

Teradyne, Inc.

Certain Non-GAAP financial measures discussed during the First Quarter of 2019 Earnings Conference Call April 24, 2019

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

- Q1'19 EPS \$0.54
- Q4'18 EPS \$0.63
- Q1'18 EPS \$0.45
- 20% EPS growth from Q1'18 to Q1'19
- Q1'19 net income \$94.6M
- Q2'19 Guidance EPS \$0.56 to \$0.65
- 12% EPS growth Q2 2019 compared to Q1 2019 at midpoint of Q2'19 guidance
- 10% EPS growth first six months of 2019 compared to first six months of 2018 at midpoint of Q2'19 guidance
- \$3.50-4.00 EPS midterm plan target by 2022
- Average PBIT 2010-2018 (23%) – historical figures – see teradyne.com/investors
- Average PBIT 2016-2018 (24%) – historical figures – see teradyne.com/investors
- Average Free cash flow 2016-2018 (\$420M) – *historical figures – see teradyne.com/investors*
- Q1'19 Operating Profit Rate (22%)
- Q1'19 GM (58%)
- Q1'19 Opex (\$179M)
- Q4'18 Opex (\$175M)
- Q1'18 Opex (\$165M)
- Q2'19 Guidance EPS (\$0.56 to 0.65)
- Q2'19 Guidance diluted shares (173M)
- Q2'19 Guidance Opex (34-36%)
- Q2'19 Guidance Midpoint Operating Profit Rate (23%)
- Q4'18 IA Opex (\$33M)
- Q4'19 IA Guidance (\$47M)
- Q1'18 – Gross Margin (55.3% and \$270M), R&D (15.3% and \$74M), SG&A (18.5% and \$91M), Opex (33.8% and \$165M), Operating Profit (21.5% and \$105M), EPS (\$0.45), Free Cash Flow (-\$117M), Effective Tax Rate (16% or \$17M), Diluted shares (197M)
- Q1'19 – Gross Margin (58.2% and \$288M), R&D (15.5% and \$77M), SG&A (20.6% and \$102M), Opex (36.2% and \$179M), Operating Profit (22% and \$109M), EPS (\$0.54), Free Cash Flow (-\$8M), Effective Tax Rate (16% or \$18M), Diluted shares (175M), net interest and other (\$4M)
- Q4'18 – Gross Margin (59.6% and \$310M), R&D (14.4% and \$75M), SG&A (19.4% and \$101M), Opex (33.8% and \$175M), Operating Profit (25.8% and \$134M), EPS (\$0.63), Free Cash Flow (\$160M), Effective Tax Rate (15% or \$20M), diluted shares (181M)
- Free Cash Flow – 2014 (\$323M), 2015 (\$323M), 2016 (\$370M), 2017 (\$521M), 2018 (\$370M)
- Q2'19 Guidance - Opex (34-36%), Operating Profit (22-24%), net interest/other (\$3M), EPS (\$0.56-0.65), Diluted shares (173M)
- Opex Total 2015 (\$589M), 2016 (\$609M), 2017 (\$656M), 2018 (\$692M)
- Opex Industrial Automation 2015 (\$14M), 2016 (\$43M), 2017 (\$62M), 2018 (\$114M)
- Opex Test and VC 2015 (\$514M and \$61M), 2016 (\$513M and \$53M), 2017 (\$509M and \$85M), 2018 (\$504M and \$74M)

GAAP to Non-GAAP Reconciliations

- (16%) GAAP EPS growth Q2'19 compared to Q1'19 at midpoint of Q2'19 guidance
- (18%) GAAP EPS growth first six months of 2019 compared to first six months of 2018 at midpoint of Q2'19 guidance

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	<u>\$ 3.50</u>	<u>\$ 4.00</u>

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 Expenses	\$33M

Q4 2019

Q4 2019 Industrial Automation Segment GAAP Operating Expenses	\$57M
Intangible Asset Amortization and Restructuring & Other	(\$10M)
Q4 2019 Industrial Automation Segment Non-GAAP Operating Expenses	\$47M

**Mid Guidance Q2
2019**

GAAP income from operations as a % of revenue (\$535M)	20%
Exclude acquired intangible asset amortization	3%
Non-GAAP income from operations as a % of revenue (\$535M)	<u>23%</u>

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					
	March 31, 2019		December 31, 2018		April 1, 2018	
	% of Net Revenues		% of Net Revenues		% of Net Revenues	
Net revenues	\$ 494.1		\$ 519.6		\$ 487.5	
Gross profit GAAP and non-GAAP	\$ 287.6	58.2%	\$ 309.5	59.6%	\$ 269.8	55.3%
Income from operations - GAAP	\$ 93.1	18.8%	\$ 112.3	21.6%	\$ 97.5	20.0%
Acquired intangible assets amortization	10.6	2.1%	10.6	2.0%	7.7	1.6%
Restructuring and other (1)	5.1	1.0%	11.4	2.2%	(0.3)	-0.1%
Income from operations - non-GAAP	\$ 108.8	22.0%	\$ 134.3	25.8%	\$ 104.9	21.5%
	Net Income per Common Share		Net Income per Common Share		Net Income per Common Share	
	March 31, 2019	% of Net Revenues	December 31, 2018	% of Net Revenues	April 1, 2018	% of Net Revenues
Net income - GAAP	\$ 109.1	22.1%	\$ 143.8	27.7%	\$ 87.0	17.8%
Acquired intangible assets amortization	10.6	2.1%	10.6	2.0%	7.7	1.6%
Interest and other (2)	3.4	0.7%	3.3	0.6%	3.2	0.7%
Restructuring and other (1)	5.1	1.0%	11.4	2.2%	(0.3)	-0.1%
Pension mark-to-market adjustment (2)	-	-	(3.5)	-0.7%	-	-
Exclude discrete tax adjustments (3)	(30.1)	-6.1%	(52.9)	-10.2%	(6.3)	-1.3%
Non-GAAP tax adjustments	(3.5)	-0.7%	0.3	0.1%	(1.9)	-0.4%
Convertible share adjustment	-	-	-	-	-	-
Net income - non-GAAP	\$ 94.6	19.1%	\$ 113.0	21.7%	\$ 89.4	18.3%
GAAP and non-GAAP weighted average common shares - basic	173.5		179.0		195.3	
GAAP weighted average common shares - diluted	177.0		181.5		203.5	
Exclude dilutive shares related to convertible note transaction	(2.2)		(0.9)		(6.2)	
Non-GAAP weighted average common shares - diluted	174.8		180.6		197.3	



Appendix | GAAP to Non-GAAP Reconciliation

(1) Restructuring and other consists of:

	Quarter Ended		
	March 31, 2019	December 31, 2018	April 1, 2018
Contingent consideration fair value adjustment	\$ 3.0	\$ 10.2	\$ (5.0)
Acquisition related expenses and compensation	1.3	0.8	0.8
Employee severance	0.8	0.5	3.9
	\$ 5.1	\$ 11.4	\$ (0.3)

(2) For the quarters ended March 31, 2019, December 31, 2018, and April 1, 2018, 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.

(3) For the quarters ended March 31, 2019, December 31, 2018, and April 1, 2018, adjustment to exclude discrete income tax items. 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. For the quarter ended December 31, 2018, adjustment to treat the \$52 million tax benefit related to the finalization of our toll tax charge as a discrete item.



Appendix | GAAP to Non-GAAP Reconciliation

	Q1'18		Q4'18		Q1'19		Q2'19 Low Guidance		Q2'19 High Guidance	
	\$'s	% of sales	\$'s	% of sales	\$'s	% of sales	\$'s	% of sales	\$'s	% of sales
GAAP Operating Expenses	\$172	35%	\$197	38%	\$195	39%		39%		37%
Intangible Asset Amortization	-\$8	-2%	-\$11	-2%	-\$11	-2%		-3%		-2%
Restructuring and Other	\$0	0%	-\$11	-2%	-\$5	-1%		0%		0%
Non GAAP Operating Expenses	\$165	34%	\$175	34%	\$179	36%		36%		34%

	Q1'18		Q4'18		Q1'19	
	\$'s	%	\$'s	%	\$'s	%
GAAP Income Tax	\$9	9%	-\$33	-29%	-\$15	-16%
Exclude discrete tax adjustments	\$6	7%	\$53	48%	\$30	32%
Tax effect of non-GAAP adjustments	\$2	2%	\$0	0%	\$4	4%
Effect of Higher Non-GAAP PBT		-2%		-3%		-3%
Non GAAP Income Tax	\$17	16%	\$20	15%	\$18	16%

Q1'19:

GAAP net interest and other income	\$0.9
Exclude non cash convertible debt interest	\$3.4
Non-GAAP net interest and other income	\$4.3

Q2'19 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

Q2'19 Guidance:

GAAP Operating Profit as % of Sales	19%	Low End	21%	High End
Acquired intangible asset amortization	3%		3%	
Non-GAAP Operating Profit as % of Sales	22%		24%	

Q2'19 GAAP Guidance Diluted Shares

Exclude dilutive shares from convertible note	177
Q2'19 Non-GAAP Guidance Diluted Shares	-4
	173

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

GAAP and non-GAAP second quarter revenue guidance:

GAAP net income per diluted share	\$	\$520 million	to	\$	\$550 million
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	(0.02)			(0.02)	
Convertible share adjustment	0.02			0.02	
Non-GAAP net income per diluted share	\$	0.56		\$	0.65

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>Q1'18</u>	<u>Q4'18</u>	<u>Q1'19</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
GAAP Cash Flow From Operations, Excl Disc Ops	-\$82	\$186	\$18	\$492	\$413	\$455	\$626	\$477
Less Property, Plant and Equipment Additions net of Gov't Subsidy	-\$35	-\$26	-\$26	-\$169	-\$90	-\$85	-\$105	-\$107
Non-GAAP Operating Cash Flow ("Free Cash Flow")	-\$117	\$160	-\$8	\$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
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
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.