

Teradyne, Inc.
Certain Non-GAAP financial measures discussed during the
Second Quarter of 2023 Earnings Conference Call
July 27, 2023

On the Company's earnings conference call on July 27, 2023, the following non-GAAP financial measures were discussed or presented:

- Q2'23 net income (\$129.0 million and 18.8% of revenue)
- Q1'23 net income (\$91.3 million and 14.8% of revenue)
- Q2'22 net income (\$204.0 million and 24.3% of revenue)
- Q2'23 diluted EPS (\$0.79)
- Q2'23 basic EPS (\$0.83)
- Q1'23 diluted EPS (\$0.55)
- Q1'23 basic EPS (\$0.59)
- Q2'22 diluted EPS (\$1.21)
- Q2'22 basic EPS (\$1.28)
- Q2'23 PBIT (\$151.1 million and 22.1% of revenue)
- Q1'23 PBIT (\$105.6 million and 17.1% of revenue)
- Q2'22 PBIT (\$254.9 million and 30.3% of revenue)
- Q2'23 diluted shares 164.1 million
- Q1'23 diluted shares 165.4 million
- Q2'22 diluted shares 169.3 million
- YTD Q2'23 net income (\$220.4 million and 16.9% of revenue)
- YTD Q2'22 net income (\$373.0 million and 23.4% of revenue)
- YTD Q2'23 diluted EPS (\$1.34)
- YTD Q2'23 basic EPS (\$1.42)
- YTD Q2'22 diluted EPS (\$2.18)
- YTD Q2'22 basic EPS (\$2.32)
- YTD Q2'23 PBIT (\$256.7 million and 19.7% of revenue)
- YTD Q2'22 PBIT (\$461.5 million and 28.9% of revenue)
- YTD Q2'23 diluted shares 164.7 million
- YTD Q2'22 diluted shares 171.2 million
- Q3'23 Guidance EPS (\$0.61 to \$0.81)
- Q3'23 Guidance diluted shares (163 million)
- Q3'23 Guidance operating expenses (35-38%)
- Q3'23 Guidance operating profit (18 – 22%)

- Q3'23 Guidance midpoint operating profit rate (20%)
- FY 2023 Estimated operating expenses flat with FY 2022 operating expenses
- FY 2023 Estimated tax rate (17%)
- Q2'23 – Operating expenses (36.7% and \$251 million), Free cash flow (\$104 million), Tax rate (17.2% or \$27 million)
- Q1'23 – Operating expenses (40.6% and \$251 million), Free cash flow (-\$22 million), Tax rate (16.75% or \$18 million)
- Q2'22 – Operating expense (29.9% and \$251 million), Free cash flow (\$70 million), Tax rate (16.9% or \$42 million)
- Free Cash Flow – 2015 (\$323 million), 2016 (\$370 million), 2017 (\$521 million), 2018 (\$370 million), 2019 (\$444 million), 2020 (\$684 million), 2021 (\$966 million), 2022 (\$415 million), 1H'23 (\$81 million)
- FY 2022 – Operating expenses (32%), Operating profit (28%), Diluted EPS (\$4.25)
- FY 2026E New Model Target Diluted EPS (\$7.50 to \$10.00), Operating expenses (28-26%), PBIT (31-34%)

GAAP to Non-GAAP Reconciliation

	Mid Guidance	
	Q3 2023	
GAAP income from operations as a % of revenue (\$680M)	18%	
Exclude acquired intangible asset amortization	1%	
Exclude restructuring and other charges	1%	
Non-GAAP income from operations as a % of revenue (\$680M)	20%	
GAAP and non-GAAP third quarter revenue guidance	\$650 million	to \$710 million
GAAP income from operations as a % of revenue	16%	21%
Exclude acquired intangible asset amortization	1%	1%
Exclude restructuring and other charges	1%	0%
Non-GAAP income from operations as a % of revenue	18%	22%
FY 2023 GAAP Estimated Tax Rate	16.50%	
Adjustment for Non GAAP items	0.50%	
FY 2023 Non-GAAP Estimated Tax Rate	17.00%	
FY 2023 Estimated Operating Expenses	\$M	
FY 2023 GAAP Estimated Operating Expenses	1,026	
Exclude acquired intangible asset amortization	(19)	
Exclude equity modification charge	(6)	
Exclude restructuring and other expense	(6)	
FY 2023 Non-GAAP Estimated Operating Expenses	995	

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					
	July 2, 2023	% of Net Revenues	April 2, 2023	% of Net Revenues	July 3, 2022	% of Net Revenues
Net revenues	\$ 684.4		\$ 617.5		\$ 840.8	
Gross profit GAAP and non-GAAP	\$ 402.5	58.8%	\$ 356.4	57.7%	\$ 506.4	60.2%
Income from operations - GAAP	\$ 139.9	20.4%	\$ 92.9	15.0%	\$ 248.0	29.5%
Restructuring and other (1)	6.4	0.9%	2.0	0.3%	2.0	0.2%
Acquired intangible assets amortization	4.8	0.7%	4.8	0.8%	4.9	0.6%
Equity modification charge (2)	-	-	5.9	1.0%	-	-
Income from operations - non-GAAP	\$ 151.1	22.1%	\$ 105.6	17.1%	\$ 254.9	30.3%

	Net Income per Common Share				Net Income per Common Share				Net Income per Common Share			
	July 2, 2023	% of Net Revenues	Basic	Diluted	April 2, 2023	% of Net Revenues	Basic	Diluted	July 3, 2022	% of Net Revenues	Basic	Diluted
Net income - GAAP	\$ 120.1	17.5%	\$ 0.78	\$ 0.73	\$ 83.5	13.5%	\$ 0.54	\$ 0.50	\$ 197.8	23.5%	\$ 1.24	\$ 1.16
Restructuring and other (1)	6.4	0.9%	0.04	0.04	2.0	0.3%	0.01	0.01	2.0	0.2%	0.01	0.01
Acquired intangible assets amortization	4.8	0.7%	0.03	0.03	4.8	0.8%	0.03	0.03	4.9	0.6%	0.03	0.03
Pension mark-to-market adjustment (3)	0.1	0.0%	0.00	0.00	-	-	-	-	-	-	-	-
Equity modification charge (2)	-	-	-	-	5.9	1.0%	0.04	0.04	-	-	-	-
Exclude discrete tax adjustments	0.5	0.1%	0.00	0.00	(2.5)	-0.4%	(0.02)	(0.02)	1.6	0.2%	0.01	0.01
Non-GAAP tax adjustments	(2.9)	-0.4%	(0.02)	(0.02)	(2.4)	-0.4%	(0.02)	(0.01)	(2.3)	-0.3%	(0.01)	(0.01)
Convertible share adjustment (4)	-	-	-	-	-	-	-	-	-	-	-	0.01
Net income - non-GAAP	\$ 129.0	18.8%	\$ 0.83	\$ 0.79	\$ 91.3	14.8%	\$ 0.59	\$ 0.55	\$ 204.0	24.3%	\$ 1.28	\$ 1.21

GAAP and non-GAAP weighted average common shares - basic	154.8	155.9	159.6
GAAP weighted average common shares - diluted	164.8	166.3	171.2
Exclude dilutive shares related to convertible note transaction	(0.7)	(0.9)	(1.9)
Non-GAAP weighted average common shares - diluted	164.1	165.4	169.3



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Appendix | GAAP to Non-GAAP Reconciliation

(1) Restructuring and other consists of:

	July 2, 2023	Quarter Ended April 2, 2023	July 3, 2022
Employee severance	\$ 5.1	\$ 2.0	\$ 0.4
Other	1.2	-	1.7
	<u>\$ 6.4</u>	<u>\$ 2.0</u>	<u>\$ 2.0</u>

(2) For the quarter ended April 2, 2023, selling and administrative expenses include an equity charge of \$5.9 million for the modification of Teradyne's retired CEO's outstanding equity awards in connection with his February 1, 2023 retirement.

(3) For the quarter ended July 2, 2023 adjustment to exclude actuarial loss recognized under GAAP in accordance with Teradyne's mark-to-market pension accounting.

(4) For the quarters ended April 2, 2023, and July 3, 2022, the non-GAAP diluted EPS calculation adds back \$0.1 million, and \$0.2 million, respectively, of convertible debt interest expense to non-GAAP net income. For the quarters ended July 2, 2023, April 2, 2023, and July 3, 2022, non-GAAP weighted average diluted common shares include 8.9 million, 9.0 million and 9.0 million shares, respectively, from the convertible note hedge transaction.



Appendix | GAAP to Non-GAAP Reconciliation

	Twelve Months Ended			
	December 31, 2022	% of Net Revenues	December 31, 2021	% of Net Revenues
Net Revenues	\$ 3,155.0		\$ 3,702.9	
Gross profit GAAP and non-GAAP	\$ 1,867.2	59.2%	\$ 2,206.7	59.6%
Income from operations - GAAP	\$ 831.9	26.4%	\$ 1,200.7	32.4%
Restructuring and other (1)	17.2	0.5%	9.3	0.3%
Acquired intangible assets amortization	19.3	0.6%	21.5	0.6%
Income from operations - non-GAAP	\$ 868.4	27.5%	\$ 1,231.5	33.3%

	December 31, 2022	% of Net Revenues	Net Income per Common Share		December 31, 2021	% of Net Revenues	Net Income per Common Share	
			Basic	Diluted			Basic	Diluted
Net income - GAAP	\$ 715.5	22.7%	\$ 4.52	\$ 4.22	\$ 1,014.6	27.4%	\$ 6.15	\$ 5.53
Restructuring and other (1)	17.2	0.5%	0.11	0.10	9.3	0.3%	0.06	0.05
Acquired intangible assets amortization	19.3	0.6%	0.12	0.11	21.5	0.6%	0.13	0.12
Loss on convertible debt conversions (2)	-	-	-	-	28.8	0.8%	0.17	0.16
Interest and other (2)	-	-	-	-	10.3	0.3%	0.06	0.06
Pension mark-to-market adjustment (2)	(25.6)	-0.8%	(0.16)	(0.15)	(2.2)	-0.1%	(0.01)	(0.01)
Exclude discrete tax adjustments	(12.1)	-0.4%	(0.08)	(0.07)	(28.6)	-0.8%	(0.17)	(0.16)
Non-GAAP tax adjustments	(1.4)	0.0%	(0.01)	(0.01)	(3.4)	-0.1%	(0.02)	(0.02)
Convertible share adjustment (3)	-	-	-	0.05	-	-	-	0.24
Net income - non-GAAP	\$ 712.9	22.6%	\$ 4.50	\$ 4.25	\$ 1,050.3	28.4%	\$ 6.37	\$ 5.98

GAAP and non-GAAP weighted average common shares - basic	158.4	165.0
GAAP weighted average common shares - diluted	169.7	183.6
Exclude dilutive shares from convertible note	(1.8)	(7.4)
Non-GAAP weighted average common shares - diluted	167.9	176.2



Appendix | GAAP to Non-GAAP Reconciliation

- (1) Restructuring and other consists of:

	Twelve Months Ended	
	December 31, 2022	December 31, 2021
Litigation settlement	\$ 14.7	\$ 12.0
Employee severance	2.9	1.5
Gain on sale of asset	(3.4)	-
Contingent consideration fair value adjustment	-	(7.2)
Other	3.0	3.0
	<u>\$ 17.2</u>	<u>\$ 9.3</u>

- (2) For the twelve months ended December 31, 2021, adjustment to exclude loss on convertible debt conversions. For the twelve months ended December 31, 2021, Interest and other included non-cash convertible debt interest expense. For the twelve months ended December 31, 2022 and December 31, 2021, adjustment to exclude actuarial gain recognized under GAAP in accordance with Teradyne's mark-to-market pension accounting.
- (3) For the twelve months ended December 31, 2022 and December 31, 2021, the non-GAAP diluted EPS calculation adds back \$1.0 million and \$3.7 million, respectively, of convertible debt interest expense to non-GAAP net income. For the twelve months ended December 31, 2022 and December 31, 2022, non-GAAP weighted average diluted common shares include 8.8 million and 10.0 million shares, respectively, related to the convertible debt hedge transaction.
- (4) Currency exchange rates are used to convert the operating results for countries where the functional currency is not the U.S. dollar into U.S. dollars. We calculate the effect of changes in currency exchange rates as the difference between period activity translated using the period's currency exchange rates and the rates as of December 31, 2021.



Appendix | GAAP to Non-GAAP Reconciliation

	Q2'22		Q1'23		Q2'23		Q3'23 Low Guidance		Q3'23 High Guidance	
	\$'s	% of sales	\$'s	% of sales	\$'s	% of sales	\$'s	% of sales	\$'s	% of sales
GAAP Operating Expenses	\$258	31%	\$264	43%	\$263	38%	\$254	39%	\$256	36%
Intangible Asset Amortization	-\$5	-1%	-\$5	-1%	-\$5	-1%	-\$5	-1%	-\$5	-1%
Restructuring and Other	-\$2	0%	-\$2	0%	-\$6	-1%	-\$3	0%	-\$3	0%
Equity Modification Charge			-\$6	-1%						
Non GAAP Operating Expenses	\$251	30%	\$251	41%	\$251	37%	\$246	38%	\$248	35%

	Q2'22		Q1'23		Q2'23			2022	
	\$'s	%	\$'s	%	\$'s	%		\$'s	% of sales
GAAP Income Tax	\$41	17%	\$14	14%	\$24	17%	GAAP Operating Expenses	\$1,035	33%
Exclude discrete tax adjustments	-\$2	-1%	\$3	3%	-\$1	0%	Intangible Asset Amortization	-\$19	-1%
Tax effect of non-GAAP adjustments	\$2	1%	\$2	2%	\$3	2%	Restructuring and Other	-\$17	-1%
Effect of Higher Non-GAAP PBT		0%		-2%		-1%	Equity Modification Charge		
Non GAAP Income Tax	\$42	17%	\$18	17%	\$27	17%	Non GAAP Operating Expenses	\$999	32%

Q3'23 GAAP Guidance Diluted Shares	164
Exclude dilutive shares from convertible note	-1
Q3'23 Non-GAAP Guidance Diluted Shares	163

GAAP to Non-GAAP Reconciliation of Third Quarter 2023 guidance:

GAAP and non-GAAP third quarter revenue guidance:	\$650 million	to	\$710 million
GAAP net income per diluted share	\$ 0.57		\$ 0.77
Exclude acquired intangible assets amortization	0.03		0.03
Exclude acquired restructuring and other charges	0.02		0.02
Non-GAAP tax adjustments	(0.01)		(0.01)
Non-GAAP net income per diluted share	\$ 0.61		\$ 0.81



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.

	2015	2016	2017	2018	2019	2020	2021	2022	Q2'22	Q1'23	Q2'23
GAAP Cash Flow from Operations, Excl Disc Ops	\$ 413	\$ 455	\$ 626	\$ 477	\$ 579	\$ 869	\$ 1,098	\$ 578	\$ 115	\$ 19	\$ 143
Less Property, Plant, and Equipment Additions net of Govt Subsidy	\$ (90)	\$ (85)	\$ (105)	\$ (107)	\$ (135)	\$ (185)	\$ (132)	\$ (163)	\$ (46)	\$ (41)	\$ (39)
Non-GAAP Operating Cash Flow ("Free Cash Flow")	\$ 323	\$ 370	\$ 521	\$ 370	\$ 444	\$ 684	\$ 966	\$ 415	\$ 70	\$ (22)	\$ 104



Appendix | GAAP to Non-GAAP Reconciliation

New 2026 Model Range

	<u>FY 2026 Low</u>	<u>FY 2026 Mid</u>	<u>FY 2026 High</u>
2026 Estimated GAAP Diluted EPS	\$ 7.49	\$ 8.74	\$ 9.99
Add Back Intangible Asset Amortization	\$ 0.01	\$ 0.01	\$ 0.01
2026 Estimated Non-GAAP Diluted EPS	\$ 7.50	\$ 8.75	\$ 10.00

(12)

