Teradyne
2Q25
Earnings Call Prepared Remarks
July 30, 2025

Traci Tsuchiguchi, VP Investor Relations
Thank you, operator. Good morning everyone and welcome to our discussion of Teradyne's most recent financial results. I'm joined this morning by our CEO Greg Smith, and our CFO Sanjay Mehta. Following our opening remarks, we'll provide details of our performance for the second quarter of 2025 and our outlook for the third quarter of 2025. The press release containing our second quarter results was issued last evening. The slides as well as a copy of this earnings script are on the investor page of the Teradyne website. Replays of this call will be available via the same page after the call ends.

The matters that we discuss today will include forward-looking statements that involve risks that could cause Teradyne's results to differ materially from management's current expectations. We caution listeners not to place undue reliance on any forward-looking statements included in this presentation. We encourage you to review the Safe Harbor statement contained in the slides accompanying this presentation as well as the risk factors described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2024 on file with the SEC. Additionally, these forward-looking statements are made only as of today and we do not undertake any obligation to update forward-looking statements to reflect subsequent events or circumstances except to the extent required by law.

During today's call, we will refer to non-GAAP financial measures. We have posted additional information concerning these non-GAAP financial measures, including reconciliation to the most directly comparable GAAP financial measures, where available, on the investor page of our website. Looking ahead, between now and our next earnings call, Teradyne expects to participate in technology or industrial focused investor conferences hosted by Evercore, Keybanc, Citi, and Goldman Sachs. Our quiet period will begin at the close of business on September 19th, 2025.

Following Greg and Sanjay's comments this morning, we'll open up the call for questions. This call is scheduled for one hour.

Greg?

Greg Smith, CEO
Thanks Traci. Good morning everyone and thanks for joining us. Today I'll discuss our second quarter results and provide an update on what we're seeing across our businesses. Sanjay will then provide more detail on our second quarter results and third quarter guidance.

Through the second quarter, end market trends noted in prior quarters were generally consistent with a strengthening second half. Strength in AI Compute is more than offsetting lower demand in auto and industrial end markets. Pockets of improvement in Mobile are driven more by customer-specific dynamics rather than an uptick in end market demand.

Visibility is starting to improve. In terms of capacity utilization, we believe that we have turned the corner towards more new system sales rather than selling upgrades of existing idle Mobile capacity for new Compute and Mobile applications. Demand is strengthening in AI Compute and we are seeing a broadening of opportunities where Teradyne, and especially the UltraFLEXplus, is getting strong consideration in areas where we have not historically had a seat at the table. While new program ramps and new test insertions can drive a lumpy order pattern, we are optimistic about the opportunities on our horizon. In the second half of 2025, we expect AI Compute to be the dominant driver of our SOC test business. The long-term themes we've discussed – AI, verticalization and electrification – remain intact, with AI and verticalization emerging as primary growth drivers in the near-term.

Our Q2 results reflect the evolving composition of our business. In the past, the typical seasonality in our revenue was heavily driven by consumer Mobile demand. This has now been superceded by the waves of demand driven by specific customer program ramps in AI Compute. These have no correlation to consumer holiday buying patterns.

In the second quarter, we delivered revenue, gross margin and earnings per share above the mid-point of our guidance ranges.

Semi Test**,** specifically SoC for AI Compute, drove results above our expectations. End demand trends in Mobile persist, but we saw pockets of customer specific strength in RF and mobile power in the quarter. In the Industrial and Automotive end markets, demand has stabilized at a low level.

As expected, in Q2, memory revenue was lower quarter on quarter due to the timing of shipments and is expected to snap back in the second half. In the quarter, our Memory Business Unit secured an important HBM4 post-stack singulated die win.HBM suppliers are adding test coverage to improve device quality. Some suppliers are adding a test insertion for HBM singulated stacks and, while this new insertion is not yet pervasive across the broader industry, we believe that it is an important growth driver for the memory tam in the future. This win builds on the momentum from the HBM4 post stack wafer test win in Q1 for our Memory Business Unit.

As we discussed at our Analyst Day, there are four elements to growth in our IST business: Accelerated bit growth in HDD, share growth and recovery in the mobile SLT market, emerging SLT for AI accelerators, and Solid State Disk drives. In Q2, IST revenue more than doubled compared to the same period last year, mainly driven by HDD and mobile.

All of the businesses in our Product Test Group delivered second quarter results generally in-line with our expectations and up year on year. In the quarter, we closed the acquisition of Quantifi Photonics, accelerating an important element of our strategy to gain share in AI Compute by establishing a leadership position in Silicon Photonics test.

In Robotics, recall that we executed a structural reorganization that consolidated the customer-facing sales, marketing and service organizations of UR and MiR in the first quarter of 2025. In Q2, this new organization delivered 9% quarter on quarter growth, despite persistent difficult market conditions, and we continue to optimize our OPEX envelope to respond. In the second quarter, as part of our pivot to large customers, we secured a “plan of record” decision from a large customer. This is not expected to have a material impact on robotics revenue in 2025, but is expected to be a significant growth driver later in 2026. In support of this opportunity and others, the team plans to open a manufacturing operation in the United States to best serve customers in this region.

Moving on to Q3. As we progress through the third quarter, we are gaining confidence in AI Compute related revenue inflecting in the second half of the year – driven by both SoC and Memory. We are less certain of the quarterly timing of shipments between Q3 and Q4 and then between Q4 and Q1 due to customer schedules. That said, we expect the relative size of AI Compute in our SOC and Memory business to represent the majority of our Semi Test revenue in the second half.

Our expectations for Mobile are modest in the third quarter and the second half generally, expecting that the bulk of the demand we’d see for the year has been satisfied in the first half. Growth in the mobile segment is coupled to the ramp of 2nm GAA and the expectation of more compelling AI applications in the generation of smart phones coming in the back half of 2026.

In the Auto and Industrial end markets, our end customers remain cautious about significant capacity adds. But we do not expect test equipment order patterns to deteriorate further. There are areas within this end market that are showing strength – like power semis for data center buildouts, and we believe that the long term trend towards electrification will drive growth beyond 2025.

Overall, we feel good about where we are heading in the third quarter and the second half of the year – we are significantly more confident than we were 90 days ago. Demand trends in AI Compute have strengthened and forecasts are materializing into orders.

Utilization rates have improved considerably leading to an increase in UltraFLEXplus system orders. With the work that we have done to increase the resilience of our supply chain and dual source our manufacturing, we are in a position to effectively scale volume with increased demand and provide timely delivery of our testers to fast-moving customers.

I want to emphasize that we are opening these opportunities because of the scalability of our newest systems, our current capabilities in Silicon Photonics, our parallelism and higher throughput that lowers the cost of test for customers.

With that, I’ll turn the call over to Sanjay.

Sanjay Mehta, CFO
Thank you, Greg. Good morning, everyone. Today I'll cover the financial summary of Q2 and provide our Q3 outlook.

Now to Q2. Second quarter sales were $652M and non-GAAP EPS was $0.57, both above the mid-point of our guidance ranges. Non-GAAP gross margins were 57.3%, consistent with our guidance range. Non-GAAP Operating expenses were $275M, up year-over-year as we have increased our R&D investments in targeted opportunities to drive longer-term growth. Opex came in flattish sequentially as we continue to practice disciplined spending controls. Non-GAAP operating profit was 15.1%.

Turning to our revenue breakdown in Q2. Semi Test revenue for the quarter was $492M with SOC revenue contributing $397M, Memory $61M, and IST $34M. Strength in SoC was driven by Mobile upgrades. AI Compute growth exceeded our plan. As expected, memory revenue was considerably lower sequentially and year-over-year due to the timing of customer deliveries, which is expected to be back half weighted this year. In the first half of this year, customers have been digesting the HBM test equipment delivered in 2024. We expect DRAM to dominate the memory mix in 2025, just as it did in 2024. IST revenue of $34M was up both sequentially and year-over-year driven by mobile SLT and HDD testers.

In Product Test, Q2 revenue was $85M, up 7% year-over-year with all business units within Product Test up year-over-year. As Greg noted, we closed the acquisition of Quantifi Photonics in the quarter and its results are included in this segment.

Now to Robotics. Revenue was $75M, up quarter-on- quarter, but, down year-over-year. In the quarter, UR contributed $63M and MiR contributed $12M. While the long-term drivers of AI and onshoring in advanced robotics remain intact, near-term macro factors continue to be a headwind. Our second quarter operating results were better than the first quarter, and we expect the second half of the year to be better than the first half. Despite this, due to the weak end market we had lower volumes yielding a lower gross margin. We expect the weak market to persist and do not expect Robotics to break-even this year.

Some other financial information in Q2. We had one customer that directly or indirectly drove more than 10% of our revenue in the second quarter. The tax rate excluding discrete items for the quarter was 13.5% on a GAAP and non-GAAP basis.

At a company level, our free cash flow was $132M primarily driven by improvements in net working capital in the quarter. We repurchased $117M of shares in the quarter and paid $19M in dividends. In the first half, we’ve returned $316M or 138% of our free cash flow through dividends and buybacks to shareholders. We ended the quarter with $489M in cash and marketable securities.

Now turning to our outlook for Q3. Q3 sales are expected to be between $710M and $770M. Third quarter gross margins are estimated at 56.5% to 57.5%.

Q3 OPEX is expected to run at 36.5% to 38.5% of third quarter sales. The Non-GAAP operating profit rate at the mid-point of our third quarter guidance is 19.5%. The Q3 tax rate is expected to be 16.3% on a GAAP and non-GAAP basis. The increase in rate is driven by the impact of the new tax legislation which goes into effect in Q3, hence, a year to date catch up is included in Q3. The full year rate is expected to be 14.5%. Q3 Non-GAAP EPS is expected to be in a range of $0.69 to $0.87 on 158 million diluted shares. GAAP EPS is expected to be in the range of $0.62 to $0.80.

In terms of guidance, we will continue to guide one quarter at a time.

Summing up, we delivered sales and earnings above the mid-point of our guide. We feel more confident in our near-term outlook than we did 90 days ago. Looking ahead, our visibility is improving driven by demands in artificial intelligence in both SoC and in Memory. Second half of the year is shaping up to be stronger than the first as we expected earlier in the year. Our multi-year investments in testing Artificial Intelligence are beginning to deliver new opportunities and accelerating top line growth. We are confident in the long-term growth drivers of AI, electrification and verticalization trends that will drive our business in the coming years.

Greg Smith, CEO
I would like to add one final thought. AI is having a profound and positive impact Teradyne's business. The investments that we have made in our SOC, Memory and IST businesses to align with AI trends are now delivering new opportunities , socket wins, and financial returns. We expect that the majority of our semitest revenue in the second half will be driven by AI applications, and it is clear that our momentum is building. Thank you very much for joining today.