

Teradyne, Inc.

Certain Non-GAAP financial measures discussed during the Second Quarter of 2018 Earnings Conference Call July 25, 2018

On the Company's earnings conference call on July 25, 2018, the following non-GAAP financial measures were discussed or presented:

- Q2'18 EPS \$0.59
- Q1'18 EPS \$0.45
- Q2'17 EPS \$0.90
- Q2'18 net income \$112.8M
- Q3'18 Guidance EPS \$0.59 to \$0.66
- \$3.50 to \$4.00 EPS mid-term target
- H1'18 EPS \$1.04
- H1'17 EPS \$1.34
- YTD Q2'18 Gross Margin of 57%
- YTD Q2'18 Operating Profit of 23%
- Semiconductor Test segment 5th consecutive year of PBIT above 20%
- FY 2017 EPS of \$2.34
- Q2'18 Operating Profit of 25%
- Q2'18 Gross Margin of 58%
- Q2'18 Operating Expenses \$175M
- Q1'18 Operating Expenses \$165M
- Q2'17 Operating Expenses \$172M
- Q3'18 Estimated Diluted Shares 188M
- Q3'18 Operating Expense Guidance 31% to 33%
- Q3'18 Guidance Midpoint Operating Profit Rate 25%
- Q4'17 Industrial Automation Operating Expenses \$16M
- Q4'18 Industrial Automation Estimated Operating Expenses \$35M
- FY 2018 Estimated Tax Rate 16.5%
- Q2'18 – Gross Margin (58.4% and \$308M), Opex (33.2% and \$175M), Operating Profit (25.2% and \$133M), EPS (\$0.59), FCF (\$102M), Effective Tax Rate (17% or \$23M), Diluted shares (192M), net interest and other (\$3M)
- Q1'18 – Gross Margin (55.3% and \$270M), Opex (33.8% and \$165M), Operating Profit (21.5% and \$105M), EPS (\$0.45), FCF (-\$117M), Effective Tax Rate (16% or \$17M), Diluted shares (197M)
- Q2'17 – Gross Margin (56% and \$391M), Opex (24.8% and \$172M), Operating Profit (31.3% and \$218M), EPS (\$0.90), FCF (\$206M), Effective Tax Rate (16.7% or \$36M), Diluted shares (201M)
- Q3'18 Guidance – Opex (31-33%), Operating Profit (24-26%), net interest/other (\$3M), Effective Tax Rate (16.5%), EPS (\$0.59-0.66), Diluted shares (188M)
- Opex Total 2015 (\$589M), 2016 (\$609M), 2017 (\$658M)
- Opex Industrial Automation 2015 (\$14M), 2016 (\$43M), 2017 (\$62M), 2018LE (\$120M)
- Opex Test and VC 2015 (\$514M and \$61M), 2016 (\$513M and \$53M), 2017 (\$510M and \$86M)

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.



GAAP to Non-GAAP Earnings Reconciliation

2021 EPS Reconciliation

	Net Income per Common Share Diluted		Net Income per Common Share Diluted	
Net (loss) income - GAAP	\$	3.35	\$	3.85
Acquired intangible asset amortization		0.06		0.06
Non Cash Convertible Debt Interest		0.09		0.09
Net income - non-GAAP	\$	3.50	\$	4.00

	2014	2015	2016	2017	2018 Estimate
Semiconductor Test Segment GAAP Operating Profit %	20%	22%	23%	30%	25%
Intangible Asset Amortization	1%	-	-	-	-
Restructuring & Other	-	-	-	-	1%
Semiconductor Test Segment Non-GAAP Operating Profit %	21%	22%	23%	30%	26%

Q3 2018 Diluted Shares

GAAP weighted average common shares - diluted	190.6
Exclude diluted shares related to convertible note transaction	(2.6)
Non-GAAP weighted average common shares - diluted	188.0

Q4 2017

Q4 2017 Industrial Automation Segment GAAP Operating Expenses	\$22M
Intangible Asset Amortization and Restructuring & Other	(\$6M)
Q4 2017 Industrial Automation Segment Non-GAAP Operating Expenses	\$16M

Q4 2018

Q4 2018 Industrial Automation Segment GAAP Operating Expenses	\$43M
Intangible Asset Amortization and Restructuring & Other	(\$8M)
Q4 2018 Industrial Automation Segment Non-GAAP Operating Expenses	\$35M

Mid Guidance Q3 2018

GAAP to Non-GAAP Reconciliation	
GAAP income from operations as a % of revenue	23%
Exclude acquired intangible asset amortization & restructuring and other	2%
Non-GAAP income from operations as a % of revenue	25%

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

Twelve Months Ended

	December 31, 2017	% of Net Revenues	Net Income per Common Share	
			Basic	Diluted
Net income (loss) - GAAP	\$ 257.7	12.1%	\$ 1.30	\$ 1.28
Acquired intangible assets amortization	30.5	1.4%	0.15	0.15
Interest and other (4)	12.4	0.6%	0.06	0.06
Restructuring and other (2)	9.4	0.4%	0.05	0.05
Pension mark-to-market adjustment (1)	(6.3)	-0.3%	(0.03)	(0.03)
Goodwill impairment (3)	-	-	-	-
Acquired intangible assets impairment (3)	-	-	-	-
Exclude discrete tax adjustments (5)	178.3	8.3%	0.90	0.89
Non-GAAP tax adjustments (6)	(12.8)	-0.6%	(0.06)	(0.06)
Net income - non-GAAP	\$ 469.2	22.0%	\$ 2.37	\$ 2.34

GAAP and non-GAAP weighted average common shares - basic

GAAP weighted average common shares - diluted

Exclude dilutive shares from convertible note

Include dilutive shares

Non-GAAP weighted average common shares - diluted

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

(2) Restructuring and other consists of:

	December 31, 2017	Twelve Months Ended
Contingent consideration fair value adjustment	\$ 7.8	
Employee severance	3.8	
Impairment of fixed assets	1.1	
Facility related	1.0	
Expenses and impairment of fixed assets related to Japan earthquake	0.8	
Property insurance recovery	(5.1)	
	\$ 9.4	

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

(4) For the twelve months ended December 31, 2017 and December 31, 2016, interest and other included non-cash convertible debt interest expense.

(5) For the twelve months ended December 31, 2017 and December 31, 2016, adjustment to exclude discrete income tax items. 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, 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 items.

Appendix | GAAP to Non-GAAP Reconciliation

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

	Quarter Ended						July 2, 2017		July 2, 2017		
	July 1, 2018		April 1, 2018		July 2, 2017		July 2, 2017		July 2, 2017		
	% of Net Revenues	\$	% of Net Revenues	\$	% of Net Revenues	\$	% of Net Revenues	\$	% of Net Revenues	Basic	Diluted
Net revenues	101.0%	\$ 101.0	19.2%	\$ 19.2	17.8%	\$ 17.8	25.1%	\$ 25.1	25.1%	\$ 0.88	\$ 0.87
Gross profit GAAP	9.8%	\$ 9.8	1.9%	\$ 1.9	1.6%	\$ 1.6	1.2%	\$ 1.2	1.2%	\$ 0.04	\$ 0.04
Inventory step-up	3.2%	\$ 3.2	0.6%	\$ 0.6	0.7%	\$ 0.7	0.4%	\$ 0.4	0.4%	\$ 0.02	\$ 0.02
Gross profit non-GAAP	307.7%	\$ 307.7	58.4%	\$ 58.4	(0.3)%	\$ (0.3)	(0.1)%	\$ (0.1)	0.3%	\$ 0.01	\$ 0.01
Income from operations - GAAP	120.4%	\$ 120.4	22.9%	\$ 22.9	20.0%	\$ 20.0	-0.4%	\$ (0.4)	-0.4%	\$ (0.01)	\$ (0.01)
Acquired intangible assets amortization	9.8%	\$ 9.8	1.9%	\$ 1.9	1.6%	\$ 1.6	0.1%	\$ 0.1	0.1%	\$ 0.00	\$ 0.00
Restructuring and other (2)	2.4%	\$ 2.4	0.5%	\$ 0.5	(0.1)%	\$ (0.1)	(0.3)%	\$ (0.3)	(0.3)%	\$ (0.01)	\$ (0.01)
Inventory step-up	0.4%	\$ 0.4	0.1%	\$ 0.1	-	\$ -	(0.4)%	\$ (0.4)	(0.7)%	\$ (0.03)	\$ (0.03)
Income from operations - non-GAAP	133.0%	\$ 133.0	25.2%	\$ 25.2	21.5%	\$ 21.5	-	\$ -	26.0%	\$ 0.91	\$ 0.90
Net income - GAAP	112.8%	\$ 112.8	21.4%	\$ 21.4	18.3%	\$ 18.3	-	\$ -	18.1%	\$ 0.81	\$ 0.80
Acquired intangible assets amortization	190.7%	\$ 190.7	38.1%	\$ 38.1	33.1%	\$ 33.1	1.9%	\$ 1.9	1.9%	\$ 0.07	\$ 0.07
Interest and other (3)	194.9%	\$ 194.9	39.0%	\$ 39.0	34.0%	\$ 34.0	2.0%	\$ 2.0	2.0%	\$ 0.07	\$ 0.07
Restructuring and other (2)	(2.6)%	\$ (2.6)	(0.5)%	\$ (0.5)	(0.4)%	\$ (0.4)	(0.6)%	\$ (0.6)	(0.6)%	\$ (0.02)	\$ (0.02)
Inventory step-up	192.3%	\$ 192.3	38.5%	\$ 38.5	33.6%	\$ 33.6	1.9%	\$ 1.9	1.9%	\$ 0.07	\$ 0.07
Pension mark-to-market adjustment (3)	(0.1)%	\$ (0.1)	0.0%	\$ 0.0	-	\$ -	-	\$ -	-	\$ -	\$ -
Exclude discrete tax adjustments (4)	(0.5)%	\$ (0.5)	(0.1)%	\$ (0.1)	(0.3)%	\$ (0.3)	(0.3)%	\$ (0.3)	(0.3)%	\$ (0.01)	\$ (0.01)
Non-GAAP tax adjustments	(3.4)%	\$ (3.4)	(0.6)%	\$ (0.6)	(1.9)%	\$ (1.9)	(0.4)%	\$ (0.4)	(5.1)%	\$ (0.03)	\$ (0.03)
Convertible share adjustment	-	\$ -	-	\$ -	-	\$ -	-	\$ -	-	\$ -	\$ -
Net income - non-GAAP	181.5%	\$ 181.5	36.3%	\$ 36.3	31.3%	\$ 31.3	26.0%	\$ 26.0	26.0%	\$ 0.91	\$ 0.90
GAAP and non-GAAP weighted average common shares - basic		198.8		198.8		198.8		198.8			
GAAP weighted average common shares - diluted		201.5		201.5		201.5		201.5			
Exclude dilutive shares related to convertible note transaction		(6.2)		(6.2)		(6.2)		(6.2)			
Non-GAAP weighted average common shares - diluted		192.3		192.3		192.3		192.3			



Appendix | GAAP to Non-GAAP Reconciliation

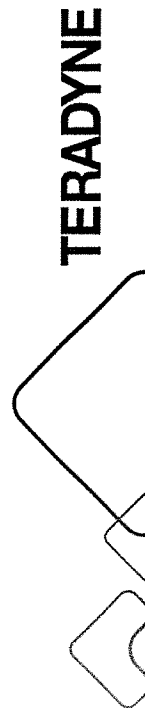
(1) Certain prior period amounts were reclassified to conform with the first quarter 2018 adoption of new accounting guidance for the presentation of pension and post retirement costs.

(2) Restructuring and other consists of:

	Quarter Ended		
	July 1, 2018	April 1, 2018	July 2, 2017
Employee severance	\$ 2.4	\$ 3.9	\$ 0.8
Acquisition related expenses	2.5	0.8	-
Other	0.9	-	-
Contingent consideration fair value adjustment	(3.5)	(5.0)	1.5
	<u>\$ 2.4</u>	<u>\$ (0.3)</u>	<u>\$ 2.3</u>

(3) For the quarters ended July 1, 2018, April 1, 2018 and July 2, 2017, adjustment to exclude non-cash convertible debt interest expense. For the quarters ended July 1, 2018 and July 2, 2017, adjustments to exclude actuarial gains recognized under GAAP in accordance with Teradyne's mark-to-market pension accounting.

(4) For the quarters ended July 1, 2018, April 1, 2018 and July 2, 2017, adjustment to exclude discrete income tax items.



Appendix | GAAP to Non-GAAP Reconciliation

Six Months Ended

	July 1, 2018	% of Net Revenues	July 2, 2017 (1)	% of Net Revenues
Net Revenues	\$ 1,014.4		\$ 1,153.8	
Gross profit GAAP	\$ 577.2	56.9%	\$ 655.7	56.8%
Inventory step-up	0.4	0.0%	-	-
Gross profit non-GAAP	\$ 577.6	56.9%	\$ 655.7	56.8%
Income from operations - GAAP	\$ 217.9	21.5%	\$ 301.6	26.1%
Acquired intangible assets amortization	17.5	1.7%	16.1	1.4%
Restructuring and other (2)	2.1	0.2%	4.8	0.4%
Inventory step-up	0.4	0.0%	-	-
Income from operations - non-GAAP	\$ 237.9	23.5%	\$ 322.5	28.0%

	July 1, 2018	% of Net Revenues	July 2, 2017	% of Net Revenues	Net Income per Common Share	
					Basic	Diluted
Net income - GAAP	\$ 188.0	18.5%	\$ 260.2	22.6%	\$ 1.30	\$ 1.29
Acquired intangible assets amortization	17.5	1.7%	16.1	1.4%	0.08	0.08
Interest and other (3)	6.5	0.6%	6.1	0.5%	0.03	0.03
Restructuring and other (2)	2.1	0.2%	4.8	0.4%	0.02	0.02
Inventory step-up	0.4	0.0%	-	-	-	-
Pension mark-to-market adjustment (3)	(0.1)	0.0%	(2.5)	-0.2%	(0.01)	(0.01)
Exclude discrete tax adjustments (4)	(6.8)	-0.7%	(6.5)	-0.6%	(0.03)	(0.03)
Non-GAAP tax adjustments	(5.3)	-0.5%	(8.2)	-0.7%	(0.04)	(0.04)
Convertible share adjustment	-	-	-	-	-	-
Net income - non-GAAP	\$ 202.3	19.9%	\$ 270.0	23.4%	\$ 1.35	\$ 1.34

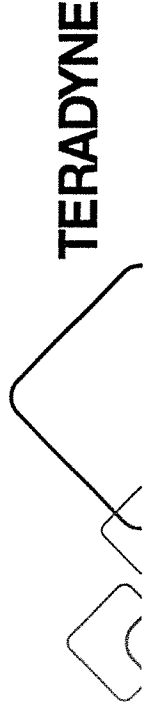
GAAP and non-GAAP weighted average common shares - basic

GAAP weighted average common shares - diluted

Exclude dilutive shares from convertible note

Non-GAAP weighted average common shares - diluted

199.4
201.7
(0.3)
201.4



Appendix | GAAP to Non-GAAP Reconciliation

- (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:

	Six Months Ended	
	July 1, 2018	July 2, 2017
Employee severance	\$ 6.3	\$ 1.4
Acquisition related expenses	3.3	-
Other	0.9	1.3
Contingent consideration fair value adjustment	(8.5)	2.1
	<u>\$ 2.1</u>	<u>\$ 4.8</u>

- (3) For the six months ended July 1, 2018 and July 2, 2017, Interest and other included non-cash convertible debt interest expense. For the six months ended July 1, 2018 and July 2, 2017, adjustments to exclude actuarial gains recognized under GAAP in accordance with Teradyne's mark-to-market pension accounting.
- (4) For the six months ended July 1, 2018 and July 2, 2017, adjustment to exclude discrete income tax items.



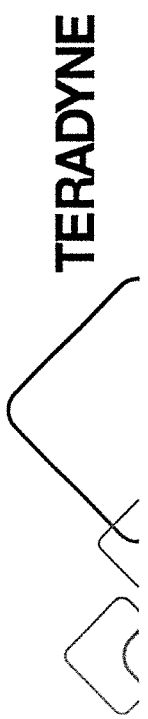
Appendix | GAAP to Non-GAAP Reconciliation

GAAP to Non-GAAP Reconciliation of Third Quarter 2018 guidance:

GAAP and non-GAAP third quarter revenue guidance:

GAAP net income per diluted share	\$	0.51	\$	0.59
Exclude acquired intangible assets amortization		0.06		0.06
Exclude non-cash convertible debt interest		0.02		0.02
Exclude restructuring and other		0.01		0.01
Tax effect of non-GAAP adjustments		(0.02)		(0.02)
Convertible share adjustment		0.01		0.01
Non-GAAP net income per diluted share	\$	0.59	\$	0.66

\$540 million to \$570 million



Appendix | GAAP to Non-GAAP Reconciliation

	Q2'17		Q1'18		Q2'18		Q3'18 Low Guidance		Q3'18 High Guidance	
	\$'s	% of sales	\$'s	% of sales	\$'s	% of sales	\$'s	% of sales	\$'s	% of sales
GAAP Operating Expenses	\$183	26%	\$172	35%	\$187	35%	\$187	36%	\$187	34%
Intangible Asset Amortization	-\$8	-1%	-\$8	-2%	-\$10	-2%	-\$10	-2%	-\$10	-2%
Restructuring and Other	-\$2	0%	\$0	0%	-\$2	0%	-\$2	0%	-\$2	0%
Non GAAP Operating Expenses	\$172	25%	\$165	34%	\$175	33%	\$175	33%	\$175	31%

	Q2'17		Q1'18		Q2'18	
	\$'s	%	\$'s	%	\$'s	%
GAAP Income Tax	\$32	15%	\$9	9%	\$19	16%
Exclude discrete tax adjustments	-\$1	0%	\$6	7%	\$1	0%
Tax effect of non-GAAP adjustments	\$5	2%	\$2	2%	\$3	3%
Effect of Higher Non-GAAP PBT		-1%		-2%		-2%
Non GAAP Income Tax	\$36	17%	\$17	16%	\$23	17%

Q2'18:

GAAP net interest and other income	-\$0.4	
Exclude non cash convertible debt interest	\$3.2	
Non-GAAP net interest and other income	\$2.8	

Third Quarter Guidance:

GAAP Operating Profit as % of Sales	22%	Low End	23%	High End
Acquired intangible asset amortization	2%	Low End	2%	High End
Restructuring and Other	0%	Low End	0%	High End
Non-GAAP Operating Profit as % of Sales	24%	Low End	26%	High End

Q3'18 Guidance

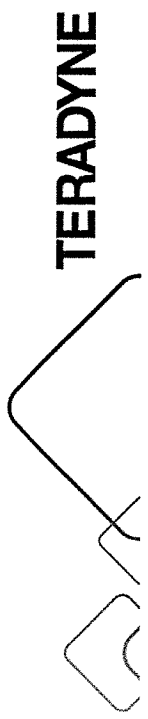
GAAP net interest and other income	-\$0.7
Exclude non cash convertible debt interest	\$3.2
Non-GAAP net interest and other income	\$2.5



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.

	<u>Q2'17</u>	<u>Q1'18</u>	<u>Q2'18</u>
GAAP Cash Flow From Operations, Excl Disc Ops	\$230	-\$82	\$130
Less Property, Plant and Equipment Additions	-\$24	-\$35	-\$28
Non-GAAP Operating Cash Flow ("Free Cash Flow")	<u>\$206</u>	<u>-\$117</u>	<u>\$102</u>



Appendix | GAAP to Non-GAAP Reconciliation

	<u>2017</u>	<u>2016</u>	<u>2015</u>
GAAP Operating Expenses	694	1,020	673
Less Goodwill Impairment Charge	-	(255)	-
Less Intangible Asset Impairment	-	(83)	-
Less Intangible Asset Amortization	(31)	(53)	(69)
Less Restructuring and Other	(9)	(22)	(5)
Pension Mark to Market Adjustment	4	2	(10)
Less Equity Modification Charge	-	-	-
Non GAAP Operating Expenses	<u>658</u>	<u>609</u>	<u>589</u>
IA GAAP Operating Expenses	<u>93</u>	<u>84</u>	<u>28</u>
Less Intangible Asset Amortization	(24)	(25)	(14)
Less Restructuring and Other	(7)	(16)	-
IA non GAAP Operating Expenses	<u>62</u>	<u>43</u>	<u>14</u>
Test GAAP Operating Expenses (1)	<u>601</u>	<u>936</u>	<u>645</u>
Less Goodwill Impairment Charge	-	(255)	-
Less Intangible Asset Impairment	-	(83)	-
Less Intangible Asset Amortization	(7)	(28)	(55)
Less Restructuring and Other	(2)	(6)	(5)
Pension Mark to Market Adjustment	4	2	(10)
Less Equity Modification Charge	-	-	-
Test Non GAAP Operating Expenses (1)	<u>596</u>	<u>566</u>	<u>575</u>
			<u>2018</u>
			148
			(33)
			5
			120
			IA GAAP Operating Expense
			Less Intangible Asset Amortization
			Less Restructuring and Other
			IA non GAAP Operating Expenses

(1) = Includes Variable Compensation of \$86M, \$53M and \$61M for 2017E, 2016 and 2015 respectively.

