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Teradata Q2 2026 – Earnings Remarks

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

Good afternoon, and welcome to Teradata's second quarter 2026 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-Q for the quarter ended June 30, 2026, 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, adjusted 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 Q2 2026 Earnings Prepared Remarks

Thanks, Chad and thanks to everyone for joining us today.

We are pleased with our solid performance in the 1st half, as Teradata delivered another good quarter with growth in total ARR, recurring revenue, and meaningful free cash flow improvement. Our total ARR growth reflects our belief that the hybrid capabilities we're delivering set Teradata apart.

Additionally, our significant platform innovations, tangible operating leverage, and anticipated incremental gains in our retention rate underpin our confidence in the future. We are reaffirming our outlook for Total ARR, Total Revenue, and Recurring Revenue … and we are increasing our non-GAAP earnings per share range to $2.65 to $2.73. We are also increasing the range for Adjusted Free Cash Flow to $330 million to $350 million.

The global shift to AI is profoundly affecting every major industry, as enterprises face growing pressure to move AI into production. We recently surveyed 1,000 senior technology and data leaders around the globe about their use of agentic AI within the enterprise. We found that 90% expect to increase their agentic AI investments over the next year, yet nearly two-thirds have seen only small or emerging positive returns to date. In addition, 40% of technology leaders surveyed say more than 40% of their AI pilots have failed to reach production because their infrastructure was not built to support them. We're here to change that.

We've set a clear vision for this agentic AI era. We call it Teradata 3.0 and we have retooled our business for this clear opportunity of autonomous intelligence. Teradata's robust hybrid data foundation—in use at many of the world's leading organizations—is essential to help enterprises deploy the business infrastructure needed to get ROI from their AI initiatives. The mission critical nature of this work is not discretionary. Enterprises need it and we believe we have the best data foundation to help organizations achieve real value from their AI initiatives.

This brings me to our product innovations in Q2, which I consider one of the most significant chapters in Teradata's history. As organizations increasingly turn their attention to realizing value from AI, our product organization leaned in and accelerated the innovation pipeline to meet the market opportunity.

In May, we launched the Teradata Autonomous Knowledge Platform, our foundation to deploy agentic AI without trading control for capability, governance or performance. It runs where enterprise data already lives … on the customer's terms … and at costs that reflect how agents actually work. Most infrastructure was built to deliver one of those things at a time. Our platform is designed to deliver all three.

It brings together a powerful set of new capabilities for customers, and I'll discuss the four main components.

Teradata Cloud is purpose built for the agentic era. The reality is that AI agents create computing demands unlike anything human users have generated before, and that informs how our cloud offering is designed. Active Compute and Elastic Compute give organizations always-on power for mission critical workloads ... alongside on-demand capacity for everything else.

Teradata Factory extends the platform on prem for organizations where data sovereignty is preferred or required. It delivers private AI and enterprise grade performance in a single integrated system, built with Dell Technologies. And with integrated CPUs and GPUs built in, customers can run the models that fit their needs, including foundation models, entirely on prem. Data never leaves their environment, while scale and performance remain fully intact.

Teradata AI Studio unifies analytics, models, agents, and vector services in one environment, so customers no longer need to source, integrate, and manage those capabilities as separate tools. Combined with our AI Services consultants who bring years of domain expertise in sophisticated analytics, AI initiatives can move reliably from concept to production-grade execution, at speed. Trusted enterprise data and built-in governance travel with every project, allowing organizations to scale with confidence.

Finally, Tera is our agentic coworker, the natural language interface that gives every user governed access to enterprise data and agents. Tera includes built-in modes for data analysis, coding, and multi-agent orchestration, giving business users, data teams, and developers a single place to interact with enterprise data and AI.

The connectivity that makes this possible depends on open standards. Teradata joined the Agentic AI Foundation, where standards like the Model Context Protocol are being built. Our enterprise MCP server is already in action with customers, and our participation is intended to ensure that real-world enterprise requirements, including hybrid, on-prem, and sovereign deployments, are built into those standards from the start.

I'm pleased to report that the Teradata Autonomous Knowledge platform, including its AI Studio component, reached general availability in early Q3, a couple of months after we announced it. That execution velocity reflects the confidence we have in what we've built, and the step change it makes possible for our customers.

The quarter brought additional innovations to market as well.

We made available our enterprise-grade Data Analyst Agent in AWS Marketplace, bringing AI-assisted conversational analytics directly into customers' existing AWS environments. The agent enables advanced, multi-step analytics on data that's already there, with no costly movement or integration complexity.

We also delivered expanded data access through upgraded native Open Table Format support, enabling customers to query seamlessly across more distributed data without unnecessary movement or duplication.

But access to data alone doesn't get enterprises to production AI. Our research shows that context fragmentation … data that exists but carries no usable meaning for agents … is the defining barrier holding organizations back. In fact, 77% of executives reported that 20% or less of their data is sufficiently described for agents to use reliably. It's a challenge we hear, and one we are focused on helping customers change.

We're proud of the broad set of product innovations we've brought forth, yet these are just the first in a series of planned announcements we'll have this year. We are going to be delighted to tell our customers more at our upcoming Autonomous World Tour events.

All of these offerings will continue to leverage our differentiated hybrid capabilities and the very real need for production AI that runs anywhere, grounded in governed data and context that is critical for agentic AI.

As our teams take our new platform and AI narrative to the market, they are receiving positive responses from customers, and support for the need to activate the intelligence across their enterprise. We are hearing that our capabilities … with one platform that supports AI, sovereign data, security, and multiple deployment scenarios … are generating increasing interest.

We have already had early wins from the innovations we announced, and from both on-prem and cloud environments. I touch on a few examples.

A major telecommunications company in South Asia selected Teradata Factory to power its broad AI modernization initiative. The customer deployed GPU-enabled infrastructure and Teradata AI Studio to support advanced analytics, vectorization, and RAG workloads. This demonstrates Teradata's growing ability to lead enterprise AI transformation conversations across emerging markets. We're not just a data platform, but foundational to our customers' AI ambitions.

One of the largest banking groups in Japan and a long-standing Teradata customer, implemented a cloud modernization project, selecting Teradata Cloud, AI Studio, and AI Services to enhance its profitability simulation and planning workloads.

We expanded our relationship with a federal tax authority in Asia Pacific, as it renewed its Teradata Cloud environment and balanced flexibility with the resilience and performance requirements of this critical government platform. This reinforces Teradata's ability to align customer success with long-term platform growth, while positioning us to support future workload expansion driven by legislative change.

One of North America's largest financial institutions also expanded with us, incorporating Teradata AI Studio to accelerate AI adoption and demonstrate measurable value through use cases aligned to the bank's strategic priorities.

And

A major U.S. healthcare company expanded its on-prem production system, in support of government regulations.

Our increased engagement in the agentic AI space has not gone unnoticed. Gartner published its 2026 Magic Quadrant for AI Platforms for Data Science and Machine Learning, and Teradata was named a Visionary in our first year of participation. We view it as validation of Teradata as a serious player in the AI platform market, and note that this evaluation did not even yet include our latest product announcements.

As I hand the call to John, I'll close on this. This quarter we set out a clear vision for the next era of Teradata — Teradata 3.0, anchored by our new Autonomous Knowledge Platform, built for the agentic age. And we backed that vision with delivery, bringing key components of the platform to general availability within a quarter.

Our hybrid capabilities — and our on-prem strength in particular — continue to resonate with customers running the most demanding and regulated workloads — where a solid data foundation is not discretionary. That combination of a differentiated platform and disciplined execution set the foundation for a solid first half … and gives us confidence in our outlook for the year. John will cover in more detail, including the areas where we are raising our expectations. We remain focused on converting this momentum into durable, profitable growth and lasting value for our shareholders.

Now, over to you, John.

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John Ederer Q2 2026 Earnings Prepared Remarks

Thank you, Steve, and good afternoon, everyone.

We delivered solid financial results in the second quarter, highlighted by continued improvement in recurring revenue, profitability and free cash flow. Recurring revenue grew 3% year-over-year, marking our third consecutive quarter of positive growth. We also drove meaningful expansion in non-GAAP operating margin to 21.5%, compared to 16.4% in Q2 last year, reflecting our continued focus on operational discipline and profitable growth. In addition, adjusted free cash flow was $127 million in the quarter, significantly higher than a year ago.

At the midpoint of the year, we are pleased with the improvement we are making, and believe these results reflect continued progress against our financial objectives and demonstrate our focus on driving sustainable shareholder value.

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

- Total ARR grew 1% as reported and 2% in constant currency, while Cloud ARR grew 8% as reported and 9% in constant currency. As we have said previously, our focus remains on driving Total ARR growth, and we may see variability from quarter to quarter in the mix between cloud and on-premise growth.

- Second quarter Total Revenue was $410 million, flat as reported and in constant currency, which was 2 points above the high-end of our outlook due to higher recurring revenue.

- Second quarter Recurring Revenue was $363 million, up 3% year-over-year as reported and 2% in constant currency, which was 3 points above the high-end of our outlook. The outperformance was primarily due to the timing of revenue recognition related to our on-premise business.

- Second quarter Consulting Services Revenue was $39 million, down 24% year-over-year as reported and 23% in constant currency. While this was a softer quarter from a revenue standpoint, we have had improvement in our consulting services bookings, and project backlog is growing. Additionally, we are continuing to optimize the cost structure to return the business to a low double-digit margin percentage.

Looking at profitability and 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 60.5%, which was up 220 basis points year-over-year, primarily driven by a higher mix of recurring revenue.

- Recurring Revenue Gross Margin was 67.8%, which was up 30 basis points vs Q2'25, driven in part by continued year-over-year improvement in our cloud gross margin. While recurring gross margin was lower on a sequential basis from Q1, this was in line with expectations due to higher upfront revenue in Q1'26.

- Consulting Services Gross Margin was flat. As noted, Consulting Services Revenue came in lower than expectations, which impacted the margin in the quarter.

- Operating Margin improved significantly on a year-over-year basis, coming in at 21.5% versus 16.4% in Q2 last year. On a year-to-date basis, Operating Margin is at 24.5% which is up 540 basis points versus the first half of 2025. The margin expansion was driven by a return to revenue growth, higher gross margin, and a more optimized cost structure.

- Non-GAAP diluted earnings per share were $0.69, exceeding the top-end of our outlook range by $0.12. The outperformance was primarily driven by higher recurring revenue.

- We generated $127 million of Adjusted Free Cash flow in the quarter. This increased our net cash position to $323 million at the end of Q2'26. On a year-over-year basis, we have increased our net cash position by $528 million.

- Finally, we continued to return value to shareholders, repurchasing approximately $40 million, or about 1.3 million shares in the second quarter. We continue to target to use 50% of our Adjusted Free Cash Flow for share repurchases, which excludes the benefit from the SAP settlement. Also, we paid off the remaining $450 million balance on our term loan. Given the strengthened balance sheet, this will enable us to make future strategic investments in AI, as well as continuing our stock buyback program and being opportunistic on strategic M&A.

Before turning to our financial outlook, I'd like to provide some additional context:

- On Total ARR, we expect modest sequential dollar growth from Q2 to Q3. We continue to anticipate the majority of our growth will come in Q4.

- For recurring revenue, we saw improved linearity over the first half of the year compared to our initial expectations at the beginning of the year. As we discussed on last quarter's earnings call, this is a factor of revenue recognition under ASC 606 and recognizing more upfront revenue related to the on-premise portion of the business. While our guidance for the year remains unchanged, we did experience higher growth over the first half of the year and expect slight declines on a quarterly basis over the second half of the year.

Now, turning to our annual outlook for 2026:

- We reaffirm our ranges for Total ARR, Total Revenue, and Recurring Revenue.

- For non-GAAP earnings per share, we are increasing the range to $2.65 to $2.73.
- For Adjusted Free Cash Flow, given the strong first half of the year, improved recurring revenue linearity, and the benefit of paying off the debt, we are increasing the range to $330 million to $350 million.

For the third quarter of 2026:

- Recurring Revenue is expected to be in the range of -4% to -2% year-over-year.
- Total Revenue is expected to be in the range of -6% to -4% year-over-year; and
- Non-GAAP diluted earnings per share is expected to be in the range of $0.55 to $0.59.

In terms of some of the other modeling assumptions:

- For the third quarter, we expect the non-GAAP tax rate to be approximately 23% and the weighted average shares outstanding to be 96.7 million.
- Also, we now anticipate FY26 other expenses to be approximately $19 million.

In summary, we were very pleased with the first half of the year and remain confident in our ability to achieve our full-year objectives. We significantly strengthened our balance sheet, generated very strong free cash flow, and continued to execute our profitable growth strategy. By driving operational efficiencies while maintaining targeted investments in innovation, we are positioning the business to benefit from meaningful operating leverage as growth accelerates, supporting further margin expansion over time.

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