

# Financial Results for Q3 2020

October 21, 2020



# SAFE HARBOR, page 1 of 2

This presentation contains forward-looking statements regarding Teradyne's future business prospects, the impact of the COVID-19 outbreak, results of operations, market conditions, earnings per share, the payment of a quarterly dividend, the repurchase of Teradyne common stock pursuant to a share repurchase program, and the impact of U.S. export and tariff laws. Such statements are based on the current assumptions and expectations of Teradyne's management and are neither promises nor guarantees of future performance, events, earnings per share, use of cash, payment of dividends, repurchases of common stock, payment of the senior convertible notes, the impact of the COVID-19 outbreak, or the impact of U.S. export and tariff laws. There can be no assurance that management's estimates of Teradyne's future results or other forward-looking statements will be achieved. Additionally, the current dividend program may be modified, suspended or discontinued at any time. On May 16, 2019, Huawei and 68 of its affiliates, including HiSilicon, were added to the U.S. Department of Commerce Entity List under U.S. Export Administration Regulations (the "EAR"). This action by the U.S. Department of Commerce imposed new export licensing requirements on exports, re-exports, and in-country transfers of all U.S. - regulated products, software and technology to the designated Huawei entities. While most of Teradyne's products are not subject to the EAR and therefore not affected by the Entity List restrictions, some of its products are currently manufactured in the U.S. and thus subject to the Entity List restrictions. Compliance with the current Entity List restrictions has not significantly impacted Teradyne's sales. On August 17, 2020, the U.S. Department of Commerce published final regulations expanding the scope of the U.S. EAR to include additional products that would become subject to export restrictions relating to Huawei entities including HiSilicon. These new regulations restrict the sale to Huawei and the designated Huawei entities of certain non-U.S. made items, such as semiconductor devices, manufactured for or sold to Huawei entities including HiSilicon under specific, detailed conditions set forth in the new regulations. The new regulations also restrict Teradyne's sales to Huawei, HiSilicon and their suppliers. Because the impact of these new regulations on Huawei's business is both fluid and uncertain, at this time, Teradyne does not know the potential extent of the impact of the new regulations on its business with Huawei entities including HiSilicon and their suppliers. Teradyne is taking appropriate actions, including filing for licenses with the Department of Commerce and working with the U.S. regulators to understand the intended scope of the restrictions. However, Teradyne cannot be certain that the actions it takes will mitigate all of the risks associated with the new export controls that may impact its business. It is possible that these new regulations and any other additional regulations that may be implemented by the U.S. Department of Commerce or other government agency could have a material impact on Teradyne's business and financial results. On April 28, 2020, the Department of Commerce published new export control regulations for certain U.S. products and technology sold to military end users or for military end-use in China, Russia and Venezuela. The definition of military end user is broad. The regulations went into effect on June 29, 2020. Teradyne does not expect that compliance with the new export controls will significantly impact its ability to sell products to its customers in China or to manufacture products in China. The new export controls, however, could disrupt the Company's supply chain, increase compliance costs and impact the demand for the Company's products in China and, thus, have a material adverse impact on Teradyne's business, financial condition or results of operations. In addition, while the Company maintains an export compliance program, its compliance controls could be circumvented, exposing the Company to legal liabilities. Teradyne will continue to assess the potential impact of the new export controls on its business and operations and take appropriate actions, including filing for licenses with the Department of Commerce, to minimize any disruption. However, Teradyne cannot be certain that the actions it takes will mitigate all of the risks associated with the new export controls that may impact its business.

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The global outbreak of the recent novel strain of the coronavirus (COVID-19) has resulted in authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter in place orders, and shutdowns. These measures have impacted and may further impact Teradyne's workforce and operations, the operations of its customers, and those of its contract manufacturers and suppliers. The COVID-19 pandemic has adversely impacted the Company's results of operations, including increased costs company-wide and decreased sales in its industrial automation businesses. At this time, the Company cannot accurately estimate the amount of the impact for Teradyne's 2020 financial results and to its future financial results. There is considerable uncertainty regarding the impact on Teradyne's business from the measures in place and potential future measures, and restrictions on Teradyne's access to its manufacturing facilities or on its support operations or workforce, or similar limitations for its contractor manufacturers and suppliers, and restrictions or disruptions of transportation, such as reduced availability of transportation and increased border controls or closures, could limit Teradyne's capacity to meet customer demand and have a material adverse effect on its financial condition and results of operations. The COVID-19 outbreak has significantly increased economic and demand uncertainty in Teradyne's markets. This uncertainty could result in a significant decrease in demand for Teradyne's products for an uncertain period of time. The spread of COVID-19 has caused Teradyne to modify its business practices (including employee travel, employees working remotely, and cancellation of physical participation in meetings, events and conferences), and the Company may take further actions as may be required by government authorities or that it determines are in the best interests of its employees, customers, contract manufacturers and suppliers. There is uncertainty that such measures will be sufficient to mitigate the risks posed by the virus, and Teradyne's ability to perform critical functions could be impacted. Due to the uncertainty regarding the length, severity and potential business impact of the COVID-19 pandemic, Teradyne suspended its stock repurchase program announced in January 2020. At this time, Teradyne does not know whether or when it will authorize future stock repurchase programs. The degree to which COVID-19 impacts Teradyne's results will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the duration and continued spread of the outbreak, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. Important factors that could cause actual results, earnings per share, use of cash, dividend payments, repurchases of common stock, or payment of the senior convertible notes to differ materially from those presently expected include: conditions affecting the markets in which Teradyne operates; decreased or delayed product demand from one or more significant customers; development, delivery and acceptance of new products; the ability to grow the Industrial Automation business; increased research and development spending; deterioration of Teradyne's financial condition; the impact of the COVID-19 outbreak and related government responses on the market and demand for Teradyne's products, on its contract manufacturers and supply chain, and on its workforce; the consummation and success of any mergers or acquisitions; unexpected cash needs; insufficient cash flow to make required payments and pay the principal amount on the senior convertible notes; the business judgment of the board of directors that a declaration of a dividend or the repurchase of common stock is not in the company's best interests; additional U.S. tax regulations or IRS guidance; the impact of any tariffs or export controls imposed in the U.S. or China; compliance with trade protection measures or export restrictions; the impact of U.S. Department of Commerce or other government agency regulations relating to Huawei and HiSilicon; and other events, factors and risks disclosed in filings with the SEC, including, but not limited to, the "Risk Factors" sections of Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2019 and Quarterly Report on Form 10-Q for the fiscal quarter ended June 28, 2020. The forward-looking statements provided by Teradyne in this press release represent management's views as of the date of this release. Teradyne anticipates that subsequent events and developments may cause management's views to change. However, while Teradyne may elect to update these forward-looking statements at some point in the future, Teradyne specifically disclaims any obligation to do so. These forward-looking statements should not be relied upon as representing Teradyne's views as of any date subsequent to the date of this presentation.

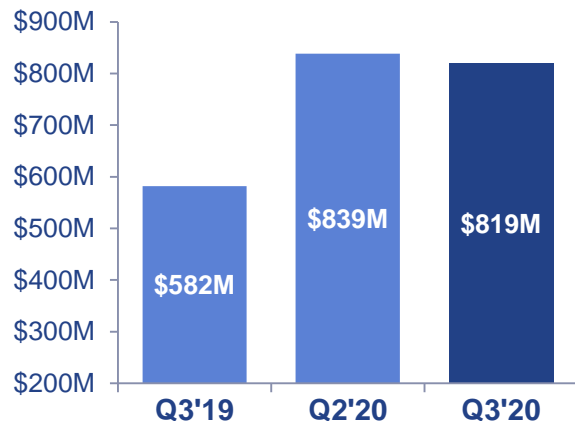
# Business Update and Outlook

Mark Jagiela, Teradyne President and CEO



# Q3'20 Summary

41% Sales Growth and 53% Non-GAAP Earnings Per Share Growth vs Q3'19



Quarterly Sales



Non-GAAP EPS<sup>(1)</sup>



9 Month Sales and Non-GAAP EPS<sup>(1)</sup>

- Q3'20 sales of \$819M, up 41% from Q3'19
- System-on-a-Chip (SOC) demand strong in mobility and compute end markets
- Record Memory test shipments driven by LPDDR-5 DRAM and NAND demand

- Non-GAAP EPS of \$1.18 up 53% from Q3'19
- Third consecutive quarter of \$1.00 or more non-GAAP EPS
- 30% Non-GAAP operating margin in Q3'20

- 9M'20 sales of \$2.4B up 44% from 9M'19
- 9M'20 Non-GAAP EPS up 79% from 9M'19

(1) See appendix for GAAP to Non-GAAP reconciliation



# October 2020 Summary

- Semiconductor and System Test sales remained strong in Q3 with continued short lead time Semiconductor Test demand.
- Industrial Automation (IA) demand improved from trough levels in Q2; now at 2019 quarterly levels.
- Teradyne driving improved earnings on growing test intensity, new product driven share gains, and efficient operating model.
- Q3'20 Semiconductor Test sales up 49% from Q3'19 on strong mobility and compute demand in SOC and record Flash/DRAM test shipments in memory.
- Q3'20 System Test sales up 61% from Q3'19 on Storage Test growth (HDD and System Level Test)
- Universal Robots sales grew 23% from Q2'20 on improving manufacturing market; expect IA sequential growth to continue in Q4'20.
- Greater than expected, short lead time SOC and Memory demand driving Q4 outlook substantially above earlier forecast.
- SOC market expected to be ~\$3.3B in '20, Memory test market expected to be ~\$900 million in '20.

# Third Quarter 2020 Financial Results and Fourth Quarter 2020 Guidance

Sanjay Mehta, Teradyne Vice President and Chief Financial Officer



# Q3'20 Non-GAAP Results

\$s in millions, except EPS	Q3'19 Actual <sup>(1)</sup>		Q2'20 Actual <sup>(1)</sup>		Q3'20 Actual <sup>(1)</sup>	
Sales		\$582M		\$839M		\$819M
Gross Margin	59.3%	\$345M	56.2%	\$472M	56.0%	\$459M
R&D	13.4%	\$78M	11.2%	\$94M	11.6%	\$95M
SG&A	18.4%	\$107M	13.5%	\$113M	14.1%	\$116M
OPEX	<u>31.8%</u>	<u>\$185M</u>	<u>24.7%</u>	<u>\$207M</u>	<u>25.7%</u>	<u>\$211M</u>
Operating Profit	27.5%	\$160M	31.5%	\$264M	30.3%	\$248M
Income Taxes (& effective tax rate)	16.9%	\$27M	14.1%	\$38M	17.4%	\$43M
EPS		\$0.77		\$1.33		\$1.18
Diluted Shares		175M		173M		175M



# Balance Sheet & Capital Return

	Q3'19 Actual	Q2'20 Actual	Q3'20 Actual
Cash and Marketable Securities	\$1,040M	<b>\$1,062M</b>	<b>\$1,341M</b>
Inventory	\$178M	<b>\$206M</b>	<b>\$191M</b>
DSO	56 Days	<b>75 Days</b>	<b>65 Days</b>
Acquisition Earn-out Liability <sup>(1)</sup>	\$18M	<b>\$50M</b>	<b>\$23M</b>
Capital Additions	\$37M	<b>\$47M</b>	<b>\$63M</b>
Depreciation and Amortization <sup>(2)</sup>	\$40M	<b>\$44M</b>	<b>\$42M</b>
Free Cash Flow <sup>(3)</sup>	\$162M	<b>\$178M</b>	<b>\$280M</b>
Capital Return {	Buybacks	<b>\$9M</b>	<b>\$0M</b>
	Dividends	<b>\$17M</b>	<b>\$17M</b>

(1) Balance is fair value amount for AutoGuide and MiR earn-outs calculated using Monte Carlo valuation methodology

(2) Includes depreciation, stock based compensation, amortization of acquired intangible assets and amortization of the non-cash convertible debt discount

(3) Teradyne calculates free cash flow as: GAAP Cash flow from operations, excluding discontinued operations, less property, plant and equipment additions; see GAAP to non-GAAP reconciliations.

# Q3'20 Segment Summary

## Semiconductor Test

**\$592M**

Sales up 49% vs Q3'19

Mobility and compute SOC test demand strong

Record Memory test shipments

## System Test

**\$118M**

Sales up 61% vs Q3'19

Record Storage Test shipments on strength of HDD and System Level Test demand

## Wireless Test

**\$41M**

Sales down 4% vs Q3'19

Wi-Fi 6,6E demand strong

Test demand for other connectivity standards softened

## Industrial Automation

**\$69M**

Sales flat with Q3'19

IA sales up 17% from Q2 trough

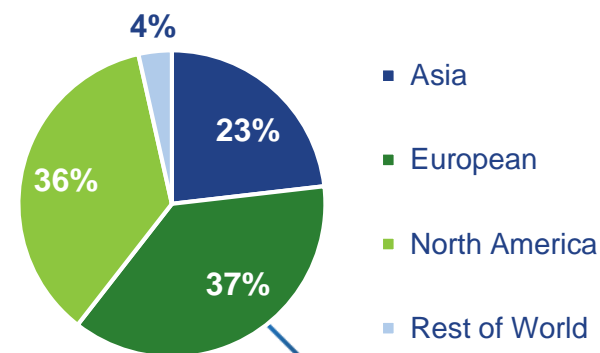
UR sales up 23%

### SemiTest Sales

Semi Product	\$495M
Semi Service	\$97M

**Total Company Service: \$122M**

### Industrial Automation Revenue



**TERADYNE**

# Q4'20 Non-GAAP Guidance

\$s in millions, except EPS	Q3'20 Actual <sup>(1)</sup>	Q4'20 Guidance <sup>(1)</sup>
Sales	\$819M	<b>\$680M - \$740M</b>
Gross Margin	56%	<b>58% - 59%</b>
OPEX	26%	<b>31% - 29%</b>
Operating Profit	30%	<b>28% - 30%</b>
Net Interest & Other Income/(Expense)	\$0M	<b>(\$2M)</b>
Effective Tax Rate	17.4%	<b>15.5%</b>
EPS	\$1.18	<b>\$0.90 - \$1.06</b>
Diluted Shares	175M	<b>175M</b>

(1) See attached appendix for GAAP to non-GAAP reconciliations.

# October 2020 Summary

- Semiconductor and System Test sales remained strong in Q3 with continued short lead time Semiconductor Test demand.
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- Greater than expected, short lead time SOC and Memory demand driving Q4 outlook substantially above earlier forecast.
- SOC market expected to be ~\$3.3B in '20, Memory test market expected to be ~\$900 million in '20.



# Supplemental Information




## 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](http://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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## (In millions, except per share amounts)



# Appendix | GAAP to Non-GAAP Reconciliation

(1) Restructuring and other consists of:

	Quarter Ended		
	September 27, 2020	June 28, 2020	September 29, 2019
Contingent consideration fair value adjustment	\$ (27.2)	\$ 29.3	\$ (7.8)
Acquisition related expenses and compensation	(1.1)	3.1	0.5
Employee severance	0.5	-	0.8
Contract termination settlement fee	-	4.0	-
Other	0.1	0.8	-
	<u>\$ (27.7)</u>	<u>\$ 37.2</u>	<u>\$ (6.5)</u>

(2) For the quarter ended September 29, 2019, selling and administrative expenses include an equity charge for the modification of Teradyne's retired CFO's outstanding equity awards to allow continued vesting and maintain the original term in connection with his July 17, 2019 retirement.

(3) For the quarters ended September 27, 2020, June 28, 2020, and September 29, 2019, adjustment to exclude non-cash convertible debt interest expense. For the quarters ended September 27, 2020 and June 28, 2020, adjustment to exclude actuarial (gain) loss recognized under GAAP in accordance with Teradyne's mark-to-market pension accounting.

(4) For the quarters ended September 27, 2020, June 28, 2020, and September 29, 2019, adjustment to exclude discrete income tax items.

(5) For the quarters ended September 27, 2020 and June 28, 2020, 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 7.8 million and 5.8 million shares, respectively, related to the convertible debt hedge transaction.



# Appendix | GAAP to Non-GAAP Reconciliation

## Nine Months Ended

	September 27, 2020	% of Net Revenues			September 29, 2019	% of Net Revenues		
Net Revenues	\$ 2,362.5				\$ 1,640.3			
Gross profit GAAP	\$ 1,336.0	56.6%			\$ 956.6	58.3%		
Inventory step-up	0.4	0.0%			0.4	0.0%		
Gross profit non-GAAP	\$ 1,336.4	56.6%			\$ 957.0	58.3%		
Income from operations - GAAP	\$ 694.3	29.4%			\$ 382.0	23.3%		
Acquired intangible assets amortization	25.1	1.1%			30.4	1.9%		
Restructuring and other (1)	1.9	0.1%			(11.8)	-0.7%		
Inventory step-up	0.4	0.0%			0.4	0.0%		
Equity modification charge (2)	-	-			2.1	0.1%		
Income from operations - non-GAAP	\$ 721.7	30.5%			\$ 403.1	24.6%		

	September 27, 2020	% of Net Revenues	Net Income per Common Share		September 29, 2019	% of Net Revenues	Net Income per Common Share	
			Basic	Diluted			Basic	Diluted
Net income - GAAP	\$ 587.8	24.9%	\$ 3.54	\$ 3.23	\$ 342.4	20.9%	\$ 2.00	\$ 1.92
Acquired intangible assets amortization	25.1	1.1%	0.15	0.14	30.4	1.9%	0.18	0.17
Interest and other (3)	10.8	0.5%	0.07	0.06	10.2	0.6%	0.06	0.06
Pension mark-to-market adjustments (3)	2.6	0.1%	0.02	0.01	0.4	0.0%	0.00	0.00
Restructuring and other (1)	1.9	0.1%	0.01	0.01	(11.8)	-0.7%	(0.07)	(0.07)
Inventory step-up	0.4	0.0%	0.00	0.00	0.4	0.0%	0.00	0.00
Equity modification charge (2)	-	-	-	-	2.1	0.1%	-	-
Exclude discrete tax adjustments (4)	(13.1)	-0.6%	(0.08)	(0.07)	(23.9)	-1.5%	(0.14)	(0.13)
Non-GAAP tax adjustments	(8.0)	-0.3%	(0.05)	(0.04)	(9.0)	-0.5%	(0.05)	(0.05)
Convertible share adjustment (5)	-	-	-	0.16	-	-	-	0.06
Net income - non-GAAP	\$ 607.5	25.7%	\$ 3.66	\$ 3.52	\$ 341.2	20.8%	\$ 1.99	\$ 1.97

GAAP and non-GAAP weighted average common shares - basic	166.1				171.5			
GAAP weighted average common shares - diluted	181.8				178.7			
Exclude dilutive shares from convertible note	(8.0)				(5.9)			
Non-GAAP weighted average common shares - diluted	173.8				172.8			

# Appendix | GAAP to Non-GAAP Reconciliation

(1) Restructuring and other consists of:

	Nine Months Ended	
	September 27, 2020	September 29, 2019
Contingent consideration fair value adjustment	\$ (8.0)	\$ (16.5)
Contract termination settlement fee	4.0	-
Acquisition related expenses and compensation	3.4	2.3
Employee severance	1.2	2.4
Other	1.2	-
	<u>\$ 1.9</u>	<u>\$ (11.8)</u>

(2) For the nine months ended September 29, 2019, selling and administrative expenses include an equity charge for the modification of Teradyne's retired CFO's outstanding equity awards to allow continued vesting and maintain the original term in connection with his July 17, 2019 retirement.

(3) For the nine months ended September 27, 2020 and September 29, 2019, Interest and other included non-cash convertible debt interest expense. For the nine months ended September 27, 2020 and September 29, 2019, adjustments to exclude actuarial (gain) loss recognized under GAAP in accordance with Teradyne's mark-to-market pension accounting.

(4) For the nine months ended September 27, 2020 and September 29, 2019, adjustment to exclude discrete income tax items. For the nine months ended September 29, 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 and includes a \$15 million tax provision related to the finalization of

(5) For the nine months ended September 27, 2020, the non-GAAP diluted EPS calculation adds back \$3.9 million of convertible debt interest expense to non-GAAP net income and non-GAAP weighted average diluted common shares include 6.4 million shares related to the convertible debt hedge transaction.

# Appendix | GAAP to Non-GAAP Reconciliation

## Nine Months Ended

	September 29, 2019	% of Net Revenues			September 30, 2018	% of Net Revenues		
Net Revenues	\$ 1,640.3				\$ 1,581.2			
Gross profit GAAP	\$ 956.6	58.3%			\$ 910.9	57.6%		
Inventory step-up	0.4	0.0%			0.4	0.0%		
Gross profit non-GAAP	\$ 957.0	58.3%			\$ 911.3	57.6%		
Income from operations - GAAP	\$ 382.0	23.3%			\$ 361.5	22.9%		
Acquired intangible assets amortization	30.4	1.9%			28.6	1.8%		
Equity modification charge (1)	2.1	0.1%			-	-		
Restructuring and other (2)	(11.8)	-0.7%			3.8	0.2%		
Inventory step-up	0.4	0.0%			0.4	0.0%		
Income from operations - non-GAAP	\$ 403.1	24.6%			\$ 394.3	24.9%		

	September 29, 2019	% of Net Revenues	Net Income per Common Share		September 30, 2018	% of Net Revenues	Net Income per Common Share	
			Basic	Diluted			Basic	Diluted
Net income - GAAP	\$ 342.4	20.9%	\$ 2.00	\$ 1.92	\$ 308.0	19.5%	\$ 1.62	\$ 1.57
Acquired intangible assets amortization	30.4	1.9%	0.18	0.17	28.6	1.8%	0.15	0.15
Interest and other (3)	10.2	0.6%	0.06	0.06	9.7	0.6%	0.05	0.05
Equity modification charge (1)	2.1	0.1%	0.01	0.01	-	-	-	-
Restructuring and other (2)	(11.8)	-0.7%	(0.07)	(0.07)	3.8	0.2%	0.02	0.02
Inventory step-up	0.4	0.0%	0.00	0.00	0.4	0.0%	0.00	0.00
Pension mark-to-market adjustment (3)	0.4	0.0%	0.00	0.00	0.2	0.0%	0.00	0.00
Exclude discrete tax adjustments (4)	(23.9)	-1.5%	(0.14)	(0.13)	(6.5)	-0.4%	(0.03)	(0.03)
Non-GAAP tax adjustments	(9.0)	-0.5%	(0.05)	(0.05)	(8.7)	-0.6%	(0.05)	(0.04)
Convertible share adjustment	-	-	-	0.06	-	-	-	0.03
Net income - non-GAAP	\$ 341.2	20.8%	\$ 1.99	\$ 1.97	\$ 335.5	21.2%	\$ 1.76	\$ 1.74

GAAP and non-GAAP weighted average common shares - basic	171.5				190.6			
GAAP weighted average common shares - diluted	178.7				196.3			
Exclude dilutive shares from convertible note	(5.9)				(4.0)			
Non-GAAP weighted average common shares - diluted	172.8				192.3			

# Appendix | GAAP to Non-GAAP Reconciliation

(1) For the nine months ended September 29, 2019, selling and administrative expenses include an equity charge for the modification of Teradyne's retired CFO's outstanding equity awards to allow continued vesting and maintain the original term in connection with his July 17, 2019 retirement.

(2) Restructuring and other consists of:

	Nine Months Ended	
	September 29, 2019	September 30, 2018
Contingent consideration fair value adjustment	\$ (16.5)	\$ (9.2)
Acquisition related expenses and compensation	2.3	4.1
Employee severance	2.4	7.9
Other	-	0.9
	<u>\$ (11.8)</u>	<u>\$ 3.8</u>

(3) For the nine months ended September 29, 2019 and September 30, 2018, Interest and other included non-cash convertible debt interest expense. For the nine months ended September 29, 2019 and September 30, 2018, adjustments to exclude actuarial loss recognized under GAAP in accordance with Teradyne's mark-to-market pension accounting.

(4) For the nine months ended September 29, 2019 and September 30, 2018, adjustment to exclude discrete income tax items. For the nine months ended September 29, 2019, GAAP income tax 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 and includes a \$15 million tax provision related to the finalization of our toll tax charge.



# Appendix | GAAP to Non-GAAP Reconciliation

## GAAP to Non-GAAP Earnings Reconciliation

(In millions, except per share amounts)

	March 29, 2020	% of Net Revenues	Net Income per Common Share	
			Basic	Diluted
Net revenues	\$ 704.4			
Gross profit GAAP and non-GAAP	\$ 405.6	57.6%		
Inventory step-up	0.1	0.0%		
Gross profit non-GAAP	\$ 405.7	57.6%		
Income from operations - GAAP	\$ 206.7	29.3%		
Acquired intangible assets amortization	9.9	1.4%		
Restructuring and other (1)	(7.6)	-1.1%		
Inventory step-up	0.1	0.0%		
Income from operations - non-GAAP	\$ 209.1	29.7%		
Net income - GAAP	\$ 176.2	25.0%	\$ 1.06	\$ 0.97
Acquired intangible assets amortization	9.9	1.4%	0.06	0.05
Interest and other (2)	3.5	0.5%	0.02	0.02
Restructuring and other (1)	(7.6)	-1.1%	(0.05)	(0.04)
Pension mark-to-market adjustment (2)	-	-	-	-
Inventory step-up	0.1	0.0%	0.00	0.00
Exclude discrete tax adjustments (3)	(7.7)	-1.1%	(0.05)	(0.04)
Non-GAAP tax adjustments	(1.9)	-0.3%	(0.01)	(0.01)
Convertible share adjustment (4)	-	-	-	0.04
Net income - non-GAAP (4)	\$ 172.5	24.5%	\$ 1.04	\$ 1.00
GAAP and non-GAAP weighted average common shares - basic	166.6			
GAAP weighted average common shares - diluted	180.7			
Exclude dilutive shares related to convertible note transaction	(7.3)			
Non-GAAP weighted average common shares - diluted	173.4			

# 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
	<u>\$ (7.6)</u>	<u>\$ (2.1)</u>	<u>\$ 5.1</u>

(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.

# 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	Q3'19	Q2'20	Q3'20
GAAP Cash Flow from Operations, Excl Disc Ops	\$ 492	\$ 413	\$ 455	\$ 626	\$ 477	\$ 579	\$ 199	\$ 226	\$ 343
Less Property, Plant, and Equipment Additions net of Gov't Subsidy	\$ (169)	\$ (90)	\$ (85)	\$ (105)	\$ (107)	\$ (135)	\$ (37)	\$ (47)	\$ (63)
Non-GAAP Operating Cash Flow ("Free Cash Flow")	\$ 323	\$ 323	\$ 370	\$ 521	\$ 370	\$ 444	\$ 162	\$ 178	\$ 280

# Appendix | GAAP to Non-GAAP Reconciliation

	Q3'19		Q2'20		Q3'20		Q4'20 Low Guidance		Q4'20 High Guidance	
	\$'s	% of sales	\$'s	% of sales	\$'s	% of sales	\$'s	% of sales	\$'s	% of sales
GAAP Operating Expenses	\$190	33%	\$254	30%	\$189	23%	\$218	32%	\$221	30%
Intangible Asset Amortization	-\$10	-2%	-\$9	-1%	-\$6	-1%	-\$6	-1%	-\$6	-1%
Restructuring and Other	\$7	1%	-\$37	-4%	\$28	3%				
Non GAAP Operating Expenses	\$187	32%	\$207	25%	\$211	26%	\$212	31%	\$215	29%

	Q3'19		Q2'20		Q3'20			
	\$'s	%	\$'s	%	\$'s	%		
GAAP Income Tax	\$16	10%	\$28	13%	\$41	16%	FY 2020 GAAP estimated tax rate	15.0%
Exclude discrete tax adjustments	\$8	5%	\$1	1%	\$4	2%	Adjustment for Non GAAP items	0.5%
Tax effect of non-GAAP adjustments	\$4	2%	\$8	4%	-\$2	-1%	FY 2020 Non GAAP estimated tax rate	15.5%
Effect of Higher Non-GAAP PBT		-1%		-3%		1%		
Non GAAP Income Tax	\$27	17%	\$38	14%	\$43	17%		

## Q3'20:

GAAP net interest and other income	-\$5.9
Exclude non cash convertible debt interest	\$3.6
Penstion Actuarial Loss	\$2.7
Non-GAAP net interest and other income	\$0.4

## Q4'20 Guidance:

	Low End	High End
GAAP Operating Profit as % of Sales	27%	29%
Acquired intangible asset amortization	1%	1%
Non-GAAP Operating Profit as % of Sales	28%	30%

## Q4'20 Guidance

GAAP net interest and other income	-\$5.5
Exclude non cash convertible debt interest	\$3.5
Non-GAAP net interest and other income	-\$2.0

Q4'20 GAAP Guidance Diluted Shares	184
Exclude dilutive shares from convertible note	-9
Q4'20 Non-GAAP Guidance Diluted Shares	175

## GAAP to Non-GAAP Reconciliation of Fourth Quarter 2020 guidance:

GAAP and non-GAAP fourth quarter revenue guidance:	\$680 million	to	\$740 million
GAAP net income per diluted share	\$ 0.81	\$	0.96
Exclude acquired intangible assets amortization	0.03		0.03
Exclude non-cash convertible debt interest	0.02		0.02
Tax effect of non-GAAP adjustments	(0.01)		(0.01)
Convertible share adjustment	0.06		0.06
Non-GAAP net income per diluted share	\$ 0.90	\$	1.06