

FY2016 2Q Information Meeting

**October 26th, 2016
Advantest Corporation**

NOTE

◆ Accounting Standards

Starting with our securities report for fiscal 2015, Advantest began to voluntarily apply IFRS (International Financial Reporting Standards). Our results and outlook, described in this presentation, have been prepared in accordance with IFRS.

◆ Cautionary Statement with Respect to Forward-Looking Statements

This presentation contains "forward-looking statements" that are based on Advantest's current expectations, estimates and projections. These statements include, among other things, a discussion of Advantest's business strategy, outlook and expectations as to market and business developments, production and capacity plans. These forward-looking statements can be identified by use of forward-looking terminology are subject to known and unknown risks, uncertainties and other factors that may cause Advantest's actual results, levels of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. These factors include: (i) changes in demand for the products and services produced and offered by Advantest's customers, including semiconductors, communications services and electronic goods; (ii) circumstances relating to Advantest's investment in technology, including its ability to develop in a timely fashion products that meet the changing needs of semiconductor manufacturers and communications network equipment and component makers and service providers; (iii) significant changes in the competitive environment in the major markets where Advantest purchases materials, components and supplies for the production of its products or where its products are produced, distributed or sold; and (iv) changes in economic conditions, currency exchange rates or political stability in the major markets where Advantest procures materials, components and supplies for the production of its principal products or where its products are produced, distributed or sold. A discussion of these and other factors which may affect Advantest's actual results, levels of activity, performance or achievements is contained in the "Risk Factors" section of Advantest's Annual Financial Report.

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Financial Results for 2nd Quarter of FY2016

(Period ended September 30th, 2016)

Advantest Corporation
Hiroshi Nakamura
Director and Managing Executive Officer

FY2016 2Q Summary of Results

						(¥B)	
	FY2015 2Q	FY2016 1Q	FY2016 2Q	QoQ(¥)	QoQ(%)	YoY(¥)	YoY(%)
Orders	27.1	43.8	28.5	-15.3	-34.9%	+1.4	+5.3%
Sales	46.1	40.7	35.5	-5.1	-12.6%	-10.7	-23.1%
Gross Profit	24.2	25.3	21.0	-4.2	-16.7%	-3.1	-12.8%
Gross Profit Margin	52.3%	62.2%	59.3%	-2.9pts		+7.0pts	
Operating Income	4.2	5.7	2.6	-3.2	-55.0%	-1.6	-38.6%
Operating Income Margin	9.1%	14.1%	7.3%	-6.8pts		-1.8pts	
Income Before Tax	3.6	6.2	2.9	-3.2	-52.5%	-0.6	-17.2%
Net Income	1.2	5.0	2.3	-2.7	-54.1%	+1.1	+87.1%
Net Income Margin	2.6%	12.2%	6.4%	-5.8pts		+3.8pts	
Backlog	28.8	36.5	29.5	-7.0	-19.2%	+0.7	+2.4%
Exchange Rate	1 US\$	¥123	¥111	¥104	¥7 Appreciation		¥20 Appreciation
	1 Euro	¥137	¥124	¥116	¥9 Appreciation		¥21 Appreciation

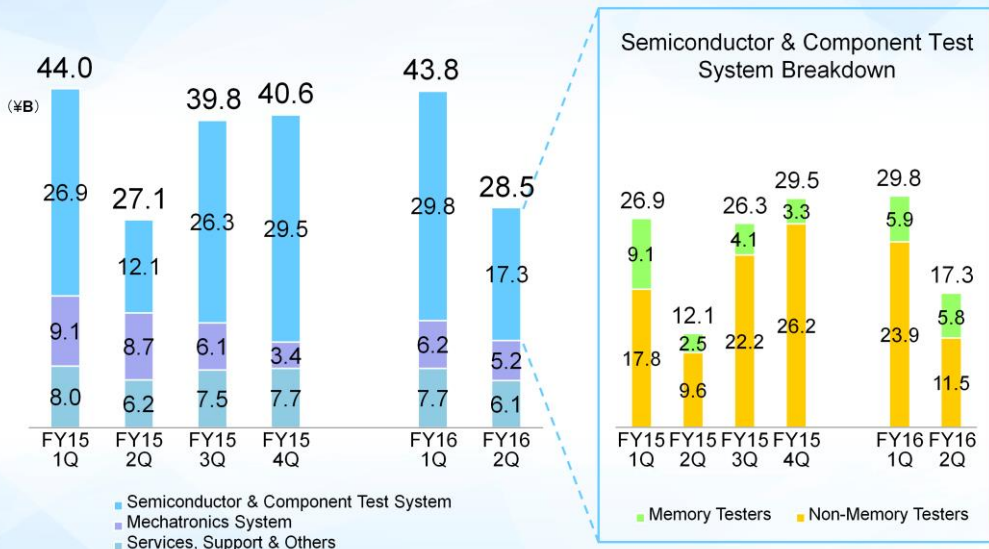
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○ FY2016 2Q Results Summary

- Orders ¥28.5 billion -34.9% QoQ
- Sales ¥35.5 billion +12.6% QoQ
- Gross Profit ¥21.0 billion -16.7% QoQ
- Operating Income ¥2.6 billion -55.0% QoQ
- Income Before Tax ¥2.9 billion -52.5% QoQ
- Net Income ¥2.3 billion -54.1% QoQ
- The combination of yen appreciation against the dollar, seasonal decline in non-memory tester demand, and stronger than expected 1Q demand caused numbers to fall across the board in comparison to the same period of the previous fiscal year.
- However, when compared to the same period of the previous year, in which tester demand similarly fell due to seasonality, it is noteworthy that orders grew YoY despite a significant impact from yen appreciation. Our business environment has not deteriorated as badly as the QoQ decline may suggest.

FY2016 2Q Orders by Segment



Note: Intersegment transactions have been eliminated from totals

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○ FY2016 2Q Orders by Segment

○ Semiconductor & Component Test System

- ¥17.3 billion -42% QoQ
- of which, non-memory testers: ¥11.5 billion (a dramatic QoQ decline)
- memory testers: ¥5.8 billion (virtually flat QoQ)
- Cyclicity in low-end / mid-range smartphone-related demand caused non-memory tester orders to decrease significantly

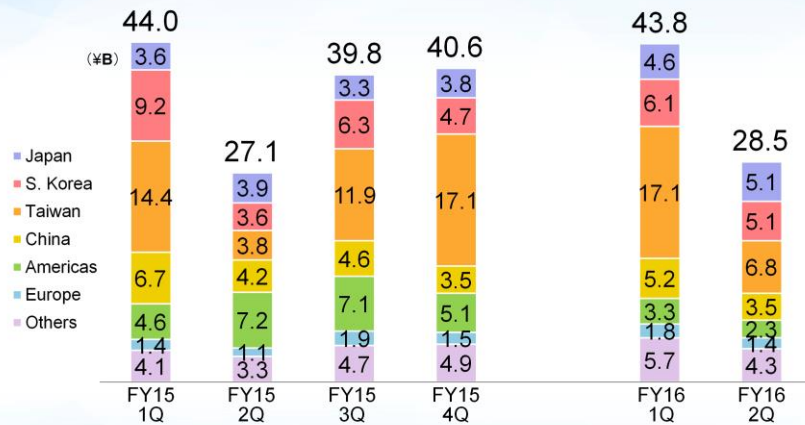
○ Mechatronics System

- ¥5.2 billion -17% QoQ
- Nanotechnology orders declined

○ Services, Support & Others

- ¥6.1 billion -21% QoQ
- Annual maintenance contracts declined due to seasonality

FY2016 2Q Orders by Region



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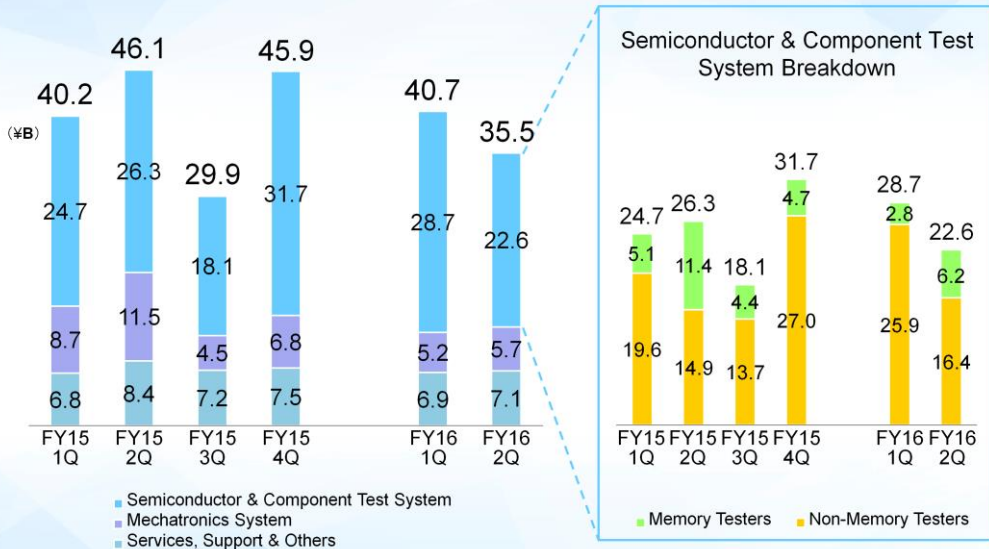
○ FY2016 2Q Orders by Region

- Orders declined worldwide excluding Japan

○ Regions where orders fluctuated significantly QoQ:

- Taiwan
Cyclicality in low-end / mid-range smartphone-related investment had a major impact

FY2016 2Q Sales by Segment



Note: Intersegment transactions have been eliminated from totals

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○ FY2016 2Q Sales by Segment

○ Semiconductor & Component Test System

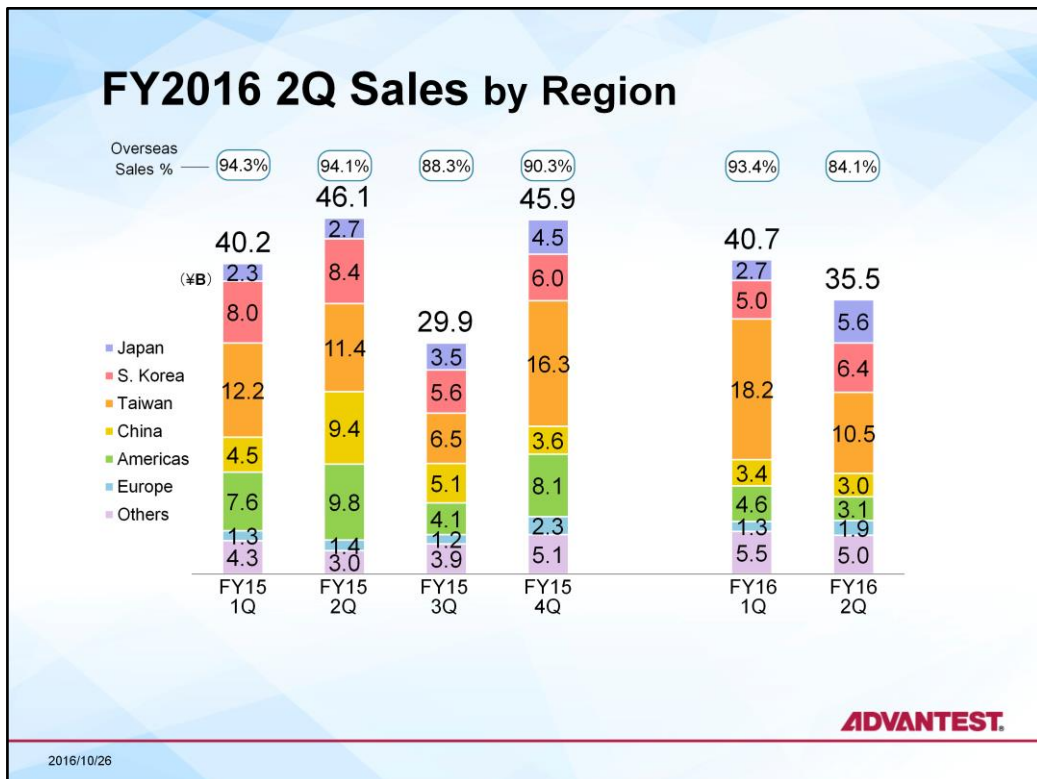
- ¥22.6 billion -21% QoQ
- of which, non-memory testers: ¥16.4 billion (significantly down QoQ)
- memory testers: ¥6.2 billion (significantly up QoQ)
- Cyclicity in low-end / mid-range smartphone-related investment affected tester sales, although not to the same extent as orders.
- DRAM tester orders recovered, driving an increase in memory tester sales.

○ Mechatronics System

- ¥5.7 billion +11% QoQ
- Device interface sales also climbed, following the recovery in memory tester demand.

○ Services, Support & Others

- ¥7.1 billion flat QoQ

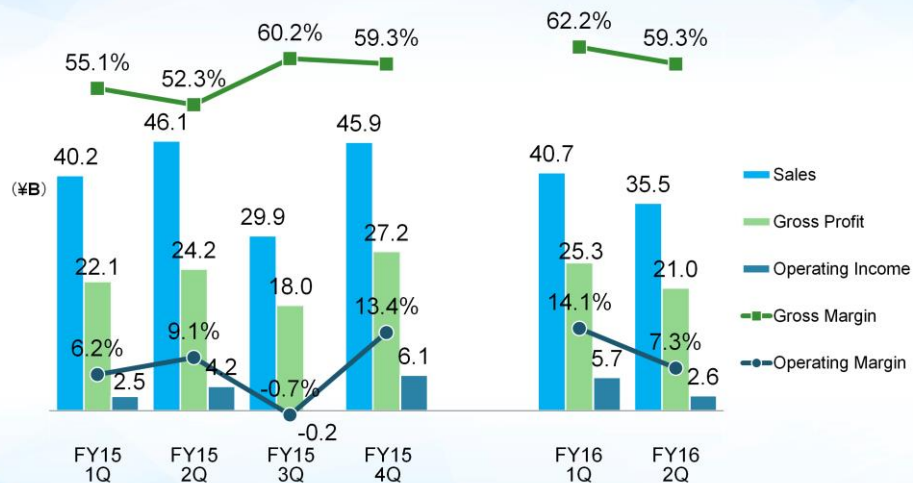


○ FY2016 2Q Sales by Region

○ Regions where sales fluctuated significantly QoQ:

- Taiwan
As with orders, cyclical in low-end / mid-range smartphone-related investment had a major impact on sales.
- Japan
Demand for testers for high-functionality automotive devices increased.
- Our percentage of sales to Japanese customers increased from 7% to 16%.
As a result, our percentage of sales to customers outside Japan in this quarter was 84.1%.

FY2016 2Q Sales / Gross Profit / Operating Income



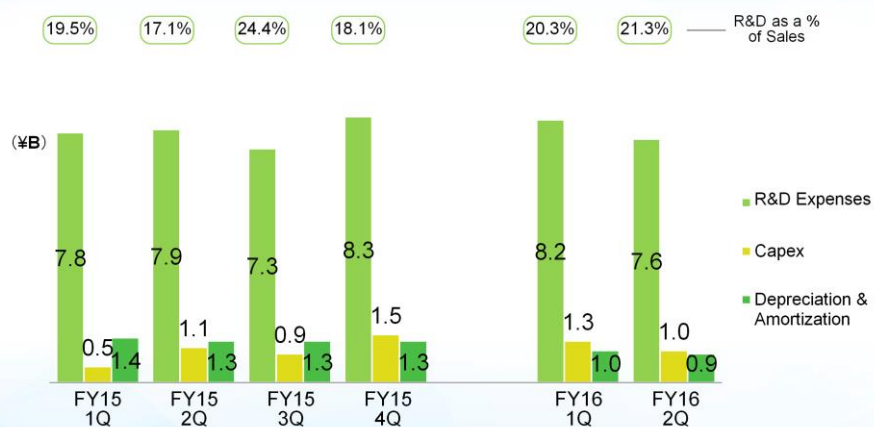
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○ FY2016 2Q Sales / Gross Profit / Operating Income

- Gross Profit -¥4.2 billion QoQ ¥21.0 billion
- Gross Margin -2.9 points QoQ 59.3%
 - Despite quarterly deterioration, this marks four straight quarters of a gross margin of roughly 60%.
- SG&A -¥1.1 billion QoQ ¥18.4 billion
 - Accrued bonuses decreased.
- Operating Income -¥3.2 billion QoQ ¥2.6 billion
- Operating Margin -6.8 points QoQ 7.3%

FY2016 2Q R&D Expenses / Capex / Depreciation and Amortization



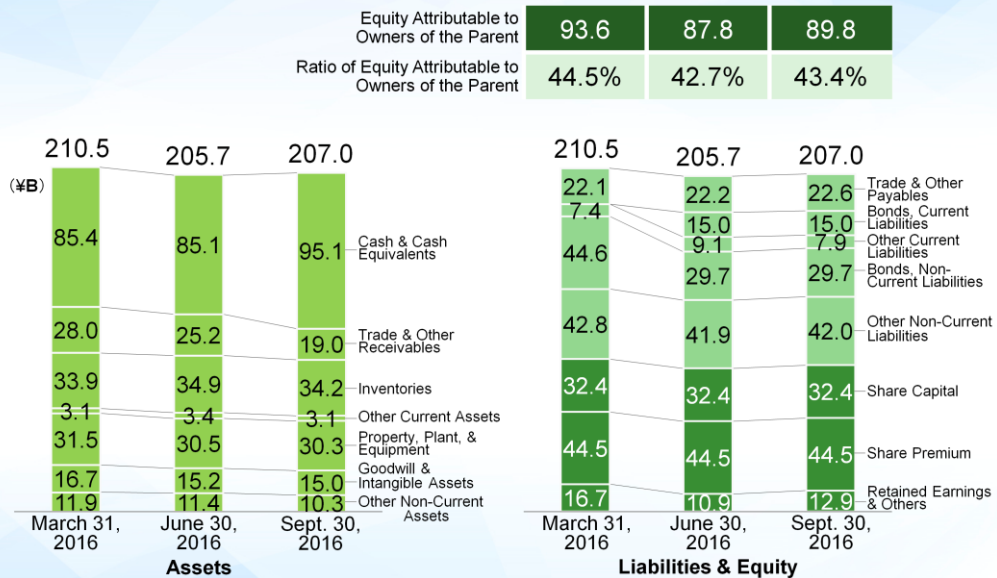
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○ FY2016 2Q R&D Expenses / Capex / Depreciation and Amortization

- R&D Expenses ¥7.6 billion
- Capex ¥1.0 billion
- Depreciation and Amortization ¥0.9 billion

FY2016 2Q Balance Sheet



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○ Balance Sheet for Period Ending September 30, 2016

- Our balance sheet did not change significantly in the quarter
- Equity Attributable to Owners of the Parent: ¥89.8 billion
- Ratio of Equity Attributable to Owners of the Parent: 43.4%
0.7 points up from the end of the previous quarter

FY2016 Business Outlook

Advantest Corporation
Shinichiro Kuroe
Representative Director, President & CEO

FY2016 Financial Results Forecast

(¥B)

	FY2015	FY2016 Forecast (July)	FY2016 Forecast (October)	vs. FY2015 (¥)	vs. FY2015 (%)
Orders	151.5	158.0	158.0	+6.5	+4.3%
Backlog	33.5	35.5	35.5	+2.0	+6.0%
Sales	162.1	156.0	156.0	-6.1	-3.8%
Semiconductor & Component Test Systems	100.8	96.7	100.5	-0.3	-0.3%
Mechatronics	31.5	27.6	26.0	-5.5	-17.4%
Services, Support & Others	29.9	31.7	29.5	-0.4	-1.4%
Operating Income	12.6	11.0	14.5	+1.9	+15.1%
Operating Income Margin	7.8%	7.1%	9.3%	+1.5pts	
Income Before Tax	11.8	11.5	15.3	+3.5	+30.0%
Net Income	6.7	8.5	12.0	+5.3	+79.3%
Net Income Margin	4.1%	5.4%	7.7%	+3.6pts	
Annual Dividend Per Share	¥20	-	¥22	+2	

✓ Exchange Rate Assumptions for 3Q, 4Q FY2016 Forecast: 1 US\$ = ¥ 100, 1 Euro = ¥110
(Unchanged from July assumptions)
Previous fiscal year's actual exchange rates: 1 US\$ = ¥ 121, 1 Euro = ¥133

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○ FY2016 Forecast

- Firstly, regarding exchange rates, we are maintaining our existing exchange rate assumptions for 3Q and 4Q FY2016 of 1 US\$ = ¥ 100, 1 Euro = ¥110.
- Based on these assumptions, and taking into account our results for the first half and our near-term business outlook, our revised forecast for FY2016 calls for:
 - Orders ¥158.0 billion
 - Sales ¥156.0 billion
 - Operating Income ¥14.5 billion
 - Net Income ¥12.0 billion

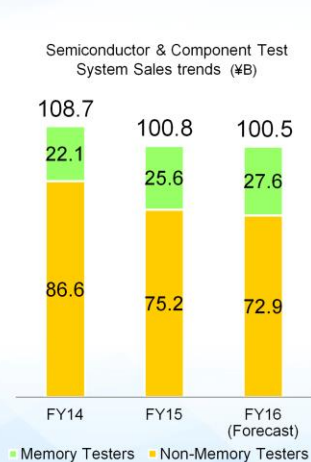
Orders and sales forecasts have not been revised.

We have raised our profit forecast due to expectations of a more profitable product mix for the full year, which should have a positive effect on gross margin.

- Our full year dividend forecast has increased ¥2 to ¥22 per share.

Outlook by Segment

■ Semiconductor & Component Test System



Non-Memory Testers

- ✓ We believe orders bottomed out in 2Q, sales in 3Q
- ✓ We expect strong growth, based on trends in the smartphone market. Chinese brands, which have made remarkable performance gains, should play a strong role in driving growth in smartphone sales
- ✓ We expect leading-edge logic IC production growth to drive demand in 2H
- ✓ Demand for OLED driver ICs and LCD driver ICs is growing. We also expect expansion in the GPU, FPGA, and automotive device markets.

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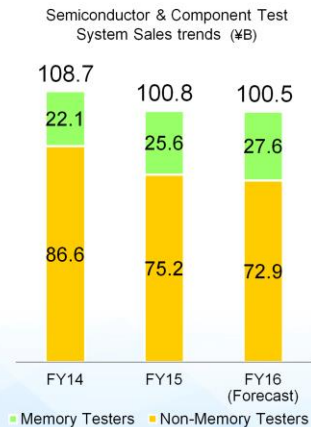
○ Outlook by Segment: Semiconductor & Component Test System Segment

- Non-memory testers:
- 2Q orders and sales fell in comparison to 1Q. But this was due to seasonality caused by the new product launch timing of the smartphone, and was in line with what we had predicted.
- As a whole, steady activity is expected to continue in the second half. In particular, we expect growth in low-end / mid-range Chinese brand smartphones, which are improving their performance at a remarkable clip, and also seeing growth of end user demand in emerging economies such as India.
- In this environment, we expect to post results in line with our current forecast. We believe orders bottomed out in 2Q, and sales will bottom in 3Q. Numbers should improve towards the end of the fiscal year from there.
- We expect leading-edge logic IC production growth, impelled by smartphone performance gains, to drive demand in 2H.
- Tester demand related to OLED driver ICs and LCD driver ICs is also expected to grow.
- Apart from smartphones, our 1H also saw strength in GPU, FPGA, and automotive device demand. These devices are used in VR (virtual reality), the IoT, high-speed networks, game consoles, and automotive ADAS, which are all growth markets. Tester demand related to these markets is expected to rebound from the end of 2016.

Outlook by Segment

■ Semiconductor & Component Test System

Memory Testers



- ✓ We anticipate large-scale activity in the new year
- ✓ Our outlook sees DRAM tester demand ramping up in the new year in line with LPDDR4 adoption
- ✓ We also expect NAND tester demand to grow as NAND suppliers invest in new 3D NAND production lines
- ✓ Full-scale demand for protocol NAND test should materialize next fiscal year

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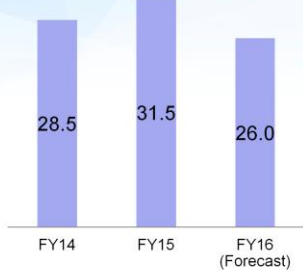
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○ Outlook by Segment: Semiconductor & Component Test System Segment

- The memory tester market in FY2016 2H should benefit from large-scale DRAM and NAND-related activity in the new year.
- Our outlook sees DRAM tester demand ramping up in the new year in line with the adoption of LPDDR4 for mid-range and above smartphones.
- The fact that Chinese brand smartphones, which currently have sales momentum, utilize comparatively large amounts of DRAM is also a positive factor for tester demand.
- As we described at our previous briefing in July, we also expect NAND tester demand to grow as NAND suppliers invest in new 3D NAND high-volume production lines.
- Also in the future, mass-produced high-end NAND interfaces will continue to achieve higher speeds, and signal exchanges will be protocol-based. Protocol type NAND using interfaces such as UFS and PCIe requires different test methods from those provided by conventional memory testers. Therefore, new testers will be required. We expect demand to scale up in FY2017, and are currently preparing sales strategies.
- Amid various changes taking place in the NAND tester market, we will endeavor to steadily capture market share and sales.

Outlook by Segment

Mechatronics Sales Trends (¥B)



■ Mechatronics

- ✓ Memory customer trends should push improved results for our device interface business
- ✓ We have lowered our outlook for the expected recovery in our nanotechnology business

Services, Support, & Others Sales Trends (¥B)



■ Services, Support, & Others

- ✓ Despite the millstone of yen appreciation, we expect sales in line with the previous fiscal year
- ✓ Major customers have shown interest in our SSD testers, with results expected from the next period

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○ Outlook by Segment: Mechatronics Segment and Services, Support, & Other Segment

- Mechatronics Segment:
 - Device interface sales are driven by memory tester demand, and are expected to increase quarterly in 3Q and 4Q.
 - However, we have lowered our outlook for the expected recovery in our nanotechnology business, which we initially expected to take place in the second half, based on current levels of customer interest.
- Services, Support, & Other Segment
 - Despite the millstone of yen appreciation, field services demand is robust. We expect sales in line with the previous fiscal year for the segment overall.
 - Additionally, with the flash storage market ramping up, enterprise SSD demand from data centers is growing, supporting our existing prediction of SSD tester sales growth correlated with this demand.
 - Major customers have shown interest in our SSD testers. We expect these inquiries to yield results from the next period.