

Teradyne, Inc.

Certain Non-GAAP financial measures discussed during the Third Quarter of 2018 Earnings Conference Call October 24, 2018

On the Company's earnings conference call on October 24, 2018, the following non-GAAP financial measures were discussed or presented:

- Q3'18 EPS \$0.71
- Q2'18 EPS \$0.59
- Q3'17 EPS \$0.54
- Q3'18 net income \$133.3M
- Q4'18 Guidance EPS \$0.46 to \$0.54
- FY 2018 forecasted operating profit of 24%
- FY 2018 forecasted EPS of \$2.24
- FY 2017 EPS of \$2.34
- Q3'18 Gross Margin of 59%
- Q3'18 Operating Expenses \$177M
- Q2'18 Operating Expenses \$175M
- Q4'18 Guidance diluted shares 183M
- Q4'18 Operating Expense Guidance 35% to 37%
- Q4'18 Guidance Midpoint Operating Profit Rate 22%
- Q4'18 Industrial Automation Estimated Operating Expenses \$35M
- FY 2018 Estimated Tax Rate 16.0%
- YTD Q3'18 EPS \$1.74
- 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 (15.3% or \$24M), Diluted shares (187M), net interest and other (\$3M)
- Q2'18 – Gross Margin (58.4% and \$308M), Opex (33.2% and \$175M), Operating Profit (25.2% and \$133M), EPS (\$0.59), FCF (\$104M), Effective Tax Rate (17% or \$23M), Diluted shares (192M), net interest and other (\$3M)
- Q3'17 – Gross Margin (58.6% and \$295M), Opex (32.4% and \$163M), Operating Profit (26.1% and \$131M), EPS (\$0.54), FCF (\$283M), Effective Tax Rate (19.1% or \$25M), Diluted shares (200M)
- Q4'18 Guidance – Opex (35-37%), Operating Profit (21-23%), net interest/other (\$3M), Effective Tax Rate (16%), EPS (\$0.46-0.54), Diluted shares (183M)
- Opex Total 2015 (\$589M), 2016 (\$609M), 2017 (\$658M), 2018 latest estimate (\$695M)
- Opex Industrial Automation 2015 (\$14M), 2016 (\$43M), 2017 (\$62M), 2018 latest estimate (\$118M)
- Opex Test and VC 2015 (\$514M and \$61M), 2016 (\$513M and \$53M), 2017 (\$510M and \$86M), 2018 latest estimate (\$504M and \$73M)

GAAP to Non-GAAP Earnings Reconciliation

	<u>Q4 2018</u>
Q4 2018 Industrial Automation Segment GAAP Operating Expenses	\$45M
Intangible Asset Amortization and Restructuring & Other	<u>(\$10M)</u>
Q4 2018 Industrial Automation Segment Non-GAAP Operating Expenses	\$35M

	<u>Mid Guidance Q4 2018</u>
GAAP income from operations as a % of revenue	20%
Exclude acquired intangible asset amortization & restructuring and other	2%
Non-GAAP income from operations as a % of revenue	<u>22%</u>

	<u>FY 2018</u>
GAAP income from operations as a % of revenue	22%
Exclude acquired intangible asset amortization & restructuring and other	2%
Non-GAAP income from operations as a % of revenue	<u>24%</u>

	<u>FY 2018</u>
GAAP Income tax rate	15.5%
Tax effect of non-GAAP adjustments	0.5%
Non-GAAP income tax rate	<u>16.0%</u>

	<u>FY 2019</u>
GAAP Income tax rate	16.5%
Tax effect of non-GAAP adjustments	0.5%
Non-GAAP income tax rate	<u>17.0%</u>

	<u>Shares</u>
GAAP weighted average common shares - diluted	185.0
Exclude diluted shares related to convertible note transaction	<u>(2.0)</u>
Non-GAAP weighted average common shares - diluted	183.0

	<u>December 31, 2017</u>	<u>% of Net Revenues</u>	<u>Net Income per Common Share</u>	
			<u>Basic</u>	<u>Diluted</u>
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	12.4	0.6%	0.06	0.06
Restructuring and other	9.4	0.4%	0.05	0.05
Pension mark-to-market adjustment	(6.3)	-0.3%	(0.03)	(0.03)
Exclude discrete tax adjustments	178.3	8.3%	0.90	0.89
Non-GAAP tax adjustments	(12.8)	-0.6%	(0.06)	(0.06)
Net income - non-GAAP	<u>\$ 469.2</u>	<u>22.0%</u>	<u>\$ 2.37</u>	<u>\$ 2.34</u>
GAAP and non-GAAP weighted average common shares - basic	198.1			
GAAP weighted average common shares - diluted	201.6			
Exclude dilutive shares from convertible note	<u>(1.3)</u>			
Non-GAAP weighted average common shares - diluted	<u>200.3</u>			

	<u>December 31, 2018 Diluted Net Income per share</u>
Net income (loss) - GAAP	\$ 1.98
Acquired intangible assets amortization	0.21
Interest and other	0.07
Restructuring and other	0.03
Exclude discrete tax adjustments	(0.03)
Non-GAAP tax adjustments	(0.06)
Convertible share adjustment	0.04
Net income - non-GAAP	<u>\$ 2.24</u>

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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.

Appendix | GAAP to Non-GAAP Reconciliation

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

	Quarter Ended				
	September 30, 2018	July 1, 2018	October 1, 2017 (1)	% of Net Revenues	
Net revenues	\$ 566.8	\$ 526.9	\$ 503.4	58.3%	
Gross profit/GAAP	\$ 333.7	\$ 307.3	\$ 294.8	56.6%	
Inventry step-up	\$ 333.7	\$ 307.7	\$ 294.8	56.6%	
Gross profit non-GAAP	\$ 143.6	\$ 120.4	\$ 129.1	25.6%	
Income from operations - GAAP	\$ 11.1	\$ 9.8	\$ 7.0	1.4%	
Acquired intangible assets amortization	\$ 1.7	\$ 2.4	\$ (4.4)	(0.9)%	
Restructuring and other (2)	\$ -	\$ 0.4	\$ -	-	
Inventry step-up	\$ 156.4	\$ 133.0	\$ 131.7	26.2%	
Income from operations - non-GAAP	\$ 156.4	\$ 133.0	\$ 131.7	26.2%	

	September 30, 2018		July 1, 2018		October 1, 2017	
	% of Net Revenues	Net Income per Common Share	% of Net Revenues	Net Income per Common Share	% of Net Revenues	Net Income per Common Share
Net income - GAAP	21.2%	\$ 0.65	19.2%	\$ 0.53	20.5%	\$ 0.52
Acquired intangible assets amortization	2.0%	0.06	1.9%	0.05	1.4%	0.04
Interest and other (3)	0.6%	0.02	0.6%	0.02	0.6%	0.02
Restructuring and other (2)	0.3%	0.01	0.5%	0.01	(4.4)	(0.02)
Pension mark-to-market adjustment (3)	0.1%	0.00	(0.1)	(0.00)	-	-
Inventry step-up	-	-	0.4	0.00	-	-
Exclude discrete tax adjustments (4)	0.1%	0.00	(0.5)	(0.00)	0.3	0.00
Non-GAAP tax adjustments	(0.6)%	(0.02)	(3.4)	(0.02)	(1.7)	(0.01)
Convertible share adjustment	-	-	-	0.01	-	-
Net income - non-GAAP	23.5%	\$ 0.72	21.4%	\$ 0.59	21.4%	\$ 0.55

	September 30, 2018	July 1, 2018	October 1, 2017
GAAP and non-GAAP weighted average common shares - basic	185.7	190.7	197.5
GAAP weighted average common shares - diluted	180.5	194.9	200.8
Exclude dilutive shares related to convertible note transaction	(3.1)	(2.6)	(1.1)
Non-GAAP weighted average common shares - diluted	187.4	192.3	199.7



Appendix | GAAP to Non-GAAP Reconciliation

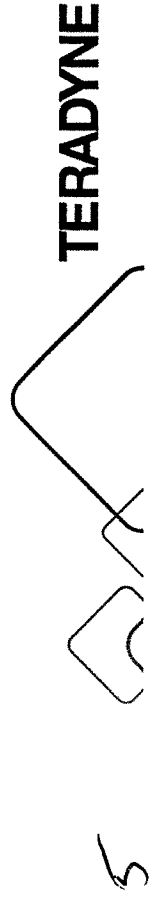
(1) Certain prior period amounts were reclassified to conform with the first quarter 2018 adoption of new accounting guidance for the presentation of pension and post retirement costs.

(2) Restructuring and other consists of:

	Quarter Ended		
	September 30, 2018	July 1, 2018	October 1, 2017
Employee severance	\$ 1.7	\$ 2.4	\$ 0.6
Acquisition related expenses and compensation	0.8	2.5	-
Contingent consideration fair value adjustment	(0.8)	(3.5)	(0.3)
Other	-	0.9	0.4
Property insurance recovery	-	-	(5.1)
	\$ 1.7	\$ 2.4	\$ (4.4)

(3) For the quarters ended September 30, 2018, July 1, 2018 and October 1, 2017, adjustment to exclude non-cash convertible debt interest expense. For the quarter ended September 30, 2018 and July 1, 2018, adjustments to exclude actual losses recognized under GAAP in accordance with Teradyne's mark-to-market pension accounting.

(4) For the quarters ended September 30, 2018, July 1, 2018 and October 1, 2017, adjustment to exclude discrete income tax items.



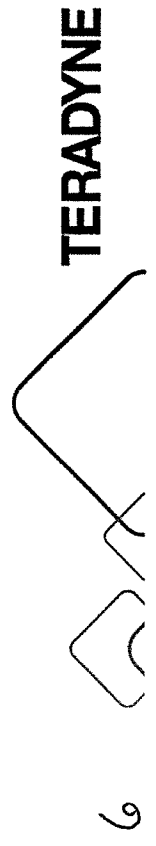
Appendix | GAAP to Non-GAAP Reconciliation

Nine Months Ended

	September 30, 2018	% of Net Revenues	October 1, 2017 (1)	% of Net Revenues
Net Revenues	\$ 1,581.2		\$ 1,657.2	
Gross profit GAAP	\$ 910.9	57.6%	\$ 950.5	57.4%
Inventory step-up	0.4	0.0%	-	-
Gross profit non-GAAP	\$ 911.3	57.6%	\$ 950.5	57.4%
Income from operations - GAAP	\$ 361.5	22.9%	\$ 430.7	26.0%
Acquired intangible assets amortization	28.6	1.8%	23.1	1.4%
Restructuring and other (2)	3.8	0.2%	0.4	0.0%
Inventory step-up	0.4	0.0%	-	-
Income from operations - non-GAAP	\$ 394.3	24.9%	\$ 454.2	27.4%

	September 30, 2018	% of Net Revenues	October 1, 2017	% of Net Revenues	Net Income per Common Share
Net income - GAAP	\$ 308.0	19.5%	\$ 363.6	21.9%	Basic \$ 1.83 Diluted \$ 1.81
Acquired intangible assets amortization	28.6	1.8%	23.1	1.4%	Basic 0.12 Diluted 0.11
Interest and other (3)	9.7	0.6%	9.3	0.6%	Basic 0.05 Diluted 0.05
Restructuring and other (2)	3.8	0.2%	0.4	0.0%	Basic 0.00 Diluted 0.00
Inventory step-up	0.4	0.0%	-	-	Basic - Diluted -
Pension mark-to-market adjustment (3)	0.2	0.0%	(2.5)	-0.2%	Basic (0.01) Diluted (0.01)
Exclude discrete tax adjustments (4)	(6.5)	-0.4%	(6.1)	-0.4%	Basic (0.03) Diluted (0.03)
Non-GAAP tax adjustments	(8.7)	-0.6%	(9.9)	-0.6%	Basic (0.05) Diluted (0.05)
Convertible share adjustment	-	-	-	-	Basic - Diluted -
Net income - non-GAAP	\$ 335.5	21.2%	\$ 377.9	22.8%	Basic \$ 1.90 Diluted \$ 1.88

GAAP and non-GAAP weighted average common shares - basic	190.6
GAAP weighted average common shares - diluted	196.3
Exclude dilutive shares from convertible note	(4.0)
Non-GAAP weighted average common shares - diluted	192.3



Appendix | GAAP to Non-GAAP Reconciliation

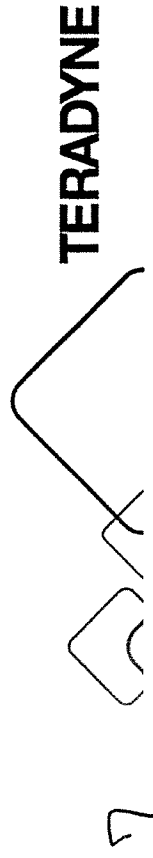
(1) Certain prior period amounts were reclassified to conform with the first quarter 2018 adoption of new accounting guidance for the presentation of pension and post retirement costs.

(2) Restructuring and other consists of:

	Nine Months Ended	
	September 30, 2018	October 1, 2017
Employee severance	\$ 7.9	\$ 2.0
Acquisition related expenses and compensation	4.1	-
Other	0.9	1.7
Contingent consideration fair value adjustment	(9.2)	1.8
Property insurance recovery	-	(5.1)
	\$ 3.8	\$ 0.4

(3) For the nine months ended September 30, 2018 and October 1, 2017, interest and other included non-cash convertible debt interest expense. For the nine months ended September 30, 2018 and October 1, 2017, adjustments to exclude actuarial gains recognized under GAAP in accordance with Teradyne's mark-to-market pension accounting.

(4) For the nine months ended September 30, 2018 and October 1, 2017, adjustment to exclude discrete income tax items.



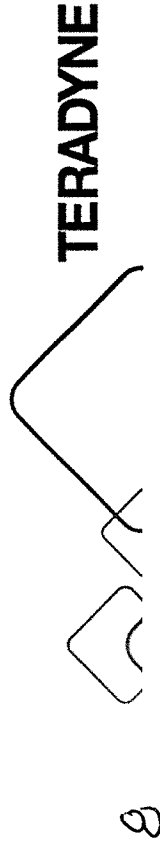
Appendix | GAAP to Non-GAAP Reconciliation

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

GAAP and non-GAAP fourth quarter revenue guidance:			
GAAP net income per diluted share	\$	\$480 million	to \$510 million
Exclude acquired intangible assets amortization		0.39	\$ 0.46
Exclude non-cash convertible debt interest		0.06	0.06
Exclude restructuring and other		0.02	0.02
Tax effect of non-GAAP adjustments		0.01	0.01
Convertible share adjustment		(0.02)	(0.02)
Non-GAAP net income per diluted share	\$	0.46	\$ 0.54

For press releases and other information of interest to investors, please visit Teradyne's homepage at <http://www.teradyne.com>.

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Appendix | GAAP to Non-GAAP Reconciliation

	Q3'17		Q2'18		Q3'18		Q4'18 Low Guidance		Q4'18 High Guidance	
	\$'s	% of sales	\$'s	% of sales	\$'s	% of sales	\$'s	% of sales	\$'s	% of sales
GAAP Operating Expenses	\$166	33%	\$187	35%	\$190	34%		40%		37%
Intangible Asset Amortization	-\$7	-1%	-\$10	-2%	-\$11	-2%		-3%		-3%
Restructuring and Other	\$4	1%	-\$2	0%	-\$2	0%		0%		0%
Non GAAP Operating Expenses	\$163	32%	\$175	33%	\$177	31%		37%		35%

	Q3'17		Q2'18		Q3'18	
	\$'s	%	\$'s	%	\$'s	%
GAAP Income Tax	\$24	19%	\$19	16%	\$21	15%
Exclude discrete tax adjustments	\$0	0%	\$1	0%	\$0	0%
Tax effect of non-GAAP adjustments	\$2	1%	\$3	3%	\$3	2%
Effect of Higher Non-GAAP PBT		-1%		-2%		-2%
Non GAAP Income Tax	\$25	19%	\$23	17%	\$24	15%

	Fourth Quarter Guidance:		Low End	High End
GAAP net interest and other income		-\$2.7	18%	20%
Exclude non cash convertible debt interest		\$3.6	3%	3%
Non-GAAP net interest and other income		\$0.9	21%	23%

	Q4'18 Guidance		Low End	High End
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		

in M's

Q4'18 GAAP Guidance Shares 185

Exclude dilutive shares related to convertible note transaction -2

Q4'18 Non-GAAP Guidance Shares 183



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>Q3'17</u>	<u>Q2'18</u>	<u>Q3'18</u>
GAAP Cash Flow From Operations, Excl Disc Ops	\$310	\$132	\$241
Less Property, Plant and Equipment Additions net of Gov't Subsidy	-\$27	-\$28	-\$18
Non-GAAP Operating Cash Flow ("Free Cash Flow")	\$283	\$104	\$223



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Appendix | GAAP to Non-GAAP Reconciliation

	<u>2018E</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
GAAP Operating Expenses	739	694	1,020	673
Less Goodwill Impairment Charge	-	-	(255)	-
Less Intangible Asset Impairment	(41)	(31)	(83)	-
Less Intangible Asset Amortization	(4)	(9)	(53)	(69)
Less Restructuring and Other	-	4	(22)	(5)
Pension Mark to Market Adjustment	-	-	2	(10)
Less Equity Modification Charge	-	-	-	-
Non GAAP Operating Expenses	695	658	609	589
IA GAAP Operating Expenses	148	93	84	28
Less Intangible Asset Amortization	(35)	(24)	(25)	(14)
Less Restructuring and Other	5	(7)	(16)	-
IA non GAAP Operating Expenses	118	62	43	14
Test GAAP Operating Expenses (1)	591	601	936	645
Less Goodwill Impairment Charge	-	-	(255)	-
Less Intangible Asset Impairment	(6)	(7)	(83)	-
Less Intangible Asset Amortization	(9)	(2)	(28)	(55)
Less Restructuring and Other	-	4	(6)	(5)
Pension Mark to Market Adjustment	-	-	2	(10)
Less Equity Modification Charge	-	-	-	-
Test Non GAAP Operating Expenses (1)	577	596	566	575

(1) = Includes Variable Compensation of \$73M, \$86M, \$53M and \$61M for 2018, 2017, 2016 and 2015 respectively.

