

Teradyne, Inc.

Certain Non-GAAP financial measures discussed during the Second Quarter of 2016 Earnings Conference Call July 28, 2016

On the Company's earnings conference call on July 28, 2016, the following non-GAAP financial measures were discussed or presented:

- Q2'16 EPS \$0.55
- Q2'15 EPS \$0.53
- Q1'16 EPS \$0.31
- H1'16 EPS \$0.86
- H1'15 EPS \$0.70
- Q2'16 net income \$112.4M
- Q3'16 guidance \$0.23 - \$0.30
- Estimated 2010 EPS \$2.00
- Model quarterly profit of 15% on quarterly sales of \$390M
- FY 2015 EPS \$1.27
- Q2 2016 Gross Margin 53%
- Q2 2016 Operating Profit 23%
- Q2 2016 Operating Expenses \$158M
- Q1 2016 Operating Expenses \$153M
- Q2 2015 Operating Expenses \$153M
- Universal Robots quarterly Operating Expenses \$11M
- Estimated FY 2017 Universal Robots Operating Expenses \$40M to \$44M
- Q3'16 Operating Expense Guidance 38% to 40%
- Q3'16 Operating Profit Margin of 16% at mid-point of Q3'16 revenue guidance
- Estimated FY 2016 tax rate 13%
- H1'14 EPS \$0.65
- FY 2012 Free cash flow (\$284M)
- FY 2013 Free cash flow (\$162M)
- FY 2014 Free cash flow (\$323M)
- FY 2015 Free cash flow (\$323M)
- Q2 2016 Operating Expense 30%
- Q2 2016 Tax Rate 11%
- Q2 2016 Diluted Shares 205M
- Q3 2016 Operating Profit Guidance 14% to 17%
- Q2'16 – Gross Margin \$283M, R&D expense \$76M or 14%, SG&A expense \$82M or 15%, Operating Profit \$125M, Income Tax expense \$13M
- Q1'16 – Gross Margin \$230M or 53%, R&D expense \$74M or 17%, SG&A expense \$80M or 18%, Operating Expense 35%, Operating Profit \$77M or 18%, Income Tax expense \$13M or 17%
- Q2'15 – Gross Margin \$299M or 58%, Operating Expense 30%, Operating Profit \$146M or 29%, Income Tax expense \$33M or 22%
- Q2'16 Free Cash Flow \$154M
- Q1'16 Free Cash Flow \$6M
- Q2'15 Free Cash Flow \$131M

GAAP to Non-GAAP Reconciliation	Mid Guidance Q3 2016
GAAP income from operations as a % of revenue	13%
Exclude acquired intangible asset amortization	3%
Non-GAAP income from operations as a % of revenue	<u>16%</u>

Universal Robots Quarterly GAAP Operating Expenses	\$17M
Less Intangible Asset Amortization	(\$6M)
Universal Robots Quarterly Non GAAP Operating Expenses	\$11M

Universal Robots Estimated FY 2017 GAAP Operating Expenses	\$64M	\$68M
Less Intangible Asset Amortization	(\$24M)	(\$24M)
Universal Robots Estimated FY 2017 Non GAAP Operating Expenses	\$40M	\$44M

Teradyne's non-GAAP quarterly model revenue is \$390 million at which Teradyne expects to earn 15% non-GAAP operating profit. Teradyne determines its model operating profit level, model profit rate, or operating profit target as the average of its quarterly non-GAAP income from operations as a percentage of revenues over the industry's buying cycle. Non-GAAP income from operations excludes amortization from acquired intangible assets, pension actuarial gains and losses, and restructuring costs. Non-GAAP model revenue excludes projected but uncertain costs of sales and operating expenditures. These model revenue numbers are provided only on a non-GAAP basis because of the inherent difficulty in forecasting and quantifying the amount of the uncertain revenue and costs of sales, operating expenditures, which would be required to be included in the comparable GAAP measure of revenue.

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 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 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 financial 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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GAAP to Non-GAAP Earnings Reconciliation

(In millions, except per share amounts)

	Quarter Ended			
	July 3, 2016	April 3, 2016	July 5, 2016	% of Net Revenues
Net revenues	\$ 53.16	\$ 43.10	\$ 512.7	
Gross profit - GAAP	\$ 282.9	\$ 230.3	\$ 298.6	58.2%
Inventory step-up	-	-	0.6	0.1%
Pension mark-to-market adjustment (1)	(0.2)	(0.4)	-	-
Gross profit - non-GAAP	\$ 282.7	\$ 229.9	\$ 299.2	58.4%
(Loss) income from operations - GAAP	\$ (231.8)	\$ 56.1	\$ 130.8	25.5%
Goodwill impairment (2)	254.9	-	-	-
Restructuring and other (3)	85.9	1.6	(0.4)	-0.1%
Acquired intangible asset amortization	16.2	20.0	15.3	3.0%
Pension mark-to-market adjustment (1)	(0.7)	(1.2)	-	-
Inventory step-up	-	-	0.6	0.1%
Income from operations - non-GAAP	\$ 124.5	\$ 76.5	\$ 146.3	28.5%

	July 3, 2016		April 3, 2016		July 5, 2016	
	% of Net Revenues	Net (Loss) Income per Common Share	% of Net Revenues	Net (Loss) Income per Common Share	% of Net Revenues	Net Income per Common Share
Net (loss) income - GAAP	(223.5)	\$ (1.10)	\$ 50.0	\$ 0.24	\$ 102.9	\$ 0.48
Goodwill impairment (2)	254.9	1.26	-	-	-	-
Restructuring and other (3)	85.9	0.42	1.6	0.01	(0.4)	(0.00)
Acquired intangible asset amortization	16.2	0.08	20.0	0.10	15.3	0.07
Interest and other (4)	-	-	-	-	(0.6)	(0.00)
Pension mark-to-market adjustment (1)	(0.7)	(0.00)	(1.2)	(0.01)	-	-
Inventory step-up	-	-	-	-	0.6	0.00
Exclude discrete tax adjustments (5)	25.1	0.12	(2.5)	(0.01)	0.2	0.00
Tax effect of non-GAAP adjustments	(45.5)	(0.22)	(3.5)	(0.02)	(3.4)	(0.02)
Net income - non-GAAP	\$ 112.4	\$ 0.55	\$ 64.4	\$ 0.32	\$ 114.6	\$ 0.54
GAAP and non-GAAP weighted average common shares - basic	203.0		204.3		213.8	
GAAP weighted average common shares - diluted	203.0		205.7		215.5	
Include dilutive shares	1.9		-		-	
Non-GAAP weighted average common shares - diluted	204.9		205.7		215.5	

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

(2) Goodwill impairment related to Teradyne's Wireless Test business segment.

(3) Restructuring and other consists of:

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	July 3, 2016	Quarter Ended April 3, 2016	July 5, 2015
Wireless Test business segment intangible asset impairment	\$ 83.3	\$ -	\$ -
Impairment of fixed assets and expenses related to Japan earthquake	5.1	-	-
Property insurance recovery and proceeds	(5.1)	-	-
Contingent consideration fair value adjustment	1.3	1.2	(1.6)
Employee severance	1.3	0.4	0.2
Acquisition costs	-	-	1.0
	<u>\$ 85.9</u>	<u>\$ 1.6</u>	<u>\$ (0.4)</u>

(4) For the quarter ended July 5, 2015, Interest and other included a gain from the sale of an equity investment.

(5) For the quarters ended July 3, 2016, April 3, 2016 and July 5, 2015, adjustment to exclude discrete income tax items. For the quarter ended July 3, 2016, adjustment to treat Wireless Test business segment goodwill and intangible asset impairments as discrete tax items.

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	Six Months Ended			Net (Loss) Income Per Common Share		Net Income per Common Share		
	July 3, 2016	% of Net Revenues	July 5, 2015	% of Net Revenues	Basic	Diluted	Basic	Diluted
Net Revenues	\$ 962.8		\$ 855.1		\$ 0.63	\$ 0.62	\$ 0.71	\$ 0.70
Gross profit - GAAP	\$ 513.2	53.3%	\$ 491.0	57.4%	(0.00)	(0.00)	(0.01)	(0.01)
Inventory step-up	-	-	0.6	0.1%	0.14	0.13	(0.03)	(0.02)
Pension mark-to-market adjustment (1)	(0.6)	-0.1%	-	-	-	-	0.00	0.00
Gross profit - non-GAAP	\$ 512.6	53.2%	\$ 491.6	57.5%	(0.24)	(0.24)	(0.03)	(0.03)
(Loss) income from operations - GAAP	\$ (175.7)	-18.2%	\$ 165.9	19.4%	(0.01)	(0.01)	0.00	0.00
Goodwill impairment (2)	254.9	26.5%	-	-	0.11	0.11	(0.01)	(0.01)
Restructuring and other (3)	87.5	9.1%	(0.4)	0.0%	(0.24)	(0.24)	(0.03)	(0.02)
Acquired intangible asset amortization	36.2	3.8%	29.1	3.4%	0.18	0.18	0.14	0.13
Pension mark-to-market adjustment (1)	(1.9)	-0.2%	-	-	-	-	-	-
Inventory step-up	-	-	0.6	0.1%	-	-	-	-
Income from operations - non-GAAP	\$ 201.0	20.9%	\$ 195.2	22.8%	0.87	0.86	0.71	0.70
Net (loss) income - GAAP	\$ (173.6)	-18.0%	\$ 135.7	15.9%	\$ (0.85)	\$ (0.85)	\$ 0.63	\$ 0.62
Goodwill impairment (2)	254.9	26.5%	(0.4)	0.0%	1.25	1.24	-	-
Restructuring and other (3)	87.5	9.1%	29.1	3.4%	0.43	0.43	(0.00)	(0.00)
Acquired intangible asset amortization	36.2	3.8%	29.1	3.4%	0.18	0.18	0.14	0.13
Interest and other (4)	-	-	(5.4)	-0.6%	-	-	(0.03)	(0.02)
Pension mark-to-market adjustment (1)	(1.9)	-0.2%	-	-	(0.01)	(0.01)	-	-
Inventory step-up	-	-	0.6	0.1%	-	-	0.00	0.00
Exclude discrete tax adjustments (5)	22.7	2.4%	(1.6)	-0.2%	0.11	0.11	(0.01)	(0.01)
Tax effect of non-GAAP adjustments	(49.0)	-5.1%	(5.8)	-0.7%	(0.24)	(0.24)	(0.03)	(0.03)
Net income - non-GAAP	\$ 176.8	18.4%	\$ 152.2	17.8%	\$ 0.87	\$ 0.86	\$ 0.71	\$ 0.70
GAAP and non-GAAP weighted average common shares - basic	203.6		215.5					
GAAP weighted average common shares - diluted	203.6		217.2					
Include dilutive shares	1.7		-					
Non-GAAP weighted average common shares - diluted	205.3		217.2					

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

(2) Goodwill impairment related to Teradyne's Wireless Test business segment

(3) Restructuring and other consists of:

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	Six Months Ended	
	July 3, 2016	July 5, 2015
Wireless Test business segment intangible asset impairment	\$ 83.3	\$ -
Impairment of fixed assets and expenses related to Japan earthquake	5.1	-
Property insurance recovery and proceeds	(5.1)	-
Contingent consideration fair value adjustment	2.5	(1.6)
Employee severance	1.7	0.2
Acquisition costs	-	1.0
	<u>\$ 87.5</u>	<u>\$ (0.4)</u>

(4) For the six months ended July 5, 2015, Interest and other included a gain from the sale of an equity investment

(5) For the six months ended July 3, 2016 and July 5, 2015, adjustment to exclude discrete income tax items. For the six months ended July 3, 2016, adjustment to treat Wireless Test business segment goodwill and intangible asset impairments as discrete tax items.

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	Six Months Ended			Six Months Ended		
	July 5, 2015	% of Net Revenues	June 29, 2014	% of Net Revenues	June 29, 2014	% of Net Revenues
Net Revenues	\$ 855.1		\$ 846.6			
Gross profit - GAAP	\$ 491.0	57.4%	\$ 457.5	54.0%		
Inventory step-up	0.6	0.1%	-	-		
Gross profit - non-GAAP	\$ 491.6	57.5%	\$ 457.5	54.0%		
Income from operations - GAAP	\$ 165.9	19.4%	\$ 124.4	14.7%		
Acquired intangible asset amortization	29.1	3.4%	36.5	4.3%		
Restructuring and other ⁽¹⁾	(0.4)	0.0%	0.6	0.1%		
Inventory step-up	0.6	0.1%	-	-		
Equity modification charge ⁽²⁾	-	-	6.6	0.8%		
Income from operations - non-GAAP	\$ 195.2	22.8%	\$ 168.1	19.9%		
Net income (loss) - GAAP	\$ 135.7	15.9%	\$ 102.1	12.1%		
Acquired intangible asset amortization	29.1	3.4%	36.5	4.3%		
Interest and other ⁽³⁾	(5.4)	(0.6%)	4.3	0.5%		
Restructuring and other ⁽¹⁾	(0.4)	0.0%	0.6	0.1%		
Inventory step-up	0.6	0.1%	-	-		
Equity modification charge ⁽²⁾	-	-	6.6	0.8%		
Exclude discrete tax adjustments ⁽⁴⁾	(1.6)	(0.2%)	(2.9)	(0.3%)		
Tax effect of non-GAAP adjustments	(5.8)	(0.7%)	(8.5)	(1.0%)		
Convertible share adjustment ⁽⁵⁾	-	-	-	-		
Net income - non-GAAP	\$ 152.2	17.8%	\$ 138.7	16.4%		
GAAP and non-GAAP weighted average common shares - basic	215.5		193.9			
GAAP weighted average common shares - diluted	217.2		226.5			
Exclude dilutive shares from convertible note	-		(10.0)			
Non-GAAP weighted average common shares - diluted ⁽⁵⁾	217.2		216.5			

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	Year Ended		% of Net Revenues
	December 31, 2015	December 31, 2014	
Net Revenues	\$ 1,638.6	\$ 1,647.8	
Gross profit - GAAP	\$ 915.6	\$ 878.8	53.3%
Pension mark-to-market adjustments (1)	8.3	12.7	0.8%
Inventory step-up	1.6	-	-
Gross profit - non-GAAP	\$ 925.5	\$ 891.5	54.1%
Income from operations - GAAP	\$ 243.0	\$ 96.4	5.9%
Acquired intangible assets amortization	69.0	70.8	4.3%
Goodwill impairment (2)	-	98.9	6.0%
Pension mark-to-market adjustments (1)	17.8	46.6	2.8%
Restructuring and other (3)	5.1	1.4	0.1%
Inventory step-up	1.6	-	-
Equity modification charge (4)	-	6.6	0.4%
Income from operations - non-GAAP	\$ 336.5	\$ 320.7	19.5%
Net income - GAAP	\$ 206.5	\$ 81.3	
Acquired intangible assets amortization	69.0	70.8	4.9%
Goodwill impairment (2)	-	98.9	4.3%
Pension mark-to-market adjustments (1)	17.8	46.6	6.0%
Interest and other (5)	(5.4)	4.3	2.8%
Restructuring and other (3)	5.1	1.4	0.3%
Inventory step-up	1.6	-	0.1%
Equity modification charge (4)	-	-	-
Exclude discrete tax items (6)	(4.9)	6.6	0.4%
Tax effect of non-GAAP adjustments	(18.5)	1.7	0.1%
Convertible share adjustment (7)	-	(41.3)	-2.5%
Net income - non-GAAP	\$ 271.2	\$ 270.3	16.4%
GAAP and non-GAAP weighted average common shares - basic	211.5	202.9	
GAAP weighted average common shares - diluted	213.3	222.6	
Exclude dilutive shares from convertible note	-	(5.0)	
Non-GAAP weighted average common shares - diluted	213.3	217.6	

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	Q2'15		Q1'16		Q2'16		Q3'16 Low Guidance		Q3'16 High Guidance	
	\$'s	% of sales	\$'s	% of sales	\$'s	% of sales	\$'s	% of sales	\$'s	% of sales
GAAP Operating Expenses	\$168	33%	\$174	40%	\$515	97%				
Intangible Asset Amortization	-\$15	-3%	-\$20	-5%	-\$16	-3%		43%		40%
Restructuring and Other	\$0	0%	-\$2	0%	-\$86	-16%		-3%		-3%
Pension MTM			\$0	0%	\$0	0%				
Goodwill Impairment					-\$255	-48%				
Non GAAP Operating Expenses	\$153	30%	\$153	35%	\$158	30%		40%		38%

	Q2'15		Q1'16		Q2'16	
	\$'s	% of sales	\$'s	% of sales	\$'s	% of sales
GAAP SG&A Expense	\$77	15%	\$79	18%	\$81	15%
Pension MTM			\$0	0%	\$0	0%
Non GAAP SG&A Expense	\$77	15%	\$80	18%	\$82	15%

	Q2'15		Q1'16		Q2'16	
	\$'s	% of sales	\$'s	% of sales	\$'s	% of sales
GAAP R&D Expense	\$76	15%	\$73	17%	\$76	14%
Pension MTM			\$0	0%	\$0	0%
Non GAAP R&D Expense	\$76	15%	\$74	17%	\$76	14%

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	Q2'15		Q1'16		Q2'16		Q3'16 Guidance	
	\$'s	%	\$'s	%	\$'s	%	\$'s	%
GAAP Income Tax	\$29	22%	\$7	13%	-\$7	3%		-3%
Exclude discrete tax adjustments	\$0	0%	\$3	4%	-\$25	10%		14%
Tax effect of non-GAAP adjustments	\$3	3%	\$4	6%	\$46	-19%		3%
Effect of Higher Non-GAAP PBT		-3%		-6%		16%		-1%
Non GAAP Income Tax	\$33	22%	\$13	17%	\$13	11%		13%

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GAAP to Non-GAAP Reconciliation of Third Quarter 2016 guidance:

GAAP and non-GAAP third quarter revenue guidance:
 GAAP net income per diluted share
 Exclude acquired intangible asset amortization
 Non-GAAP tax adjustment
 Non-GAAP net income per diluted share

\$375 million to \$405 million
 \$ 0.22 \$ 0.30
 0.04
 (0.03) (0.04)
 \$ 0.23 \$ 0.30

Third Quarter Guidance:

	<u>Low End</u>	<u>High End</u>
GAAP Operating Profit as % of Sales	11%	14%
Acquired intangible asset amortization	<u>3%</u>	<u>3%</u>
Non-GAAP Operating Profit as % of Sales	14%	17%

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<u>2020 EPS Reconciliation</u>	Net Income per Common Share Diluted
Net (loss) income - GAAP	\$ 1.90
Acquired intangible asset amortization	0.10
Net income - non-GAAP	\$ 2.00

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- 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>Q2'15</u>	<u>Q1'16</u>	<u>Q2'16</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
GAAP Cash Flow From Operations, Excl Disc Ops	\$156	\$27	\$181	\$403	\$269	\$492	\$413
Less Property, Plant and Equipment Additions	-\$25	-\$20	-\$26	-\$119	-\$107	-\$169	-\$90
Non-GAAP Operating Cash Flow (“Free Cash Flow”)	\$131	\$6	\$154	\$284	\$162	\$323	\$323