

Teradyne
3Q25
Earnings Call Prepared Remarks
October 29, 2025

Amy McAndrews, 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 third quarter of 2025 and our outlook for the fourth quarter of 2025. The press release containing our third 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 the UBS technology investor conference. Our quiet period will begin at the close of business on December 24th 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 Amy. Good morning everyone and thanks for joining us. Today I'll discuss our third quarter results, talk a bit about what is driving the business in Q4 and provide a general update on conditions across our businesses. Sanjay will then provide more detail on our third quarter results and fourth quarter guidance.

As you saw in the earnings release, we grew sequential revenue 18% and non-GAAP EPS by 49% in the third quarter. This growth was driven by AI demand in Semiconductor test. Our other test businesses delivered on plan in the quarter. In Robotics, we continue a slow crawl up from our Q1'25 revenue trough in a challenging environment.

The huge investments in Cloud AI build out drove our Q3 performance to the high end of our guidance range as our customers ramped production of a wide range of AI accelerator, networking, memory and power devices.

An example of this AI strength is in Compute where our view of the second half of 2025 revenue is more than 50% higher than our expectations just 3 months ago. Some of this increase comes from us responding to customer pull-in requests and some is demand increases. As design, process and packaging technologies for AI compute rapidly advance, we expect that our growth will continue. Our UltraFLEXplus system has been architected from the ground up for high performance processors and networking devices which have demanding power, pin-count and test data requirements. As AI devices become more complex, the UltraFLEX+ architectural advantages become more valuable to potential customers by enabling fast test development times and high efficiency volume production. Our focused investment in R&D is also yielding new differentiated capabilities for compute test, some of which have already been announced in Q3.

In memory, our Q3 memory test sales more than doubled from Q2 to \$128M with the majority of those shipments supporting AI applications. In Q3, 75% of our memory revenue was driven by DRAM, nearly all of it from final test of DRAM and HBM performance test. 25% of revenue was from flash, mainly for cloud SSD, another segment being driven by AI data centers.

Our Magnum7H product is differentiated in HBM performance test because it is a multi-generational product. It can cover the test needs of HBM3E and HBM4, and it provides upgrade headroom for HBM4E and HBM5.

The Magnum 7H also supports HBM singulated stack performance test. In Q2, we won a design-in for this insertion and in Q3 we began volume shipments.

So at this point, Teradyne participates in all major test insertions for HBM: memory die wafer sort, post stack wafer test and singulated stack test.

Our results in memory test this year are especially satisfying in light of the composition and size of the Memory TAM in 2025. Our best guess is that the total Memory TAM is down low double digits, and the weakest part of this market is FLASH, our traditionally strongest segment. Despite this, we expect our memory revenue will sustain at 2024 levels.

AI driven applications for Power ICs were a bright spot in the Auto/Industrial market segment. The Eagle Test platform has a leading position in the test of high performance power conversion devices for data center applications. Volumes of these devices are forecast to grow over 50% between now and 2027.

We expect the demand for VIP compute and networking to continue to grow significantly, and we have been investing in R&D, applications, sales, support and manufacturing capacity for this expansion. This includes investments to win new VIP and Merchant GPU customers.

We are making good progress on new design-in opportunities and are cautiously optimistic about our potential success, but I would like to make it clear that our Q3 results and our Q4 guidance do not include any revenue from these types of new opportunities.

For the deployed fleet of UltraFLEX and UltraFLEXplus testers, we see higher utilization and fewer system upgrades than in past quarters, which we believe means that customers are exhausting their inventory of underutilized systems. As a result, we now expect a more direct connection between inflections in end market demand and new system sales.

Looking beyond AI in Semi Test, current conditions in mobile and Auto/Industrial remain somewhat weak.

In our Integrated Systems Test division, our Q3 shipments were above plan as SLT customers accelerated deliveries for mobile processors and compute applications. We also saw increases in orders for both HDD and SLT systems. Now recall, lead times are generally measured in quarters for this business, so most of that order strength will translate into revenue in 2026 or beyond.

In Robotics, we are growing slowly from our trough quarter in Q1'25. If you go down one level of detail, we continue to see persistent weakness in our core indirect distribution channel as we expand our large customer and OEM channels.

An important element of our robotics strategy is to establish UR cobots as the preferred platform for AI driven workcell applications and to deliver superior performance for our AMRs by leveraging AI features. In the third quarter, over 8% of robotics sales were for AI related products, up from 6% in Q2.

Another element of our robotics strategy is to deliver value added service to our installed base of over 100,000 robots. Service represented 14% of sales in Q3, up from 12% in Q2.

As we noted in our July call, our Semi Test business has evolved to where the largest demand driver is AI data center investments rather than consumer end markets. We have aligned our R&D and 'go-to-market' investments to capture the tremendous opportunities in test driven by this AI related demand.

Our investments are focused on extending our product performance advantages with innovative R&D while also expanding our engineering teams to help customers develop and ramp production of these fantastically complex devices on Teradyne platforms. Sanjay will describe how these investments translate into OPEX but as we're seeing, the returns are well worth the investment.

Looking at Q4, we expect AI related demand for compute, networking and memory to be the primary engine of our growth which reflects both industry trends and the result of our investments to align with those trends.

Looking to the future, the long-term themes that we've highlighted in the past – AI, verticalization and electrification – remain firmly intact.

As we enter 2026, we expect AI and verticalization will be the primary growth drivers. We've said before that the AI market is both highly concentrated and highly dynamic. The timing of any one project can affect the delivery schedule for hundreds of testers. This can swing quarterly results significantly.

So, with that understanding, let me offer a few high-level comments about how we're looking at 2026.

At the company level, 2026 looks stronger today than it did six months ago and all indications suggest solid growth from 2025. We anticipate that business conditions for mobile, auto/industrial and robotics will improve, but the timing and the intensity of that recovery is uncertain.

But the real story in 2026 is AI and the investments that we have made to develop differentiated solutions in that space will drive our growth plan.

I'd like to share a few specific examples. Massive investments in building data centers are translating into strong demand for UltraFLEXplus in VIP Compute, Merchant Compute and networking.

In the memory market, AI will drive growth in HBM, DRAM, and Flash for SSD applications served by Magnum.

Accelerated bit growth in HDD is driving the demand for more HDD test.

Deployment of AI capable processors for Mobile, Client Computing and Cloud AI is driving demand for more System Level Test.

We'll give you a more detailed view as part of our model update in the January call.

Now, before I hand the call over to Sanjay I would like to say a few words about the CFO transition that we announced last night. Michelle Turner will be our Chief Financial Officer effective November 3, 2025. She brings 30 years of financial and strategic leadership experience in the technology and manufacturing sectors, and she has a strong track record of driving growth, disciplined capital allocation, and operational efficiency. She is looking forward to getting to know all of you in the upcoming quarter. I'm excited to welcome Michelle to the Teradyne team.

Now Sanjay has been Teradyne's CFO since 2019 and he has offered to stay on as an executive advisor to operations as we expand capacity in 2026. I want to thank Sanjay for his excellent leadership and contributions over the past six years and I'm grateful that we will have the benefit of his guidance.

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 Q3 and provide our Q4 outlook.

Now to Q3. Third quarter sales were \$769M and non-GAAP EPS was \$0.85, both near the high end of our guidance ranges. Non-GAAP gross margin was 58.5%, above our guidance range due to favorable mix. Non-GAAP Operating expenses were \$293M, up sequentially and year over year on higher R&D, sales and marketing investments tied to AI as well as increases in our variable compensation. Non-GAAP operating profit was 20.4%

Turning to our revenue breakdown in Q3. Semi Test revenue for the quarter was \$606M with SOC revenue contributing \$440M which was up 11% sequentially and 12% YoY. Memory revenue was \$128M, up 110% sequentially and down 15% YoY. Strength in SoC was driven by AI Compute and AI related Power test. Memory revenue more than doubled from Q2 on HBM and AI related LPDDR demand. IST revenue was \$38M, up 9% sequentially and 46% YoY driven by strength in SLT shipments.

In Product Test, Q3 revenue was \$88M, up 4% sequentially and 10% year-over-year driven by growth in Defense and Aerospace.

Now to Robotics. Revenue was \$75M, flat quarter-on-quarter and down year-over-year. In the quarter, UR contributed \$62M and MiR contributed \$13M of revenue. As we noted in July, volume shipments to

our large e-commerce customer are not expected to have a material impact on Robotics revenue in 2025.

Some other financial information in Q3. We had two customers that directly or indirectly which drove more than 10% of our revenue in the third quarter. The tax rate excluding discrete items for the quarter was 16% on a GAAP and non-GAAP basis.

Our free cash flow was \$2M. Our net income was offset by our net working capital increases tied to accounts receivable and inventory, which reduced our free cashflow. Receivables growth was tied to increased sales which were weighted to the 2nd half of the quarter. Inventory growth was tied to the ramp in compute and memory, driven by upcoming AI demand. Capex of \$47M was reasonably consistent with Q2. We repurchased \$244M of shares in the quarter and paid \$19M in dividends. Through the end of the third quarter, we've returned \$575M or approximately 2.5 times our free cash flow through dividends and buybacks to shareholders during the year. We ended the quarter with \$427M in cash and marketable securities.

Now a little more detail on OPEX and our balance sheet strategy to help you with your modeling. In the second half of 2025, we're continuing to lean into R&D and go-to-market investments for AI opportunities that we expect will drive revenue in 2026 and beyond. OPEX in the second half of 2025 is also increasing tied to our variable compensation linked to increasing financial performance. At the mid-point of our Q4 guidance, we'll have full-year revenue growth of 9% and OPEX growth of 7%. Long-term, we target OPEX growth at approximately half the rate of our revenue growth. In 2026 and longer-term as AI revenue blossoms, we expect to meet our OPEX target.

Regarding the balance sheet, we expect to keep our cash and marketable securities at roughly \$400M while also continuing our balanced capital allocation strategy. In 2025, we saw an opportunity to accelerate buybacks in the short term to further enable shareholder value. At the operational level, we expect to exercise our credit lines more frequently as we did in Q3, and expect to in Q4. From a modeling perspective, this means the 'interest and other line' of the P&L will reflect higher interest expense. You should expect to see a couple million dollars of net interest expense per quarter while we utilize our revolver.

Now turning to our outlook for Q4. Before discussing the details of Q4 guidance, I'd like to remind you of some of the commentary from our July call. Specifically, we noted that we had large projects expected to ramp which straddled Q3/Q4 or Q4/Q1. As we move through the second half of 2025, we saw projects accelerate into Q3 and are now seeing projects accelerate into Q4. These projects are AI driven. In Q3, we were able to meet early ramp demands. In Q4, we are seeing demand ramp significantly. We continue to expedite our supply chain and we are accelerating production capacity growth at factories in multiple geographies to meet the demand.

Now the details. Q4 sales are expected to be between \$920M and \$1B. Fourth quarter gross margins are estimated at 57% to 58%. This includes some one-time supply costs in the quarter to meet accelerated demand.

Turning to OPEX, Q4 OPEX is expected to run at 31% to 33% of fourth quarter sales. The Non-GAAP operating profit rate at the mid-point of our fourth quarter guidance is 25.5%. The Q4 GAAP and non-GAAP tax rate is expected to be 14.5%. Q4 Non-GAAP EPS is expected to be in the range of \$1.20 to \$1.46 on 157 million diluted shares. GAAP EPS is expected to be in the range of \$1.12 to \$1.39.

Summing up Q3 results and Q4 guidance. AI is growing across the economy, driving exceptionally strong semiconductor test demand in the second half of 2025. This is evident in our Q3 sales, profit performance and our outlook for Q4. The acceleration of test demand in Q4 reflects customers' drive to pull AI projects in from Q1. We're optimistic about the AI related market in 2026 but we also know shipments can be lumpy.

Now to my final remarks. After 6 plus years at Teradyne it's clear that Teradyne is well positioned for significant growth over the mid-term. Many environmental challenges have occurred during my tenure such as significant government regulations, covid, Tariffs, CEO transition, along with a strategic pivot of investments to AI in 2022. Through all of these opportunities we have strengthened the company's infrastructure and processes. Our operational resilience is significantly stronger as we have derisked our supply chain, started the journey of multiple factories in multiple geographies to enable the significant growth rooted in AI. Strong management leads our diversified portfolio enabled through our variable business model which has consistently delivered tremendous free cash flow through all of the changes and volatility we've experienced. Our balance sheet is strong with firepower to enable strategic investments, continue to deliver a balanced capital allocation, and strong returns for our shareholders. I have had the opportunity to make New England my home and built many lasting relationships here, internally and externally. I've enjoyed working with our shareholders and all of you in the investment community.

With that I'll turn the call back to the operator to open the line up for questions and soon hand the keys over to Michelle. Operator?

Greg Smith, CEO

I'd like to offer a quick final thought. I mentioned in closing the July call that AI was having a profound and positive impact on Teradyne's business. I'm encouraged by how quickly we're seeing returns on our investments to pivot to AI. AI is the dominant driver of our business for the foreseeable future and we'll continue to align ourselves to the outsized opportunities it offers. We've made great strides in 2025 and while progress is never entirely linear, we're more excited than ever about our prospects for continued profitable growth in the years ahead. Thank you for joining us today and I look forward to updating you on our progress in January.