Teradyne, Inc.

Certain Non-GAAP financial measures discussed during the Third Quarter of 2019 Earnings Conference Call October 23, 2019

On the Company's earnings conference call on October 23, 2019, the following non-GAAP financial measures were discussed or presented:

- Q3'19 EPS $0.77
- Q2'19 EPS $0.66
- Q3'18 EPS $0.71
- Q3'19 net income $133.4M
- Q4'19 Guidance EPS $0.73 to $0.84
- 13% EPS growth from nine months ended September 30, 2018 to nine months ended September 29, 2019
- Q3'19 Operating Profit Rate 28%
- Q3'19 GM 59%
- Q2'19 Operating Expenses $190M
- Q3'19 Operating Expenses $185M
- Q3'19 Free Cash Flow $162M
- Q4'19 Guidance diluted shares 174M
- Q4'19 Guidance Operating Expenses 31-33%
- Q4'19 Guidance Operating Profit Rate 25-27%
- FY2019 EPS growth 16% at mid-point of Q4'19 guidance compared to FY 2018
- 6-year average operating profit rate 23% (FY 2014 to FY 2019)
- 2019E tax rate 16.5%
- Q2'19 – Gross Margin (57.5% and $324M), Opex (33.7% and $190M), Operating Profit (23.8% and $134M), EPS ($0.66), FCF ($112M), Effective Tax Rate (16% or $22M), Diluted shares (172M)
- Q3'19 – Gross Margin (59.3% and $345M), Opex (31.8% and $185M), Operating Profit (27.5% and $160M), EPS ($0.77), FCF ($162M), Effective Tax Rate (17% or $27M), Diluted shares (175M), net interest and other income ($0M)
- Q3'18 – Gross Margin (58.9% and $334M), Opex (31.3% and $177M), Operating Profit (27.6% and $156M), EPS ($0.71), FCF ($223M), Effective Tax Rate (15% or $24M), Diluted shares (187M)
- Free Cash Flow – 2014 ($323M), 2015 ($323M), 2016 ($370M), 2017 ($521M), 2018 ($370M), 9mos'19 ($266M)
- Q4'19 Guidance – Opex (31-33%), Operating Profit (25-27%), net interest/other ($1M), Effective Tax Rate (17%), EPS ($0.73-0.84), Diluted shares (174M)

GAAP to Non-GAAP Earnings Reconciliation

in Millions		FY 2014 to FY 2019	% of Net Revenues
Net Revenues	$	11,528.4	
Income from operations - GAAP	$	1,806.5	15.7%
Goodwill impairment		353.8	3.1%
Acquired intangible assets impairment		83.3	0.7%
Acquired intangible assets amortization		302.5	2.6%
Restructuring and other		53.0	0.5%
Pension mark-to-market adjustment		54.9	0.5%
Equity modification charge		8.7	0.1%
Inventory step-up		2.4	0.0%
Income from operations - non-GAAP	$	2,665.1	23.1%

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					
	September 29, 2019	% of Net Revenues	June 30, 2019	% of Net Revenues	September 30, 2018	% of Net Revenues
Net revenues	$ 582.0		$ 564.2		$ 566.8	
Gross profit GAAP	$ 345.0	59.3%	$ 323.9	57.4%	$ 333.7	58.9%
Inventory step-up	-	-	0.4	0.1%	-	-
Gross profit non-GAAP	$ 345.0	59.3%	$ 324.3	57.5%	$ 333.7	58.9%
Income from operations - GAAP	$ 154.9	26.6%	$ 134.0	23.8%	$ 143.6	25.3%
Acquired intangible assets amortization	9.6	1.6%	10.1	1.8%	11.1	2.0%
Equity modification charge (1)	2.1	0.4%	-	-	-	-
Restructuring and other (2)	(6.5)	-1.1%	(10.4)	-1.8%	1.7	0.3%
Inventory step-up	-	-	0.4	0.1%	-	-
Income from operations - non-GAAP	$ 160.1	27.5%	$ 134.1	23.8%	$ 156.4	27.6%

	September 29, 2019	% of Net Revenues	Net Income per Common Share Basic	Net Income per Common Share Diluted	June 30, 2019	% 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
Net income - GAAP	$ 135.9	23.4%	$ 0.80	$ 0.75	$ 97.4	17.3%	$ 0.57	$ 0.55	$ 120.0	21.2%	$ 0.65	$ 0.63
Acquired intangible assets amortization	9.6	1.6%	0.06	0.05	10.1	1.8%	0.06	0.06	11.1	2.0%	0.06	0.06
Interest and other (3)	3.5	0.6%	0.02	0.02	3.4	0.6%	0.02	0.02	3.3	0.6%	0.02	0.02
Equity modification charge (1)	2.1	0.4%	0.01	0.01	-	-	-	-	-	-	-	-
Restructuring and other (2)	(6.5)	-1.1%	(0.04)	(0.04)	(10.4)	-1.8%	(0.06)	(0.06)	1.7	0.3%	0.01	0.01
Pension mark-to-market adjustment (3)	-	-	-	-	0.4	0.1%	0.00	0.00	0.3	0.1%	0.00	0.00
Inventory step-up	-	-	-	-	0.4	0.1%	0.00	0.00	-	-	-	-
Exclude discrete tax adjustments (4)	(7.7)	-1.3%	(0.05)	(0.04)	13.9	2.5%	0.08	0.08	0.3	0.1%	0.00	0.00
Non-GAAP tax adjustments	(3.5)	-0.6%	(0.02)	(0.02)	(2.0)	-0.4%	(0.01)	(0.01)	(3.4)	-0.6%	(0.02)	(0.02)
Convertible share adjustment	-	-	-	0.02	-	-	-	0.02	-	-	-	0.01
Net income - non-GAAP	$ 133.4	22.9%	$ 0.79	$ 0.77	$ 113.2	20.1%	$ 0.66	$ 0.66	$ 133.3	23.5%	$ 0.72	$ 0.71

	September 29, 2019	June 30, 2019	September 30, 2018
GAAP and non-GAAP weighted average common shares - basic	169.6	171.2	185.7
GAAP weighted average common shares - diluted	180.5	178.6	190.5
Exclude dilutive shares related to convertible note transaction	(5.8)	(6.2)	(3.1)
Non-GAAP weighted average common shares - diluted	174.7	172.4	187.4

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Appendix | GAAP to Non-GAAP Reconciliation

(1) For the quarter ended September 29, 2019, selling and administrative expenses include an equity charge for the modification of Teradyne's retired CFO's outstanding equity awards to allow continued vesting and maintain the original term in connection with his July 17, 2019 retirement.

(2) Restructuring and other consists of:

	Quarter Ended		
	September 29, 2019	June 30, 2019	September 30, 2018
Contingent consideration fair value adjustment	$ (7.8)	$ (11.7)	$ (0.8)
Acquisition related expenses and compensation	0.5	0.5	0.8
Employee severance	0.8	0.8	1.7
	$ (6.5)	$ (10.4)	$ 1.7

(3) For the quarters ended September 29, 2019, June 30, 2019 and September 30, 2018, adjustment to exclude non-cash convertible debt interest expense. For the quarters ended June 30, 2019 and September 30, 2018, adjustment to exclude actuarial loss recognized under GAAP in accordance with Teradyne's mark-to-market pension accounting.

(4) For the quarters ended September 29, 2019, June 30, 2019 and September 30, 2018, adjustment to exclude discrete income tax items. For the quarter ended June 30, 2019, GAAP income tax provision 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

Nine Months Ended

	September 29, 2019	% of Net Revenues	September 30, 2018	% of Net Revenues
Net Revenues	$ 1,640.3		$ 1,581.2	
Gross profit GAAP	$ 956.6	58.3%	$ 910.9	57.6%
Inventory step-up	0.4	0.0%	0.4	0.0%
Gross profit non-GAAP	$ 957.0	58.3%	$ 911.3	57.6%
Income from operations - GAAP	$ 382.0	23.3%	$ 361.5	22.9%
Acquired intangible assets amortization	30.4	1.9%	28.6	1.8%
Equity modification charge (1)	2.1	0.1%	-	-
Restructuring and other (2)	(11.8)	-0.7%	3.8	0.2%
Inventory step-up	0.4	0.0%	0.4	0.0%
Income from operations - non-GAAP	$ 403.1	24.6%	$ 394.3	24.9%

	September 29, 2019	% 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
Net income - GAAP	$ 342.4	20.9%	$ 2.00	$ 1.92	$ 308.0	19.5%	$ 1.62	$ 1.57
Acquired intangible assets amortization	30.4	1.9%	0.18	0.17	28.6	1.8%	0.15	0.15
Interest and other (3)	10.2	0.6%	0.06	0.06	9.7	0.6%	0.05	0.05
Equity modification charge (1)	2.1	0.1%	0.01	0.01	-	-	-	-
Restructuring and other (2)	(11.8)	-0.7%	(0.07)	(0.07)	3.8	0.2%	0.02	0.02
Inventory step-up	0.4	0.0%	0.00	0.00	0.4	0.0%	0.00	0.00
Pension mark-to-market adjustment (3)	0.4	0.0%	0.00	0.00	0.2	0.0%	0.00	0.00
Exclude discrete tax adjustments (4)	(23.9)	-1.5%	(0.14)	(0.13)	(6.5)	-0.4%	(0.03)	(0.03)
Non-GAAP tax adjustments	(9.0)	-0.5%	(0.05)	(0.05)	(8.7)	-0.6%	(0.05)	(0.04)
Convertible share adjustment	-	-	-	0.06	-	-	-	0.03
Net income - non-GAAP	$ 341.2	20.8%	$ 1.99	$ 1.97	$ 335.5	21.2%	$ 1.76	$ 1.74

	September 29, 2019	September 30, 2018
GAAP and non-GAAP weighted average common shares - basic	171.5	190.6
GAAP weighted average common shares - diluted	178.7	196.3
Exclude dilutive shares from convertible note	(5.9)	(4.0)
Non-GAAP weighted average common shares - diluted	172.8	192.3

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Appendix | GAAP to Non-GAAP Reconciliation

(1) For the nine months ended September 29, 2019, selling and administrative expenses include an equity charge for the modification of Teradyne's retired CFO's outstanding equity awards to allow continued vesting and maintain the original term in connection with his July 17, 2019 retirement.

(2) Restructuring and other consists of:

	Nine Months Ended	
	September 29, 2019	September 30, 2018
Contingent consideration fair value adjustment	$ (16.5)	$ (9.2)
Acquisition related expenses and compensation	2.3	4.1
Employee severance	2.4	7.9
Other	-	0.9
	$ (11.8)	$ 3.8

(3) For the nine months ended September 29, 2019 and September 30, 2018, Interest and other included non-cash convertible debt interest expense. For the nine months ended September 29, 2019 and September 30, 2018, adjustments to exclude actuarial loss recognized under GAAP in accordance with Teradyne's mark-to-market pension accounting.

(4) For the nine months ended September 29, 2019 and September 30, 2018, adjustment to exclude discrete income tax items. For the nine months ended September 29, 2019, GAAP income tax 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

	Q3'18 $'s	Q3'18 % of sales	Q2'19 $'s	Q2'19 % of sales	Q3'19 $'s	Q3'19 % of sales
GAAP Operating Expenses	$190	34%	$190	34%	$190	33%
Intangible Asset Amortization	-$11	-2%	-$10	-2%	-$10	-2%
Restructuring and Other	-$2	0%	$10	2%	$7	1%
CFO Equity Modification					-$2	0%
Non GAAP Operating Expenses	$177	31%	$190	34%	$185	32%

	Q4'19 Low Guidance % of sales	Q4'19 High Guidance % of sales
GAAP Operating Expenses	35%	33%
Intangible Asset Amortization	-2%	-2%
Non GAAP Operating Expenses	33%	31%

	Q3'18 $'s	Q3'18 %	Q2'19 $'s	Q2'19 %	Q3'19 $'s	Q3'19 %
GAAP Income Tax	$21	15%	$34	25%	$16	10%
Exclude discrete tax adjustments	$0	0%	-$14	-10%	$8	5%
Tax effect of non-GAAP adjustments	$3	2%	$2	1%	$4	2%
Effect of Higher Non-GAAP PBT		-2%		0%		-1%
Non GAAP Income Tax	$24	15%	$22	16%	$27	17%

Q3'19:

GAAP net interest and other income	-$3.2
Exclude non cash convertible debt interest	$3.5
Non-GAAP net interest and other income	$0.3

Q4'19 Guidance

GAAP net interest and other income	-$2.5
Exclude non cash convertible debt interest	$3.5
Non-GAAP net interest and other income	$1.0

Q4'19 Guidance:	Low End	High End
GAAP Operating Profit as % of Sales	23%	25%
Acquired intangible asset amortization	2%	2%
Non-GAAP Operating Profit as % of Sales	25%	27%

Q4'19 GAAP Guidance Diluted Shares	180
Exclude dilutive shares from convertible note	-6
Q4'19 Non-GAAP Guidance Diluted Shares	174

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

GAAP and non-GAAP fourth quarter revenue guidance:		$590 million	to	$630 million
GAAP net income per diluted share	$	0.63	$	0.74
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		(0.01)		(0.01)
Convertible share adjustment		0.03		0.03
Non-GAAP net income per diluted share	$	0.73	$	0.84

Q4'19 Guidance

GAAP Income Tax Rate	16%
Non GAAP Tax Adjustments	1%
Non-GAAP Income Tax Rate	17%

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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.

	Q3'18	Q2'19	Q3'19	9mos'19	2014	2015	2016	2017	2018
GAAP Cash Flow From Operations, Excl Disc Ops	$241	$148	$199	$362	$492	$413	$455	$626	$477
Less Property, Plant and Equipment Additions net of Gov't Subsidy	-$18	-$36	-$37	-$96	-$169	-$90	-$85	-$105	-$107
Non-GAAP Operating Cash Flow ("Free Cash Flow")	$223	$112	$162	$266	$323	$323	$370	$521	$370

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Appendix | GAAP to Non-GAAP Reconciliation

Quarterly Non GAAP EPS Calculation

Non GAAP EPS is the lower of Calculation # 1 or Calculation # 2

Q3 2019

Calculation # 1
Non GAAP Net Income
Basic Shares (average shares outstanding during the quarter) + Dilutive employee RSUs & Stock Options
$133.4 million
169.6 million shares + 1.5 million shares
$133.4 million
171.1 million shares
$0.7797 or **$0.78**

Calculation # 2
Non GAAP Net Income + Non GAAP Convertible Debt Interest Expense (1.25%) after tax
Basic Shares (average shares outstanding during the quarter) + Dilutive employee RSUs & Stock Options + Put Warrant shares (Exercise price ~$40 per share)
$133.4 million + $1.3 million
169.6 million shares + 1.5 million shares + 3.6 million shares
$134.7 million
174.7 million shares
$0.7710 or **$0.77**

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