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Teradata Corp. (TDC)

Q4 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Victoria, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Teradata 2025 fourth quarter and full year earnings call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

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

Chad Michael Bennett

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

Good afternoon and welcome to Teradata's fourth quarter and full year 2025 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, will discuss our financial results and outlook. Our discussion today includes forecasts and other information that are considered forward looking statements. While these statements reflect our current outlook, they are subject to a number of risks and uncertainties that could cause actual results to differ materially. These risk factors are described in today's earnings release and in our SEC filings. Please note that Teradata intends to file the form 10-K for the year ended December 31, 2025, later this month. These forward looking statements are made as of today, and we undertake no duty or obligation to update them.

On today's call, we will be discussing certain non-GAAP financial measures, which exclude such items as stock-based compensation expense and other special items described in our earnings release. We will also discuss other non-GAAP items, such as free cash flow and constant currency comparisons. Unless stated otherwise, all numbers and results discussed on today's call are on a non-GAAP basis. A reconciliation of non-GAAP to GAAP measures is included in our earnings release, which is accessible on the Investor Relations page of our website at investor.teradata.com. A replay of this conference call will be available later today on our website.

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

Steve McMillan

President, Chief Executive Officer & Director, Teradata Corp.

Hi everyone, and thanks for joining us. I'm pleased to report another set of strong results for Teradata. In the fourth quarter, we again exceeded expectations for total revenue, recurring revenue and free cash flow. Our strong earnings per share and continued total ARR growth reflect the actions we took to improve our operating model. 2025 was the year of revitalized execution. We stabilized the business, meaningfully improved retention, and saw customers choosing to expand their use of Teradata with a mix of both traditional and new types of workloads. Engagement with customers remained strong and the business operated well. We believe we are solidly positioned to continue on a profitable growth path in 2026, with healthy free cash flow generation to deliver value to our shareholders.

As we look ahead, we believe enterprises of the future will be shaped by those who harness agentic AI systems that reason, act and adapt autonomously 24/7. We remain focused on helping organizations activate the intelligence in their enterprise, ensuring AI agents have the enterprise context they need and can act on it in milliseconds to address continuous decision-making at enterprise scale. This requires a new system of intelligence, one that unifies data, analytics, enterprise context, governance, and AI agents. We believe Teradata is uniquely suited to provide all of this with our Autonomous AI and Knowledge platform.

As we stated throughout 2025, we saw a resurgence of interest in our hybrid model. We're seeing customers want to leverage both on-prem and cloud deployment options to meet their diverse business needs, driven by data sovereignty and increased regulatory environments around the globe. Our platform is designed to give customers the opportunity to run agentic AI at scale wherever that data resides in their business, and we are seeing customers effectively operating across both. Over decades, we have fine-tuned our platform to address massive scale with performance, foundational factors for implementing autonomous AI. Throughout 2025, we saw customer engagement across all regions and industries shift towards AI and Elastic Compute, as they explored AI uses and looked to reinvent their Teradata platform for autonomous knowledge capability.

Our forward deployed engineers and AI services consultants executed more than 150 engagements with customers, helping them operationalize AI to address high-value use cases. In 2025, we launched a broad set of innovations as we built foundational capabilities to help customers bring AI into real-world use cases that can drive tangible business value.

First, our Enterprise Vector Store cost effectively combine structured and unstructured data with the speed needed to deliver information to agents in real time. We enhanced our ModelOps capabilities, designed to enable models to run directly inside the Teradata ecosystem, gaining efficiency. An exciting announcement was our MCP Server. It connects AI systems with interactive access to the enterprise data context and predictive AI capabilities necessary to provide meaningful outcomes.

We believe that the MCP Server and the agentic AI solutions that utilize it will increase usage of our platform. To further speed AI adoption, we launched Teradata AgentBuilder and introduced pre-built agents. This broad set of capabilities enables us to deliver autonomous customer intelligence, a set of software and services that embed Teradata agents to help improve the customer experience. We also launched Teradata AI Factory, an exciting announcement that brought AI and machine learning capabilities to on-premise environments. It was designed for organizations in regulated industries, or with data sovereignty requirements, or the one to manage and contain their AI infrastructure costs.

And to help organizations transform their AI pilots into production-ready solutions, we introduced new AI services. This impressive set of innovations led a very solid foundation for 2026, and we also have a fantastic set of technology announcements planned throughout this year. We believe these announcements will strengthen our portfolio in order to help our customers get AI agents into action and operationalize autonomous AI. We have kicked off a strong start to the year with a recently released Enterprise AgentStack. This comprehensive toolkit is designed to help enterprises rapidly transition from pilot AI projects to production-level autonomous agents across diverse environments.

Our AgentStack integrates tools for building, deploying, and managing AI agents with security, governance, and enterprise data utilization. We believe we're delivering capabilities that set Teradata apart from the competition, and we're delivering them across cloud and on-premises environments, supporting the hybrid goals of our customers. As an AI and knowledge platform company, we are the core of a broad system of intelligence that will enable autonomous actions to ensure customer choice, we maintain our commitment to building and executing partnerships that strengthen our connected ecosystem and extend our capabilities. For example, our new partnership with Unstructured.io brings automated ingestion and conversion of unstructured content, meaning documents, PDFs and images into analysis-ready, structured data. This supports our vision of an end-to-end AI ecosystem, helping our customers turn their intelligence and their enterprise into business outcomes.

We have multiple proof of concepts underway in all regions and across all industries. We also just announced the availability of our enterprise grade Data Analyst AI agent on Google Cloud Marketplace, giving organizations a secure way to run real-time analytics and agentic AI directly within their cloud environment. This pre-built agent reduces the cost and complexity of moving data and provides a scalable foundation for future multi-agent scenarios on Google Cloud.

Now, let me take you through a handful of examples of the ways organizations are leveraging our AI and data analytics capabilities, many of which represent the early stages of our customer's long-term AI initiatives. A large US telco added a cloud instance to its Teradata estate and now runs a hybrid Teradata environment. It's running specific financial compliance workloads on Google Cloud with its other workloads on prem. This customer is also looking to use our open table format to seamlessly share data across its ecosystem.

A top US airline modernized a high-impact pricing application by migrating it to our Elastic Compute Platform. This unlocked greater scalability and agility for a program that drives significant annual revenue for the customer. A major UK bank selected Teradata to move its real-time customer experience platform to the cloud, reinforcing our strength in the highly regulated financial services sector. Using our AI-powered marketing applications, the bank expects to speed up campaign launches and simplify operations to drive a competitive advantage in today's digital first banking market. We're supporting a high tech manufacturer in EMEA on a strategic AI initiative, helping embed advanced AI and analytics into complex manufacturing models. In doing so, we're enabling automated workflows that drive real-time AI-driven production decisions, improving yield, lowering costs, and accelerating innovation.

These examples from across numerous industries are representative of the team's strong momentum in 2025 and with our continued focus on helping customers get the most out of their AI initiatives, we intend to keep up the momentum in 2026. As I pass the call to John, I will summarize that we are entering 2026 on solid footing following our strong close to 2025. We believe we have capabilities no competitor offers, in a cohesive, open platform, and our differentiation is resonating with customers, partners and industry analysts. We remain on our clear, profitable growth path, driving operating leverage, free cash flow growth and delivering lasting value to our shareholders.

Over to you, John, to walk us through the details.

John Ederer

Chief Financial Officer, Teradata Corp.

Thank you, Steve, and good afternoon, everyone. We closed out fiscal 2025 on a positive note, demonstrating operational discipline and improved quarterly consistency across our key financial metrics. During the year, we returned total ARR to positive growth of 3% on a reported basis. We continued to improve non-GAAP operating margins to 21%. We drove year-over-year improvement in free cash flow to \$285 million, which exceeded the high end of our outlook, and we reestablished a track record of meeting or exceeding quarterly expectations. Our solid execution in 2025 is provided a foundation for continued improvement in 2026 and beyond.

We remain committed to profitable growth in the new year, which we believe is aligned to driving shareholder value. More specifically, we expect continued growth in total ARR, non-GAAP operating margin and free cash flow, while at the same time investing more resources in product development to fuel future growth. In terms of our detailed financial results for the fourth quarter and fiscal year, total ARR grew 3% as reported and 1% in constant currency, which was an important milestone in stabilizing the business last year, and right in line with the expectations that we set at the beginning of 2025.

Cloud ARR grew 15% as reported and 13% in constant currency and cloud ARR now represents 46% of our total ARR. For the quarter, the trailing 12-month cloud net expansion rate was 108%. Fourth quarter total revenue was \$421 million, up 3% year-over-year as reported, and 1% in constant currency, which was three points above the high end of our outlook due to higher recurring revenue. Fourth quarter recurring revenue was \$367 million, up 5% year-over-year as reported, and 3% in constant currency, which was 4 points above the high end of our outlook. The outperformance was primarily due to higher upfront revenue from term license subscriptions.

Fourth quarter consulting services revenue was \$53 million, down 4% year-over-year as reported, and down 6% in constant currency. For the full year, recurring revenue was at the high end of our outlook range at \$1.445 billion, a decrease of 2% as reported and 3% in constant currency. Total revenue was also within our outlook range at \$1.663 billion, down 5% as reported and down 5% in constant currency.

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 fourth quarter, total gross margin was up to 62% versus 60.9% in Q4 last year, driven by strong improvement in consulting services margins. Recurring revenue gross margin of 68.4% was down from Q4 2024 due to the increasing mix of cloud revenue.

On consulting services gross margin, we made continued strong improvements following cost actions that we took in 2025, driving Q4 gross margin up to 18.9% versus 8.5% in Q3 and 9.1% in Q4 a year ago. Operating margin improved significantly in Q4, coming in at 22.8% versus 17.6% in Q4 last year. On a full year basis, we continue to demonstrate operational discipline, which has resulted in a multiyear operating margin expansion of more than

500 basis points over the last three years. Non-GAAP diluted earnings per share were \$0.74, exceeding the top end of our outlook range by \$0.17. The outperformance was driven by higher recurring revenue, lower expenses and a lower effective tax rate.

We generated \$151 million of free cash flow in the fourth quarter, and finished the year above the high end of our 2025 outlook at \$285 million. This free cash flow performance drove cash and equivalents up to \$493 million at the end of the year, compared to \$420 million at the end of 2024. Finally, we continue to return capital to shareholders, repurchasing approximately \$38 million, or about 1.5 million shares in the fourth quarter, bringing our full year totals to approximately \$140 million, or 5.8 million shares.

During the fourth quarter, we also announced the reauthorization of our buyback program for another \$500 million starting in 2026, and we will again target to use 50% of our free cash flow for share repurchases. Before I provide our annual financial outlook for 2026, I'd like to provide some additional context. First, to support investors from a modeling standpoint, we will be providing guidance on an as reported basis. We will also continue to call out currency impact as we see it during the year.

Second, we do expect to see our typical seasonality for total ARR and cloud ARR. More specifically, Q1 is typically our largest renewal and highest erosion quarter, and as such, we expect total ARR and cloud ARR to decline sequentially on a dollar value basis in Q1, followed by stabilization and expansion over the course of the year, with the majority of that expansion to occur in the second half. Third, as noted during 2025, we continue to see customers evaluate hybrid deployment options, with some incorporating a combination of cloud and on-premise solutions. As they choose the deployment option that works for them, we have seen this cause variances in the mix between cloud and on-premise subscription ARR, which is why our primary focus is on total ARR growth.

Finally, from a recurring revenue standpoint, it's important to remember that revenue recognition standards are different for cloud versus on-premise subscriptions. The cloud revenue follows a more consistent ratable growth pattern, whereas the on-premise subscriptions have a portion of revenue that is recognized upfront and a portion that is recognized ratably over time. The timing of on-premise deals may cause variability in our reported recurring revenue and corresponding growth rates. For example, we saw some benefit from upfront revenue recognition in the fourth quarter of 2025, and we expect to see this again in Q1 of 2026.

Now, turning to our annual outlook for 2026, which again, is on a reported basis. Total ARR is expected to be in the range of 2% to 4% growth year-over-year, which is an improvement versus 1% constant currency growth in FY 2025. Recurring revenue is expected to be in the range of 0% to 2% growth year-over-year. Total revenue is expected to be in the range of minus 2% to 0% year-over-year. Non-GAAP diluted earnings per share is expected to be in the range of \$2.55 to \$2.65.

On operating margin, we expect approximately 100 basis points of expansion in 2026. Free cash flow is expected to be in the range of \$310 million to \$330 million. Regarding free cash flow linearity, we anticipate Q1 to be slightly negative. On the full year outlook, we expect the majority of the year-over-year growth to occur in Q2 and Q3.

Finally, while we are not providing formal guidance for cloud ARR in FY 2026 due to the potential for variances in mix between cloud and on-premise subscriptions, we are targeting growth of a low-double digit percentage for cloud ARR.

For the first quarter of 2026, recurring revenue is expected to be in the range of 6% to 8% growth year-over-year. Total revenue is expected to be in the range of 1% to 3% growth year-over-year. Non-GAAP diluted earnings per share is expected to be in the range of \$0.75 to \$0.79.

In terms of some other modeling assumptions, for the first quarter, we expect the non-GAAP tax rate to be approximately 25% and the weighted average shares outstanding to be 96.1 million. For the full year, we expect the non-GAAP tax rate to be approximately 24%, which is approximately 1.5 points higher on a full year basis due to a one-time benefit of \$5 million in 2025. Also, we expect our weighted average shares outstanding to be 97 million for the full year.

Using the currency rates at the end of December 2025, we expect a slight tailwind to our 2026 revenue outlook. However, we anticipate over 2 points of benefit to our revenue growth rate in the first quarter of 2026. On recurring revenue, we anticipate upfront revenue to provide more than 2 points of benefit to the Q1 growth rate. However, for the full year, we expect upfront revenue will be approximately a 1 point headwind to the 2026 growth rate. Also, we anticipate other expense of approximately \$38 million.

To conclude, we took important steps to stabilize the business in 2025 and have built a solid foundation to deliver continued profitable growth. In 2026, we will be investing more in product development to take advantage of the substantial market opportunity in front of us, while at the same time driving incremental profitability and free cash flow.

Thank you all for your time today.

Steve McMillan

President, Chief Executive Officer & Director, Teradata Corp.

Thank you very much, John. Now, before we begin Q&A, I'd like to briefly touch on the board announcement we made this afternoon. The evolution of our board has always been a focus, and we're looking forward to having Melissa Fisher join us in the coming weeks. She's got a great track record within software as an executive and board member, and we think she'll be a strong addition. We're also working through a search process to bring on a second new independent director later this year to complement some upcoming director retirements. So, from a board refreshment perspective, that was our news.

Now, operator, let's open the call for Q&A.

QUESTION AND ANSWER SECTION

Operator: Of course. [Operator Instructions] Our first question comes from the line of Erik Woodring with Morgan Stanley. Erik, your line is now open.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you very much for taking my questions, guys, and congrats on the quarter. Steve, I wanted you to kind of take a big step back and help us understand how material you think on-premise AI is today, meaning you kind of get to see both worlds from your seat, cloud instances and non-AI-based workloads for large enterprises, many of which have to keep workloads on-prem. And so, just wondering, what percentage of your customers are kind of in production today versus going through some proof-of-concept? How are they thinking about investing on-premise for GenAI versus the cloud? Would love just your high-level thoughts, and then a quick follow-up, please. Thank you.

Steve McMillan

President, Chief Executive Officer & Director, Teradata Corp.

A

Yeah. Thanks, Erik. We see our potential and capability in terms of delivering AI solutions on-prem as something that's going to be a key growth driver as we move forward, and that's why our next generation of our hardware platform will actually have GPUs built right in. So, we are definitely going to see AI and AI on-prem as a growing part of our portfolio. If we look at the POC activity that we executed in 2025, we actually doubled the number of POCs as we come out, and a number of those have moved into production on-prem, driving workload and usage of the Teradata platform.

So, we definitely see it as a key growth driver as we move into 2026. I also have to say we're absolutely focused on expansion. We'll do that expansion in the cloud or we'll do it on-prem. And again, that's one of the benefits that we have. If our customers choose to deploy in cloud, we can do that with them. And if they choose to deploy on-prem, we can also have that as an option.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Q

Okay. I appreciate that color. Thank you, Steve. And then maybe, maybe just a just a quick follow-up for you, John. I believe you're guiding to a little over 10% year-over-year free cash flow growth in 2026, if I just take the midpoint of your guide, really strong. You're effectively guiding to EPS kind of flattish year-over-year. Can you just walk through the puts and takes there? Why am I seeing a bit of a difference, a change in free cash flow conversion? Just what's burdening EPS, I guess, in 2026 that wouldn't burden free cash? Thank you so much, guys.

John Ederer

Chief Financial Officer, Teradata Corp.

A

Sure. Yeah. The short answer is we had some outperformance in Q4, particularly related to a tax benefit, a one-time tax benefit that benefited us to the tune of about \$0.05 in Q4. And so, I think if you adjust for that, you'll see a little bit better comparison in terms of the year-over-year growth rate and earnings per share. And then I would say otherwise, when we look at some of the other drivers of free cash flow, particularly around working capital and

continuing to improve on collections, we'll get a little bit of tax benefit next year. In addition to the performance on the P&L side of things, all of those are drivers for the free cash flow.

Operator: Thank you for your questions, Erik. Our next question comes from the line of Radi Sultan with UBS. Your line is now open.

Radi Sultan

Analyst, UBS Securities LLC

Q

Awesome. Awesome. Thanks for taking the question. And yeah, great to see the growth inflection here. Maybe first for Steve. Can you just help us a little bit more like what is going on behind the scenes here, as you think about sort of this growth inflection, like can you just walk through like how much is a better demand backdrop here versus sort of what you've done proactively on the product and go-to-market side. Maybe just help us piece that together a little bit more?

Steve McMillan

President, Chief Executive Officer & Director, Teradata Corp.

A

Yeah, thanks, Radi. That's a great question. I think, the whole AI marketplace for us is opening up a new TAM, and that's helping us return to growth in 2025. As John has said, it was a year of stabilizing the performance of the business, and we certainly executed on that. But I think we're also capitalizing on investments that we made through the back half of 2024 and then to 2025, certainly improving retention rates as we went through 2025. Our go-to-market teams are doing a great job from that perspective and really driving and returning the company to overall growth for 2025. I think from a product perspective, we had a cascade of product announcements throughout the year, be it our Enterprise Vector Store, our AI ModelOps capabilities, our AgentBuilder capabilities that are really changing the perception of Teradata and really positioning us to take advantage of this autonomous AI knowledge platform. If you think about data and enterprise data, we're probably the custodians of the world's most valuable enterprise data. And that for an AI system is turning into enterprise memory. And we get the best way to access that enterprise memory for agents.

So, I think we've seen a number of different inflection points. We also took some time to retool our services business and are now positioned to deliver a whole set of AI services, which we think will drive some ARR growth as we move into 2026. So, I think every aspect of the business came together to deliver growth for 2025, and obviously, sets a path for us to be confident in continuing that growth in 2026.

Radi Sultan

Analyst, UBS Securities LLC

Q

Great. And then, I guess, for John, quick follow-up. Just on the 2026 outlook. As you think about the business mix shifting more towards expansion versus migration, like does that change your fundamental visibility sort of in the outlook? And maybe you could just speak to sort of what are the biggest areas within the 2026 guide that – areas of uncertainty that you're handicapping there? Maybe just help us think about that.

John Ederer

Chief Financial Officer, Teradata Corp.

A

Yeah, sure. In terms of, I guess, the visibility and talking specifically about migrations versus expansions, there are a few puts and takes there. But I would say in general, when you look at migration activity, those tend to be bigger, more complex deals. And sometimes it's really hard to gauge the timing of those. But expansions by comparison with existing customers is a more consistent cadence. And so, when you look at an average of that activity across the entire installed base, you get a little bit more consistency there. Now, I will say that our typical

seasonality will be at play here in 2026. And so – and we talked about that in the prepared comments. We typically see more erosion activity in Q1. And then we build ARR through the year. And we have a stronger finish in Q4. And we would expect to see that same type of linearity. But otherwise, I would say between migrations and expansions, it's a little bit of a trade-off in terms of visibility overall.

Radi Sultan

Analyst, UBS Securities LLC

Awesome. Thanks, guys.

Q

Steve McMillan

President, Chief Executive Officer & Director, Teradata Corp.

Thanks, Radi.

A

Operator: Thank you for your questions. Our next question comes from the line of Yitchuin Wong with Citi. Your line is now open.

Yitchuin Wong

Analyst, Citigroup Global Markets, Inc.

Good evening. Thanks for taking my question. Congratulations on a strong close to the year and a solid guidance. I guess, maybe start with fiscal 4Q results. You showed a even much improved execution with some strong last year momentum across US telco, airlines and [ph] EMEA (00:31:06) bank. Could you give us any incremental colors around impact of this large deal in the quarter? And if there's any other updates around, like the improvement in deal cycle or that erosion that you saw in the last year and then going towards how AI impact in this performance?

Q

Steve McMillan

President, Chief Executive Officer & Director, Teradata Corp.

Yeah, thanks, [indiscernible] (00:31:27). you touched on quite a lot there. Yeah, I think, we're seeing strength across industry. If we look at the pattern of our business in terms of where we're deploying some of these advanced AI solutions especially, we've got use cases across the entire industry set. And we saw some really good geographical distribution in terms of our wins and deal set. In fact, in our international markets, we're actually seeing really good strength in our on-prem capabilities. Just to give you a little better color there. Just from a retention perspective, our team is focused on growth and expansion. And I think, we've made material improvements to our retention rates as we went through 2025 compared to 2024. And we expect those improvements to continue into 2026. And that's based on a couple of things.

A

One, great execution by team Teradata. I'm very proud of what they've done. But I think as well, we've got a great product set that's enabling us to deploy in this world of AI, some really high-value solutions, that make us more sticky and more relevant inside our customer base. And so, that's what we're focused on as we execute that growth agenda for 2026.

Yitchuin Wong

Analyst, Citigroup Global Markets, Inc.

Thanks, Steve. Maybe a quick one for John here. Looks like the services line is getting a strong improvement quarter-over-quarter. And then with Teradata ramping, I get benefit from AI services as you see more [ph] FDE

Q

(00:32:54) approach across the market shift that you're seeing. Are you expecting these to be an incremental contributor continue that improvement going into fiscal 2026? Thanks.

John Ederer

Chief Financial Officer, Teradata Corp.

A

Sure. Yeah. No, thanks, [indiscernible] (00:33:09). Certainly, we've made a lot of improvement on the consulting services side of the business, particularly on the gross margins this year. So, we started off the year in negative territory as we had some headwinds on the revenue side. But of course, corrected through the year, improved in Q3 and then really jumped up in Q4 from a gross margin standpoint to nearly 19%. And so, I think we've managed through the transition of this business really well. The thing that is still there, I would say from a macro standpoint, is that historically, what's driven that business has been a lot of migration activity. We're starting – we've seen the peak of that activity. We're on the other side of that bell curve now. And what we expect to take the place of that is the AI services.

And so, we are starting to ramp that up this year. And that will help offset some of the migration activity in 2026. And so, I think by and large, we've stabilized that part of the business. I think, we've got a good strategy for moving forward. The one last thing I would say, just from a margin standpoint, I wouldn't necessarily expect that 19% in Q4 to continue at quite that high of a rate. If you look back at 2023 and 2024, I think you'll see a more normalized rate for consulting services.

Yitchuin Wong

Analyst, Citigroup Global Markets, Inc.

Q

Great. Thank you.

Operator: Thank you for your questions. Our next question comes from the line of Chirag Ved with Evercore. Your line is now open.

Chirag Ved

Analyst, Evercore ISI

Q

Hey, this is Chirag. Thanks for taking the question. And congratulations on the quarter. Great to see the return to positive ARR growth and operating leverage. Steve, you mentioned over 150 AI and agentic engagements. Can you talk about the typical conversion paths from these engagements into revenue? And how you think about the timeline from initial pilot to material ARR contribution? Thanks.

Steve McMillan

President, Chief Executive Officer & Director, Teradata Corp.

A

Yeah, thanks. Thanks, Chirag. It's a great question. As you said, we are seeing a significant growth in AI workloads on the Teradata platform. We're capturing that shift of spend and say, the customer base that's moving towards this more sticky, more relevant, advanced set of solutions. And so, that pivot to AI is something that we're really benefiting from. In terms of operationalizing these workloads, that's something that we do every single day with our customer base. Whether it's a bank in Australia that's utilizing their on-prem system for customer sentiment analysis. You're running that AI workload on-prem, whether it's a customer in Europe using cloud-based technologies for their AI solution.

So, I think, we're seeing those AI solutions, certainly, driving capacity and usage of the Teradata platform. And our sales team is now completely focused on growth. We're not as focused on capturing that headlong migration

rush to the cloud. The teams are focused on growth where they can execute it. And I think, this is – the AI workloads are going to be a key element of capturing that growth as we move through 2026.

Chirag Ved

Analyst, Evercore ISI

Q

All right. Thank you. Congrats again on the quarter.

Steve McMillan

President, Chief Executive Officer & Director, Teradata Corp.

A

Thanks, Chirag.

Operator: Thank you for your questions. Our next question comes from the line of Raimo Lenschow with Barclays. Your line is now open.

Sheldon McMeans

Analyst, Barclays Capital, Inc.

Q

Hi. This is Sheldon McMeans on for Raimo. Thanks for taking the question. You certainly discussed some of the newer AI-related solutions on the call, some of which that you launched during your October event. It seems like many of these are going to be available in 2026, particularly in the back half of the year. And just one, considering your positive growth outlook for the year, how much contribution are you baking in from some of these newer initiatives? Thanks.

Steve McMillan

President, Chief Executive Officer & Director, Teradata Corp.

A

Yeah, Sheldon, thanks very much for the question. Look, I think, as we've looked at the business and how we're executing against the business, you're absolutely right. A lot of the roadmap elements that we have start to come in at the end of Q2 and then into 3Q, that's not stopping our sales teams getting out right now and talking about these capabilities with our customers. We know what the sales cycle is. We know our customer base, we know how they operate. And we're getting a lot of excitement around those capabilities just now. But from a financial perspective, we haven't factored a lot of incremental ARR from these specific capabilities. Certainly, we see it as the opportunity, and I'm certainly pushing the sales team to use that – those new products that are releasing has some upside to that outlook that we have currently in place.

Sheldon McMeans

Analyst, Barclays Capital, Inc.

Q

Understood. And a quick follow-up. Could you give a quick update on the hardware refresh and the current stage that is in, and just maybe how much work is needed? And do customers right now have enough visibility into the costs in some of the other related considerations to be able to make a decision on that today, or is there still some more work to be done before customers fully understand that? And then maybe any model impacts that we should consider as the hardware refresh ensues? Thanks.

Steve McMillan

President, Chief Executive Officer & Director, Teradata Corp.

A

Yeah, yeah. Thanks, Sheldon. Yeah, we don't expect a new hardware platform to go GA until end of second quarter into a third quarter. So, that refresh activity, although we talk to our customers about it in terms of how they would like to deploy and utilize these new solutions, it wouldn't really kick in until the last quarter of the year

and then into 2027. But, hey, doing a refresh is always an opportunity to sell more, and especially as these platforms are going to have GPUs built in, some of the announcements we've had about using the NVIDIA AI software stack that's going to be embedded into that new platform, we are really delivering on that promise of the Autonomous AI and Knowledge platform from an on-prem perspective. And I think our sales teams are super excited about what they can see and what they can deliver for their customers through 2026. But again, just from a modeling perspective, we haven't baked a lot in into the second half of the year, but we certainly see it as upside.

Sheldon McMeans

Analyst, Barclays Capital, Inc.



Understood. Thanks for taking the questions.

Operator: Thank you for your questions. Our next question comes from the line of Derrick Wood with TD Cowen. Your line is now open.

Jared Jungjohann

Analyst, TD Cowen



Hi, Steve and John. This is Jared on for Derrick. Thanks for taking my question. Heading into 2026, I'm curious what types of investments you're going to be focused on from a head count perspective. Do you intend to ramp up sales hiring as you address this AI opportunity or maybe lean in on forward-deployed engineers? Thank you.

Steve McMillan

President, Chief Executive Officer & Director, Teradata Corp.



Yeah, Jared. Thanks. That's a great question. We leaned in, in 2025, in terms of restructuring the sales team and the sales force. And I think the leadership team and our go-to-market team across the board have done a great job in that. And that also – we took the steps to actually refocus investment and current sales head dollars and expense towards, just as your point, the forward-deployed engineering model, and we see that as a very, very appropriate way to get these advanced AI solutions into our customer. If we think about what we do as a business, we take that data layer for AI and then add value to it every single day. And so, that's our forward-deployment engineering capability.

One of the things that we are investing in, and where we have carved out dollars, is to spend a little bit more on our product engineering and product development process. This is an exciting time to be in this industry as it transforms, and as the importance of AI continues to accelerate. And in order for us to continue to have a great product line, we've spotted some key investment areas that we can focus on that are going to make some tremendous differences in terms of the overall product portfolio that we have. And our new Chief Product Officer, Sumeet Arora, is doing a great job in terms of marshalling that product vision, and we're looking forward to sharing more about that as we move through the year.

Jared Jungjohann

Analyst, TD Cowen



Thank you very much.

Operator: Thank you for your questions. Our next question comes from the line of Wamsi Mohan with Bank of America. Your line is now open.

Wamsi Mohan

Analyst, Bank of America Merrill Lynch

Q

Yes. Thank you so much. Maybe one for John. Can you just talk about the linearity that you're seeing for the year? You obviously gave a Q1 guide. And you mentioned sort of the step down in ARR. But do you expect normal seasonality after Q1. And also, as you think about these new initiatives that you're taking on into the back half, and I just heard Steve say that not really baking much into it, into contribution from those in the back half of the year. Should we kind of not be thinking about more of an acceleration as you go into the back half of the year? And I have a follow-up.

John Ederer

Chief Financial Officer, Teradata Corp.

A

Sure. Yeah. Just on the seasonality point, I guess, I would make a distinction between ARR and revenue. And so, from an ARR standpoint, both total ARR and cloud ARR, I would expect to see our typical linearity. And that's what we laid out in the prepared comments, where we have a bit more on the erosion side in Q1. And then we build that up over Q2, Q3 and finish with a strong Q4.

And so, I would expect that, like I said, very typical seasonality to exist again on the ARR side. And with, I would say, minimal impact from the new products that we're looking to release through the year, as Steve commented. I would distinguish that from the revenue side of the picture. And so, from a recurring revenue standpoint, we do have some anomalies this year, principally due to the timing of upfront revenue related to the on-premise portion of the business.

And so, we are seeing outsized growth on recurring revenue in our Q1 guidance. And we talked about, we're getting a couple of points of benefit from currency, and we're getting a couple of points of benefit from upfront revenue recognition in Q1. We expect that to switch somewhat as we look at the full year. There'll be maybe a slight tailwind on the currency side for the full year, but a one point headwind on the upfront portion of recurring revenue for the full year.

And so, again, we have some timing impact, principally related to the on-premise side that impacts the recurring revenue piece versus the ARR.

Wamsi Mohan

Analyst, Bank of America Merrill Lynch

Q

Okay. Yeah that's helpful, John. Thank you. And then maybe for Steve. Steve, you mentioned, obviously, some comments in your prepared remarks about the board refreshment program. You have been delivering improving results over the last few quarters. And so, in some ways, as we think about the involvement here and this agreement with Lynrock Lake to the extent that you can comment about it, what are specific areas or changes at the high level that you think that the board is going to try to implement in working with you?

Steve McMillan

President, Chief Executive Officer & Director, Teradata Corp.

A

Yeah. Thanks there, Wamsi. Yeah. Board refreshment is something that clearly is super important to our overall governance process. And it's something that we continue to look at. We're very happy to work with Cynthia at Lynrock Lake to identify some candidates and come to an agreement around placing this particular candidate on the board. We're really looking forward to Melissa coming on board. She's got a great skill set, and I think she'll add some great value. And then as we continue to board refresh throughout the year, we're going to execute a

very structured process. We declare very, in some detail actually, what the skill mix is of our board members. And obviously, we're going to continue that process as we execute through board refreshment.

Wamsi Mohan

Analyst, Bank of America Merrill Lynch

Okay. Thank you, Steve.

Q

Operator: Thank you for your questions. Our next question comes from the line of Patrick Walravens with Citizens. Your line is now open.

Q

Hey, guys. This is [ph] Nick (00:46:18) on for Pat. Thanks for taking the question. And congratulations on the quarter. Steve, one for you, then John I have a follow-up. So, Steve, the biggest questions investors are asking right now is what are the characteristics of a software company that's going to make it through the AI transition. If you look back the transition from on--prem to SaaS 20 years ago, only 40% of those top 20 companies survived. So, what do you think those key characteristics are for this next transition that we're seeing from SaaS to AI?

Steve McMillan

President, Chief Executive Officer & Director, Teradata Corp.

Yeah, [ph] Nick (00:46:48) that's a great question. So, I think about it in terms of Teradata 1.0 to Teradata 2.0. And that was our cloud transition, and getting over \$700 million of our total ARR in the cloud was a key modernization step that we had to take as a company. And we've achieved that over the span of five years, which was absolutely fantastic. We are looking forward to Teradata 3.0, that's driving this autonomous AI knowledge platform. We're not a SaaS company. We are the data layer for AI, that system intelligence or enterprise memory. And if you look back at how Teradata works with clients, we've always built value on top of that data platform. And now, we see that, that value is being delivered via agents. And that's why we are all about enabling these agents to utilize enterprise data at scale. And we think that, that's going to drive significant market opportunity for us into the future and help accelerate our growth as we launch these new products, which will take advantage of that and deliver on execution throughout the year. So, it's a time of transition, but we believe that the capabilities that we've built up make us more relevant now in this agentic AI space.

A

Got it. Thank you. And then as my follow-up, John, you guided to an operating margin expansion in 2026. Can you comment on what the main drivers of this expansion will be?

Q

Steve McMillan

President, Chief Executive Officer & Director, Teradata Corp.

Yeah. At a high level, we're continuing our work on the gross margin side, although as I described earlier, we have some offsetting elements there. And then when we look at the operating expense lines, we are looking to invest in product R&D, but continue to find efficiencies across the G&A and sales and marketing lines.

A

Q

Great. Thank you guys.

Operator: Thank you for your questions. Our next question comes from the line of Matt Hedberg with RBC Capital Markets. Your line is now open.

Simran Biswal

Analyst, RBC Capital Markets LLC

Q

Hey guys, this is Simran on for Matt Hedberg. Thanks for taking my question and congrats on the quarter. Just one for me. I'm curious on how increased memory pricing is impacting the business and if it's providing a boost to 2026 ARR. Thanks.

Steve McMillan

President, Chief Executive Officer & Director, Teradata Corp.

A

Yeah. Thank you for the question. Yes, our supply chain team has done a great job in terms of protecting us from the P&L impact in terms of increased memory prices. A lot of our contracts are committed capacity that we've contracted a number of years ago. So, the actual uplift from that, that incremental memory cost is something that we're absorbing with our customers. But we're tending to, that's tending to enable us to have different expansion conversations with our customers. Instead of talking about them spending more money on something that they expect to get anyway, we can actually pivot that conversation to invest in the innovation on the Teradata platform. And that's really what our sales teams are doing every day. We're absolutely focused on that from a total ARR growth perspective.

Simran Biswal

Analyst, RBC Capital Markets LLC

Q

Thank you.

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

Steve McMillan

President, Chief Executive Officer & Director, Teradata Corp.

Thank you. Operator. And thank you, everyone for joining us today. We are really proud of the progress that we've made, and we do believe that we are really very well positioned with our AI and knowledge platform, our AI services expertise and our growing ecosystem of partners. We're going to continue to drive clear and compelling outcomes for our customers and lasting value for our shareholders. Thank you all very much.

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

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