

Teradyne

Q4 first take: Miss/lower guide for Q1, Semi test weak, Robotics stronger

Maintain Rating: UNDERPERFORM | PO: 100.00 USD | Price: 104.59 USD

Sales miss and lower Q1 outlook on weaker test demand

Q4 sales of \$670.6mn (-4.7% QoQ and -8.4% YoY) finished about \$5.5mn/-0.8% below Street estimates, with non-GAAP operating margin of 20.5% about 33bps above Consensus, driving a 7c/9.4% EPS beat. Industrial Automation (Robotics) drove the beat in DecQ, growing about 50% QoQ, nearly 10% ahead of Consensus estimates (\$129mn, +17.3% YoY). Wireless test missed the most, with sales coming in at \$24.6mn (-33% QoQ/-39.8% YoY), -35.3% below Consensus, confirming market views on weak mobile market. Semiconductor Test was nearly 1% below Consensus, at \$431mn (-13.5% QoQ/-10.4% YoY), on weakening demand for SoC test systems, a potential negative read-through into TER's automotive market. System Test also missed Street by about 1%, at \$86mn in sales (+3.6% QoQ/-14% YoY). Market with high consumer exposure remain weak, which will pressure sales near-term. Auto-exposed markets beginning to see weakness spread (TXN saw first Q of auto sequential declines, alongside broad softness), while Apple mobile demand softness remains risk. Management noted tester utilization is lower, remaining so through 1H24E, with weakness spreading to Industrial Automation (TXN noted industrial weakened further) in Q1 (although follows seasonal pattern). Smartphone (Apple) weakness remains key n-t risk, hinging on iPhone unit performance (3nm transition). Overall, we maintain our Underperform rating and will review our model following the earnings call at 8:30am ET tomorrow (1/31).

Q1 sales guide lower, EPS nearly 10% below the Street

Management guided Q1 sales to \$565mn at the midpoint, resulting in -15.7% QoQ/-8.5% YoY declines, about -9.5% below Consensus estimates for the MarQ (\$624.3mn estimate). Non-GAAP EPS was guided to \$0.30 per diluted share at the midpoint, below Consensus estimates of \$0.54 (-43.3% below) and down -45% YoY/-61.4% QoQ. Management noted weak tester utilization for SoC test and seasonally weak Robotics performance likely will drive sales weakness in MarQ. A recovery in 2H24E powered by new product releases and distribution channel improvements could purportedly boost growth to above 2023 levels for the full-year, yet we await further substantiation on tomorrow's earnings call.

Key questions for the conference call tomorrow morn

1) We anticipate FY26E EPS target of \$7.50 - \$10 to be revised down to \$7 - \$9 and extended to FY27E, with Street estimates currently below the low-end (\$6.56 for FY26E). Can you give an update to this outlook?; 2) What is the financial impact of your recent strategic partnership with Technoprobe? Does this partnership expand TER's compute exposure?; 3) What is your outlook on Apple's production roadmap and demand as it pertains to the 3nm transition?; 4) You mentioned that tester utilization rates are expected to be weak through 1H24E, can you quantify this weakness? What are you looking for to signal recovery in utilization rates?; 5) Can you give us color on the demand environment in each of your end markets? Is Semiconductor Test weakness partly a function of weaker automotive demand?; 6) What accounts for the strong 50% QoQ growth in Robotics in Q4? What is your industrial outlook into Q1 and 2024?; 7) Memory test was stronger in Q4, do you expect this to continue through Q1? How reliant is this business on data center AI? Is the growth sustainable?

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Stock Data

Price	104.59 USD
Price Objective	100.00 USD
Date Established	26-Oct-2023
Investment Opinion	B-3-7
52-Week Range	81.08 USD - 119.20 USD
Mkt Val (mn) / Shares Out (mn)	15,990 USD / 152.9
Free Float	99.6%
Average Daily Value (mn)	184.76 USD
BofA Ticker / Exchange	TER / NAS
Bloomberg / Reuters	TER US / TER.OQ
ROE (2023E)	19.0%
Net Dbt to Eqty (Dec-2022A)	-36.3%
ESGMeter™	High

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SoC: System on Chip

TXN: Texas Instruments

TER: Teradyne

EPS: Earnings Per Share

DDR5: Double Data Rate 5

HBM: High Bandwidth Memory

PC: Personal computer

AI: Artificial Intelligence

PMI: Purchasing Managers' Index

Results vs. Expectations

Exhibit 1: Q4/Q1 results/guidance versus expectations

TER Q4 top-line miss vs Street, EPS guided below

	Dec-22	Sep-23	Dec-23							Mar-24E			
			Guidance	Street	BofA	Reported	Delta vs. Cons	QoQ	YoY	BofA	Street	Guidance	New BofA
Sales (\$mn)	\$731.8	\$703.7	\$670 (\$640 - \$700)	\$676.1	\$670.5	\$670.6	-0.8%	-4.7%	-8.4%	\$617.9	\$624.3	\$565 (\$540 - \$590)	\$565.0
QoQ%	-11.5%	2.8%		-3.9%	-4.7%	-4.7%				-7.8%	-7.7%		-15.7%
Semiconductor test	481.0	498.0		435	433.4	431.0	-0.9%	(13.5 %)	(10.4 %)	403.4	419.3		361.7
Industrial Automation	110.0	86.0		117.6	121.1	129.0	9.7%	50.0 %	17.3 %	104.9	90.3		104.9
System test	100.0	83.0		86.9	83.0	86.0	-1.0%	3.6 %	(14.0 %)	76.2	78.4		76.3
Wireless test	40.8	36.7		38	33.1	24.6	-35.3%	(33.0 %)	(39.8 %)	33.4	38.9		22.1
Gross Margin % (Non GAAP)	57.5%	56.6%		56.5%	56.7%	57.0%	50	37	(47)	55.6%	55.7%		52.0%
E&D (Non-GAAP)	108.8	104.4			105.5	102.2		(2.1 %)	(6.1 %)	104.4			105.3
S&A (Non-GAAP)	142.8	138.3			139.7	142.3		2.9 %	(0.3 %)	141.1			145.2
Opex (GAAP)	253.9	254.3			249.9	255.2				250.2			255.1
Opex (Non GAAP)	251.6	242.7			245.2	244.5		0.7 %	(2.8 %)	245.5			250.5
Operating Income (Non GAAP)	168.9	155.6			135.1	137.6		(11.6 %)	(18.5 %)	98.1			43.4
Op Margin % (Non GAAP)	23.1%	22.1%		20.2%	20.1%	20.5%	33	(160)	(256)	15.9%	16.3%		7.7%
Interest and other (Non-GAAP)	3.1	0.3			0.3	15.5				0.3			15.5
Income tax expense (Non GAAP)	21.2	24.5			22.3	26.0				16.2			10.0
Tax rate (Non-GAAP)	12.3%	15.7%			16.5%	17.0%				16.5%			17.0%
Net Income (Non GAAP)	150.8	131.5			113.0	127.1		(3.3 %)	(15.7 %)	82.2			48.9
Diluted EPS (Non GAAP)	\$0.92	\$0.80	\$0.71 (\$0.61 - \$0.81)	\$0.72	\$0.70	\$0.79	9.4%	(2.4 %)	(14.4 %)	\$0.51	\$0.54	\$0.30 (\$0.22 - \$0.38)	\$0.30
Diluted Shares	164.3	163.4			162.6	161.9		(0.9 %)	(1.5 %)	161.8			161.1

Source: BofA Global Research estimates, company report, Bloomberg, Visible Alpha

BofA GLOBAL RESEARCH

Price objective basis & risk

Teradyne (TER)

Our \$100 price objective is based on 22x PE applied to our FY25E Non-GAAP EPS. Our choice of PE is in the middle end of Teradyne's long-term range of 13x-31x.

Upside risks to our price objective are (1) accelerated adoption of leading edge test equipment, (2) improved positioning in the compute market, (3) strong momentum at Apple in the semitest business.

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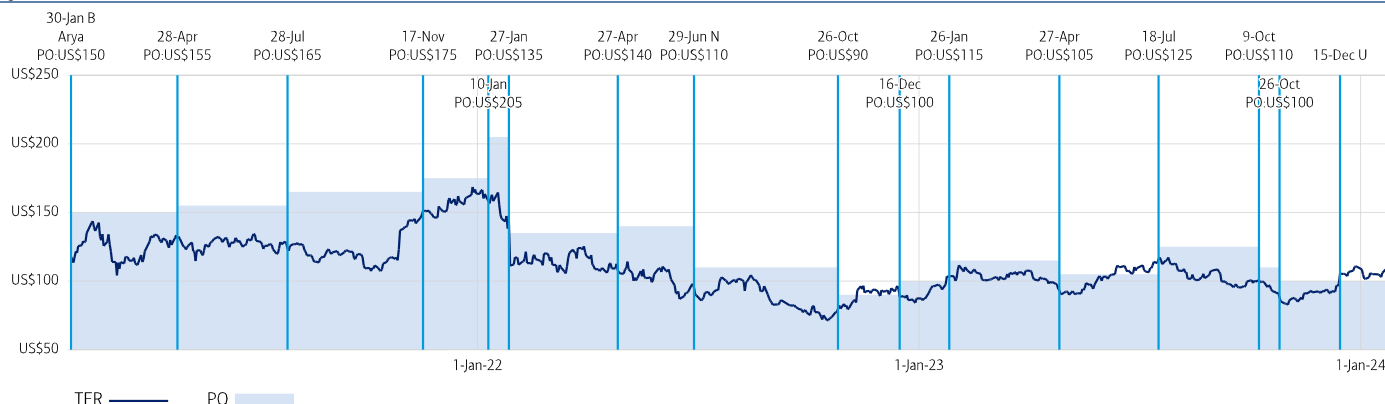
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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

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