

Shareholder Letter Supplement - March 2019

GAAP to Non-GAAP Reconciliations

Non-GAAP Results

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 related to Mobile Industrial Robots, 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 related to Mobile Industrial Robots. 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 Investor Relations website at investors.teradyne.com by clicking on "Financials" and then selecting the "GAAP to Non-GAAP Reconciliations" link. 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.

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

Twelve Months Ended

	December 31, 2018		December 31, 2017 (1)		% of Net Revenues	
	December 31, 2018	% of Net Revenues	December 31, 2017 (1)	% of Net Revenues	Basic	Diluted
Net Revenues	\$ 2,100.8		\$ 2,136.6		\$ 1.30	\$ 1.28
Income from operations - GAAP	\$ 473.8	22.6%	\$ 525.3	24.6%	0.15	0.15
Acquired intangible assets amortization	39.2	1.9%	30.5	1.4%	0.06	0.06
Restructuring and other (2)	15.2	0.7%	9.4	0.4%	0.05	0.05
Inventory step-up	0.4	0.0%	-	-	-	-
Income from operations - non-GAAP	\$ 528.6	25.2%	\$ 565.2	26.5%	0.03	0.03
Net income - GAAP	\$ 451.8	21.5%	\$ 257.7	12.1%	\$ 0.90	\$ 0.88
Acquired intangible assets amortization	39.2	1.9%	30.5	1.4%	0.06	0.06
Interest and other (3)	13.1	0.6%	12.4	0.6%	0.05	0.05
Restructuring and other (2)	15.2	0.7%	9.4	0.4%	-	-
Inventory step-up	0.4	0.0%	-	-	(0.03)	(0.03)
Pension mark-to-market adjustment (3)	(3.3)	-0.2%	(6.3)	-0.3%	0.88	0.90
Exclude discrete tax adjustments (4)	(59.4)	-2.8%	178.3	8.3%	(0.06)	(0.06)
Non-GAAP tax adjustments	(8.4)	-0.4%	(12.8)	-0.6%	0.01	0.01
Convertible share adjustment	-	-	-	-	\$ 2.37	\$ 2.34
Net income - non-GAAP	\$ 448.6	21.4%	\$ 469.2	22.0%	\$ 198.1	\$ 201.6
GAAP and non-GAAP weighted average common shares - basic	187.7		198.1		(1.3)	200.3
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:

	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 \$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 \$52 million tax benefit related to the finalization of our toll tax charge as a discrete item.

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

	Twelve Months Ended			Net (Loss) Income	
	December 31, 2016	% of Net Revenues		Basic	Diluted
Net Revenues	\$ 1,753.3		\$ (0.21)	\$ (0.21)	
Income (loss) from operations - GAAP	\$ (60.0)	-3.4%	\$ 0.26	\$ 0.26	
Acquired intangible assets amortization	52.6	3.0%	0.00	0.00	
Restructuring and other (2)	21.9	1.2%	0.11	0.11	
Pension mark-to-market adjustment (1)	(3.2)	-0.2%	(0.02)	(0.02)	
Goodwill impairment (3)	254.9	14.5%	1.26	1.25	
Acquired intangible assets impairment (3)	85.3	4.8%	0.41	0.41	
Income from operations - non-GAAP	\$ 349.5	19.9%	(0.02)	(0.02)	
			(0.26)	(0.26)	
			\$ 1.52	\$ 1.51	
Net income (loss) - GAAP	\$ (43.4)	-2.5%	\$ 0.26	\$ 0.26	
Acquired intangible assets amortization	52.6	3.0%	0.00	0.00	
Interest and other (4)	0.6	0.0%	0.11	0.11	
Restructuring and other (2)	21.9	1.2%	(0.02)	(0.02)	
Pension mark-to-market adjustment (1)	(3.2)	-0.2%	1.26	1.25	
Goodwill impairment (3)	254.9	14.5%	0.41	0.41	
Acquired intangible assets impairment (3)	85.3	4.8%	(0.02)	(0.02)	
Exclude discrete tax adjustments (5)	(4.5)	-0.3%	(0.26)	(0.26)	
Non-GAAP tax adjustments (6)	(53.3)	-3.0%			
Net income - non-GAAP	\$ 308.9	17.6%			
GAAP and non-GAAP weighted average common shares - basic	202.6				
GAAP weighted average common shares - diluted	202.6				
Include dilutive shares	1.8				
Non-GAAP weighted average common shares - diluted	204.4				

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

(2) Restructuring and other consists of:

	December 31, 2016
Contingent consideration fair value adjustment	\$ 15.9
Employee severance	6.0
Expenses and impairment of fixed assets related to Japan earthquake	5.4
Property insurance recovery	(5.4)
	\$ 21.9

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

(4) For the twelve months ended December 31, 2016, interest and other included non-cash convertible debt interest expense.

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

(6) For periods after December 31, 2016, the non-GAAP annual effective tax rate is based on a with and without calculation with respect to non-GAAP reconciling

	Twelve Months Ended			Twelve Months Ended	
	December 31, 2016	% of Net Revenues		December 31, 2017	% of Net Revenues
System Test Group					
Net Revenues	\$ 216.1		\$ 192.1		
Income (loss) from operations - GAAP	\$ 48.9	22.6%	\$ 10.3	5.4%	
Acquired intangible assets amortization	1.8	0.9%	2.0	1.0%	
Income from operations - non-GAAP	\$ 50.7	23.5%	\$ 12.3	6.4%	
System Test Group					
Net Revenues	\$ 192.1		\$ 10.3	5.4%	
Income (loss) from operations - GAAP	\$ 10.3	5.4%	2.0	1.0%	
Acquired intangible assets amortization	2.0	1.0%	12.3	6.4%	
Income from operations - non-GAAP	\$ 12.3	6.4%			