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Teradata Q4 2025 – Earnings Remarks

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

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, who will discuss our financial results and outlook.

Our discussion today includes forecasts and other information that are considered forward-looking statements. While these statements reflect our current outlook, they are subject to a number of risks and uncertainties that could cause actual results to differ materially. These risk factors are described in today's earnings release and in our SEC filings. Please note that Teradata intends to file the Form 10-K for the year ended December 31st, 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 excludes 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.

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Steve McMillan Q4 2025 Earnings Prepared Remarks

Hi everyone and thanks for joining us.

I'm pleased to report another set of strong results for Teradata. In the 4th 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 a 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 our 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 look 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 uses that can drive tangible business value.

First, our Enterprise Vector Store cost-effectively combines 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.

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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 that want 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 laid 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 our 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 the intelligence in 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 customers' long-term AI initiatives.

A large U.S. 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 U.S. 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 hi-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.

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John Ederer Q4 2025 Earnings Prepared Remarks

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:

1) We returned Total ARR to positive growth of 3% on a reported basis;
2) We continued to improve non-GAAP operating margins to 21%;
3) We drove year-over-year improvement in Free Cash Flow to $285 million, which exceeded the high-end of our outlook;
4) And we re-established a track record of meeting or exceeding quarterly expectations.

Our solid execution in 2025 has 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 3 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.

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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 62.0% 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 Q4'24 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 continued to demonstrate operational discipline, which has resulted in multi-year Operating Margin expansion of more than 500 basis points for the last 3 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 & Equivalents up to $493 million at the end of the year compared to $420 million at the end of 2024.

- Finally, we continued 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 is important to remember that the 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 FY25.
- 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 -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 FY26 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.

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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 full year basis due a one-time benefit of $5 million in 2025. Also, we expect our weighted average shares outstanding to be 97.0 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, now let’s open the call up for questions.