

Advantest Corporation
FY2019 (Period ended March 31, 2020) Financial Briefing
Q&A Summary

April 24, 2020

Q: At their most recent earnings briefings, some of your peers have said that customer inquiries have peaked out. Have you experienced that as well?

A: System level test (SLT) systems were a one of major contributor to 4Q orders. We do not expect 1Q SLT orders to be very brisk, which impacts our overall order outlook for 1Q. However, we are not seeing underperformance in our semiconductor test business orders, nor do we expect to peak out in 1Q.

Q: I am curious about how big you expect the SLT business to be going forward. Also, could you please share your thoughts on the future direction of promising areas such as burn-in (BI) testers, CMOS image sensors (CISs), and display driver ICs (DDICs)?

A: The SLT business got its start with module tests for PCs, but we see scope to broaden the customer base for our solutions given the increasing complexity of semiconductors and more stringent reliability requirements for systems/modules that contain various semiconductors. That said, SLT systems are subject to strong seasonal fluctuations in demand, so it is difficult to give you a typical size for the business exclusive of seasonality. We are in a phase where we are striving to grow the business by 20-30% per annum by expanding our market reach.

The CIS market is growing thanks to multi-lens smartphones and migration to higher pixel counts, as well as an increasing number of applications including in the automotive space. Against that backdrop, reliability assurance requirements, production volume growth, and pixel count growth are driving tester demand. We are also solidly growing our CIS business in keeping with these trends.

Our focus in the BI space is high-end memory, a market that was worth 100-200 million dollars in CY17/18, but which dropped to below 100 million dollars in CY19. However, our new BI & core test solution for DRAM has been well received by our customers, and provided demand for BI testers for NAND (which we had already been offering) bottoms out, we believe the size of the market will recover in CY20.

In the DDIC space, we benefited from technological inflections including TDDI and CoF, which enabled us to book orders in FY18 that were worth roughly triple what we typically do. However, because of this high hurdle, demand was significantly lower in FY19. We had

expected demand to recover in FY20, but all our customers are revisiting their investment plans due to the coronavirus pandemic.

Q: You had expected SoC tester orders to decline QoQ in 4Q, but they actually finished slightly up. Why was that? Could you also speak to how tester orders are trending product by product in 1Q?

A: Our orders for SoC testers were 1 billion yen below our outlook in 4Q, but our sales conversely overshot our expectations by 1 billion yen. The reason for the undershoot in orders is that some customers, especially in the DDIC space, postponed investments until 1Q due to the coronavirus outbreak. We are seeing a downtrend in 1Q orders versus 4Q for SoC testers, memory testers, and mechatronics.

Q: SLT systems are a major contributor to your orders, and I would like to ask about their seasonality. Should we expect their order peak to continue to come in 4Q? Also, when will you recognize sales on the orders that you booked in the 4Q just ended?

A: There is a seasonality to the SLT business that is influenced by sales plans for the end products that use the semiconductors tested on SLT systems. We expect to post sales in 1H from the orders we booked in 4Q.

Q: Could you tell us what percentage of orders SLT systems accounted for in the Services, Support & Others segment? Also, what applications were strong sources of demand in FY19?

A: SLT systems accounted for roughly 60% of 4Q orders in the Services, Support & Others segment and for around 30% of the segment's total FY19 sales of 42.5 billion yen. At present, demand for SLT systems for high-end SoCs and SSDs is extremely brisk.

Q: I would imagine that Essai's IC sockets could be used for a wide range of applications and not just in SLT systems. Why are you emphasizing their relevance to SLT systems? Also, am I correct in believing that Essai generates annual sales of around 100 million dollars?

A: Essai basically excels in the high-end space, so their products can be offered for use not only in SLT systems but also for ATE. That said, at present customer inquiries regarding Essai products are largely related to SLT systems, which is why we referenced Essai in our SLT discussion.

Essai booked roughly 100 million dollars in sales FY18. We will work going forward to grow its sales by offering its products to our existing customers and by expanding into additional sales domains.

Q: Does your 4Q SLT order figure include Essai's order backlog predating the acquisition? Also, what sort of gross margin do you envision achieving once your SLT business has expanded?

A: We did take on Essai's order backlog upon our acquisition of them, but it is not included in our 4Q order figure. The only Essai orders included in our 4Q orders are new ones that we booked after the acquisition. The volume of new orders suggests that we will be able to top the annual sales figure for Essai that I referenced earlier.

We do not believe that the gross margin on SLT systems for SoCs or on Essai products will deviate much from the gross margin of our Semiconductor & Component Test Systems segment.

Q: What is the status of your operations in Malaysia, where a lockdown remains in place?

A: Malaysia is home to facilities belonging to the contractor that produces the V93000, our key SoC tester, and to our own production subsidiary for device interface units. Production at those factories was halted for a time because of the movement curbs enacted by the Malaysian government. However, semiconductor-related businesses were subsequently recognized as an essential service, so while not at 100%, operations have resumed. As such, we were able to continue shipping our SoC testers through 4Q unaffected by the lockdown. We have prepared so that our German facilities will be able to offset any shortfalls in capacity utilization at the Malaysian facilities going forward. We therefore do not believe that factory operations will be a major issue. That said, there are some holes in our procurement of components and materials, which we are aware represents a risk.

Q: The Services, Support & Others segment booked a loss in 4Q. I believe the amortization of intangible assets associated with the Essai acquisition contributed to that, but how substantial were those amortization charges? Also, depreciation and amortization was up by more than 4 billion yen QoQ in 4Q. How much should we expect in 1Q and beyond?

A: I will refrain from commenting on the actual amortization figure for Essai. To give you an idea, we booked an amount that would have been more than enough to push the 4Q loss at the Services, Support & Others segment into the black.

The rise in depreciation and amortization in 4Q was temporary, and the level in 1Q and beyond will approximate what we saw in 3Q and earlier. However, our capex is also growing, so it will not be exactly what we had before.

Q: In a previous discussion of 5G, you mentioned that test times for cutting-edge devices were growing substantially. Is there anything you can share with us on the status of test times?

A: It is difficult for us to discuss current test times at our customers. This does not directly address your question, but I will say that high-end SoCs used in HPC, CPUs, processors, and the like accounted for 70% of our SoC tester sales in FY19. That represented 25% growth versus FY18, which I hope gives you some indication.

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.