Chad Bennett, Senior Vice President, Investor Relations & Corporate Development, Teradata

Good afternoon, and welcome to Teradata's 2025 second quarter earnings call.

Steve McMillan, Teradata's President and Chief Executive Officer, will lead our call today, followed by John Ederer, Teradata's Chief Financial Officer, who will discuss our financial results and outlook.

Our discussion today includes forecasts and other information that are considered forward-looking statements. While these statements reflect our current outlook, they are subject to a number of risks and uncertainties that could cause actual results to differ materially. These risk factors are described in today's earnings release and in our SEC filings, including our most recent Form 10-K, and in the Form 10-Q for the quarter ended June 30th, 2025, that is expected to be filed with the SEC within the next few days.

These forward-looking statements are made as of today, and we undertake no duty or obligation to update them.

On today's call, we will be discussing certain non-GAAP financial measures which exclude such items as stock-based compensation expense, and other special items described in our earnings release. We will also discuss other non-GAAP items such as free cash flow, constant currency comparisons, and 2025 revenue and ARR growth outlook in constant currency.

Unless stated otherwise, all numbers and results discussed on today's call are on a non-GAAP basis.

A reconciliation of non-GAAP to GAAP measures is included in our earnings release, which is accessible on the Investor Relations page of our website at investor.teradata.com.

A replay of this conference call will be available later today on our website.

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

Steve McMillan Q2 2025 Earnings Prepared Remarks

Thanks, Chad and hello everyone.

Teradata delivered well in Q2, as we continued to see improved execution across the company. We delivered Total ARR of $1.49B in Q2, up 2% year-over-year as reported. This gives us additional confidence in our ability to achieve our full year targets.

We are seeing improvements in linearity, in both expansions and renewals, resulting from the Go to Market actions that started in the middle of 2024 to improve our sales execution. We experienced better deal execution in Q2, with some deals closing in the quarter that had been expected in Q3. We see customers recognizing the importance of and the value of strong data management capabilities to underpin their AI and GenAI initiatives.

We meaningfully improved overall retention rates again in Q2, and we expect this to continue for the full year 2025. Thanks to the teams' positive efforts in managing ongoing contracts with customers, we were able to extend some contracts into the back half of the year. From a cloud perspective, we delivered ARR of $634M, as we see continued migrations and expansions. The solid 15% constant currency Cloud ARR growth is in-line with our full-year guidance range of 14% to 18%.

I'll start the quarterly update with the new executive leadership members we recently brought on. During our last earnings update, we introduced Sumeet Arora, our new Chief Product Officer, and I am pleased to have John Ederer, our new CFO, on the call today. In the quarter, we also announced Scot Rogers as our new Chief Administrative Officer, as we streamlined our People and Law functions. These veteran executives are here to help our ongoing strategic execution as we position the Company to accelerate growth and deliver ongoing durable free cash flow. They have proven track records and have acted with urgency to make important marks on the business in a short period of time as we work to return to growth and drive long-term returns for our investors.

Additionally, we realigned our marketing function into our GTM and Product organizations. Integrating these functions is designed to gain operational efficiency and increase agility and speed in execution, as we unify our approach to developing our pipeline and serving our customers. This restructuring supports our growth objectives, while removing costs to optimize our operating margin.

I'm confident that we've got the right leadership team to address the markets changing priorities and to take advantage of AI as a value driver.

The pervasive interest in AI and GenAI is leading to growth across the industry, and increasingly in a hybrid environment. We see companies incorporating the deployment option that works best for each need, whether cloud, on-prem or a hybrid approach. We are building on our cloud growth and leveraging our strength in on-prem to provide customers with the hybrid data and analytics environments they need. We believe that customers' investments in high quality, trusted data will pay dividends in high quality, trusted AI outcomes. Our differentiated capabilities are designed to deliver consistent,

world-class data and analytics across an open and connected ecosystem. We help customers incorporate what is right for their business, regardless of the deployment option they choose.

Agentic AI is the "now" industry topic, and we introduced a number of innovation advancements that we believe are keeping us ahead of the curve. With our recent Teradata AI Factory announcement, we are bringing AI and machine learning capabilities on-prem. Integrated with NVIDIA's AI Enterprise, companies in regulated industries, or those that have data sovereignty requirements or want more control over their AI deployments, can now have private AI with the security, governance and cost control of on-prem.

Enterprise Vector Store that we announced last quarter is now generally available. It is designed to cost-effectively combine structured and unstructured data with the speed needed to get value out of complex business challenges. This is a crucial infrastructure component for building trusted and efficient AI systems. It is designed to help customers move beyond basic GenAI implementations toward sophisticated agentic AI use cases like customer complaint analyzer and augmented call center.

We also recently announced our open-source MCP (Model Context Protocol) server. MCP is the industry-standard technology that enables AI agents to interact with back-end data platforms to get the context needed to make smart decisions. In developing agentic AI initiatives, the challenge is not just about building smarter models – it's about giving those models access to the right context. With this technology, we expect to enable our customers' AI agents to connect to the Teradata systems and leverage ClearScape Analytics to both report on and build predictions around business processes and operations – ultimately significantly increasing the usage of the Vantage platform. This is designed to be enabled through trusted enterprise data, cost-effectively and at any scale. This combination can empower organizations to move beyond isolated AI experiments and deploy intelligent, context-aware agents that drive real business outcomes and value.

We also introduced LLMOps, enabling enterprises to accelerate how they deploy, manage and monitor language models. LLMOps is a capability in Teradata ModelOps 8.1. It is designed to support rapid deployment of NVIDIA Inference Microservices, and enable users to select from over 80 models and deploy them directly into GPU environments. We believe that this technology supports rapid deployment of GenAI applications, including RAG pipelines, and it is designed to accelerate time to market for AI/ML initiatives.

We have expanded support for Teradata OTF with access to Iceberg and Delta Lake tables across AWS, Azure, and Google Cloud. This enables VantageCloud Enterprise customers to begin OTF testing and application development as they build future-ready enterprises.

Of course, we deliver these innovations in support of one goal ... helping our customers achieve massive value from the data and analytics, which in turn helps us continue to grow. I'll walk through a few examples.

We are helping one of the largest banks in the world and a long-standing customer to build an anti-money laundering analytics capability for its financial crimes division. Here, our customer-focused innovation days helped co-develop this analytics platform to the customer's needs. This is an example of how we are leveraging AI and ClearScape Analytics to enhance sales to our base.

A multinational bank in APJ is using GenAI with Teradata to improve its customer experience. In this AI for CX use, we are processing 50,000 interactive text conversations a week on complex data. This helps rapidly identify friction points with customers to improve customer satisfaction and unlock significant value for the bank.

We are helping a large European logistics company deliver on its strategic initiative to drive digital transformation across its broad set of operations by integrating relevant data to accelerate and innovate its business.

A U.S. financial services company established a new on-prem Vantage ecosystem in their new private cloud data center to modernize current platforms with growth from increased workloads driven by operationalizing AI with Teradata ClearScape Analytics, and finally...

A Middle Eastern financial institution added Teradata replacing a long-standing competitor to improve its customers' experience.

We are also gearing up for our annual customer event, Possible: the Trusted AI and data Conference. We will have a robust suite of speakers ... from many fantastic customers, as well as leading partner companies and industry experts. We will be hosting this event in LA on October 6th through the 8th. There are many more details on our website.

We remain focused on accelerating innovation and value for our customers across an open and connected ecosystem as they implement AI initiatives. We do this with a global network of industry-leading partners, and Q2 was a great quarter of partner collaborations.

In May, we announced a new data integration with ServiceNow's Workflow Data Fabric. This integration is designed to connect, understand and activate customer data on the ServiceNow AI Platform to fuel AI agents, autonomous workflows and analytics at scale.

Teradata also participated in the Salesforce announcement expanding its AI Agent ecosystem, AgentExchange. Agents built in AgentForce can easily discover and connect to our MCP server through AgentExchange. This is designed to provide the enterprise context that powers trusted decisioning. For instance, an agent could request the next best recommendation based on customer history, sentiment, and/or behavior, in order to deliver a relevant offer to our customers in real time.

In Q2, we also announced a new partnership with Fivetran, to transform data pipelines for rapid AI Insights. Together, we expect to simplify data integration for customers by automating data movement from hundreds of sources across the enterprise into Teradata. With this integration, Teradata and Fivetran can empower customers to leverage all of their data for complex AI workloads and drive trusted AI at scale, reducing engineering overhead so teams can focus on insights, not pipelines.

teradata.

We will continue to invest in innovations and partnerships that make it easy for our customers to build and achieve value from their agentic AI solutions with Teradata.

As I turn the call to John, I'll summarize Q2 as a quarter of progress on many fronts. As we have restructured the company and executed, we have built a solid foundation for longer-term durable free cash flow growth for the company. Our deep data and analytics capabilities position us well to address the secular drivers in technology resulting from AI. After solid execution in the first half of the year, we have increased confidence and we are reiterating our outlook for ARR and free cash flow metrics for the year.

As we look ahead, we see the opportunity for greater operating leverage and free cash flow growth from our ongoing work to optimize our expense envelope.

And now, I'll pass the call to John.

John Ederer Q2 2025 Earnings Prepared Remarks

Thank you, Steve, and good afternoon, everyone.

In the second quarter, we finished above the high-end of our recurring revenue outlook range, at the top-end of our total revenue range, and Earnings Per Share outperformed our expectations. Total ARR grew 2% year-over-year on a reported basis and was flat from a constant currency perspective. Our Cloud ARR growth rate was 17% reported and 15% in constant currency, and our Cloud Net Expansion Rate was 112%, performing in-line with expectations. We continue to see a balanced mix of migrations and expansions driving our Cloud ARR.

While acknowledging the boost from currency this quarter, we did achieve Total ARR growth sooner than anticipated this year, as we were able to pull in a few deals early and extend other customers from a retention perspective. The timing of these deals will have some impact on our Q3 ARR metrics, but we continue to believe that we are on track to achieve Total ARR growth in Q4 on a constant currency basis, and we are reiterating our FY25 outlook for Total ARR, Cloud ARR, and free cash flow.

In terms of our detailed financial results for the second quarter:

- Total revenue was $408M, down 6% year-over-year as reported and 7% in constant currency, which was at the high-end of our outlook.

- Recurring revenue was $354M, down 4% year-over-year as reported and in constant currency, which was 1 point above the high-end of our outlook.

- Upfront recurring revenue had a negligible impact on the growth rate.

- Recurring revenue as a percentage of total revenue was 87%, up from 84% in Q2 last year.

- Services revenue was $51M, down 19% year-over-year as reported and 20% in constant currency. While the services business has been a headwind this year for total revenue growth, we expect that a higher mix of recurring revenue will ultimately provide a stronger business model and better margins.

Looking at profitability and free cash flow, please note that I will be referencing non-GAAP numbers for expenses and margins, and a full reconciliation to GAAP results is provided in our press release. For the second quarter:

- Total gross margin was 58.3%, which was down year-over-year primarily due to the headwinds in our services business. In line with our ongoing focus to proactively manage productivity, we have taken cost actions in Q2 to enable us to return to positive service gross margin in the second half of 2025, and we will continue to optimize costs as we manage the business.

- Recurring gross margin was also impacted by year-over-year revenue, primarily due to headwind stemming from our ARR performance last year and increasing cloud mix.

- Operating margin for Q2 was 16.4%, which was impacted by lower revenue and gross margins. Looking specifically at operating expenses, the actions that we took last year resulted in lower SG&A expense in dollar terms, that was partially offset by investments in R&D.

- Non-GAAP diluted earnings per share was $0.47, exceeding the top-end of our outlook range. The outperformance is primarily from higher revenue.

- We generated $39M of Free Cash Flow in the quarter, which is flat on a year-over-year basis.

- And finally, in the second quarter, we repurchased approximately $28M of our stock, or 1.3M shares – and we continue to expect to return at least 50% of our free cash flow to shareholders in the form of share repurchases.

Turning to our outlook for the remainder of the year:

For the third quarter of 2025:

- We expect recurring revenue to be in the range of -4% to -6% year-over-year on a constant currency basis.

- We expect total revenue to be in the range of -7% to -9% year-over-year on a constant currency basis.

- And, we expect Non-GAAP diluted earnings per share to be in the range of $0.51 to $0.55.

While we do not typically provide quarterly guidance on Total ARR and Cloud ARR, I did want to point out a shift in linearity that we are seeing in the business. As noted, we were able to pull in some deals into Q2 and extend some other customers, which resulted in Q2 Total ARR and Cloud ARR coming in above our expectations. However, due to this shift, we anticipate that Q3 Cloud ARR will dip below our target range for the year, but we are still reaffirming our full year target. For Total ARR, we anticipate a modest sequential decline in dollars from Q2 to Q3.

For FY25, we reaffirm our guidance for Cloud ARR, Total ARR, Recurring Revenue, and Cash Flow; and these ranges can be found in our Q2 press release.

We are tightening the ranges for the full year on the following metrics:

- For Total Revenue, we are updating the range to -5% to -7% year-over-year in constant currency due to lower services bookings and anticipated revenue.

- For Earnings Per Share, our updated outlook for GAAP EPS is $1.04 to $1.12 and for non-GAAP EPS is $2.17 to $2.25.

Based on FX rates at the end of July, our reported Total ARR and Cloud ARR growth rates should be approximately 100 to 200 basis points above our constant currency growth rates in Q4'25. For revenue, we do not anticipate any currency impact to our full year outlook.

Finally, we expect the Non-GAAP tax rate to be approximately 23.1% and the weighted average shares outstanding to be 96.5M for the full year.

Again, please refer to our Q2 earnings presentation on our investor relations website for a complete list of our 2025 outlook ranges.

In closing, I'm very excited to join the company at a time when our Hybrid Trusted AI platform is becoming increasingly important in the market. I look forward to working with Steve and the rest of the team as we continue to transform Teradata and drive a profitable growth strategy. I believe we are taking the necessary steps to set ourselves up for improved profitably and durable free cash flow growth, which should, in turn, drive shareholder value.

Thank you all for your time today, now let's open the call up for questions.