

ADVANTEST[®]



FY2024 1Q
(Three months ended June 30th, 2024)

Financial Briefing

July 31st, 2024
Advantest Corporation

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NOTE

Accounting Standards

– Our results and outlook, described in this presentation, have been prepared in accordance with IFRS.

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Summary

- Rising complexity in SoC semiconductors for generative AI are driving tester demand more than expected in light of quality assurance requirement.
- FY24 1Q sales, operating income, and net income increased QoQ and YoY, as product deliveries to customers progressed and sales mix also improved.
- FY24 full-year earnings forecast is revised upward.

○ Summary

- First, I will provide an overview of FY 2024 before delving into the results for the 1st quarter.
- Over the past year, we have outlined the business opportunities arising from generative AI and in the 1st quarter, we saw some of this manifest.
- While we had anticipated the semiconductor test-related market to revert to a growth cycle in FY2024, increasing complexity is raising tester demand more rapidly than originally expected, especially for SoC testers.
- In the first quarter, sales, operating income, net income increased QoQ and YoY. Against a backdrop of continued demand growth driven by semiconductor performance and rising complexity, our product deliveries to customers exceeded our original plan, and our sales mix improved.
- We are revising up our full year guidance for FY2024.
- As such, we are off to a good start for the Third Mid-Term Management Plan, of which this is the first fiscal year.
- Now, Mihashi will explain the 1st quarter results.

Financial Results for FY2024 1Q

Yasuo Mihashi

Senior Executive Officer, CFO & CSO (Chief Strategy Officer)

Executive Vice President, Corporate Strategy Group

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FY24 1Q Summary of Results

(¥B)

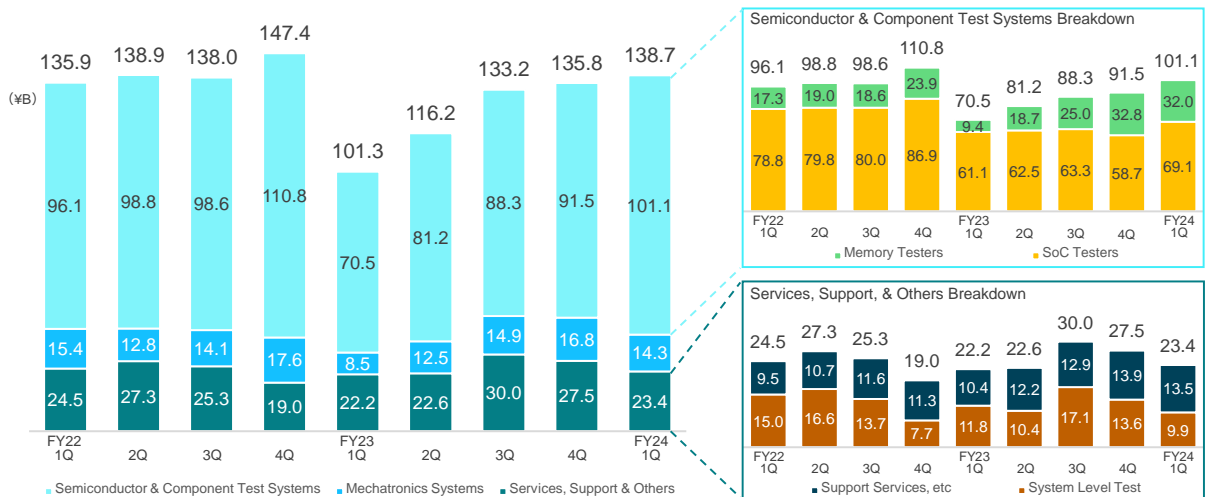
	FY23				1Q	FY24			
	1Q	2Q	3Q	4Q		QoQ		YoY	
						Change	(%)	Change	(%)
Sales	101.3	116.2	133.2	135.8	138.7	+3.0	+2.2%	+37.5	+37.0%
Gross Profit	51.0	58.0	67.4	69.6	76.9	+7.3	+10.4%	+26.0	+50.9%
Gross Margin %	50.3%	49.9%	50.6%	51.3%	55.4%	+4.1pts		+5.1pts	
Operating Income	14.3	21.0	26.8	19.5	31.3	+11.8	+60.4%	+17.1	+2.2x
Operating Margin %	14.1%	18.1%	20.1%	14.4%	22.6%	+8.2pts		+8.5pts	
Income Before Tax	13.0	20.3	26.3	18.6	31.9	+13.3	+71.6%	+19.0	+2.5x
Net Income	9.2	16.7	21.2	15.2	23.9	+8.7	+57.6%	+14.7	+2.6x
Net Income Margin %	9.1%	14.4%	15.9%	11.2%	17.2%	+6.0pts		+8.1pts	
Exchange Rate	1 US\$	¥135	¥142	¥149	¥147	¥153	¥6 Depreciation		¥18 Depreciation
	1 Euro	¥146	¥156	¥159	¥159	¥165	¥6 Depreciation		¥19 Depreciation
Dividend Per Share*1	-	¥16.25 (¥65)	-	¥18	-	-	-	-	-

*1: Advantest has issued a 4-for-1 stock split of common stock, effective October 1, 2023. The above dividend per share figures are based on the assumption that the stock split had been issued at the beginning of FY23. (values in parentheses are those before the split).

○ FY2024 1Q Summary of Results

- In the 1st quarter, we posted an increase in sales and profits QoQ due to factors such as the recovery of SoC tester demand and a boost by the yen depreciation against the US dollar.
- There was robust CapEx spending by customers for high-performance semiconductors in both SoC and memory, mainly related to generative AI. On the other hand, demand for mature process applications remained soft since the 3rd quarter of the previous fiscal year, resulting in a QoQ decline in sales.
- Details of the results will be explained in the following pages.

Quarterly Sales by Segment



Note: Intersegment transactions have been eliminated from totals

○ FY2024 1Q Summary of Results

○ Semiconductor & Component Test Systems

- SoC tester sales were ¥69.1 billion, an increase of ¥10.4 billion QoQ.
- Sales increased due to a significant increase in demand for advanced process applications such as HPC/AI. On the other hand, for mature process applications, in addition to the soft demand of automotive and industrial, sales for display driver ICs also decreased.
- Memory tester sales were flat QoQ at ¥32.0 billion. Demand remained elevated for high-performance DRAM, particularly HBM.

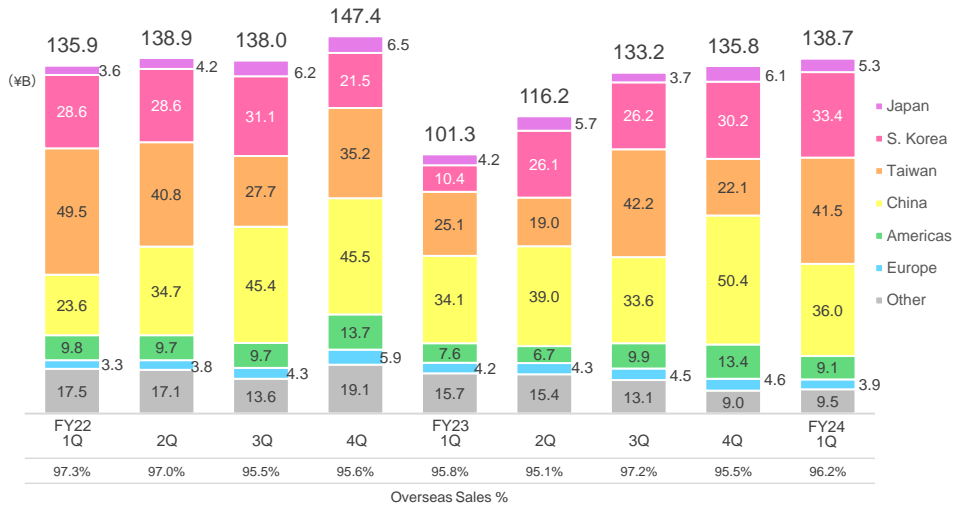
○ Mechatronics Systems

- Sales of device interfaces increased QoQ in tandem with increased sales of testers. However, segment sales decreased QoQ due to an absence of bulk sales of nano-technology products booked in the previous quarter.

○ Service, Support, & Others

- In the system level test business, which has high sales exposure to a limited number of customers, sales decreased as demand remained soft in the consumer sector.

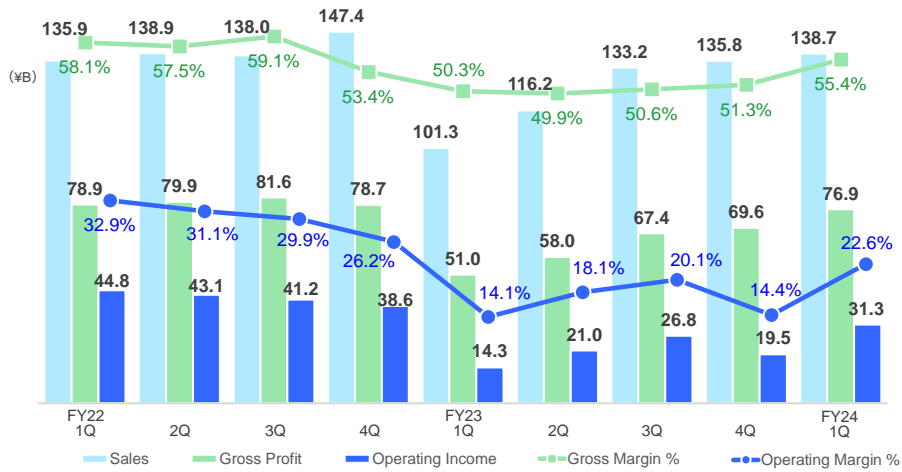
Quarterly Sales by Region (Ship to Region)



○ FY2024 1Q Sales by Region (Ship to Region)

- Taiwan**
 Increasing complexity of HPC/AI-related semiconductors driven mainly by US fabless companies resulted in longer than expected test time, leading to an increase in tester volume demand from the related foundry and OSATs. As a result, the excess capacity of testers has been largely digested, and sales of SoC testers increased further.
- South Korea**
 Memory tester sales increased as customers' investment appetite remained robust, particularly in DRAM applications.
- China**
 While sales of both SoC testers and memory testers decreased QoQ, the sales level remained high.
- Regarding the tightening of restrictions on the export of semiconductor production equipment to China by the U.S. and its allies, the direct impact on our FY2024 earnings is expected to be limited under the current laws and regulations, but we will continue to closely monitor the situation.

Sales / Gross Profit / Operating Income

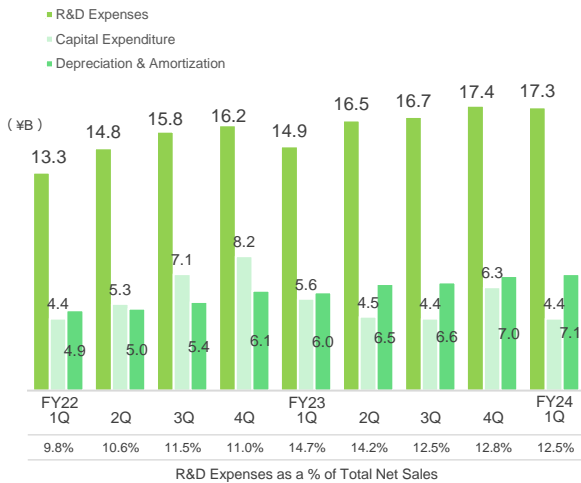


○ FY2024 1Q Sales / Gross Profit / Operating Income

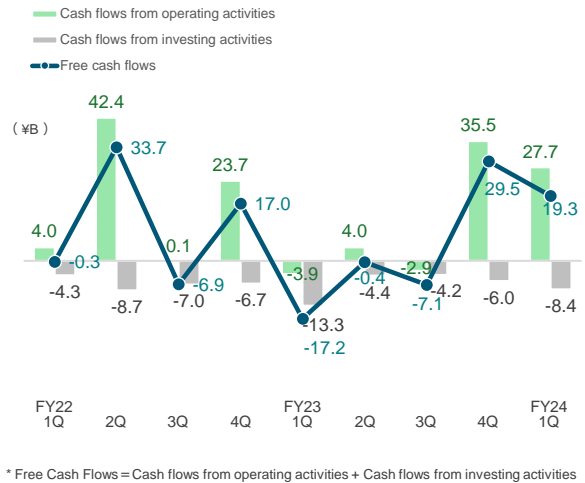
- Gross margin increased QoQ, mainly due to an improved mix, reflecting an increase in the sales composition for high-end SoC.
- SG&A (including all other income and expenses) decreased by ¥4.5 billion QoQ.
- However, core SG&A increased QoQ due to the booking of impairment loss of a portion of goodwill of approximately ¥9 billion as other expenses in the previous quarter, as well as impacts of yen depreciation and an increase in provision for performance-linked bonuses.

Investments / Cash Flow

<Investments>



<Cash Flow>



○ FY2024 1Q R&D Expenses/ CapEx/ D&A

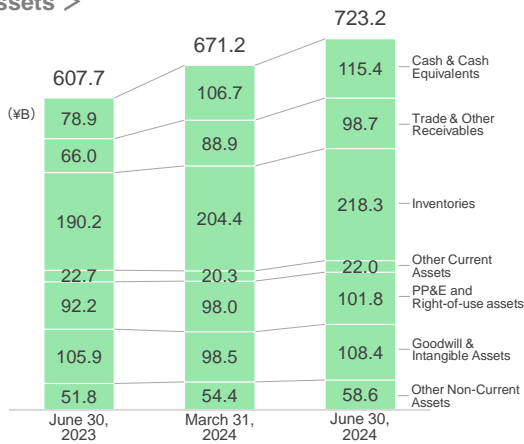
- R&D Expenses, CapEx, and D&A are illustrated on this slide.
- R&D Expenses remained high, following the previous quarter.

○ FY2024 1Q Cash Flow

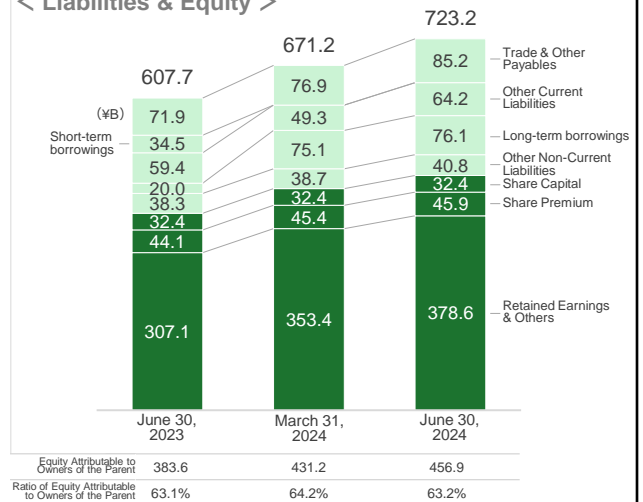
- Operating cash flow decreased QoQ due to bonus and other payments in the 1st quarter.
- With regard to investment cash flow, we completed an acquisition of Salland Engineering, a Dutch test service engineering company, on April 2nd, 2024. This resulted in an increase in cash outflow from investing activities in the 1st quarter.
- The acquisition is intended to strengthen the medium- and long-term growth foundation and is not expected to have a significant impact on the Company's financial performance in FY2024.

Financial Position

< Assets >



< Liabilities & Equity >



○ Balance Sheet for the Period Ended June 30th, 2024

- Inventories increased slightly QoQ. While our sales have increased, the status of demand recovery varies from application to application. For high-performance semiconductors where tester demand is growing, we are strengthening procurement to increase production. On the other hand, for products where demand recovery is likely to take time, we will continue to work on inventory management.
- This concludes my presentation. Now I will hand over to Doug who will go over the FY2024 outlook.



FY2024 Outlook

Douglas Lefever
Representative Director, Senior Executive Officer, Group CEO

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Business Environment / Semiconductor Tester Market Trends: July 2024 Outlook

< Business Environment >

- The global economy trended firmly, despite the ongoing monetary tightening policies against a backdrop of persistent inflation.
- The semiconductor market presented a mixed picture of recovery with faster than expected growth of semiconductors related to generative AI on one hand and continued softness in semiconductors for automotive and industrial equipment on the other hand.

< Semiconductor Tester Market >

- In CY24 semiconductor tester market, increasing complexity in semiconductors related to generative AI is raising HPC test demand more rapidly than originally anticipated. Demand growth is forecast to be stronger than previously expected.
- On the other hand, tester demand for automotive and industrial equipment is expected to take time to recover.
- Prompt supply capacity expansion of testers in response to robust demand for high-performance DRAM is also contributing to an upward revision of the TAM estimate.

	CY23 Actual	CY24 Estimate
SoC Tester Market	Approx. \$3.3B	Approx. \$3.2B - 3.5B (April estimate: approx. \$2.9B - 3.2B)
Memory Tester Market	Approx. \$1.1B	Approx. \$1.6B - 1.8B (April estimate: approx. \$1.4B - 1.7B)

Source: Advantest

○ Business Environment/Semiconductor Tester Market Trends

- The recovery of the semiconductor market in 2024 presents a mixed picture. While semiconductors for generative AI are likely to grow faster than expected, semiconductor demand for automotive and industrial equipment is expected to remain soft.
- The SoC tester market size in CY24 is estimated to be in the range of US \$3.2 billion to \$3.5 billion, an upward revision of \$300 million from the estimate three months ago. While recovery of tester demand for automotive and industrial applications is likely to take time, test demand is likely to exceed our original expectation due to the increasing complexity of SoC semiconductors, particularly HPC for generative AI.
- The CY24 memory tester market size estimate has also been revised upward to a range of US \$1.6 billion to \$1.8 billion. Prompt supply capacity expansion of testers in response to robust demand for high-performance DRAM has also contributed to the upward revision of the memory tester market size estimate.
- Taking all these factors into account, the semiconductor tester market size is estimated to increase by about 15% YoY at the mid-point in 2024, and tester demand in 2024 is expected to grow more than assumed at the beginning of the period.

FY24 Forecast

	FY23		FY24						Change vs. Prior Full-Year Forecast	
	Results	FY24		vs. FY23		Full-year Forecast	Change	Change (%)	FY24 Forecast as of April	Change
		1Q Results	2Q Forecast	1H Forecast	2H Forecast					
Sales*1	486.5	138.7	153.3	292.0	308.0	600.0	+113.5	+23.3%	525.0	+75.0
Operating Income	81.6	31.3	35.7	67.0	71.0	138.0	+56.4	+69.1%	90.0	+48.0
Operating Margin %	16.8%	22.6%	23.3%	22.9%	23.1%	23.0%	+6.2pts		17.1%	+5.9pts
Income Before Tax	78.2	31.9	35.6	67.5	71.0	138.5	+60.3	+77.2%	89.0	+49.5
Net Income	62.3	23.9	26.7	50.6	54.4	105.0	+42.7	+68.6%	67.0	+38.0
Net Income Margin %	12.8%	17.2%	17.4%	17.3%	17.7%	17.5%	+4.7pts		12.8%	+4.7pts
R&D Expenses	65.5	17.3	17.7	35.0	35.0	70.0	+4.5	+6.9%	67.0	+3.0
CapEx	20.8	4.4	6.4	10.8	11.2	22.0	+1.2	+5.8%	22.0	-
D&A	26.1	7.1	6.8	13.9	13.1	27.0	+0.9	+3.4%	27.0	-
Exchange Rate*2	1 US\$	¥143	¥153	¥140	¥147	¥140	¥143	-	¥140	¥3 Depreciation
	1 Euro	¥155	¥165	¥155	¥160	¥155	¥158	¥3 Depreciation	¥155	¥3 Depreciation

*1: Intersegment transactions have been eliminated from totals

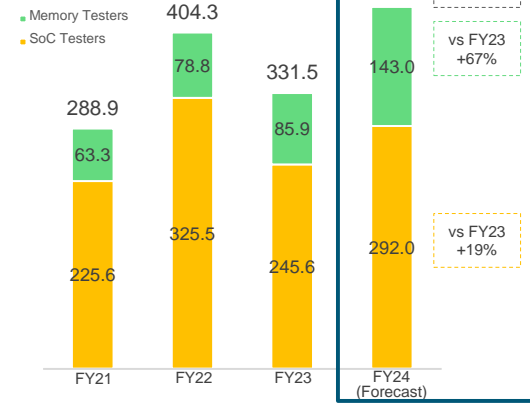
*2: Our latest forecast for the impact of exchange rate fluctuations on FY24 operating income is plus ¥0.9 billion per 1 yen of JPY depreciation vs USD, and minus ¥0.3 billion per 1 yen of JPY depreciation vs the Euro

○ FY2024 Forecast

- In light of the 1st quarter result and the outlook going forward, we are raising our full year forecast as follows:
 - Sales ¥600 billion
 - Operating Income ¥138.0 billion
 - Income before tax ¥138.5 billion
 - Net income ¥105.0 billion
- Of the sales upward revision totaling ¥ 75 billion, SoC testers account for the biggest portion, with high demand for SoC testers expected in both the 1st and 2nd half of the fiscal year. Memory testers are expected to see a further increase in sales in the 2nd half of the fiscal year.
- With sales expected to exceed the original estimate, we will continue to work on our supply chain management in order to keep up with demand.
- The gross margin for the full year is expected to be around 52%, up from the previous forecast of around 48%, due to higher sales and a better mix.
- The exchange rate assumptions from the 2nd quarter onward are 140 yen for the US dollar and 155 yen for the euro.
- The latest estimate for the impact of exchange rate fluctuation of FY24 operating income is positive ¥ 900 million per yen of JPY depreciation vs USD and negative ¥ 300 million per yen of JPY depreciation vs Euro. Due to the expected increase in sales from U.S. dollar-based transactions, we have raised our sensitivity estimate for the U.S. dollar by ¥ 200 million from April.
- Next, I will explain the details of the sales forecast.

FY24 Outlook by Segment

Semiconductor & Component Test Systems Sales Trends (¥B)



Semiconductor & Component Test Systems

< SoC Testers > (+¥47.0B vs April forecast)

- Demand increase is likely to exceed the original expectation due to semiconductor complexity gains for HPC/AI. On the other hand, recovery is likely to take time for mature node devices.

Applications	FY21	FY22	FY23	FY24e
Computing / Comms	60%	65%	60%	80%
Automotive / Industrial / Consumer / DDIC*1	40%	35%	40%	20%

*1 DDIC : Display Driver IC

Numbers are rounded to the nearest 5%

< Memory Testers > (+¥17.0B vs April forecast)

- Our supply capacity has been promptly increased in response to customers' strong appetite for investment in HBM. Sales forecast is revised upward due to prospects for increased production.

Applications	FY21	FY22	FY23	FY24e
DRAM	60%	60%	90%	95%
Non-Volatile Memory	40%	40%	10%	5%

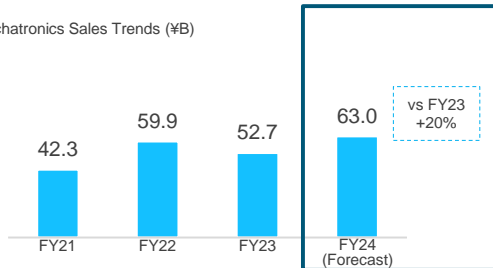
Numbers are rounded to the nearest 5%

○ FY2024 Semiconductor & Component Test Systems outlook

- FY24 SoC sales forecast is revised upward by ¥ 47 billion from the April forecast.
- At the Financial Briefing in April, we explained that the lead time normalization for SoC testers has caused the visibility of the business pipeline to be shorter.
- Now that three months have passed in such an environment, we are revising up our sales forecast as the increase in test demand has become clearer, driven by increasing semiconductor complexity for HPC/AI applications.
- On the other hand, for application processors, demand recovery remains uncertain, although demand from factors such as the shift to the 3nm process can be expected. Demand recovery for mature process applications such as automotive, industrial, and DDICs is also likely to take time.
- FY24 memory tester sales forecast is revised upward by ¥ 17 billion from the April forecast.
- Although the strength in customers' appetite for investment has been observed from the previous year, we are raising the sales forecast this time due to prospects for a prompt increase in our production capacity.

FY24 Outlook by Segment

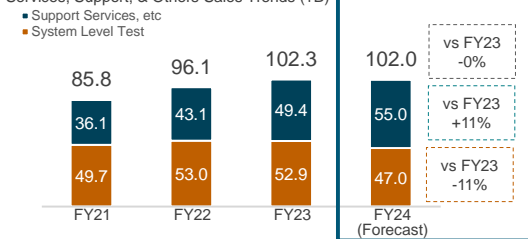
Mechatronics Sales Trends (¥B)



Mechatronics Systems (+¥8.0B vs April forecast)

– Sales forecast of device interface products is revised upward in tandem with the increase in sales forecast for testers.

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



Services, Support, & Others (+¥3.0B vs April forecast)

– Solid demand for support services is expected due to the steady growth of our installed base.

– For the system level test business, sales forecast is raised slightly on the back of increasing complexity and high reliability requirements for semiconductors, despite continued uncertainty in the consumer application.

○ FY2024 Mechatronics / Services, Support, & Others Business Outlook

- FY24 Mechatronics System sales forecast is revised upward by ¥ 8 billion from the April forecast.
- With tester sales growing, sales of related device interfaces have been raised from the previous forecast.
- FY24 Service, Support, & Others sales forecast is revised upward by ¥ 3 billion from the April forecast.
- For support services, we expect solid demand due to the steady growth of our installed base.
- For the system level test business, sales forecast is raised slightly from the April forecast. Despite continued uncertainty in consumer applications, sales growth is expected in computing and automotive applications on the back of increasing complexity and high-reliability requirements for semiconductors.



- As explained, FY2024 is off to a good start.
- In the meantime, there are challenges.
- In the recently released MTP3, we disclosed a cost/profit target model in which the operating margin is projected to be 25% at a sales level of ¥630 billion. In contrast, the current FY24 forecast assumes an operating margin of 23% on a sales level of ¥600 billion.
- In order to reach an operating margin of 25% as shown in the cost/profit target model, further profitability improvements are needed in addition to sales growth.
- In order to achieve a profit structure that is less affected by product mix, we will push forward with measures such as improving profitability for HBM, which is one of the challenges we are facing currently, and we will strive to achieve MTP3.
- This concludes my presentation. Thank you for your attention.