Teradyne, Inc.

Certain Non-GAAP financial measures discussed during the Fourth Quarter of 2018 Earnings Conference Call January 24, 2019

On the Company's earnings conference call on January 24, 2019, the following non-GAAP financial measures were discussed or presented:

- Q4'18 EPS $0.63
- Q3'18 EPS $0.71
- Q4'17 EPS $0.46
- Q4'18 net income $113M
- Q1'19 Guidance EPS $0.39 to $0.47
- FY 2018 EPS of $2.37
- FY 2017 EPS of $2.34
- FY 2018 PBIT of 25%
- Q4'18 PBIT of 26%
- Q4'18 Operating Expenses $175M
- Q3'18 Operating Expenses $177M
- FY 2018 Tax Rate 16%
- 2022 Industrial Automation Model PBIT of 20%
- 2019 Industrial Automation PBIT of 15%
- Q4'18 Industrial Operating Expenses of $33M
- Second Half 2019 Industrial Automation average quarterly Operating Expenses of $50M
- Q1'19 Guidance Diluted Shares 177M
- Q1'19 Guidance Operating Expenses 38% to 40%
- Q1'19 Guidance Operating Expenses $185M
- Q1'19 Guidance PBIT of 19% at $475M of revenue
- FY 2019 Estimated Interest Income of $3M per quarter
- FY 2016 EPS of $1.51
- 2021 Model Estimated EPS Target $3.50 to $4.00
- 2022 Model Estimated EPS Target $3.50 to $4.00
- Q4'17 - Opex (33.3% and $160M), Operating Profit (23.2% and $111M), Effective Tax Rate (19.8% and $23M), EPS ($0.46), FCF ($115M), diluted shares (199M)
- Q3'18 – Opex (31.3% and $177M), Operating Profit (27.6% and $156M), EPS ($0.71), FCF ($223M), Effective Tax Rate (15.3% or $24M), diluted shares (187M)
- Q4'18 – Opex (33.8% and $175M), Operating Profit (25.8% and $134M), EPS ($0.63), FCF ($160M), Effective Tax Rate (15% or $20M), diluted shares (181M), Net interest and other (-$1M)
- Q1'19 Guidance – Opex (38-40%), Operating Profit (17-20%), net interest and other ($3M), EPS ($0.39 to $0.47), diluted shares (177M)
- IA Opex – 2015 ($14M), 2016 ($43M), 2017 ($62M), 2018 ($114M)
- Test Opex (w/ Variable Compensation) –2015 ($575M), 2016 ($566M), 2017 ($594M), 2018 ($578M)
- Total Company Opex –2015 ($589M), 2016 ($609M), 2017 ($656M), 2018 ($692M)
- 2017 – Opex (30.7% and $656M), Operating Profit (26.5% and $565M), Effective Tax Rate (17.8% and $101M), EPS ($2.34), Diluted shares (200M)

- 2018 - Gross Margin (58.1% and $1.221M), Opex (32.9% and $692M), Operating Profit (25.2% and $529M), Effective Tax Rate (15.8% and $84M), EPS ($2.37), Diluted shares (189M)

GAAP to Non-GAAP Earnings Reconciliation

	FY 2022
2022 Estimated Industrial Automation Model GAAP PBIT	18%
Less Intangible Asset Amortization	2%
2022 Estimated Industrial Automation Model Non-GAAP PBIT	20%

	FY 2019
2019 Estimated Industrial Automation GAAP PBIT	6%
Less Intangible Asset Amortization	9%
2019 Estimated Industrial Automation Non-GAAP PBIT	15%

	Q4 2018
Q4 2018 Industrial Automation Segment GAAP Operating Expenses	$42M
Intangible Asset Amortization and Restructuring & Other	($9M)
Q4 2018 Industrial Automation Segment Non-GAAP Operating Expens	$33M

	2H 2019
2H 2019 Industrial Automation Segment GAAP Operating Expenses	$117M
Intangible Asset Amortization	($17M)
2H 2019 Industrial Automation Segment Non-GAAP Operating Expens	$100M
$50M per quarter average 2H 2019	

	Q1 2019 Guidance
Q1 2019 Estimated GAAP Operating Expenses	$196M
Less Intangible Asset Amortization	($11M)
Q1 2019 Estimated Non-GAAP Operating Expenses	$185M

GAAP to Non-GAAP Reconciliation	Mid Guidance Q1 2019
GAAP income from operations as a % of revenue ($475M)	17%
Exclude acquired intangible asset amortization	2%
Non-GAAP income from operations as a % of revenue ($475M)	19%

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.

TERADYNE

Appendix | GAAP to Non-GAAP Reconciliation

GAAP to Non-GAAP Earnings Reconciliation

(In millions, except per share amounts)

Quarter Ended

	December 31, 2018	% of Net Revenues	September 30, 2018	% of Net Revenues	December 31, 2017 (1)	% of Net Revenues
Net revenues	$ 519.6		$ 566.8		$ 479.4	
Gross profit GAAP and non-GAAP	$ 309.5	59.6%	$ 333.7	58.9%	$ 270.9	56.5%
Income from operations - GAAP	$ 112.3	21.6%	$ 143.6	25.3%	$ 94.6	19.7%
Acquired intangible assets amortization	10.6	2.0%	11.1	2.0%	7.4	1.5%
Restructuring and other (2)	11.4	2.2%	1.7	0.3%	9.0	1.9%
Income from operations - non-GAAP	$ 134.3	25.8%	$ 156.4	27.6%	$ 111.0	23.2%

	December 31, 2018	% of Net Revenues	Net Income per Common Share Basic	Net Income per Common Share Diluted	September 30, 2018	% of Net Revenues	Net Income per Common Share Basic	Net Income per Common Share Diluted	December 31, 2017	% of Net Revenues	Net Income per Common Share Basic	Net Income per Common Share Diluted
Net income - GAAP	$ 143.8	27.7%	$ 0.80	$ 0.79	$ 120.0	21.2%	$ 0.65	$ 0.63	$ (105.9)	-22.1%	$ (0.54)	$ (0.54)
Acquired intangible assets amortization	10.6	2.0%	0.06	0.06	11.1	2.0%	0.06	0.06	7.4	1.5%	0.04	0.04
Interest and other (3)	3.3	0.6%	0.02	0.02	3.3	0.6%	0.02	0.02	3.2	0.7%	0.02	0.02
Restructuring and other (2)	11.4	2.2%	0.06	0.06	1.7	0.3%	0.01	0.01	9.0	1.9%	0.05	0.05
Pension mark-to-market adjustment (3)	(3.5)	-0.7%	(0.02)	(0.02)	0.3	0.1%	0.00	0.00	(3.8)	-0.8%	(0.02)	(0.02)
Exclude discrete tax adjustments (4)	(52.9)	-10.2%	(0.30)	(0.29)	0.3	0.1%	0.00	0.00	184.4	38.5%	0.94	0.94
Non-GAAP tax adjustments	0.3	0.1%	0.00	0.00	(3.4)	-0.6%	(0.02)	(0.02)	(2.9)	-0.6%	(0.01)	(0.01)
Convertible share adjustment	-	-	-	-	-	-	-	0.01	-	-	-	-
Net income - non-GAAP	$ 113.0	21.7%	$ 0.63	$ 0.63	$ 133.3	23.5%	$ 0.72	$ 0.71	$ 91.4	19.1%	$ 0.47	$ 0.46

	December 31, 2018	September 30, 2018	December 31, 2017
GAAP and non-GAAP weighted average common shares - basic	179.0	185.7	196.0
GAAP weighted average common shares - diluted	181.5	190.5	196.0
Include dilutive shares	-	-	3.0
Exclude dilutive shares related to convertible note transaction	(0.9)	(3.1)	-
Non-GAAP weighted average common shares - diluted	180.6	187.4	199.0

TERADYNE

Appendix | GAAP to Non-GAAP Reconciliation

(1) Certain prior period amounts were reclassified to conform with the first quarter 2018 adoption of new accounting guidance for the presentation of pension and post retirement costs.

(2) Restructuring and other consists of:

	Quarter Ended		
	December 31, 2018	September 30, 2018	December 31, 2017
Contingent consideration fair value adjustment	$ 10.2	$ (0.8)	$ 6.0
Employee severance	0.8	1.7	1.8
Acquisition related expenses and compensation	0.5	0.8	-
Impairment of fixed assets	-	-	1.1
Other	-	-	0.1
	$ 11.4	$ 1.7	$ 9.0

(3) For the quarters ended December 31, 2018, September 30, 2018 and December 31, 2017, adjustment to exclude non-cash convertible debt interest expense and adjustment to exclude actuarial (gains)losses recognized under GAAP in accordance with Teradyne's mark-to-market pension accounting.

(4) For the quarters ended December 31, 2018, September 30, 2018 and December 31, 2017, adjustment to exclude discrete income tax items.

TERADYNE

Appendix | GAAP to Non-GAAP Reconciliation

Twelve Months Ended

	December 31, 2018	% of Net Revenues	December 31, 2017 (1)	% of Net Revenues
Net Revenues	$ 2,100.8		$ 2,136.6	
Gross profit GAAP	$ 1,220.4	58.1%	$ 1,221.5	57.2%
Inventory step-up	0.4	0.0%	-	-
Gross profit non-GAAP	$ 1,220.8	58.1%	$ 1,221.5	57.2%
Income from operations - GAAP	$ 473.8	22.6%	$ 525.3	24.6%
Acquired intangible assets amortization	39.2	1.9%	30.5	1.4%
Restructuring and other (2)	15.2	0.7%	9.4	0.4%
Inventory step-up	0.4	0.0%	-	-
Income from operations - non-GAAP	$ 528.6	25.2%	$ 565.2	26.5%

	December 31, 2018	% of Net Revenues	Net Income per Common Share Basic	Net Income per Common Share Diluted	December 31, 2017	% of Net Revenues	Net Income per Common Share Basic	Net Income per Common Share Diluted
Net income - GAAP	$ 451.8	21.5%	$ 2.41	$ 2.35	$ 257.7	12.1%	$ 1.30	$ 1.28
Acquired intangible assets amortization	39.2	1.9%	0.21	0.20	30.5	1.4%	0.15	0.15
Interest and other (3)	13.1	0.6%	0.07	0.07	12.4	0.6%	0.06	0.06
Restructuring and other (2)	15.2	0.7%	0.08	0.08	9.4	0.4%	0.05	0.05
Inventory step-up	0.4	0.0%	0.00	0.00	-	-	-	-
Pension mark-to-market adjustment (3)	(3.3)	-0.2%	(0.02)	(0.02)	(6.3)	-0.3%	(0.03)	(0.03)
Exclude discrete tax adjustments (4)	(59.4)	-2.8%	(0.32)	(0.31)	178.3	8.3%	0.90	0.88
Non-GAAP tax adjustments	(8.4)	-0.4%	(0.04)	(0.04)	(12.8)	-0.6%	(0.06)	(0.06)
Convertible share adjustment	-	-	-	0.04	-	-	-	0.01
Net income - non-GAAP	$ 448.6	21.4%	$ 2.39	$ 2.37	$ 469.2	22.0%	$ 2.37	$ 2.34

	December 31, 2018	December 31, 2017
GAAP and non-GAAP weighted average common shares - basic	187.7	198.1
GAAP weighted average common shares - diluted	192.6	201.6
Exclude dilutive shares from convertible note	(3.2)	(1.3)
Non-GAAP weighted average common shares - diluted	189.4	200.3

TERADYNE

Appendix | GAAP to Non-GAAP Reconciliation

(1) Certain prior period amounts were reclassified to conform with the first quarter 2018 adoption of new accounting guidance for the presentation of pension and post retirement costs.

(2) Restructuring and other consists of:

	Twelve Months Ended	
	December 31, 2018	December 31, 2017
Employee severance	$ 8.7	$ 3.8
Acquisition related expenses and compensation	4.6	-
Contingent consideration fair value adjustment	1.0	7.8
Other	0.9	1.0
Impairment of fixed assets	-	1.1
Property insurance recovery, net	-	(4.3)
	$ 15.2	$ 9.4

(3) For the twelve months ended December 31, 2018 and December 31, 2017, Interest and other included non-cash convertible debt interest expense. For the twelve months ended December 31, 2018 and December 31, 2017, adjustments to exclude actuarial gains recognized under GAAP in accordance with Teradyne's mark-to-market pension accounting.

(4) For the twelve months ended December 31, 2018 and December 31, 2017, adjustment to exclude discrete income tax items.

TERADYNE

Appendix | GAAP to Non-GAAP Reconciliation

GAAP to Non-GAAP Earnings Reconciliation

(In millions, except per share amounts)

	Year Ended December 31, 2016	% of Net Revenues	Net (Loss) Income per Common Share: Basic	Net (Loss) Income per Common Share: Diluted
Net (loss) income - GAAP	$ (43.4)	*-2.5%*	$ (0.21)	$ (0.21)
Goodwill impairment	254.9	*14.5%*	1.26	1.25
Acquired intangible assets impairment	83.3	*4.8%*	0.41	0.41
Acquired intangible assets amortization	52.6	*3.0%*	0.26	0.26
Restructuring and other	21.9	*1.2%*	0.11	0.11
Pension mark-to-market adjustments	(3.2)	*-0.2%*	(0.02)	(0.02)
Interest and other	0.6	*0.0%*	0.00	0.00
Inventory step-up	-	-	-	-
Exclude discrete tax adjustments	(4.5)	*-0.3%*	(0.02)	(0.02)
Tax effect of non-GAAP adjustments	(53.3)	*-3.0%*	(0.26)	(0.26)
Net income - non-GAAP	$ 308.9	*17.6%*	$ 1.52	$ 1.51
GAAP and non-GAAP weighted average common shares - basic	202.6			
GAAP weighted average common shares - diluted	202.6			
Include dilutive shares	1.8			
Non-GAAP weighted average common shares - diluted	204.4			

TERADYNE

Appendix | GAAP to Non-GAAP Reconciliation

	Q4'17		Q3'18		Q4'18		Q1'19 Low Guidance	Q1'19 High Guidance
	$'s	% of sales	$'s	% of sales	$'s	% of sales	% of sales	% of sales
GAAP Operating Expenses	$176	37%	$190	34%	$197	38%	43%	41%
Intangible Asset Amortization	-$7	-2%	-$11	-2%	-$11	-2%	-3%	-3%
Restructuring and Other	-$9	-2%	-$2	0%	-$11	-2%	0%	0%
Pension MTM	$0	0%	$0	0%	$0	0%		
Non GAAP Operating Expenses	$160	33%	$177	31%	$175	34%	40%	38%

	Q4'17		Q3'18		Q4'18		2017		2018	
	$'s	%	$'s	%	$'s	%	$'s	%	$'s	%
GAAP Income Tax	$204	208%	$21	15%	-$33	-29%	$267	51%	$16	3%
Exclude discrete tax adjustments	-$184	-188%	$0	0%	$53	48%	-$178	-34%	$59	13%
Tax effect of non-GAAP adjustments	$3	3%	$3	2%	$0	0%	$13	2%	$8	2%
Effect of Higher Non-GAAP PBT		-3%		-2%		-3%		-2%		-2%
Non GAAP Income Tax	$23	20%	$24	15%	$20	15%	$101	18%	$84	16%

Q4'18:

GAAP net interest and other income	-$1.1
Exclude non cash convertible debt interest	-$0.2
Non-GAAP net interest and other income	-$1.3

Q1'19 Guidance

GAAP net interest and other income	-$0.7
Exclude non cash convertible debt interest	$3.2
Non-GAAP net interest and other income	$2.5

Q1'19 Guidance:	Low End	High End
GAAP Operating Profit as % of Sales	14%	17%
Acquired intangible asset amortization	3%	3%
Non-GAAP Operating Profit as % of Sales	17%	20%

Q1'19 GAAP Guidance Diluted Shares	180
Exclude dilutive shares from convertible note	-3
Q1'19 Non-GAAP Guidance Diluted Shares	177

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

GAAP and non-GAAP first quarter revenue guidance:	$460 million	to	$490 million
GAAP net income per diluted share	$ 0.31		$ 0.39
Exclude acquired intangible assets amortization	0.06		0.06
Exclude non-cash convertible debt interest	0.02		0.02
Tax effect of non-GAAP adjustments	(0.02)		(0.02)
Convertible share adjustment	0.01		0.01
Non-GAAP net income per diluted share	$ 0.39		$ 0.47

TERADYNE

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.

	Q4'17	Q3'18	Q4'18
GAAP Cash Flow From Operations, Excl Disc Ops	$147	$241	$186
Less Property, Plant and Equipment Additions net of Gov't Subsidy	-$32	-$18	-$26
Non-GAAP Operating Cash Flow ("Free Cash Flow")	$115	$223	$160

TERADYNE

Appendix | GAAP to Non-GAAP Reconciliation

	2018	2017	2016	2015
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

	2018	2017	2016	2015
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

	2018	2017	2016	2015
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

	FY 2017
GAAP Opex % of Revenue	32.6%
Less Intangible Asset Amortization & Restructuring and Other	1.9%
Non-GAAP Opex % of Revenue	30.7%

	FY 2018
GAAP Opex % of Revenue	35.5%
Less Intangible Asset Amortization & Restructuring and Other	2.6%
Non-GAAP Opex % of Revenue	32.9%

TERADYNE

Appendix | GAAP to Non-GAAP Reconciliation

2021/2022 Model EPS Reconciliation	Net Income per Common Share Diluted	Net Income per Common Share Diluted
Net (loss) income - GAAP	$ 3.39	$ 3.89
Acquired intangible asset amortization	0.05	0.05
Non Cash Convertible Debt Interest	0.06	0.06
Net income - non-GAAP	$ 3.50	$ 4.00

TERADYNE