Advantest Corporation

Summary of Q&A Session at the 84th Ordinary General Meeting of Shareholders

[Questions received online prior to the meeting]

Q. How does management view and respond to stock price volatility and supply-demand dynamics arising from the Company's significant weighting in the Nikkei Stock Average? Additionally, what investor relations strategies and capital efficiency initiatives will you implement to ensure that your medium- to long-term corporate value is appropriately reflected in your market valuation?

A. (President Tsukui) We recognize that our Nikkei Stock Average weighting and trading by index-linked funds may contribute to short-term stock price fluctuations. However, these market factors are beyond our direct control. We believe that it best serves the interests of our shareholders to enhance sustainable corporate value over the medium- to long-term rather than focusing on short-term stock price movements. Therefore, we are committed to capturing growth opportunities, including demand driven by AI and data centers, while continuing to invest in research and development, talent development, and other initiatives that support future growth. At the same time, we are working to improve profitability and capital efficiency, including ROIC (Return on Invested Capital). Regarding investor relations, we are committed to fair and transparent disclosure and will continue to clearly communicate our growth strategy and approach to capital allocation. Regarding shareholder returns, while our third mid-term management plan (MTP3), covering FY2024 through FY2026, targets a cumulative total return ratio of 50% or greater, we believe it is also essential to invest steadily in sustainable growth for the medium- to long-term. We believe these efforts to enhance corporate value will meet the expectations of our shareholders.

Q. What is your approach to investing in research and development and talent development to maintain a competitive advantage in the rapidly evolving semiconductor test market? Additionally, what is your medium- to long-term vision and roadmap for achieving sustainable business growth and maximizing corporate value?

A. (President Tsukui) Our medium- to long-term vision is "Be the most trusted and valued test solution company in the semiconductor value chain." This vision statement reflects our principled stance as a company with an unparalleled understanding of the testing challenges customers face amidst the rapid evolution of semiconductor technologies and testing requirements, and our ongoing commitment to provide uniquely valuable solutions. We are executing initiatives on three key axes to realize this vision. First, we are enhancing our ability to address the increasing complexity of semiconductors. Advances in AI computing, advanced packaging technologies, and chiplet architectures are all driving demand for more sophisticated test solutions. We are focusing on the development of technologies that enable more accurate and efficient testing of next-generation devices. Second, we are building integrated solutions. Our goal is to provide end-to-end solutions by integrating testers with handlers, sockets, and other related technologies. To this end, we are actively pursuing partnerships with leading providers. Third, we are improving the quality and speed of our research and development. Our close relationships with customers give us insights into industry challenges that may not materialize for another five to ten years. By combining this perspective with cross-functional technology applications and the adoption of AI, we aim to deliver innovative solutions ahead of the market. The successful execution of these initiatives depends on people, so it is a priority for us to invest in strengthening our expertise in advanced technologies, attracting top talent, and developing our workforce. Rather than simply seeking to outperform our competitors, we aim to push technology forward, support the growth of our customers and the evolution of the semiconductor industry, and ultimately enhance our corporate value over the medium to long term.

Q. The Company's dividend has not increased in line with share price appreciation. For individual investors, dividends are an important factor in long-term investment decisions. Given that the Company pays a lower dividend than its peers, does management have any plans to increase it?

A. (President Tsukui) Under MTP3, we target a cumulative total return ratio of 50% or more over the three-year period of the plan. That return includes both dividends and share repurchases. At the same time, we prioritize investments that capture growth opportunities. We believe that continued investment in research and development, talent development, and working capital expansion is essential to maintaining and reinforcing our competitiveness and capturing growth opportunities. Regarding dividends, we are committed to stable dividend payouts, with a minimum annual dividend of JPY 30 per share, and we have increased our dividend for the past five consecutive fiscal years. In the present environment, with growth investment opportunities expected to continue, we believe that it is in the best interests of our shareholders to seize these opportunities for sustainable growth. This is our highest priority at present, though we will continue to review it going forward.

[Questions received at the meeting]

Q. What drove the recent approximately 10% increase in the Company's share of the SoC test system market? Was it overall market expansion resulting from growth in the AI sector, or did the Company gain market share versus competitors? Additionally, what are the competitive advantages that will enable you to maintain and further grow your market share going forward?

A. (Group CEO Lefever) The expansion of our market share in the SoC test system market has primarily been driven by increased orders from existing customers. We believe that having sown the seeds of strong relationships with customers over many years, we are now reaping the fruit of those efforts as the AI market expands. We believe there is still room for further market share gains, and we see a path toward achieving a market share of over 70% in the SoC test system market. Our competitive advantages stem from our advanced technologies, service and support of the highest standards, and our ability to provide comprehensive test solutions that go beyond tester sales. Going forward, we will continue to leverage these strengths to maintain and enhance our competitiveness.

Q. How do you view your competitive position in the smartphone test market, and what is your future strategy for this market?

A. (Group CEO Lefever) The smartphone market is currently flat, but we hold a strong position in this market. We provide a broad range of test solutions for application processors, modems, RF transceivers, and other devices. We are also the market share leader in the Android market.

(President Tsukui) The smartphone market has a highly specialized value chain encompassing fabless companies, foundries, and outsourced semiconductor assembly and test companies (OSATs). Through the strong customer relationships we have built over many years, our test platforms have been adopted by a broad customer base. This large installed base is one of our strengths, and we intend to leverage it to expand our customer base.

Q. Given the possibility that the semiconductor market may plateau in the future, how does the Company plan to ensure growth while pursuing its vision of "Be the most trusted and valued test solution company in the semiconductor value chain"? Additionally, what initiatives are planned to improve profitability?

A. (Group CEO Lefever) Increased capital investment in data centers and growth in semiconductor wafer and package production is driving demand growth. Accordingly, we are expanding our production capacity. We believe this puts us in a good position to deliver strong business performance over the next several years. While we recognize that the present rapid pace of growth may subside over the medium to long term, we expect to see new growth opportunities generated by the expansion of edge application markets centered on Physical AI, such as autonomous driving and robotics. Regarding operating profit margin, we aim to improve it even further by evolving our existing business model. We plan to build a more resilient revenue model by expanding our recurring and subscription-based revenue streams, as well as by growing our data analytics and software businesses. We are currently considering incorporating these initiatives into our fourth mid-term management plan (MTP4).

Q. Why did you hold this year's Ordinary General Meeting of Shareholders on July 31? What is your view on holding future meetings at an earlier date?

A. (President Tsukui) We consider it important to provide shareholders with sufficient time to review the Annual Securities Report before exercising their voting rights. Accordingly, we disclosed our Annual Securities Report and Business Report (prepared as a single document) 35 days prior to this year's Ordinary General Meeting of Shareholders. In addition, we believe there are benefits to holding the meeting after our quarterly earnings report, as this enables us to explain those results at the meeting. While further accelerating the timing of disclosure remains challenging at this stage, we believe that integrating the Annual Securities Report and Business Report into a single document will contribute to greater operational efficiency in future.

Q. As AI continues to advance and semiconductor devices become increasingly complex, required test items and test insertions are both increasing in number. Given this trend, do you expect test demand to continue growing? What factors are driving test demand?

A. (Group CEO Lefever) As device structures become increasingly complex, particularly with the adoption of 3D packaging, they can look almost like little cities contained within a single package. We believe the scope of test requirements will continue to expand due to factors such as increasing transistors and interconnect counts, as well as the growing importance of thermal management. In addition, the need to improve yield is increasing the importance of testing at earlier stages of the manufacturing process, even before package assembly. This is expected to result in a greater number of test insertions. Even if the semiconductor market plateaus in the future, we believe that the number of test items and test insertions required per device will continue to increase as semiconductor devices become increasingly complex. Therefore, we expect demand for both test solutions and testers to continue growing over the medium to long term.

Q. What is your competitive strategy in response to the emergence of Chinese competitors? And how are you protecting your intellectual property rights?

A. (President Tsukui) China is an important market for us, accounting for 19% of our sales by region. We will continue to operate in the Chinese market while complying with applicable laws and regulations. The Chinese market encompasses diverse segments, including SoCs, memory, analog and power semiconductors. We strive to enhance the value we provide to customers through our platforms and test solutions while differentiating ourselves from competitors. In addition, we intend to respond to competition from Chinese manufacturers by obtaining information from our global customers as early as possible. Regarding the protection of intellectual property rights, we have drawn on our 30-plus years of business experience in China to establish information management systems and employee training programs covering software, hardware, and test programs. We will continue to strengthen these initiatives.

Q. What is your compensation strategy for attracting and retaining highly skilled technical talent?

A. (Executive Officer Yoshimoto) Our compensation structure consists of three components: fixed compensation, performance-linked bonuses, and stock compensation. This enables us to provide attractive total compensation packages. In particular, we flexibly utilize stock compensation to attract and retain talented engineers.

(President Tsukui) We aim to maintain a compensation system that is globally competitive while factoring in regional market conditions.

Q. What are your plans for future production capacity expansion and capital expenditures?

A. (President Tsukui) SoC and memory tester demand has exceeded our projections. To meet this demand, we are accelerating production capacity expansion ahead of schedule. In addition, we are responding to changes in the procurement environment for certain components by signing long-term procurement contracts and strengthening our partnerships with suppliers. Regarding capital expenditures, we have adopted a hybrid production model that combines in-house production with outsourced manufacturing. Accordingly, we intend to expand production capacity efficiently through a combination of investments in our own facilities and collaboration with outsourcing partners.

Q. Your fourth mid-term management plan (MTP4) is currently under development. What do you see as your most significant business risk during the period it covers?

A. (Group CEO Lefever) The most significant business risk we foresee in MTP4 would be a slowdown in the current rapid expansion of data center infrastructure. However, we expect data center expansion to continue driving our business over the next several years. During the second half of MTP4, we intend to closely monitor trends in data center expansion.

Q. I feel that the Company's brand awareness and branding activities are relatively limited in comparison with industry peers. What is your view on this and have you planned any future initiatives to address it?

A. (Executive Officer Mitsuhashi) We are responding to recent changes in the business environment by further strengthening our efforts to enhance brand awareness. While television commercials can be an effective means of increasing awareness in Japan, we operate globally and therefore emphasize worldwide brand awareness over a limited focus on the Japanese market. We are currently implementing branding activities in several countries, including sports sponsorships, and we intend to continue enhancing our global brand awareness.

Q. What are your views on stock splits?

A. (Executive Officer Yoshimoto) Stock splits are one way of making shares accessible to a broader range of investors and enhancing stock liquidity by reducing the size of investment units. Going forward, we will continue to evaluate this option comprehensively, taking into consideration market trends, our stock price, liquidity, shareholder characteristics, and other relevant factors.

Q. What percentage of the Company's shares are held by foreign investors?

A. (Executive Officer Yoshimoto) As disclosed in our Annual Securities Report and Business Report, foreign investors hold 49.47% of our shares.

Q. How do you view the impact of U.S. tariffs on China and related geopolitical risks to your business? What risks do you anticipate going forward, and what is your approach to mitigating them?

A. (President Tsukui) We continuously gather and analyze information regarding U.S. tariffs on China and related developments by leveraging our global network, including industry associations and external experts in various regions. With respect to the tariffs, we believe the direct impact on our business is currently limited, as shipments to the United States account for only a small portion of our overall shipments. Nevertheless, we continue to closely monitor the situation. Our unchanged policy is to operate in compliance with all applicable laws and regulations. Based on the information we gather and analyze, we also continuously conduct scenario analyses and consider appropriate countermeasures.

Q. As part of the Company's end-to-end solutions, do you plan to expand into testing areas that include printed circuit boards? Would this be attractive from the perspectives of profitability and business potential?

A. (Group CEO Lefever) As semiconductor packaging technologies become increasingly complex, we believe that board-level testing is becoming more important for yield verification and overall system performance evaluation. We do plan to expand into board-level testing, including printed circuit boards, as part of our end-to-end solution initiatives. However, rather than addressing all applications, we intend to focus on selected application areas.

Q. Does the Company have any alliance with a specific company?

A. (President Tsukui) We are unable to disclose details regarding individual customers. At present, we do not have any special business alliances or equity investment relationships.

Q. What is your outlook for market expansion in the silicon photonics field, and what are your competitive strengths and prospects for future business development in this area?

A. (Group CEO Lefever) We have more than 20 years of experience in optoelectronics and silicon photonics. We believe we are well prepared for market expansion. In addition, at our FY2025 earnings call in April 2026, we announced that we had secured our first major order in the silicon photonics field. We are currently working to fulfill that order. While sales presently remain limited in scale, we expect a high growth rate over the next several years and believe that this field has the potential to become one of the key pillars of our business in the future.

[Questions received from viewers of the livestream]

Q. Your operating margin for the second half of FY2026 is forecast to decline from the first half. Is this simply a conservative forecast, or is there a specific reason for it?

A. (President Tsukui) At present, we expect net sales for the second half of FY2026 to exceed the first half. However, we anticipate higher component costs due to inflation, which is expected to impact operating margin.

Q. Please give some color on the Company's key strengths, namely "Complexity," "Velocity," and "Scale."

A. (Group CEO Lefever) “Complexity” refers to the increasing complexity of semiconductor devices driven by technology advancements such as 3D packaging. As semiconductor devices become more complex, testing challenges continue to increase. “Velocity” refers to speed. As customers continue to shorten the product launch cycle for new devices, we must also rapidly evolve our test solutions in order to deliver value to the market. “Scale” refers to our ability to respond to growing demand through production capacity expansion and greater solution development capabilities. While we remain committed to the stringent measurement accuracy that has always been one of our strengths, we currently view “Complexity,” “Velocity,” and “Scale” as especially important keys to competitive advantage.

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