Teradyne, Inc.

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

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

- 12% EPS growth from Q2'18 to Q2'19
- Q2'19 EPS $0.66
- Q1'19 EPS $0.54
- Q2'18 EPS $0.59
- Q2'19 net income $113.2M
- Q3'19 Guidance EPS $0.64 to $0.74
- H1'19 EPS $1.20
- 15% EPS growth H1'19 vs H1'18
- 1% GM increase H1'19 vs H1'18
- 3-year annual average Free Cash Flow $420M
- Q2'19 Operating Profit Rate 24%
- Q2'19 GM 58%
- Q2'19 Operating Expenses 190M
- Q1'19 Operating Expenses 179M
- Q3'19 Guidance diluted shares 171M
- Q3'19 Guidance Gross Margin 58-59%
- Q3'19 Guidance Operating Expenses 33-35%
- Q3'19 Guidance Operating Profit Rate 24-26%
- FY 2019 forecasted tax rate 16%
- Q2'19 – Gross Margin (57.5% and $324M), Operating Expenses (33.7% and $190M), Operating Profit (23.8% and $134M), EPS ($0.66), Free cash flow ($112M), Effective Tax Rate (16% or $22M), Diluted shares (172M), net interest and other ($1M)
- Q1'19 – Gross Margin (58.2% and $288M), Operating Expenses (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)
- Q2'18 – Gross Margin (58.4% and $307M), Operating Expenses (33.2% and $175M), Operating Profit (25.2% and $133M), EPS ($0.59), Free cash flow ($102M), Effective Tax Rate (17% or $23M), Diluted shares (192M)
- Free Cash Flow – 2014 ($323M), 2015 ($323M), 2016 ($370M), 2017 ($521M), 2018 ($370M), 1H'19 ($104M)
- Q3'19 Guidance – Operating Expenses (33-35%), Operating Profit (24-26%), net interest/other ($3M), Effective Tax Rate (16%), EPS ($0.64-0.74), Diluted shares (171M)
- Total Operating Expenses 2015 ($589M), 2016 ($609M), 2017 ($656M), 2018 ($692M)
- Industrial Automation Operating Expenses 2015 ($14M), 2016 ($43M), 2017 ($62M), 2018 ($114M)
- Test Operating Expenses and VC 2015 ($514M and $61M), 2016 ($513M and $53M), 2017 ($509M and $85M), 2018 ($504M and $74M)

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.

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Appendix | GAAP to Non-GAAP Reconciliation

GAAP to Non-GAAP Earnings Reconciliation

(In millions, except per share amounts)

	Quarter Ended					
	June 30, 2019	% of Net Revenues	March 31, 2019	% of Net Revenues	July 1, 2018	% of Net Revenues
Net revenues	$ 564.2		$ 494.1		$ 526.9	
Gross profit GAAP	$ 323.9	57.4%	$ 287.6	58.2%	$ 307.3	58.3%
Inventory step-up	0.4	0.1%	-	-	0.4	0.1%
Gross profit non-GAAP	$ 324.3	57.5%	$ 287.6	58.2%	$ 307.7	58.4%
Income from operations - GAAP	$ 134.0	23.8%	$ 93.1	18.8%	$ 120.4	22.9%
Acquired intangible assets amortization	10.1	1.8%	10.6	2.1%	9.8	1.9%
Restructuring and other (1)	(10.4)	-1.8%	5.1	1.0%	2.4	0.5%
Inventory step-up	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%

	June 30, 2019	% of Net Revenues	Net Income per Common Share Basic	Net Income per Common Share Diluted	March 31, 2019	% of Net Revenues	Net Income per Common Share Basic	Net Income per Common Share Diluted	July 1, 2018	% of Net Revenues	Net Income per Common Share Basic	Net Income per Common Share 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
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
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
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
Pension mark-to-market adjustment (2)	0.4	0.1%	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
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)
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)
Convertible share adjustment	-	-	-	0.02	-	-	-	-	-	-	-	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

	June 30, 2019	March 31, 2019	July 1, 2018
GAAP and non-GAAP weighted average common shares - basic	171.2	173.5	190.7
GAAP weighted average common shares - diluted	178.6	177.0	194.9
Exclude dilutive shares related to convertible note transaction	(6.2)	(2.2)	(2.6)
Non-GAAP weighted average common shares - diluted	172.4	174.8	192.3

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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
	$ (10.4)	$ 5.1	$ 2.4

(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 Mach 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.

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Appendix | GAAP to Non-GAAP Reconciliation

Six Months Ended

	June 30, 2019	% of Net Revenues	July 1, 2018	% 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	% of Net Revenues	Net Income per Common Share Basic	Net Income per Common Share Diluted	July 1, 2018	% of Net Revenues	Net Income per Common Share Basic	Net Income per Common Share 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

	June 30, 2019	July 1, 2018
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

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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
	$ (5.3)	$ 2.1

(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.

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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 acturial loss (gain)	$0.4
Non-GAAP net interest and other income	$1.0

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 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 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:

GAAP and non-GAAP third quarter revenue guidance:	$540 million	to	$580 million
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

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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.

	Q2'18	Q1'19	Q2'19	1H'19	2014	2015	2016	2017	2018
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

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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

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

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