

Advantest Corporation
FY2018 1Q (Three months ended June 30, 2018) Information Meeting
Q & A Summary

July 25th, 2018

Q. What were the factors contributing to your favorable results in 1Q? Do you have any concerns regarding 2Q and later?

A. With a backlog of about ¥80 billion at the beginning of 1Q, our progress has been largely as expected. The major contributing factor to our positive results is demand for SoC test systems, which have higher profit margins than memory test systems. It has been continuously good since FY2017 4Q. In addition, the profit margin for back-end memory test systems is higher than for front-end systems, and back-end system are rising higher in our product mix. We are expecting 2Q to proceed as forecasted. One concern would be that component procurement capability may not meet customer demand, causing a delay in posting sales.

Q. A major Korean DRAM manufacturer's investment postponement is drawing concern. Will that affect Advantest? Regarding the V93000, will the Chinese smartphone business slow down?

A. In the DRAM market, there was a round of investment in wafer testers in the previous fiscal year, and now there is demand for package testers. There is a delivery issue with our flagship T5833, but we do not see any loss of traction. Our customers' premium DRAM devices are performing well, but these premium devices require longer test times and higher reliability, leading to an increase in tester unit demand. Under these circumstances we are not concerned about our future, and with additional demand for systems to replace obsolete testers, demand will continue to increase in 2018.

Growth in the Chinese smartphone business is largely due to increased demand for testers for high-functionality APs (application processors) used in new smartphone products. These APs require long test times and still have room for yield improvement, leading to increased tester demand. The demand environment is expected to continue to be favorable. Even if there is a slight decrease in 3Q, we predict brisk business throughout 2018.

Q. When is business for high-speed flash memory expected to pick up? Also, do you expect to see demand from display driver ICs for foldable devices / clamshell smartphones?

A. Migration to higher-speed 3D Xpoint has been faster than expected, and there is demand for 6Gb+

and DDR5-level speed. There is already demand for our T5833, which covers this speed range. We expect an increase in devices employing 3D Xpoint in the latter half of the year, and demand for testers, including burn-in systems, will rise.

For driver ICs, manufacturers are moving to a single chip that includes a touch sensor, resulting in a sharp increase in tester demand. In addition, the technical shift from COG (Chip on Glass) to COF (Chip on Film) means demand for additional COF package testers. We expect that the current positive demand climate will continue through 2018 and into 2019.

Q. You mentioned that 2Q will proceed as forecasted. Did you mean orders?

A. We mean sales. 1Q started with a backlog exceeding ¥80 billion, and we received over ¥70 billion in orders in 1Q.

Q. How do you see orders for 1Q?

A. Better than expected. Orders exceeded ¥70 billion even though about ¥15 billion in pull-in orders were received in FY2017 4Q.

Q. Orders for memory test systems were ¥30.9 billion in FY2017 4Q, and ¥11.8 billion in FY2018 1Q. What was the ratio of DRAM and flash?

A. Approximately 5: 5 in last quarter of FY2017. DRAM is getting stronger.

Q. Where is the increase in SoC test system orders coming from?

A. Mainly smartphone-related APs, but automotive applications and display drivers are also strong.

Q. Your T5833 business is expanding, but how about the T5503HS?

A. Since core test takes longer than speed test, T5833 demand is increasing. Although the T5503HS, which performs high-speed test, has not seen such a striking unit increase, it contributes to sales and profit because of its high sales price and profitability.

Q. Gross margin in 1Q was 53.9%. Why did it decline from FY2017 4Q? Also, what is the outlook for 2Q?

A. The decline was because the ratio of memory test systems in our product mix has risen, and SoC test systems also have variations in profit margin depending on the model. However, given where memory test system sales are, 53.9% is a satisfactory figure. We expect gross margin to stay at this level in the second quarter.

Q. SoC test systems were strong in the first quarter. Was that because orders came in ahead of schedule

or because the market is vibrant?

A. SoC test system lead times have also increased. However, we do not believe that the orders we have received so far are ahead of schedule. As background, demand for smartphone APs and display drivers is rising. SoC test system orders exceed our original plan by ¥17 billion to ¥18 billion.

Q. Enterprise SSD tester sales are expanding, but how about consumer SSDs?

A. On the consumer side, the leading manufacturer of SSDs in the United States is using our platform.

Q. Although trade friction between the US and China is a risk, is there no opportunity for Advantest to win business from Chinese customers who are not already using your solutions?

A. We have considered China an important area for a long time, and we are already well-established there compared with our competitors. Regarding Sino-American trade friction, I believe the greatest risk is that the global economy as a whole will turn down. It may be that Chinese customers will stop buying products from our US-based competitors, but we do not expect it.

Q. As you mentioned, AP for smartphones drove strong SoC test system demand in 1Q. Your 1Q orders suggest that something has triggered additional demand.

A. Smartphone manufacturers are attempting to add AI functionality into new AP devices. This has lengthened test times, and yields have changed due to miniaturization. These factors have caused a rapid increase in demand.

Note

This document is prepared for those who were unable to attend the information meeting and is intended only for reference purposes. The original content has been revised and edited by Advantest for ease of understanding.

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