

Teradyne, Inc.

Certain Non-GAAP financial measures discussed during the Second Quarter of 2020 Earnings Conference Call July 22, 2020

On the Company's earnings conference call on July 22, 2020, the following non-GAAP financial measures were discussed or presented:

- Non-GAAP EPS growth of 102% from Q2'19
- Q2'20 EPS \$1.33
- Q2'19 EPS \$0.66
- Q1'20 EPS \$1.00
- H1'20 EPS \$2.34
- H1'19 EPS \$1.20
- Q2'20 net income \$229.2M
- Q3'20 Guidance EPS \$1.01 to \$1.17
- Q2'20 Free Cash Flow \$178M
- Q2'20 Gross margin 56.2%
- Q2'19 Gross margin 57.5%
- Q2'20 operating expenses \$207M
- Q1'20 operating expenses \$197M
- Q2'20 operating profit 31.5%
- Q2'20 tax rate 14.1%
- FY 2020 Estimated tax rate 14.5%
- Q3'20 Guidance diluted shares 175M
- Q3'20 Guidance operating expenses 26-28%
- Q3'20 Guidance midpoint operating profit rate 29%
- H1'18 EPS \$1.04
- Q2'20 – Gross margin \$472, Operating expenses 24.7% , Operating profit \$264M, Tax expense \$38M, net interest and other \$3M, Diluted shares 173M
- Q2'19 – Gross margin \$324M, Operating expenses 33.7% and \$190M, Operating profit 23.8% and \$134M, Free cash flow \$112M, Effective tax rate 16% or \$22M, Diluted shares 172M
- Q1'20 – Gross margin 57.6% and \$406M, Operating expenses 27.9% and \$197M, Operating profit 29.7% and \$209M, Free cash flow \$6M, Effective tax rate 15% or \$30M, Diluted shares 173M
- Q3'20 Guidance – Operating profit 28-30%, net interest and other (\$2M), Effective tax rate 14.5%

GAAP to Non-GAAP Reconciliation

GAAP income from operations as a % of revenue (\$775M)

Exclude acquired intangible asset amortization

Non-GAAP income from operations as a % of revenue (\$775M)

Mid Guidance
Q3 2020

28%

1%

29%

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

(1) Restructuring and other consists of:

	Quarter Ended		
	June 28, 2020	March 29, 2020	June 30, 2019
Contingent consideration fair value adjustment	\$ 29.3	\$ (10.0)	\$ (11.7)
Contract termination settlement fee	4.0	-	-
Acquisition related expenses and compensation	3.1	1.4	0.5
Employee severance	-	0.7	0.8
Other	0.8	0.3	-
	<u>\$ 37.2</u>	<u>\$ (7.6)</u>	<u>\$ (10.4)</u>

- (2) For the quarters ended June 28, 2020, March 29, 2020, and June 30, 2019, adjustment to exclude non-cash convertible debt interest expense. For the quarters ended June 28, 2020 and June 30, 2019, adjustment to exclude actuarial (gain) loss recognized under GAAP in accordance with Teradyne's mark-to-market pension accounting.
- (3) For the quarters ended June 28, 2020, March 29, 2020, and June 30, 2019, adjustment to exclude discrete income tax items. For the quarter ended June 30, 2019, income tax (benefit) provision includes a \$15 million tax provision related to the finalization of our toll tax charge.
- (4) For the quarters ended June 28, 2020 and March 29, 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 5.8 million and 5.5 million shares, respectively, related to the convertible debt hedge transaction.

Appendix | GAAP to Non-GAAP Reconciliation

	Six Months Ended			
	June 28, 2020	% of Net Revenues	June 30, 2019	% of Net Revenues
Net Revenues	\$ 1,543.0		\$ 1,058.3	
Gross profit GAAP	\$ 877.0	56.8%	\$ 611.6	57.8%
Inventory step-up	0.2	0.0%	0.4	0.0%
Gross profit non-GAAP	\$ 877.2	56.9%	\$ 612.0	57.8%
Income from operations - GAAP	\$ 424.7	27.5%	\$ 227.1	21.5%
Acquired intangible assets amortization	18.8	1.2%	20.7	2.0%
Restructuring and other (1)	29.6	1.9%	(5.3)	-0.5%
Inventory step-up	0.2	0.0%	0.4	0.0%
Income from operations - non-GAAP	\$ 473.3	30.7%	\$ 242.9	23.0%

	June 28, 2020	% of Net Revenues	Net Income per Common Share		June 30, 2019	% of Net Revenues	Net Income per Common Share	
			Basic	Diluted			Basic	Diluted
Net income - GAAP	\$ 365.1	23.7%	\$ 2.20	\$ 2.02	\$ 206.5	19.5%	\$ 1.20	\$ 1.16
Acquired intangible assets amortization	18.8	1.2%	0.11	0.10	20.7	2.0%	0.12	0.12
Interest and other (2)	7.1	0.5%	0.04	0.04	6.8	0.6%	0.04	0.04
Restructuring and other (1)	29.6	1.9%	0.18	0.16	(5.3)	-0.5%	(0.03)	(0.03)
Inventory step-up	0.2	0.0%	0.00	0.00	0.4	0.0%	0.00	0.00
Pension mark-to-market adjustment (2)	(0.1)	0.0%	(0.00)	(0.00)	0.4	0.0%	0.00	0.00
Exclude discrete tax adjustments (3)	(8.7)	-0.6%	(0.05)	(0.05)	(16.2)	-1.5%	(0.09)	(0.09)
Non-GAAP tax adjustments	(10.1)	-0.7%	(0.06)	(0.06)	(5.5)	-0.5%	(0.03)	(0.03)
Convertible share adjustment	-	-	-	0.10	-	-	-	0.02
Net income - non-GAAP	\$ 401.9	26.0%	\$ 2.42	\$ 2.34	\$ 207.8	19.6%	\$ 1.21	\$ 1.20

GAAP and non-GAAP weighted average common shares - basic	166.2		172.4
GAAP weighted average common shares - diluted	180.5		177.8
Exclude dilutive shares from convertible note	(7.5)		(4.2)
Non-GAAP weighted average common shares - diluted	173.0		173.6

Appendix | GAAP to Non-GAAP Reconciliation

(1) Restructuring and other consists of:

	Six Months Ended	
	June 28, 2020	June 30, 2019
Contingent consideration fair value adjustment	\$ 19.2	\$ (8.7)
Acquisition related expenses and compensation	4.5	1.8
Contract termination settlement fee	4.0	-
Employee severance	0.8	1.6
Other	1.1	-
	<u>\$ 29.6</u>	<u>\$ (5.3)</u>

(2) For the six months ended June 28, 2020 and June 30, 2019, interest and other included non-cash convertible debt interest expense. For the six months ended June 28, 2020 and June 30, 2019, adjustments to exclude actuarial (gain) loss recognized under GAAP in accordance with Teradyne's mark-to-market pension accounting.

(3) For the six months ended June 28, 2020 and June 30, 2019, adjustment to exclude discrete income tax items. For the six months ended June 30, 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 our toll tax charge.

(4) For the six months ended June 28, 2020, the non-GAAP diluted EPS calculation adds back \$2.6 million of convertible debt interest expense to non-GAAP net income and non-GAAP weighted average diluted common shares include 5.7 million shares related to the convertible debt hedge transaction.

Appendix | GAAP to Non-GAAP Reconciliation

Six Months Ended

	June 30, 2019		July 1, 2018	
	June 30, 2019	% of Net Revenues	July 1, 2018	% of Net Revenues
Net Revenues	\$ 1,058.3		\$ 1,014.4	
Gross profit GAAP	\$ 611.6	57.8%	\$ 577.2	56.9%
Inventory step-up	0.4	0.0%	0.4	0.0%
Gross profit non-GAAP	\$ 612.0	57.8%	\$ 577.6	56.9%
Income from operations - GAAP	\$ 227.1	21.5%	\$ 217.9	21.5%
Acquired intangible assets amortization	20.7	2.0%	17.5	1.7%
Restructuring and other (1)	(5.3)	-0.5%	2.1	0.2%
Inventory step-up	0.4	0.0%	0.4	0.0%
Income from operations - non-GAAP	\$ 242.9	23.0%	\$ 237.9	23.5%

	June 30, 2019		Net Income per Common Share		July 1, 2018		Net Income per Common Share	
	June 30, 2019	% of Net Revenues	Basic	Diluted	July 1, 2018	% of Net Revenues	Basic	Diluted
Net income - GAAP	\$ 206.5	19.5%	\$ 1.20	\$ 1.16	\$ 188.0	18.5%	\$ 0.97	\$ 0.94
Acquired intangible assets amortization	20.7	2.0%	0.12	0.12	17.5	1.7%	0.09	0.09
Interest and other (2)	6.8	0.6%	0.04	0.04	6.5	0.6%	0.03	0.03
Restructuring and other (1)	(5.3)	-0.5%	(0.03)	(0.03)	2.1	0.2%	0.01	0.01
Inventory step-up	0.4	0.0%	0.00	0.00	0.4	0.0%	0.00	0.00
Pension mark-to-market adjustment (2)	0.4	0.0%	0.00	0.00	(0.1)	0.0%	(0.00)	(0.00)
Exclude discrete tax adjustments (3)	(16.2)	-1.5%	(0.09)	(0.09)	(6.8)	-0.7%	(0.04)	(0.03)
Non-GAAP tax adjustments	(5.5)	-0.5%	(0.03)	(0.03)	(5.3)	-0.5%	(0.03)	(0.03)
Convertible share adjustment	-	-	-	0.03	-	-	-	0.02
Net income - non-GAAP	\$ 207.8	19.6%	\$ 1.21	\$ 1.20	\$ 202.3	19.9%	\$ 1.05	\$ 1.04

GAAP and non-GAAP weighted average common shares - basic	172.4	193.0
GAAP weighted average common shares - diluted	177.8	199.2
Exclude dilutive shares from convertible note	(4.2)	(4.4)
Non-GAAP weighted average common shares - diluted	173.6	194.8

Appendix | GAAP to Non-GAAP Reconciliation

(1) Restructuring and other consists of:

	Six Months Ended	
	June 30, 2019	July 1, 2018
Contingent consideration fair value adjustment	\$ (8.7)	\$ (8.5)
Acquisition related expenses and compensation	1.8	3.3
Employee severance	1.6	6.3
Other	-	0.9
	<u>\$ (5.3)</u>	<u>\$ 2.1</u>

(2) For the six months ended June 30, 2019 and July 1, 2018, interest and other included non-cash convertible debt interest expense. For the six months ended June 30, 2019 and July 1, 2018, adjustments to exclude actuarial loss/gain recognized under GAAP in accordance with Teradyne's mark-to-market pension accounting.

(3) For the six months ended June 30, 2019 and July 1, 2018, adjustment to exclude discrete income tax items. For the six months ended June 30, 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 our toll tax charge.

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	Q2'19	Q1'20	Q2'20
GAAP Cash Flow from Operations, Excl Disc Ops	\$ 492	\$ 413	\$ 455	\$ 626	\$ 477	\$ 579	\$ 145	\$ 43	\$ 226
Less Property, Plant, and Equipment Additions net of Gov't Subsidy	\$ (169)	\$ (90)	\$ (85)	\$ (105)	\$ (107)	\$ (135)	\$ (33)	\$ (37)	\$ (47)
Non-GAAP Operating Cash Flow ("Free Cash Flow")	\$ 323	\$ 323	\$ 370	\$ 521	\$ 370	\$ 444	\$ 112	\$ 6	\$ 178

Appendix | GAAP to Non-GAAP Reconciliation

	Q2'19		Q1'20		Q2'20		Q2'20 Low Guidance		Q2'20 High Guidance	
	\$'s	% of sales	\$'s	% of sales	\$'s	% of sales	\$'s	% of sales	\$'s	% of sales
GAAP Operating Expenses	\$190	34%	\$199	28%	\$254	30%	\$215	29%	\$218	27%
Intangible Asset Amortization	-\$10	-2%	-\$10	-1%	-\$9	-1%	-\$6	-1%	-\$6	-1%
Restructuring and Other	\$10	2%	\$8	1%	-\$37	-4%				
Non GAAP Operating Expenses	\$190	34%	\$197	28%	\$207	25%	\$209	28%	\$212	26%

	Q2'19		Q1'20		Q2'20			
	\$'s	%	\$'s	%	\$'s	%		
GAAP Income Tax	\$34	25%	\$21	11%	\$28	13%	FY 2020 GAAP estimated tax rate	14.0%
Exclude discrete tax adjustments	-\$14	-10%	\$8	4%	\$1	1%	Adjustment for Non GAAP items	0.5%
Tax effect of non-GAAP adjustments	\$2	1%	\$2	1%	\$8	4%	FY 2020 Non GAAP estimated tax rate	14.5%
Effect of Higher Non-GAAP PBT		0%		0%		-3%		
Non GAAP Income Tax	\$22	16%	\$30	15%	\$38	14%		

Q2'20:

GAAP net interest and other income	-\$0.6
Exclude non cash convertible debt interest	\$3.5
Non-GAAP net interest and other income	\$2.9

Q3'20 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%

Q3'20 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

Q3'20 GAAP Guidance Diluted Shares	184
Exclude dilutive shares from convertible note	-9
Q3'20 Non-GAAP Guidance Diluted Shares	175

GAAP to Non-GAAP Reconciliation of Third Quarter 2020 guidance:

GAAP and non-GAAP third quarter revenue guidance:	\$745 million	to	\$805 million
GAAP net income per diluted share	\$ 0.91	\$	1.06
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	0.04		0.04
Non-GAAP net income per diluted share	\$ 1.01	\$	1.17