

# TERADYNE

## Shareholder Letter Supplement - March 2021

### Reconciliation of GAAP Measures to Non-GAAP Measures

The non-GAAP performance measures discussed in this Shareholder Letter 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. In addition to disclosing results that are determined in accordance with GAAP, Teradyne also discloses 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. Non-GAAP income from operations and non-GAAP net income exclude acquired intangible assets amortization, non-cash convertible debt interest, pension actuarial gains and losses, discrete income tax adjustments, fair value inventory step-up, and restructuring and other, and includes the related tax impact on non-GAAP adjustments. GAAP requires that these items be included in determining income from operations and net income. Non-GAAP income from operations, non-GAAP net income, non-GAAP income from operations as a percentage of revenue, non-GAAP net income as a percentage of revenue, and non-GAAP net income per share are non-GAAP performance measures presented to provide meaningful supplemental information regarding Teradyne's baseline performance before gains, losses or other charges that may not be indicative of Teradyne's current core business or future outlook. These non-GAAP performance measures are used to make operational decisions, to determine employee compensation, to forecast future operational results, and for comparison with Teradyne's business plan, historical operating results and the operating results of Teradyne's competitors. Non-GAAP gross margin excludes fair value inventory step-up. GAAP requires that this item be included in determining gross margin. Non-GAAP gross margin dollar amount and percentage are non-GAAP performance measures that management believes provide useful supplemental information for management and the investor. Management uses non-GAAP gross margin as a performance measure for Teradyne's current core business and future outlook and for comparison with Teradyne's business plan, historical gross margin results and the gross margin results of Teradyne's competitors. Non-GAAP diluted shares include the impact of Teradyne's call option on its shares. 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 Teradyne's financial and operational performance, as well as facilitating meaningful comparisons of Teradyne'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 Shareholder Letter is contained in this Shareholder Letter Supplement and on the Teradyne website at [www.teradyne.com](http://www.teradyne.com) by clicking on "Investor Relations" and then selecting "Financials" and the "GAAP to Non-GAAP Reconciliation" link.

(5) For the twelve months ended December 31, 2020 and December 31, 2019, the non-GAAP diluted EPS calculation adds back \$5.3 million and \$5.2 million, respectively, of convertible debt interest expense to non-GAAP net income and non-GAAP weighted average diluted common shares include 7.0 million and 2.7 million shares, respectively, from the convertible note hedge transaction.

**GAAP to Non-GAAP Earnings Reconciliation**  
(In millions, except per share amounts)

Twelve Months Ended								
	December 31, 2018	% of Net Revenues		December 31, 2017 (1)	% of Net Revenues			
Net Revenues	\$ 2,100.8			\$ 2,136.6				
Gross profit GAAP	\$ 1,220.4	58.1%		\$ 1,221.5	57.2%			
Inventory step-up	0.4	0.0%		-	-			
Gross profit non-GAAP	\$ 1,220.8	58.1%		\$ 1,221.5	57.2%			
Income from operations - GAAP	\$ 473.8	22.6%		\$ 525.3	24.6%			
Acquired intangible assets amortization	39.2	1.9%		30.5	1.4%			
Restructuring and other (2)	15.2	0.7%		9.4	0.4%			
Inventory step-up	0.4	0.0%		-	-			
Income from operations - non-GAAP	\$ 528.6	25.2%		\$ 565.2	26.5%			
	December 31, 2018	% of Net Revenues	Net Income per Common Share		December 31, 2017	% of Net Revenues	Net Income per Common Share	
			Basic	Diluted			Basic	Diluted
Net income - GAAP	\$ 451.8	21.5%	\$ 2.41	\$ 2.35	\$ 257.7	12.1%	\$ 1.30	\$ 1.28
Acquired intangible assets amortization	39.2	1.9%	0.21	0.20	30.5	1.4%	0.15	0.15
Interest and other (3)	13.1	0.6%	0.07	0.07	12.4	0.6%	0.06	0.06
Restructuring and other (2)	15.2	0.7%	0.08	0.08	9.4	0.4%	0.05	0.05
Inventory step-up	0.4	0.0%	0.00	0.00	-	-	-	-
Pension mark-to-market adjustment (3)	(3.3)	-0.2%	(0.02)	(0.02)	(6.3)	-0.3%	(0.03)	(0.03)
Exclude discrete tax adjustments (4)	(59.4)	-2.8%	(0.32)	(0.31)	178.3	8.3%	0.90	0.88
Non-GAAP tax adjustments	(8.4)	-0.4%	(0.04)	(0.04)	(12.8)	-0.6%	(0.06)	(0.06)
Convertible share adjustment	-	-	-	0.04	-	-	-	0.01
Net income - non-GAAP	\$ 448.6	21.4%	\$ 2.39	\$ 2.37	\$ 469.2	22.0%	\$ 2.37	\$ 2.34
GAAP and non-GAAP weighted average common shares - basic	187.7				198.1			
GAAP weighted average common shares - diluted	192.6				201.6			
Exclude dilutive shares from convertible note	(3.2)				(1.3)			
Non-GAAP weighted average common shares - diluted	189.4				200.3			

(1) Certain prior period amounts were reclassified to conform with the first quarter 2018 adoption of new accounting guidance for the presentation of pension and post retirement costs.

(2) Restructuring and other consists of:

Twelve Months Ended			
	December 31, 2018		December 31, 2017
Employee severance	\$ 8.7		\$ 3.8
Acquisition related expenses and compensation	4.6		-
Contingent consideration fair value adjustment	1.0		7.8
Other	0.9		1.0
Impairment of fixed assets	-		1.1
Property insurance recovery, net	-		(4.3)
	\$ 15.2		\$ 9.4

(3) For the twelve months ended December 31, 2018 and December 31, 2017, interest and other included non-cash convertible debt interest expense. For the twelve months ended December 31, 2018 and December 31, 2017, adjustments to exclude actuarial gains recognized under GAAP in accordance with Teradyne's mark-to-market pension accounting.

(4) For the twelve months ended December 31, 2018 and December 31, 2017, adjustment to exclude discrete income tax items. For the twelve months 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. For the twelve months ended December 31, 2017, adjustment to treat the \$184 million expense related to the estimated impact of U.S. tax policy changes as a discrete item.

For the twelve months ended December 31, 2017, adjustment to treat the \$184 million expense related to the estimated impact of U.S. tax policy changes as a discrete item.

**GAAP to Non-GAAP Earnings Reconciliation**

(In millions, except per share amounts)

	Year Ended							
	December 31, 2016		% of Net Revenues		December 31, 2015		% of Net Revenues	
Net Revenues	\$	1,753.3			\$	1,639.6		
			Net (Loss) Income per Common Share				Net Income per Common Share	
	December 31, 2016	% of Net Revenues	Basic	Diluted	December 31, 2015	% of Net Revenues	Basic	Diluted
Net (loss) income - GAAP	\$ (43.4)	-2.5%	\$ (0.21)	\$ (0.21)	\$ 206.5	12.6%	\$ 0.98	\$ 0.97
Goodwill impairment (2)	254.9	14.5%	1.26	1.25	-	-	-	-
Acquired intangible assets impairment (2)	83.3	4.8%	0.41	0.41	-	-	-	-
Acquired intangible assets amortization	52.6	3.0%	0.26	0.26	69.0	4.2%	0.33	0.32
Restructuring and other (3)	21.9	1.2%	0.11	0.11	5.1	0.3%	0.02	0.02
Pension mark-to-market adjustments (1)	(3.2)	-0.2%	(0.02)	(0.02)	17.7	1.1%	0.08	0.08
Interest and other (4)	0.6	0.0%	0.00	0.00	(5.4)	-0.3%	(0.03)	(0.03)
Inventory step-up	-	-	-	-	1.6	0.1%	0.01	0.01
Exclude discrete tax adjustments (5)	(4.5)	-0.3%	(0.02)	(0.02)	(4.9)	-0.3%	(0.02)	(0.02)
Tax effect of non-GAAP adjustments	(53.3)	-3.0%	(0.26)	(0.26)	(18.5)	-1.1%	(0.09)	(0.09)
Net income - non-GAAP	\$ 308.9	17.6%	\$ 1.52	\$ 1.51	\$ 271.1	16.5%	\$ 1.28	\$ 1.27
GAAP and non-GAAP weighted average common shares - basic	202.6				211.5			
GAAP weighted average common shares - diluted	202.6				213.3			
Include dilutive shares	1.8				-			
Non-GAAP weighted average common shares - diluted	204.4				213.3			

(1) Actuarial (gains) losses recognized under GAAP in accordance with Teradyne's mark-to-market pension accounting.

(2) Goodwill and acquired intangible assets impairment related to Teradyne's Wireless Test business segment.

(3) Restructuring and other consists of:

	Year Ended	
	December 31, 2016	December 31, 2015
Contingent consideration fair value adjustment	\$ 15.9	\$ 2.5
Employee severance	6.0	1.5
Impairment of fixed assets and expenses related to Japan earthquake	5.4	-
Property insurance recovery	(5.4)	-
Acquisition costs	-	1.1
	\$ 21.9	\$ 5.1

(4) For the year ended December 31, 2016, interest and other included non-cash convertible debt interest expense. For the year ended December 31, 2015, Interest and other included a gain from the sale of an equity investment.

(5) For the year ended December 31, 2016 and December 31, 2015, adjustment to exclude discrete income tax items. For the year ended December 31, 2016, adjustment to treat Wireless Test business segment goodwill and intangible assets impairments as discrete tax items.



# GAAP to Non-GAAP Earnings Reconciliation

(In millions, except per share amounts)

	Years Ended			
	December 31, 2014	% of Net Revenues	December 31, 2013	% of Net Revenues
Net Revenues	\$ 1,647.8		\$ 1,427.9	
	December 31, 2014		December 31, 2013	
	% of Net Revenues		% of Net Revenues	
	Net Income per Common Share		Net Income per Common Share	
	Basic	Diluted	Basic	Diluted
Net income - GAAP	\$ 81.3	4.9%	\$ 164.9	11.5%
Acquired intangible asset amortization	70.8	4.3%	72.4	5.1%
Goodwill impairment (2)	98.9	6.0%	-	-
Pension mark-to-market adjustments (1)	46.6	2.8%	(10.3)	-0.7%
Equity modification charge (3)	6.6	0.4%	-	-
Restructuring and other (4)	1.4	0.1%	2.1	0.1%
Interest and other (5)	4.3	0.3%	(18.4)	-1.3%
Exclude discrete tax adjustments (6)	1.7	0.1%	-	-
Tax effect of non-GAAP adjustments	(41.3)	-2.5%	-	-
Income tax adjustment (7)	-	-	4.8	0.3%
Convertible share adjustment (8)	-	-	-	-
Net income - non-GAAP	\$ 270.3	16.4%	\$ 215.5	15.1%
GAAP and non-GAAP weighted average common shares - basic	202.9		190.8	
GAAP weighted average common shares - diluted	222.6		235.6	
Exclude dilutive shares from convertible note	(5.0)		(23.3)	
Non-GAAP weighted average common shares - diluted (8)	217.6		212.3	

(1) Actuarial losses (gains) recognized under GAAP in accordance with Teradyne's mark-to-market pension accounting.

(2) Goodwill impairment related to Teradyne's Wireless Test business segment.

(3) For the year ended December 31, 2014, selling and administrative expenses include an equity charge for the modification of Teradyne's retired CEO's outstanding equity awards to allow continued vesting and maintain the original term in connection with his January 31, 2014 retirement.

(4) Restructuring and other consists of:

	Years Ended	
	December 31, 2014	December 31, 2013
Employee severance	\$ 1.6	\$ 2.5
Acquisition costs	0.4	-
Contingent consideration fair value adjustment	(0.6)	-
Facility related	-	(0.4)
	\$ 1.4	\$ 2.1

(5) For the years ended December 31, 2014 and 2013, Interest and other included non-cash convertible debt interest expense. For the year ended December 31, 2013, Interest and other included a gain from the sale of

(6) For the year ended December 31, 2014, adjustment to exclude discrete income tax items.

(7) For the year ended December 31, 2013, adjustment to record income taxes on a cash basis. Cash taxes reflects the usage of prior year favorable tax attributes (e.g. NOLs and credits) against current year tax liability.

(8) For the years ended December 31, 2014 and 2013, the calculation of non-GAAP diluted earnings per share gives benefit to the Company's call option on its stock for 34.7 million shares at \$5.48. As a result 5.0 million and 23.3 million shares, respectively, have been excluded from non-GAAP diluted shares. For the years ended December 31, 2014 and 2013, net interest expense of approximately \$2.0 million and \$9.4 million, respectively, have been added back to non-GAAP net income for the non-GAAP diluted earnings per share calculation.

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.

in millions	<u>2020</u>
GAAP Cash Flow from Operations	\$ 869
Less Property, Plant and Equipment Additions	<u>\$ (185)</u>
Non-GAAP Operating Cash Flow ("Free Cash Flow")	\$ 684