

Advantest Corporation
FY2023 (Period ended March 31, 2024) Financial Briefing
Q & A Summary

April 26, 2024

Q: Could you tell us what you expect in terms of market share for CY2024 and, if possible, CY2025? I think you are better positioned to benefit from the market's growth potential than your competition, but your peer has ambitions to win share in the HBM and AI ASIC space. Do you think you can maintain your share gains of the past several years or potentially build upon them?

A: We expect the tester market to grow slightly year-on-year in CY2024. We will be focused on memory testers as part of that total tester market, and memory testers may maintain higher growth than SoC testers in 2025 and 2026 as well. In HBM, we are very comfortable with the position that we have established given that we have been working with our customers in that space for more than 10 years and have built deep relationships with them. Among our customers are also SoC chip manufacturers that use HBM in their pursuit of high performance and quality. As such, we have a responsibility and an obligation to ensure that we have adequate supply at the performance and quality levels that our customers demand.

Historically, the transition from mainframes to PCs to smartphones and now AI has changed computational architectures and created demand for faster, higher-capacity memory. Normally, you first see demand for memory, followed by a ramp-up in demand for SoC chips. We anticipate sustained data center demand, as well as more use of AI, which should lead to a rise in demand for SoC chips used in edge computing and consumer electronics. Advantest should enjoy brisk demand during such a market cycle.

At the briefing on our Mid-/long-term Management Policy that we have slated for June, we hope to share more about our outlook for the tester market in 2025 and 2026.

Q: You say you expect a third straight year of negative growth for the SoC tester market in CY2024, which I feel is conservative. What do you see that might drive upside?

A: The extent to which tester utilization picks back up at our customers will be key. In FY2023, utilization began to improve gradually as idle tester capacity in the market was repurposed from smartphone chips to HPC and AI chips. A few of our customers have mostly filled up their idle capacity, and we have started booking more new tester orders

than we were six months ago. However, some of our customers have yet to fill in their idle capacity, and it is on that basis that we have formulated our market outlook.

Smartphone sales are not very strong at the moment, but our customers may switch to next-generation process nodes for their new products in the latter half of CY2024. Node migration may therefore lead to increased tester demand in 2H CY2024, but we will update our view on the market based on our ongoing observations of market conditions.

Q: Your outlook for the CY2024 SoC tester market is very different than that of three months ago. What changed? Also, do you expect to see a difference in the strength of the market in the first half of the year versus the latter half?

A: It is taking a bit longer than we had anticipated for the utilization of testers in the market to improve, primarily in the smartphone space. An additional factor is that tester demand for automotive/industrial equipment applications has slowed slightly. It is for these reasons that we lowered our estimate for the SoC tester market in CY2024. In terms of the split between the first and second half, we expect demand to rise in the latter half of the year as SoC tester utilization improves.

Q: Is AI-related demand tracking to your expectations? Many companies in the semiconductor production equipment industry are reporting that AI is generating more demand than they had anticipated. What is your view?

A: We believe that AI will be central to tester demand for both memory and SoC in CY2024 and CY2025. Once utilization on SoC testers has peaked, we can expect to see additional demand for SoC testers.

Q: While HBM is enjoying robust demand, the market for NAND flash memory has been weak since last year. What are your views on trends in NAND?

A: We expect DRAM to account for around 95% of our memory-related sales in FY2024, meaning that we expect this fiscal year's earnings to have relatively little exposure to conditions in the NAND flash memory market. However, we understand that the level of our customers' NAND flash inventories is gradually improving and that NAND flash memory ASPs are also improving. As such, we believe conditions will get gradually better as we head toward the latter half of CY2024.

Q: While you are anticipating year-on-year growth in your sales in FY2024, you also expect your gross margin to fall slightly to 48%. It appears that you expect your operating income to be flat when you exclude factors like the goodwill impairment that you recognized in the

previous fiscal year. If mix is the factor behind your expectation for a lower gross margin, it would seem to suggest that the profitability on your memory testers is unexpectedly low. You said that profitability improvement is a challenge that you face, but what sort of timeline do you envision for addressing that, and how much improvement do you anticipate? Do you think that you will see slightly better profitability in FY2025?

A: Given that memory testers account for a greater portion of our sales than they did in the past, we see the improvement of their profitability as a priority. As our first step, we will strive to improve their profitability by providing system configurations that offer greater added value by addressing technological advances in chips when HBM transitions to the next generation, which we expect will happen around the end of this fiscal year. Generational change takes place more quickly with HBM than with general-purpose DRAM. We will collaborate closely with our customers to identify the specifications that they require and work to propose solutions that leverage our technology. Our second step, which is already underway, involves initiatives to improve profitability by managing our procurement costs, enhancing our production efficiency, and strengthening our supply chain. It is through these initiatives that we plan to bolster our profitability as we head toward FY2025.

Q: Your margins appear to be lower than they were five years ago. Are there any reasons other than a less favorable mix? Your peer's gross margin seems to have deteriorated only slightly. Have you experienced any changes, such as declines in the profitability of individual products?

A: While the profitability of individual products is exposed to factors such as the impact that inflation and exchange rate fluctuations have on the cost of raw materials, labor, and the like, we monitor such conditions regularly and believe that we are ensuring the profitability of our products. Our profitability expectations for this fiscal year mostly take into account the impact of product mix. HBM test demand is on the rise, and we expect to see higher-performance test demand mount as technology advances with the transition to HBM3E, HBM4, and so on. We will offer high-added-value products that will lead to better profitability for us.

Q: Given that you expect solid demand for HBM and other memory testers again in CY2025, it seems that there is a risk that your margins could remain under pressure in that year. Could you specify what sort of actions you plan to take to improve the profitability of your memory testers?

A: Rigorous testing is in demand because of the more stringent quality assurance requirements for HBM. This translates into greater sales for us. Customers want the optimum test solutions for boosting their yields and enabling technology transitions. Responding to such demand in terms of both specifications and supply capacity enables us to deliver value across our customers' operations. That in turn allows us to maintain our advantage and paves the way for margin improvement as well.

We also want to focus on pursuing greater efficiency with our cost of goods sold by working with our extensive base of suppliers. We believe that we will be able to improve our profitability by advancing these plans.

In addition, we are working with our customers to undertake a variety of evaluations of new initiatives aimed at enhancing the efficiency of the overall test process. These efforts have somewhat longer timelines, but we plan to leverage our insights and wealth of solutions to capture business opportunities. We have made some progress on these efforts since last year and will continue to focus on them.

Q: You said that you recognized impairment losses on a portion of the goodwill associated with Essai, Inc., but what is your outlook for this business? I would think that there is considerable scope for growth in Essai, Inc.'s business and the rest of your System Level Test business, so could you explain what led to the impairment losses?

A: The impairment losses we recognized owed to the exposure that Essai, Inc.'s business had to a certain customer. Partly because of sluggish market conditions, its existing customer base looks likely to generate lower sales than we had anticipated, and while we have made some progress on winning new customers, those efforts are taking time. We are confident in the business of Essai, Inc. which deals in high-end sockets. We believe that by building a broader customer base, we will be able to generate greater cash flows from that business.

Q: A high percentage of your sales comes from China. What is driving the growth in your China sales? My understanding is that it is growth in your sales of testers for legacy nodes in the SoC chip space, but how do you view the sustainability of that demand?

A: While it is true that our China sales are growing, our understanding is that our China exposure is not that substantial compared to that of our peers in the semiconductor production equipment space. We generate some of our sales from testers for legacy nodes, but we generate more from our testers for high-end SoC and memory chips, so our business there is diverse.

Q: To what extent have you factored impact from geopolitical risks such as US restrictions on China into your FY2024 forecasts?

A: Our understanding is that our semiconductor testers do not represent equipment involved in manufacturing at advanced process nodes, and for that reason, our outlook is not premised on a substantial impact from such controls. We conduct our business in compliance with the laws and regulations of the relevant countries, but based on our current understanding of the nature of these controls, we believe that any direct impact on our earnings will be limited.

Q: The yen continues to weaken. Do you have some rule of thumb that you apply to foreign exchange hedging?

A: We have both receivables and payables denominated in foreign currencies, so our foreign exchange risk is basically mitigated by those cancelling one another out. As for anything beyond that, we explore what actions to take based on the volumes we are dealing with and the extent of the exchange rate fluctuations.

Q: You left your expected dividend per share for FY2024 undetermined, but could you give us a rough idea?

A: We are still in the process of formulating our Third Mid-Term Management Plan, which we intend to unveil in June. We will present our shareholder return policy under the three-year plan at that time.

Note

This document is prepared for those who were unable to attend the financial briefing 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.