Advantest Corporation
FY2020 3Q (Three months ended December 31, 2020) Financial Briefing
Q&A Summary

January 28, 2021

Q: Your peers have reported signs of a pause in inquiries. What is the situation with inquiries at Advantest?

A: In terms of our 3Q orders, we saw progressively stronger growth between October and December. Based on this trend, we expect orders to remain strong in 4Q as well. The COVID-19 pandemic has accelerated the drive toward digital transformation (DX), but we naturally expect to see a correction in demand once an excessive rate of acceleration is reached. However, in part because of the economic stimulus measures governments around the world are rolling out, that seems unlikely to happen over the next three to six months, and we expect to continue to benefit from the DX drive for a somewhat longer span.

Q: Could you clarify about the drivers behind the upward revisions to your guidance? Do the revisions owe to market growth or to shifts in market shares?

A: There has been no customer nabbing or other major shifts in the competitive landscape lately. The recent strength in our orders and the upward revisions to our guidance owe to sharp growth in test demand for display driver ICs (DDIs), where we command an especially large share of the market, and to strong test demand on the whole, including for non-DDI products such as application processors and CMOS image sensors.

Q: You now estimate the CY20 tester market at 2.8 billion dollars, which is 100 million dollars higher than your outlook as of October. Could you provide some more detail regarding the areas in which you saw demand grow over the past three months?

A: We revised our market estimate because of the growth we saw in demand related to high-performance computing (HPC) and AI, as well as to 5G smartphones.

Q: You presented your outlooks for the SoC and memory tester markets in CY21. In which areas do you expect to see growth?

A: In CY21, our expectation is that the SoC tester market will likely be driven by HPC, where investment in advanced-node semiconductors continues, and by CMOS image sensors. DDIs also look promising as we have a large share of that market and year-on-year growth there

looks likely to mount. In the case of the memory tester market, we expect to see growth associated with DRAM and NAND wafer testing in particular.

Q: You mentioned that the briskness of SoC tester orders owes to smartphone manufacturers competing over market share. Do you expect to see further growth in the SoC tester market in CY21 even if some of the recent smartphone-related demand has been front loaded?

A: We have continued to see an extremely large number of smartphone-related inquiries in 3Q and 4Q. While we do believe we will eventually see some ups and downs, our conversations with customers have thus far included no mention of investment in testers slowing down. We therefore believe that SoC tester demand is likely to remain brisk over the near term.

Q: You mentioned that you expect your gross margin to improve in 4Q. Could you clarify the reasoning behind that? You said that the deterioration in the gross margin seen in 3Q owed to a less favorable product mix and to costs associated with the launch of new system level test (SLT) products. Is your outlook premised on that latter factor dropping out?

A: While it is true that the costs associated with the launch of the new SLT products will drop out, our outlook for a recovery in gross margin in 4Q is premised to a greater extent on our expectation for a more favorable product mix.

Q: Could you tell us how you view the size of the SLT market in CY20 and CY21, as well as how you view the growth potential of your business in that space?

A: Frankly speaking, we do not have a clear estimate of the size of the SLT market because it has always been a difficult market to define. In terms of our own business, however, our impression is that we are seeing greater business opportunities as our customer base expands. Making growth a reality requires iterative conversations with each customer individually, so we are unlikely to see major growth, but our impression is that demand in 2021 will be on par with that of 2020 or slightly higher.

Q: The low end of your CY21 outlook for the SoC tester market is for it to be flat versus the previous year, but based on your presentation today, that seems unlikely. On what sort of risks is that low-end outlook premised?

A: The growth in the SoC tester market in CY20 owed in part to considerable growth in tester investment related to the major US smartphone company. Our CY21 market outlook assumes that while that sort of tester demand will slow, test demand for other applications will grow, resulting in net growth. If the market does trend as we anticipate, there is the

possibility that we will recover the market share we lost in CY20 and that sales at our SoC business will grow at a rate that outpaces growth in the market.

Q: You mentioned building up your production capabilities for SoC testers. Does that mean your production capacity is already getting tight? Also, if you are going to be building up your production capabilities, is there the possibility that you will engage in capital expenditure or otherwise incur additional costs?

A: We basically pursue production capacity additions by managing our work with our outsourcing partners well. As part of business continuity planning (BCP) efforts during the pandemic, we have undertaken some additions to our in-house production capabilities but not in ways that have required new capital expenditure. That said, it is true that capacity for semiconductors and electronic components is looking increasingly tight. Against that backdrop, we are seeing our own orders rise considerably, so we are working to reduce the risk of supply delays by engaging in precise management.

Q: It seems you expect orders to decline quarter-on-quarter in 4Q. Could you tell us what direction you expect orders to move in for each product type?

A: While we look for a downturn DDI-related orders following the extremely high volume of inquiries we saw in 3Q, we expect our total companywide orders to remain strong in 4Q, at around 90 billion yen.

Q: How do you view demand for testers for automotive and industrial machinery applications?

A: Our automotive customers' tester utilization rates have risen sharply, and we are seeing an increasing volume of inquiries from them as they contemplate increasing production. While that space does not yet look as vibrant as smartphones or HPC, we feel that CY21 looks likely to be a good year.

Q: The MPU manufacturer that was originally your customer is now using customized testers in-house. Do you see a possibility for their business to come back to you when they start outsourcing production to foundries?

A: We generally refrain from commenting on individual customers. We are also not positioned to comment on that given that we have no knowledge of their supply chain policies, including as regards their approach to testing.

Q: You have a substantial order backlog at present. Are your production capabilities such that you will be able to work your way through it without issue?

A: Quadrupling the 4Q sales forecast we issued today makes for around 320 billion yen in annual sales. We believe that barring any major supply chain disruptions or the like, we would have no problem at that level. We are also working to make our internal supply chain more resilient in order to be prepared for any additional ramifications from the pandemic, including prolonged lockdowns.

Q: Your integrated report references advances in manufacturing. Could you tell us how you are increasing productivity at your domestic factories in particular, including in terms of your progress on DX initiatives?

A: Since last year, we have been engaging in a robust drive to bolster our production efficiency by deploying robotics and leveraging a variety of data. Unfortunately, we have not yet seen tangible benefits in the form of a lower CoGS ratio. During the period covered by our next mid-term plan, we will strive to achieve considerable advancements in the manufacturing methods our factories employ and to bolster our production efficiency.

Q: Could you provide us with an update on the new data analytics solutions business you are working on?

A: When our customers launch 5nm chips and other advanced-node semiconductors, their semiconductor manufacturing processes are already generating more than a petabyte of data that needs to be analyzed, and the volume of that data is poised to increase going forward. In this environment, what we are striving to supply is solutions that enhance productivity by enabling customers to leverage their data from across all their processes, from the manufacturing of the semiconductors through to the testing. The early-adoption efforts we have undertaken are going well, but rather than being content with that, we are exploring a variety of different business frameworks so that we will be able to deliver greater value to a broader swath of the industry.

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.

This document contains "forward-looking statements" that are based on Advantest's current expectations, estimates and projections. These statements include, among other things, the discussion of Advantest's business strategy, outlook and expectations as to market and business developments, production and capacity plans. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "anticipate," "believe," "estimate," "expect," "intend," "project," "should" and similar expressions. Forward-looking statements

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.