confidential Information and Inventions Assignment Agreement you signed upon hire, forms the complete and exclusive statement of your employment agreement with Teradata. It supersedes any other agreements or promises made to you by anyone, whether oral or written. Changes in your employment terms, other than those changes expressly reserved to Teradata's discretion in this letter, require a written modification signed by an officer of Teradata.

Hillary, we are excited to provide this offer and look forward to the continued contributions bring to Teradata; I hope you share this enthusiasm. This offer assumes a promotion date of August 31, 2020, unless otherwise mutually agreed.

If you have any questions regarding the details of this offer, please do not hesitate to contact me.

Sincerely,

/s/ Steve McMillan

Steve McMillan
President & Chief Executive Officer

I, Hillary Ashton, accept the offer of employment by Teradata Corporation on the terms described in this letter.

/s/ Hillary Ashton _____
Hillary Ashton

Date: August 25, 2020

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECURITIES**

EXCHANGE ACT RULE 13a-14

I, Stephen McMillan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Teradata Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date : November 06, 2020

/s/ Stephen McMillan

Stephen McMillan

President and Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECURITIES**

EXCHANGE ACT RULE 13a-14

I, Mark A. Culhane, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Teradata Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date : November 06, 2020

/s/ Mark A. Culhane

Mark A. Culhane

Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Teradata Corporation, a Delaware corporation (the “Company”), on Form 10-Q for the period ended September 30, 2020 as filed with the U.S. Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company does hereby certify, pursuant to 18 U.S.C. § 1350 (section 906 of the Sarbanes-Oxley Act of 2002), that:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification (i) is given to such officers’ knowledge, based upon such officers’ investigation as such officers reasonably deem appropriate; and (ii) is being furnished solely pursuant to 18 U.S.C. § 1350 (section 906 of the Sarbanes-Oxley Act of 2002) and is not being filed as part of the Report or as a separate disclosure document.

Date: November 06, 2020

/s/ Stephen McMillan

Stephen McMillan

President and Chief Executive Officer

Date: November 06, 2020

/s/ Mark A. Culhane

Mark A. Culhane

Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signatures that appear in typed form within the electronic version of this written statement required by Section 906, has been provided to Teradata Corporation and will be retained by Teradata Corporation and furnished to the United States Securities and Exchange Commission or its staff upon request.