Teradyne, Inc.

Certain Non-GAAP financial measures discussed during the First Quarter of 2020 Earnings Conference Call April 22, 2020

On the Company's earnings conference call on April 22, 2020, the following non-GAAP financial measures were discussed or presented:

- Q1'20 net income ($172.5M)
- FY 2020 estimated tax rate (15%)
- Q2'20 Guidance Operating Expenses (27-30%)
- Q2'20 Guidance Midpoint Operating Profit Rate (27%)
- 2019 Operating Expenses ($758M)
- Q1'20 – Gross Margin (57.6% and $406M), Operating Expenses (27.9% and $197M), Operating Profit (29.7% & $209M), EPS ($1.00), Free Cash Flow ($6M), Effective Tax Rate (15% or $30M), Diluted shares (173M), net interest/other income(expense) (-$6M)
- Q1'19 – 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)
- Q4'19 – Gross Margin (58.5% and $383M), Operating Expenses (31.2% and $204M), Operating Profit (27.4% and $179M), EPS ($0.88), Free Cash Flow ($178M), Effective Tax Rate (17% or $30M), shares (175M)
- Q3'19 Operating Profit (27%)
- Q2'19 Operating Profit (24%)
- Free Cash Flow – 2014 ($323M), 2015 ($323M), 2016 ($370M), 2017 ($521M), 2018 ($370M), 2019 ($444M)
- Q2'20 Guidance – Operating Expenses (27-30%), Operating Profit (25-29%), net interest/other ($0M), Effective Tax Rate (15%), EPS ($0.86 to $1.16), Diluted shares (173M)

GAAP to Non-GAAP Reconciliation	**Mid Guidance Q2 2020**
GAAP income from operations as a % of revenue ($745M)	26%
Exclude acquired intangible asset amortization	1%
Non-GAAP income from operations as a % of revenue ($745M)	27%

	FY 2019
FY 2019 GAAP Operating Expenses	$786
Exclude acquired intangible asset amortization	($40M)
Exclude restructuring and other	$14M
Exclude stock compensation expense related to retired CFO equity modification	($2M)
FY 2019 Non-GAAP Operating Expenses	$758

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					
	March 29, 2020	% of Net Revenues	December 31, 2019	% of Net Revenues	March 31, 2019	% of Net Revenues
Net revenues	$ 704.4		$ 654.7		$ 494.1	
Gross profit GAAP and non-GAAP	$ 405.6	57.6%	$ 383.2	58.5%	$ 287.6	58.2%
Inventory step-up	0.1	0.0%	0.1	0.0%	$ -	-
Gross profit non-GAAP	$ 405.7	57.6%	$ 383.3	58.5%	$ 287.6	58.2%
Income from operations - GAAP	$ 206.7	29.3%	$ 171.7	26.2%	$ 93.1	18.8%
Acquired intangible assets amortization	9.9	1.4%	9.8	1.5%	10.6	2.1%
Restructuring and other (1)	(7.6)	-1.1%	(2.1)	-0.3%	5.1	1.0%
Inventory step-up	0.1	0.0%	0.1	0.0%	-	-
Income from operations - non-GAAP	$ 209.1	29.7%	$ 179.5	27.4%	$ 108.8	22.0%

	March 29, 2020	% of Net Revenues	Net Income per Common Share Basic	Net Income per Common Share Diluted	December 31, 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
Net income - GAAP	$ 176.2	25.0%	$ 1.06	$ 0.97	$ 125.1	19.1%	$ 0.75	$ 0.69	$ 109.1	22.1%	$ 0.63	$ 0.62
Acquired intangible assets amortization	9.9	1.4%	0.06	0.05	9.8	1.5%	0.06	0.05	10.6	2.1%	0.06	0.06
Interest and other (2)	3.5	0.5%	0.02	0.02	18.5	2.8%	0.11	0.10	3.4	0.7%	0.02	0.02
Restructuring and other (1)	(7.6)	-1.1%	(0.05)	(0.04)	(2.1)	-0.3%	(0.01)	(0.01)	5.1	1.0%	0.03	0.03
Pension mark-to-market adjustment (2)	-	-	-	-	7.7	1.2%	0.05	0.04	-	-	-	-
Inventory step-up	0.1	0.0%	0.00	0.00	0.1	0.0%	0.00	0.00	-	-	-	-
Exclude discrete tax adjustments (3)	(7.7)	-1.1%	(0.05)	(0.04)	1.4	0.2%	0.01	0.01	(30.1)	-6.1%	(0.17)	(0.17)
Non-GAAP tax adjustments	(1.9)	-0.3%	(0.01)	(0.01)	(7.8)	-1.2%	(0.05)	(0.04)	(3.5)	-0.7%	(0.02)	(0.02)
Convertible share adjustment (4)	-	-	-	0.04	-	-	-	0.03	-	-	-	0.01
Net income - non-GAAP (4)	$ 172.5	24.5%	$ 1.04	$ 1.00	$ 152.7	23.3%	$ 0.91	$ 0.88	$ 94.6	19.1%	$ 0.55	$ 0.54

	March 29, 2020	December 31, 2019	March 31, 2019
GAAP and non-GAAP weighted average common shares - basic	166.6	167.3	173.5
GAAP weighted average common shares - diluted	180.7	181.8	177.0
Exclude dilutive shares related to convertible note transaction	(7.3)	(7.3)	(2.2)
Non-GAAP weighted average common shares - diluted	173.4	174.5	174.8

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Appendix | GAAP to Non-GAAP Reconciliation

(1) Restructuring and other consists of:

	Quarter Ended		
	March 29, 2020	December 31, 2019	March 31, 2019
Contingent consideration fair value adjustment	$ (10.0)	$ (2.8)	$ 3.0
Acquisition related expenses and compensation	1.7	0.2	1.3
Employee severance	0.7	0.5	0.8
	$ (7.6)	$ (2.1)	$ 5.1

(2) For the quarters ended March 29, 2020, December 31, 2019, and March 31, 2019, adjustment to exclude non-cash convertible debt interest expense. For the quarter ended December 31, 2019 adjustment to exclude actuarial gains recognized under GAAP in accordance with Teradyne's mark-to-market pension accounting and adjustment to exclude RealWear $15.0 million investment impairment.

(3) For the quarters ended March 29, 2020, December 31, 2019, and March 31, 2019, 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.

(4) For the quarters ended March 29, 2020 and December 31, 2019, the non-GAAP diluted EPS calculation adds back $1.3 million of convertible debt interest expense to non-GAAP net income and non-GAAP weighted average diluted common shares include 5.5 million and 5.4 million shares, respectively, related to the convertible debt hedge transaction.

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Appendix | GAAP to Non-GAAP Reconciliation

	Q1'19		Q4'19		Q1'20		Q2'20 Low Guidance		Q2'20 High Guidance	
	$'s	% of sales	$'s	% of sales	$'s	% of sales	$'s	% of sales	$'s	% of sales
GAAP Operating Expenses	$195	39%	$212	32%	$199	28%	$217	31%	$222	28%
Intangible Asset Amortization	-$11	-2%	-$10	-1%	-$10	-1%	-$10	-1%	-$10	-1%
Restructuring and Other	-$5	-1%	$2	0%	$8	1%				
Non GAAP Operating Expenses	$179	36%	$204	31%	$197	28%	$207	30%	$212	27%

	Q1'19		Q4'19		Q1'20	
	$'s	%	$'s	%	$'s	%
GAAP Income Tax	-$15	-16%	$24	15%	$21	11%
Exclude discrete tax adjustments	$30	32%	-$1	-1%	$8	4%
Tax effect of non-GAAP adjustments	$4	4%	$8	5%	$2	1%
Effect of Higher Non-GAAP PBT		-3%		-1%	$0	0%
Non GAAP Income Tax	$18	16%	$30	17%	$31	15%

Q1'20:

GAAP net interest and other income	-$9.6
Exclude non cash convertible debt interest	$3.5
Non-GAAP net interest and other income	-$6.2

Q2'20 Guidance

GAAP net interest and other income	-$3.5
Exclude non cash convertible debt interest	$3.5
Non-GAAP net interest and other income	$0.0

Q2'20 Guidance:

	Low End	High End
GAAP Operating Profit as % of Sales	24%	28%
Acquired intangible asset amortization	1%	1%
Non-GAAP Operating Profit as % of Sales	25%	29%

Q2'20 GAAP Guidance Diluted Shares	180
Exclude dilutive shares from convertible note	-7
Q2'20 Non-GAAP Guidance Diluted Shares	173

GAAP to Non-GAAP Reconciliation of Second Quarter 2020 guidance:

GAAP and non-GAAP second quarter revenue guidance:	$690 million	to	$800 million
GAAP net income per diluted share	$ 0.76		$ 1.05
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	0.04		0.05
Non-GAAP net income per diluted share	$ 0.86		$ 1.16

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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.

	2014	2015	2016	2017	2018	2019	Q1'19	Q4'19	Q1'20
GAAP Cash Flow from Operations, Excl Disc Ops	$ 492	$ 413	$ 455	$ 626	$ 477	$ 579	$ 18	$ 216	$ 43
Less Property, Plant, and Equipment Additions net of Gov't Subsidy	$ (169)	$ (90)	$ (85)	$ (105)	$ (107)	$ (135)	$ (26)	$ (39)	$ (37)
Non-GAAP Operating Cash Flow ("Free Cash Flow")	$ 323	$ 323	$ 370	$ 521	$ 370	$ 444	$ (8)	$ 178	$ 6

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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
Net revenues	$ 582.0		$ 564.2	
Gross profit GAAP	$ 345.0	59.3%	$ 323.9	57.4%
Inventory step-up	-	-	0.4	0.1%
Gross profit non-GAAP	$ 345.0	59.3%	$ 324.3	57.5%
Income from operations - GAAP	$ 154.9	26.6%	$ 134.0	23.8%
Acquired intangible assets amortization	9.6	1.6%	10.1	1.8%
Equity modification charge (1)	2.1	0.4%	-	-
Restructuring and other (2)	(6.5)	-1.1%	(10.4)	-1.8%
Inventory step-up	-	-	0.4	0.1%
Income from operations - non-GAAP	$ 160.1	27.5%	$ 134.1	23.8%

	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
Net income - GAAP	$ 135.9	23.4%	$ 0.80	$ 0.75	$ 97.4	17.3%	$ 0.57	$ 0.55
Acquired intangible assets amortization	9.6	1.6%	0.06	0.05	10.1	1.8%	0.06	0.06
Interest and other (3)	3.5	0.6%	0.02	0.02	3.4	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)
Pension mark-to-market adjustment (3)	-	-	-	-	0.4	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
Non-GAAP tax adjustments	(3.5)	-0.6%	(0.02)	(0.02)	(2.0)	-0.4%	(0.01)	(0.01)
Convertible share adjustment	-	-	-	0.02	-	-	-	0.02
Net income - non-GAAP	$ 133.4	22.9%	$ 0.79	$ 0.77	$ 113.2	20.1%	$ 0.66	$ 0.66
GAAP and non-GAAP weighted average common shares - basic	169.6				171.2			
GAAP weighted average common shares - diluted	180.5				178.6			
Exclude dilutive shares related to convertible note transaction	(5.8)				(6.2)			
Non-GAAP weighted average common shares - diluted	174.7				172.4			

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