

TERADYNE



Financial Results for Q2 2019

July 24, 2019



SAFE HARBOR

This presentation contains forward-looking statements regarding Teradyne's future business prospects, results of operations, market conditions, earnings per share, the payment of a quarterly dividend, the repurchase of Teradyne common stock pursuant to a share repurchase program, use of proceeds and potential dilution from the senior convertible notes offering, and the impact of the U.S. tax reform, export and tariff laws. Such statements are based on the current assumptions and expectations of Teradyne's management and are neither promises nor guarantees of future performance, events, earnings per share, use of cash, payment of dividends, repurchases of common stock, payment of the senior convertible notes, or the impact of the U.S. tax reform, export and tariff laws. There can be no assurance that management's estimates of Teradyne's future results or other forward looking statements will be achieved. Additionally, the current dividend and share repurchase programs may be modified, suspended or discontinued at any time. On May 16, 2019, Huawei and 68 of its affiliates, including HiSilicon, were added to the U.S. Department of Commerce Entity List under U.S. Export Administration Regulations (the "EAR"). This action by the U.S. Department of Commerce imposes new export licensing requirements on exports, re-exports, and in-country transfers of all U.S.- regulated products, software and technology to the designated Huawei entities. While most of our products are not subject to the EAR and therefore not affected by the Entity List restrictions, certain of our products are currently manufactured in the U.S. and thus subject to the Entity List restrictions. Compliance with the Entity List restrictions has not significantly impacted our sales, but could limit sales in the future. Important factors that could cause actual results, earnings per share, use of cash, dividend payments, repurchases of common stock, or payment of the senior convertible notes to differ materially from those presently expected include: conditions affecting the markets in which Teradyne operates; decreased or delayed product demand from one of more significant customers; development, delivery and acceptance of new products; the ability to grow the Industrial Automation business; increased research and development spending; deterioration of Teradyne's financial condition; the consummation and success of any mergers or acquisitions; unexpected cash needs; insufficient cash flow to make required payments and pay the principal amount on the senior convertible notes; the business judgment of the board of directors that a declaration of a dividend or the repurchase of common stock is not in the Company's best interest; additional U.S. tax regulations or IRS guidance; the impact of any tariffs or export controls imposed in the U.S. or China; compliance with trade protection measures or export restrictions, including the addition of Huawei and HiSilicon to the U.S. Department of Commerce Entity List; and other events, factors and risks disclosed in filings with the SEC, including, but not limited to, the "Risk Factors" section of Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 and the Quarterly Report on form 10-Q for the period ended March 31, 2019. The forward-looking statements provided by Teradyne in this presentation represent management's views as of the date of this presentation. Teradyne anticipates that subsequent events and developments may cause management's views to change. However, while Teradyne may elect to update these forward-looking statements at some point in the future, Teradyne specifically disclaims any obligation to do so. These forward-looking statements should not be relied upon as representing Teradyne's views as of any date subsequent to the date of this presentation.

Business Update and Outlook

Mark Jagiela, Teradyne President and CEO



Q2'19 Summary

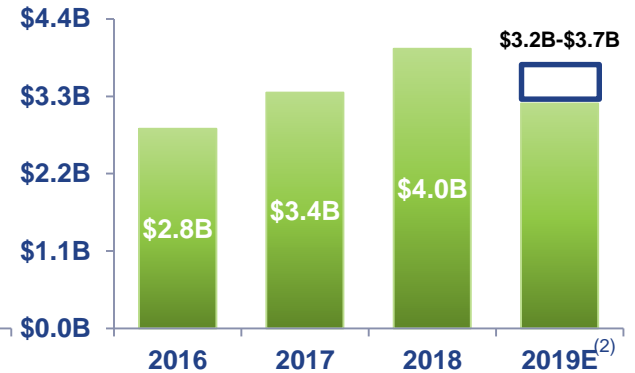
7% Sales Growth and 12% Non-GAAP Earnings Growth vs Q2'18



Quarterly Revenue



Non-GAAP EPS⁽¹⁾



SemiTest Market

- Semiconductor strength in 5G network infrastructure and Memory Test
- Industrial Automation grew 20% in Q2'19 vs. Q2'18

- Non-GAAP EPS \$0.01 above high guidance on higher revenue
- Repurchased 2 million shares / \$91 million


- SemiTest SOC market outlook improved, now expect \$2.8B at midpoint of \$2.6-\$3B estimate
- Memory Test market outlook unchanged at \$600-700M

(1) See appendix for GAAP to Non-GAAP reconciliation

(2) 2019E SemiTest market size range of \$3.2B-\$3.7B with a mid-point of \$3.45B; market data from SEMI WWSEMS report and internal estimates

Q2'19 Summary Remarks

- 5G Test investments in first of four phases
 - 1,2) Infrastructure for sub-6GHz, Handsets for sub-6GHz
 - 3,4) Infrastructure for mm-wave, High volume handsets for mm-wave
- Industrial Automation growth moderated due to macro industrial environment; expect 2019 growth below 30-40% long term plan
- Invested \$15M in RealWear, a leader in wearable augmented reality tools for industrial applications. Provides Teradyne additional insight into advanced technologies that make workers safer & more productive
- Expect 2H'19 to be up slightly in revenue and EPS from 1H'19



Second Quarter 2019 Financial Results and Third Quarter 2019 Guidance

Sanjay Mehta, Teradyne Vice President and Chief Financial Officer

Q2'19 Segment Summary

Q2'19 Sales

Q2'19 Key Highlights

Q2'19 Sales Detail

Semiconductor Test

\$375M

5G Infrastructure demand grew

Mobile phone chipset demand stronger than expected

Memory Test revenue up 22% from Q1'19

Industrial Automation

\$75M

IA grew 20% from Q2'18 with 10% UR growth, 81% MiR growth on a pro-forma basis

Largest UR customer has deployed over one thousand robots to date

OEM and large account program continued to expand

System Test

\$73M

26% revenue growth from Q1'19

Strength in Storage Test and Defense and Aerospace

Wireless Test

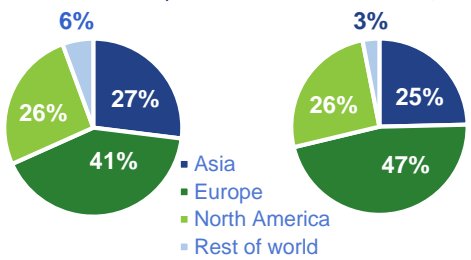
\$41M

Revenue up 42% from Q1'19 on demand from new Wireless standards and early 5G Test investments

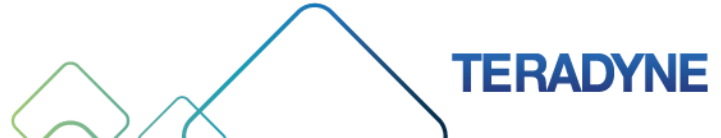
SemiTest Revenue

Semi Product	\$292M
Semi Service	\$83M

UR Revenue-\$63M MiR Revenue-\$11M



Energid Revenue-\$1M



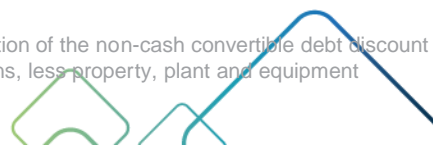
Balance Sheet & Capital Return

	Q2'18 Actual	Q1'19 Actual	Q2'19 Actual	
Cash and Marketable Securities	\$1,304M	\$997M	\$994M	
Inventory	\$136M	\$161M	\$164M	
DSO	78 days	61 Days	60 days	
Acquisition Earn-out Accruals	\$61M	\$38M	\$27M	
Capital Additions	\$28M	\$26M	\$33M	
Debt ⁽¹⁾	\$373M	\$384M	\$387M	
Depreciation and Amortization ⁽²⁾	\$36M	\$39M	\$38M	
Free Cash Flow ⁽³⁾	\$102M	(\$8M)	\$112M	
Capital Return {	Buybacks	\$227M	\$156M	\$91M
	Dividends	\$17M	\$16M	\$15M

(1) Face value of debt is \$460M

(2) Includes depreciation, stock based compensation, amortization of acquired intangible assets and amortization of the non-cash convertible debt discount

(3) Teradyne calculates free cash flow as: GAAP Cash flow from operations, excluding discontinued operations, less property, plant and equipment additions; see GAAP to non-GAAP reconciliations.



Q2'19 Non-GAAP Results

\$s in millions, except EPS	Q2'18 Actual ⁽¹⁾		Q1'19 Actual ⁽¹⁾		Q2'19 Actual ⁽¹⁾	
Revenue		\$527M		\$494M		\$564M
Gross Margin	58.4%	\$308M	58.2%	\$288M	57.5%	\$324M
R&D	14.3%	\$75M	15.6%	\$77M	14.4%	\$81M
SG&A	18.9%	\$99M	20.6%	\$102M	19.3%	\$109M
OPEX	<u>33.2%</u>	<u>\$175M</u>	<u>36.2%</u>	<u>\$179M</u>	<u>33.7%</u>	<u>\$190M</u>
Operating Profit	25.2%	\$133M	22.0%	\$109M	23.8%	\$134M
Income Taxes (& effective tax rate)	17%	\$23M	16%	\$18M	16%	\$22M
EPS		\$0.59		\$0.54		\$0.66
Diluted Shares		192M		175M		172M

(1) See attached appendix for GAAP to non-GAAP reconciliations

Q3'19 Non-GAAP Guidance

\$s in millions, except EPS	Q2'19 Actual ⁽¹⁾	Q3'19 Guidance ⁽¹⁾
Revenue	\$564M	\$540M - \$580M
Gross Margin	58%	58% - 59%
OPEX	34%	33% - 35%
Operating Profit	24%	24% - 26%
Net Interest & Other Income	\$1M	\$3M
Effective Tax Rate	16%	16%
EPS	\$0.66	\$0.64 - \$0.74
Diluted Shares	172M	171M

(1) See attached appendix for GAAP to non-GAAP reconciliations.

Q2'19 Summary

- SOC Test market stronger than earlier forecast, now expect 2019 SOC Test market at \$2.6-3.0B
- 5G Infrastructure and general handset chip SemiTest demand accelerated in Q2'19
- Increased demand for RF Semi-Test capacity to support next generation standards
- Memory Test market expected to be \$600-700M in 2019
- Memory Test sales in Q2'19 grew 22% from Q1'19 on NAND package and NAND & DRAM wafer test demand
- Industrial Automation grew 20% from Q2'18 on 10% growth at Universal Robots and, on a pro forma basis 81% growth at MiR; while 2019 growth is below plan due to macro slowdown, remain confident in the 30-40% long term annual growth plan
- LitePoint sales up 42% in Q2'19 compared with Q1'19 on demand related to new wireless standards
- Storage Test and Defense & Aerospace demand drove System Test revenue up 26% from Q1'19

Supplemental Information



Teradyne OPEX History and Outlook

Annual Non-GAAP OPEX ⁽¹⁾					
	2015	2016	2017	2018	2019LE
Industrial Automation ⁽²⁾	\$14M	\$43M	\$62M	\$114M	↑
Test	\$514M	\$513M	\$509M	\$504M	→
Variable Comp	<u>\$61M</u>	<u>\$53M</u>	<u>\$85M</u>	<u>\$74M</u>	→
Total OPEX	\$589M	\$609M	\$656M	\$692M	↑

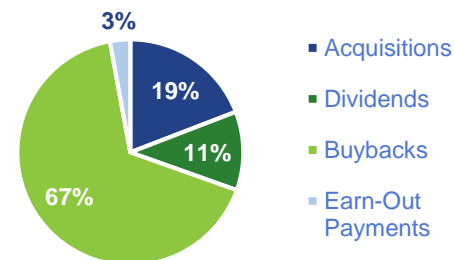
(1) See attached appendix for GAAP to non-GAAP reconciliations.

(2) Commencing from date of acquisitions: UR June 12th, 2015 onwards, Energid February 26th, 2018 onwards, MiR April 25th, 2018 onwards

History of Balanced Capital Allocation

Cumulative Capital Allocation Breakdown

2014-1H'19



	2014	2015	2016	2017	2018	1H'19	Cumulative
Buybacks	\$0M	\$300M	\$146M	\$200M	\$823M	\$247M	\$1,717M
Dividends	\$37M	\$51M	\$49M	\$55M	\$67M	\$31M	\$291M
Acquisitions	\$19M	\$283M	\$0M	\$0M	\$169M	\$22M	\$494M
Earn-out Payments ⁽¹⁾	<u>\$0M</u>	<u>\$0M</u>	<u>\$15M</u>	<u>\$1M</u>	<u>\$25M</u>	<u>\$35M</u>	<u>\$75M</u>
Total	\$57M	\$633M	\$210M	\$257M	\$1,085M	\$335M	\$2,576M
Free Cash Flow⁽²⁾	\$323M	\$323M	\$370M	\$521M	\$370M	\$104M	\$2,011M

(1) Earn-Out payments flow through both financing and operating sections of the cash flow statement.

(2) Teradyne calculates free cash flow as: GAAP Cash flow from operations, excluding discontinued operations, less property, plant and equipment additions net of gov't subsidies; see GAAP to non-GAAP

¹⁴ reconciliations.



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Appendix | GAAP to Non-GAAP Reconciliation

In addition to disclosing results that are determined in accordance with GAAP, Teradyne also discloses in this presentation and on the earnings call non-GAAP results of operations that exclude certain income items and charges. These results are provided as a complement to results provided in accordance with GAAP. These non-GAAP performance measures are used to make operational decisions, to determine employee compensation, to forecast future operational results, and for comparison with the Company's business plan, historical operating results and the operating results of the Company's competitors. Management believes each of these non-GAAP performance measures provides useful supplemental information for investors, allowing greater transparency to the information used by management in its operational decision making and in the review of the Company's financial and operational performance, as well as facilitating meaningful comparisons of the Company's results in the current period compared with those in prior and future periods. A reconciliation of each available GAAP to non-GAAP financial measure discussed in this presentation is contained in the following slides and on the Teradyne website at www.teradyne.com by clicking on "Investors" and then selecting the "GAAP to Non-GAAP Reconciliation" link. The non-GAAP performance measures discussed in this presentation may not be comparable to similarly titled measures used by other companies. The presentation of non-GAAP measures is not meant to be considered in isolation, as a substitute for, or superior to, financial measures or information provided in accordance with GAAP.

Appendix | GAAP to Non-GAAP Reconciliation

GAAP to Non-GAAP Earnings Reconciliation

(In millions, except per share amounts)

	Quarter Ended																	
	June 30, 2019		March 31, 2019				July 1, 2018		March 31, 2019				July 1, 2018					
	\$	% of Net Revenues	\$	% of Net Revenues	\$	% of Net Revenues	\$	% of Net Revenues	\$	% of Net Revenues	\$	% of Net Revenues	\$	% of Net Revenues				
Net revenues	\$ 564.2		\$ 494.1		\$ 526.9		\$ 494.1		\$ 526.9		\$ 494.1		\$ 526.9					
Gross profit GAAP	\$ 323.9	57.4%	\$ 287.6	58.2%	\$ 307.3	58.3%	\$ 287.6	58.2%	\$ 307.3	58.3%	\$ 287.6	58.2%	\$ 307.3	58.3%				
Inventory step-up	0.4	0.1%	-	-	0.4	0.1%	-	-	0.4	0.1%	-	-	0.4	0.1%				
Gross profit non-GAAP	\$ 324.3	57.5%	\$ 287.6	58.2%	\$ 307.7	58.4%	\$ 287.6	58.2%	\$ 307.7	58.4%	\$ 287.6	58.2%	\$ 307.7	58.4%				
Income from operations - GAAP	\$ 134.0	23.8%	\$ 93.1	18.8%	\$ 120.4	22.9%	\$ 93.1	18.8%	\$ 120.4	22.9%	\$ 93.1	18.8%	\$ 120.4	22.9%				
Acquired intangible assets amortization	10.1	1.8%	10.6	2.1%	9.8	1.9%	10.6	2.1%	9.8	1.9%	10.6	2.1%	9.8	1.9%				
Restructuring and other (1)	(10.4)	-1.8%	5.1	1.0%	2.4	0.5%	5.1	1.0%	2.4	0.5%	5.1	1.0%	2.4	0.5%				
Inventory step-up	0.4	0.1%	-	-	0.4	0.1%	-	-	0.4	0.1%	-	-	0.4	0.1%				
Income from operations - non-GAAP	\$ 134.1	23.8%	\$ 108.8	22.0%	\$ 133.0	25.2%	\$ 108.8	22.0%	\$ 133.0	25.2%	\$ 108.8	22.0%	\$ 133.0	25.2%				
			Net Income per Common Share				Net Income per Common Share				Net Income per Common Share							
	June 30, 2019	% of Net Revenues	Basic		Diluted		March 31, 2019	% of Net Revenues	Basic		Diluted		July 1, 2018	% of Net Revenues	Basic		Diluted	
Net income - GAAP	\$ 97.4	17.3%	\$ 0.57	\$ 0.55	\$ 109.1	22.1%	\$ 0.63	\$ 0.62	\$ 101.0	19.2%	\$ 0.53	\$ 0.52	\$ 101.0	19.2%	\$ 0.53	\$ 0.52		
Acquired intangible assets amortization	10.1	1.8%	0.06	0.06	10.6	2.1%	0.06	0.06	9.8	1.9%	0.05	0.05	9.8	1.9%	0.05	0.05		
Interest and other (2)	3.4	0.6%	0.02	0.02	3.4	0.7%	0.02	0.02	3.2	0.6%	0.02	0.02	3.2	0.6%	0.02	0.02		
Restructuring and other (1)	(10.4)	-1.8%	(0.06)	(0.06)	5.1	1.0%	0.03	0.03	2.4	0.5%	0.01	0.01	2.4	0.5%	0.01	0.01		
Pension mark-to-market adjustment (2)	0.4	0.1%	0.00	0.00	-	-	-	-	(0.1)	0.0%	(0.00)	(0.00)	(0.1)	0.0%	(0.00)	(0.00)		
Inventory step-up	0.4	0.1%	0.00	0.00	-	-	-	-	0.4	0.1%	0.00	0.00	0.4	0.1%	0.00	0.00		
Exclude discrete tax adjustments (3)	13.9	2.5%	0.08	0.08	(30.1)	-6.1%	(0.17)	(0.17)	(0.5)	-0.1%	(0.00)	(0.00)	(0.5)	-0.1%	(0.00)	(0.00)		
Non-GAAP tax adjustments	(2.0)	-0.4%	(0.01)	(0.01)	(3.5)	-0.7%	(0.02)	(0.02)	(3.4)	-0.6%	(0.02)	(0.02)	(3.4)	-0.6%	(0.02)	(0.02)		
Convertible share adjustment	-	-	-	0.02	-	-	-	-	-	-	-	0.01	-	-	-	0.01		
Net income - non-GAAP	\$ 113.2	20.1%	\$ 0.66	\$ 0.66	\$ 94.6	19.1%	\$ 0.55	\$ 0.54	\$ 112.8	21.4%	\$ 0.59	\$ 0.59	\$ 112.8	21.4%	\$ 0.59	\$ 0.59		
GAAP and non-GAAP weighted average common shares - basic	171.2				173.5				190.7				190.7					
GAAP weighted average common shares - diluted	178.6				177.0				194.9				194.9					
Exclude dilutive shares related to convertible note transaction	(6.2)				(2.2)				(2.6)				(2.6)					
Non-GAAP weighted average common shares - diluted	172.4				174.8				192.3				192.3					

Appendix | GAAP to Non-GAAP Reconciliation

(1) Restructuring and other consists of:

	Quarter Ended		
	June 30, 2019	March 31, 2019	July 1, 2018
Contingent consideration fair value adjustment	\$ (11.7)	\$ 3.0	\$ (3.5)
Acquisition related expenses and compensation	0.5	1.3	2.5
Employee severance	0.8	0.8	2.4
Other	-	-	0.9
	<u>\$ (10.4)</u>	<u>\$ 5.1</u>	<u>\$ 2.4</u>

(2) For the quarters ended June 30, 2019, March 31, 2019, and July 1, 2018, adjustment to exclude non-cash convertible debt interest expense. For the quarters ended June 30, 2019 and July 1, 2018, adjustment to exclude actuarial loss/gain recognized under GAAP in accordance with Teradyne's mark-to-market pension accounting.

(3) For the quarters ended June 30, 2019, March 31, 2019, and July 1, 2018, adjustment to exclude discrete income tax items. For the quarter ended June 30, 2019, income tax (benefit) provision includes a \$15 million tax provision related to the finalization of our toll tax charge. For the quarter ended March 31, 2019, income tax (benefit) provision includes a \$26 million tax benefit from the release of uncertain tax position reserves due to the IRS completion of its audit of Teradyne's 2015 Federal tax return.

Appendix | GAAP to Non-GAAP Reconciliation

Six Months Ended

	June 30, 2019		July 1, 2018	
		% of Net Revenues		% of Net Revenues
Net Revenues	\$ 1,058.3		\$ 1,014.4	
Gross profit GAAP	\$ 611.6	57.8%	\$ 577.2	56.9%
Inventory step-up	0.4	0.0%	0.4	0.0%
Gross profit non-GAAP	\$ 612.0	57.8%	\$ 577.6	56.9%
Income from operations - GAAP	\$ 227.1	21.5%	\$ 217.9	21.5%
Acquired intangible assets amortization	20.7	2.0%	17.5	1.7%
Restructuring and other (1)	(5.3)	-0.5%	2.1	0.2%
Inventory step-up	0.4	0.0%	0.4	0.0%
Income from operations - non-GAAP	\$ 242.9	23.0%	\$ 237.9	23.5%

	June 30, 2019		Net Income per Common Share		July 1, 2018		Net Income per Common Share	
		% of Net Revenues	Basic	Diluted		% of Net Revenues	Basic	Diluted
Net income - GAAP	\$ 206.5	19.5%	\$ 1.20	\$ 1.16	\$ 188.0	18.5%	\$ 0.97	\$ 0.94
Acquired intangible assets amortization	20.7	2.0%	0.12	0.12	17.5	1.7%	0.09	0.09
Interest and other (2)	6.8	0.6%	0.04	0.04	6.5	0.6%	0.03	0.03
Restructuring and other (1)	(5.3)	-0.5%	(0.03)	(0.03)	2.1	0.2%	0.01	0.01
Inventory step-up	0.4	0.0%	0.00	0.00	0.4	0.0%	0.00	0.00
Pension mark-to-market adjustment (2)	0.4	0.0%	0.00	0.00	(0.1)	0.0%	(0.00)	(0.00)
Exclude discrete tax adjustments (3)	(16.2)	-1.5%	(0.09)	(0.09)	(6.8)	-0.7%	(0.04)	(0.03)
Non-GAAP tax adjustments	(5.5)	-0.5%	(0.03)	(0.03)	(5.3)	-0.5%	(0.03)	(0.03)
Convertible share adjustment	-	-	-	0.03	-	-	-	0.02
Net income - non-GAAP	\$ 207.8	19.6%	\$ 1.21	\$ 1.20	\$ 202.3	19.9%	\$ 1.05	\$ 1.04

GAAP and non-GAAP weighted average common shares - basic	172.4		193.0
GAAP weighted average common shares - diluted	177.8		199.2
Exclude dilutive shares from convertible note	(4.2)		(4.4)
Non-GAAP weighted average common shares - diluted	173.6		194.8

Appendix | GAAP to Non-GAAP Reconciliation

(1) Restructuring and other consists of:

	Six Months Ended	
	June 30, 2019	July 1, 2018
Contingent consideration fair value adjustment	\$ (8.7)	\$ (8.5)
Acquisition related expenses and compensation	1.8	3.3
Employee severance	1.6	6.3
Other	-	0.9
	<u>\$ (5.3)</u>	<u>\$ 2.1</u>

(2) For the six months ended June 30, 2019 and July 1, 2018, interest and other included non-cash convertible debt interest expense. For the six months ended June 30, 2019 and July 1, 2018, adjustments to exclude actuarial loss/gain recognized under GAAP in accordance with Teradyne's mark-to-market pension accounting.

(3) For the six months ended June 30, 2019 and July 1, 2018, adjustment to exclude discrete income tax items. For the six months ended June 30, 2019, income tax (benefit) provision includes a \$26 million tax benefit from the release of uncertain tax position reserves due to the IRS completion of its audit of Teradyne's 2015 Federal tax return and includes a \$15 million tax provision related to the finalization of our toll tax charge.

Appendix | GAAP to Non-GAAP Reconciliation

	Q2'18		Q1'19		Q2'19		Q3'19 Low Guidance		Q3'19 High Guidance	
	\$'s	% of sales	\$'s	% of sales	\$'s	% of sales	\$'s	% of sales	\$'s	% of sales
GAAP Operating Expenses	\$187	35%	\$195	39%	\$190	34%	\$205	38%	\$207	36%
Intangible Asset Amortization	-\$10	-2%	-\$11	-2%	-\$10	-2%	-\$10	-2%	-\$10	-2%
Restructuring and Other	-\$2	0%	-\$5	-1%	\$10	2%	-\$3	-1%	-\$3	-1%
Non GAAP Operating Expenses	\$175	33%	\$179	36%	\$190	34%	\$192	35%	\$194	33%

	Q2'18		Q1'19		Q2'19	
	\$'s	%	\$'s	%	\$'s	%
GAAP Income Tax	\$204	170%	-\$15	-16%	\$34	25%
Exclude discrete tax adjustments	-\$184	-153%	\$30	32%	-\$14	-10%
Tax effect of non-GAAP adjustments	\$3	2%	\$4	4%	\$2	1%
Effect of Higher Non-GAAP PBT		-2%		-3%		0%
Non GAAP Income Tax	\$23	17%	\$18	16%	\$22	16%

Q2'19:

GAAP net interest and other income	-\$2.8
Exclude non cash convertible debt interest	\$3.4
Exclude Pension actuarial loss (gain)	\$0.4
Non-GAAP net interest and other income	\$1.0

Q3'19 Guidance:

	Low End	High End
GAAP Operating Profit as % of Sales	21%	23%
Acquired intangible asset amortization	2%	2%
Non-GAAP Operating Profit as % of Sales	24%	26%

Q3'19 Guidance

GAAP net interest and other income	-\$0.4
Exclude non cash convertible debt interest	\$3.4
Non-GAAP net interest and other income	\$3.0

Q3'19 GAAP Guidance Diluted Shares

Q3'19 GAAP Guidance Diluted Shares	177
Exclude dilutive shares from convertible note	-6
Q3'19 Non-GAAP Guidance Diluted Shares	171

GAAP to Non-GAAP Reconciliation of Third Quarter 2019 guidance:

	\$540 million	to	\$580 million
GAAP and non-GAAP third quarter revenue guidance:			
GAAP net income per diluted share	\$ 0.53	\$	0.63
Exclude acquired intangible assets amortization	0.06		0.06
Exclude non-cash convertible debt interest	0.02		0.02
Exclude restructuring and other	0.01		0.01
Tax effect of non-GAAP adjustments	(0.01)		(0.01)
Convertible share adjustment	0.02		0.02
Non-GAAP net income per diluted share	\$ 0.64	\$	0.74

Appendix | GAAP to Non-GAAP Reconciliation

- Teradyne determines non-GAAP operating cash flow (“Free Cash Flow”) by adjusting GAAP cash flow from operations excluding discontinued operations, less property, plant and equipment additions. Free cash flow is considered a non-GAAP financial measure. Teradyne believes that free cash flow, which measures our ability to generate cash from our business operations, is an important financial measure for use in evaluating Teradyne’s financial performance. Free cash flow should be considered in addition to, rather than as a substitute for, income (loss) from continuing operations or net income (loss) as a measure of our performance and net cash provided by operating activities as a measure of our liquidity.
- Teradyne believes it is important to view free cash flow as a measure that provides supplemental information to Teradyne’s entire statement of cash flows.
- Although other companies report their free cash flow, numerous methods may exist for calculating a company's free cash flow. As a result, the method used by Teradyne to calculate free cash flow may differ from the methods other companies use to calculate their free cash flow.
- The following table sets forth a reconciliation of free cash flow, a non-GAAP financial measure, to net cash provided by operating activities, a GAAP measure, which we believe to be the GAAP financial measure most directly comparable to free cash flow.

	<u>Q2'18</u>	<u>Q1'19</u>	<u>Q2'19</u>	<u>1H'19</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
GAAP Cash Flow From Operations, Excl Disc Ops	\$130	\$18	\$148	\$166	\$492	\$413	\$455	\$626	\$477
Less Property, Plant and Equipment Additions net of Gov't Subsidy	-\$28	-\$26	-\$36	-\$62	-\$169	-\$90	-\$85	-\$105	-\$107
Non-GAAP Operating Cash Flow ("Free Cash Flow")	\$102	-\$8	\$112	\$104	\$323	\$323	\$370	\$521	\$370

Appendix | GAAP to Non-GAAP Reconciliation

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
GAAP Operating Expenses	747	696	1,020	673
Less Goodwill Impairment Charge		-	(255)	-
Less Intangible Asset Impairment		-	(83)	-
Less Intangible Asset Amortization	(39)	(31)	(53)	(69)
Less Restructuring and Other	(15)	(9)	(22)	(5)
Pension Mark to Market Adjustment			2	(10)
Less Equity Modification Charge	-	-	-	-
Non GAAP Operating Expenses	692	656	609	589
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
IA GAAP Operating Expenses	153	93	84	28
Less Intangible Asset Amortization	(32)	(24)	(25)	(14)
Less Restructuring and Other	(7)	(7)	(16)	-
IA non GAAP Operating Expenses	114	62	43	14
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Test GAAP Operating Expenses (1)	594	603	936	645
Less Goodwill Impairment Charge		-	(255)	-
Less Intangible Asset Impairment		-	(83)	-
Less Intangible Asset Amortization	(7)	(7)	(28)	(55)
Less Restructuring and Other	(9)	(2)	(6)	(5)
Pension Mark to Market Adjustment		-	2	(10)
Less Equity Modification Charge	-	-	-	-
Test Non GAAP Operating Expenses (1)	578	594	566	575

(1) = Includes Variable Compensation of \$74M, \$85M, \$53M and \$61M for 2018, 2017, 2016 and 2015 respectively.