

**Advantest Corporation**

# **Information Meeting**

**October 27, 2011**

**Haruo Matsuno  
Representative Director  
President and CEO**

# **FY2011 2nd Quarter Financial Results**

# Summary of Results

**ADVANTEST.**

FY2011	FY2011				
	1Q	2Q		1Q-2Q Total	
		Actual	Q on Q (%)	Actual	Y on Y (%)
(¥B)					
Orders	38.4	<b>27.6</b>	-28.3	<b>66.0</b>	22.1
Sales	26.8	<b>37.7</b>	40.1	<b>64.5</b>	23.7
Cost of Sales	13.7	<b>20.5</b>	48.4	<b>34.2</b>	27.5
Gross Profit	13.1	<b>17.2</b>	31.3	<b>30.3</b>	19.7
Operating Income	0.8	<b>-3.1</b>	-	<b>-2.3</b>	-
Non-operating income	-0.4	<b>-2.0</b>	-	<b>-2.4</b>	-
Income before Tax	0.4	<b>-5.1</b>	-	<b>-4.7</b>	-
Net Income	0.3	<b>-4.8</b>	-	<b>-4.5</b>	-
Operating Income (excluding integration-related expenses)	1.6	<b>1.0</b>	-38.2	<b>2.6</b>	-44.7
Backlog	41.2	<b>40.0</b>	-3.0	<b>40.0</b>	79.7

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- 2nd quarter (2Q) and first half (1H) results summary
- Verigy acquisition was completed in July and became accretive from 2Q
- In 2Q
  - Orders down 28% QoQ to 27.6 billion yen  
Customers adjusting production along with global slowdown fears and restricting new CapEx
  - Sales up 40% QoQ to 37.7 billion yen  
Conditions severe but backlog work through brought solid results
  - For income, 4.1 billion yen booked as Verigy integration expenses also 1.3 billion yen write down of investments
    - Operating loss 3.1 billion yen
    - Loss before tax 5.1 billion yen
    - Net loss 4.8 billion yen
    - Excluding integration expenses, operating income 1.0 billion yen
  - Backlog 40.0 billion yen Verigy accounts for about 1/4
- In 1H
  - Orders 66.0 billion yen YoY up 22%
  - Sales 64.5 billion yen YoY up 24%
  - Both figures up YoY even excluding Verigy accretion
- Outlook for Q3 onward unclear due to macroeconomic uncertainty  
Advantest does not disclose outlook at this time. We will disclose estimates when clarity improves

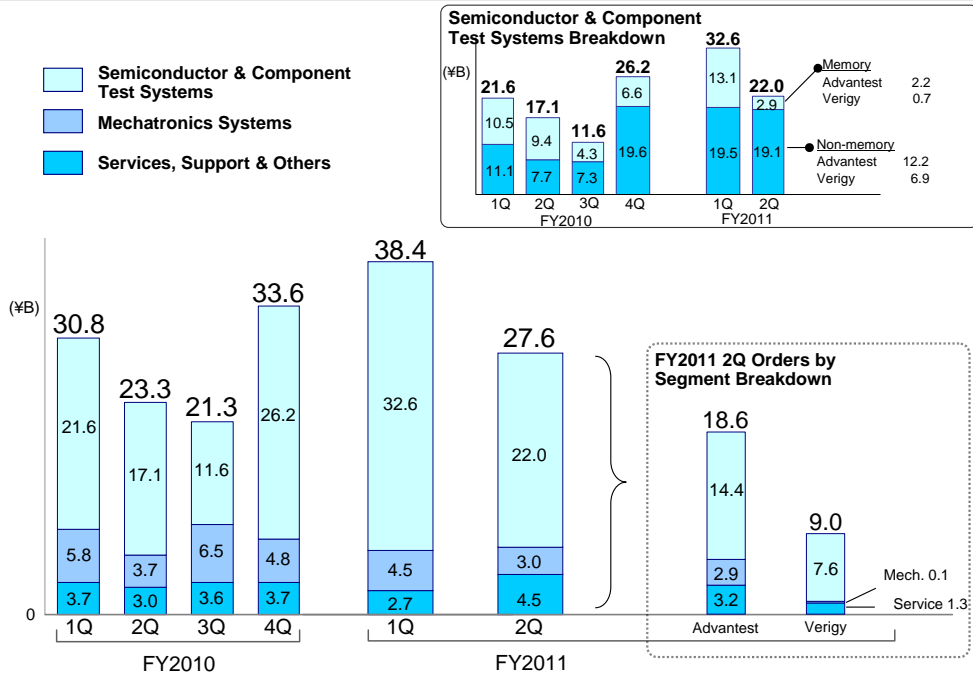
Summary of Results (excluding Verigy & integration costs) **ADVANTEST.**

(¥B)

	FY2010				FY2011		
	1Q	2Q	3Q	4Q	1Q	<b>2Q</b>	Q on Q (%)
Orders	30.8	23.3	21.3	33.6	38.4	<b>18.6</b>	-51.6
Sales	23.5	28.6	25.4	22.1	26.8	<b>30.2</b>	12.1
Cost of Sales	11.9	14.9	13.5	10.8	13.7	<b>15.3</b>	10.9
Gross Profit	11.6	13.7	11.9	11.3	13.1	<b>14.9</b>	13.4
Operating Income	1.8	2.9	1.2	0.2	1.6	<b>1.5</b>	-6.2
Non-operating Income	-0.2	-0.4	-0.2	0.3	-0.4	<b>-2.0</b>	-
Income before Tax	1.6	2.5	1.0	0.5	1.2	<b>-0.5</b>	-
Net Income	0.8	1.8	0.7	-0.1	1.2	<b>-1.1</b>	-
Backlog	27.6	22.3	18.2	29.6	41.2	<b>29.7</b>	-27.9

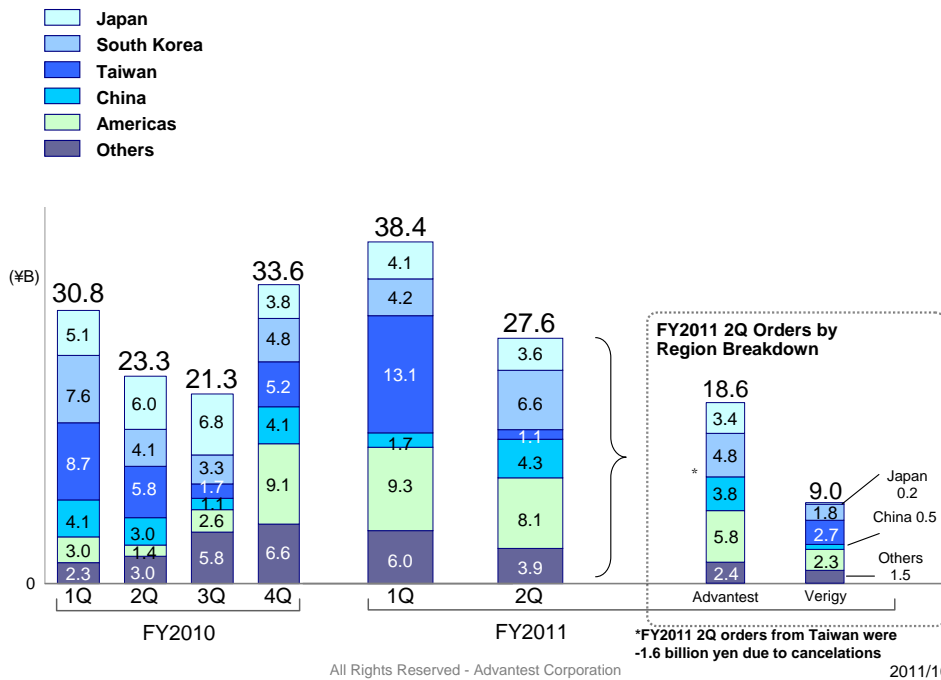
# Orders by Business Segment

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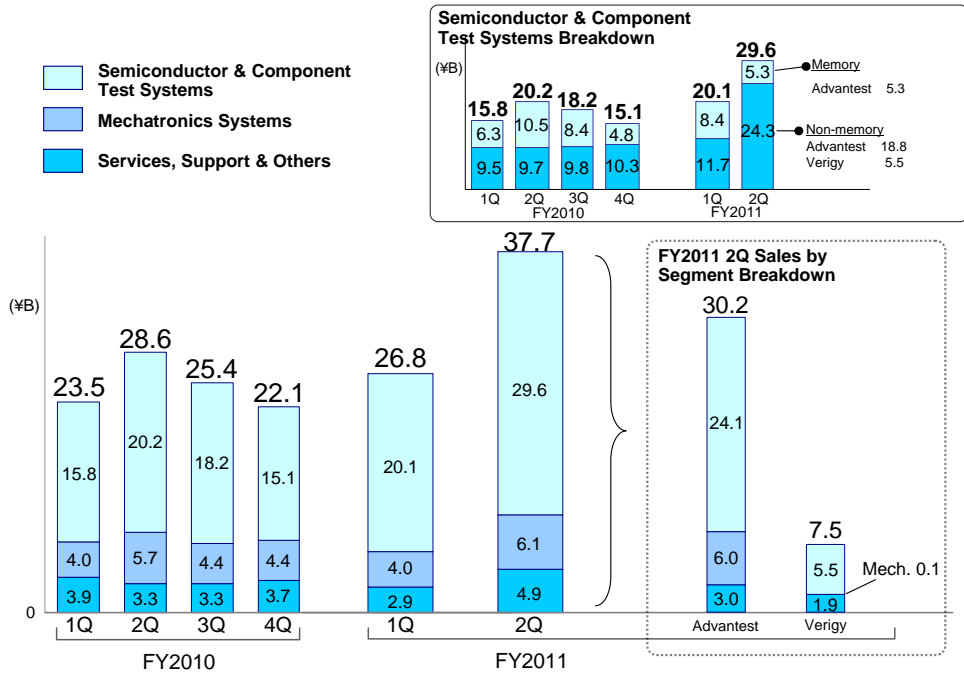
- FY 2Q Orders by Business Segment
- Semiconductor & Component Test Systems
  - QoQ down 32%      22.0 billion yen
  - Verigy contribution      7.6 billion yen
  - (Main factors in the decline)
    - Non-memory Testers
      - T2000 orders from MPUs down, Utilization down at semiconductor manufacturers
    - Memory Testers
      - Falling DRAM prices on stagnant PC demand, Many memory manufacturers restricting new CapEx
- Mechatronics Systems
  - QoQ down 33%      3.0 billion yen
  - (Main factor in the decline)
    - Restricted investment from memory manufacturers
- Services, Support & Others
  - QoQ up 66%      4.5 billion yen
  - (Main factor in the rise)
    - Increased leasing income and Verigy accretive effects

# Orders by Region



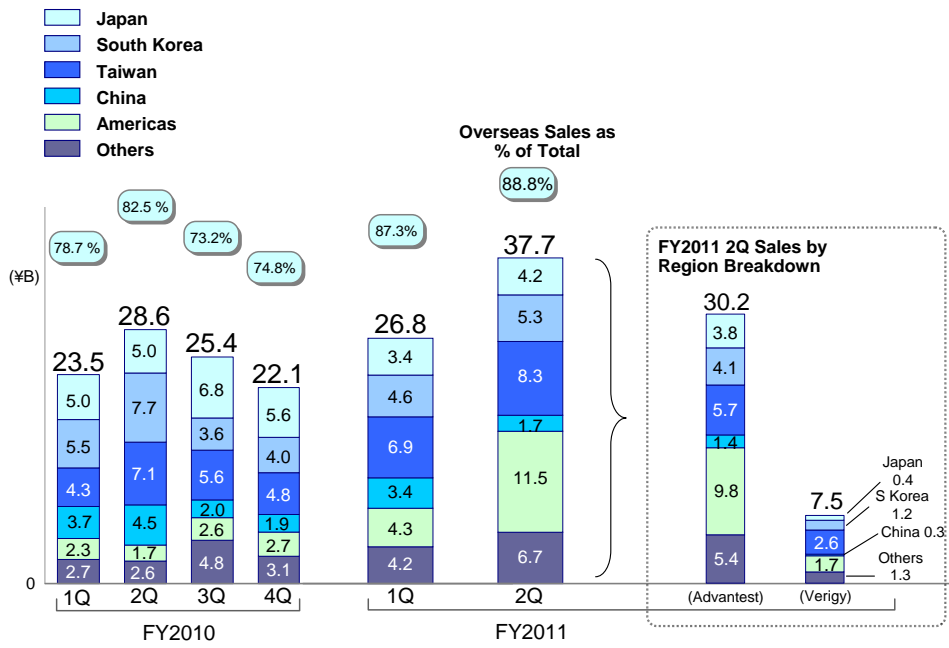
- FY2011 2Q Orders by Region
  - As on a previous slide, lower, excluding South Korea and China, on CapEx restrictions at customers
- Taiwan
  - QoQ down 92% 1.1 billion yen
  - (Main factor in decline)
    - Memory tester orders for PC DRAM up greatly in previous quarter
    - Decline due to comparison effects on the above and worsening DRAM market

# Sales by Business Segment



- FY2011 2Q Sales by Business Segment
- Semiconductor & Component Test Systems
  - QoQ up 47%      29.6 billion yen
  - (Main factors in the rise)
    - Non-memory testers
      - T2000 to MPUs solid
      - Verigy contribution big
- Mechatronics Systems
  - QoQ up 51%      6.1 billion yen
  - (Main factor in the rise)
    - Increase in handler and nanotech products
- Services, Support & Others
  - QoQ up 67%      4.9 billion yen
  - (Main factor in the rise)
    - Verigy contribution 1.9 billion yen

# Sales by Region



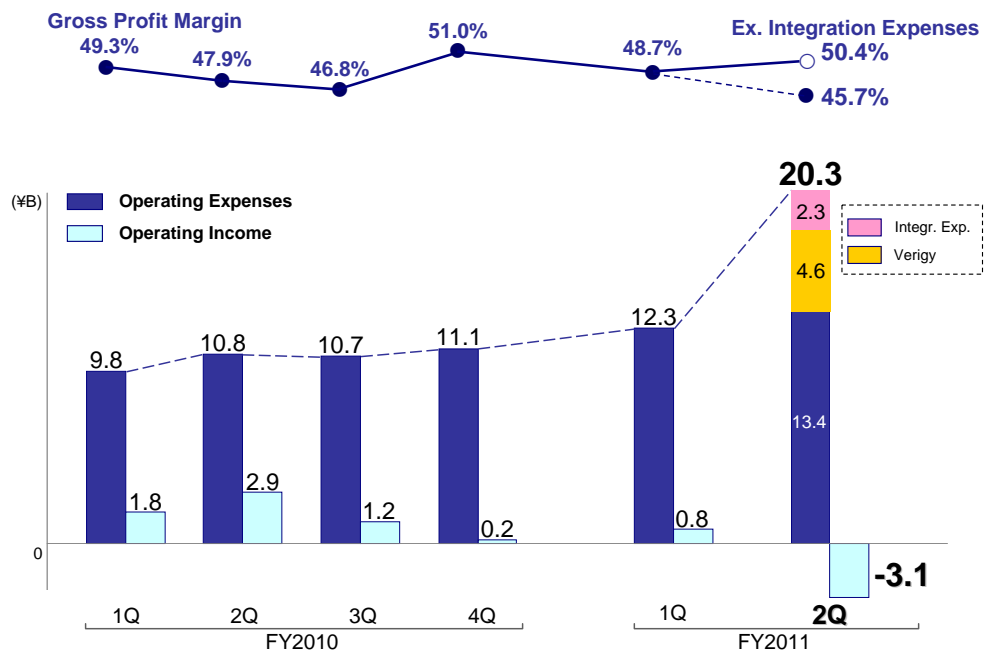
- FY2011 2Q Sales by Region
  - Increase in all regions ex. China
  
- Americas
  - QoQ up 170% 11.5 billion yen

(Main factors in the rise)

  - T2000 to MPUs



## Operating Inc./Gross Profit Margin/Operating Exp. **ADVANTEST.**



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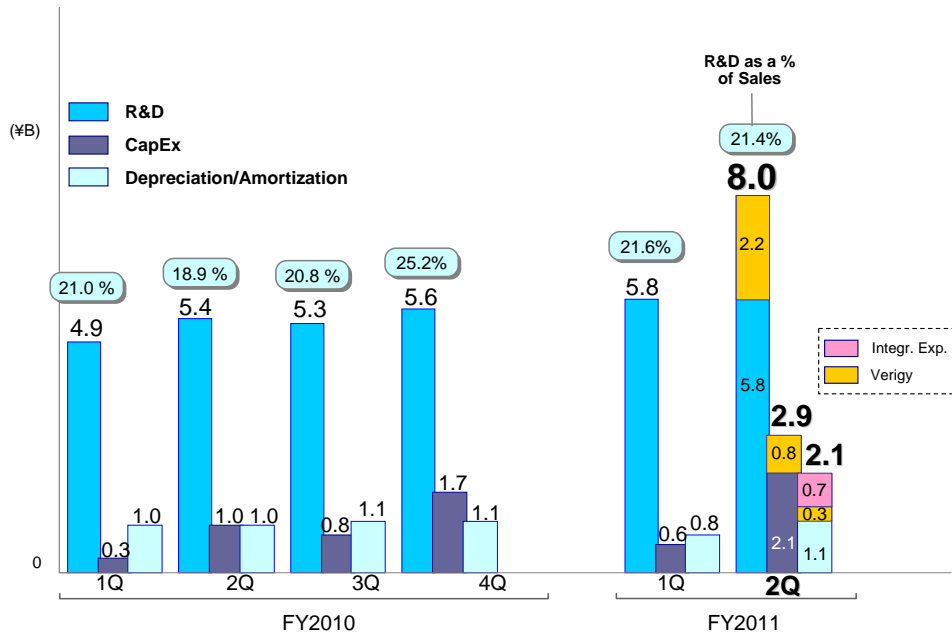
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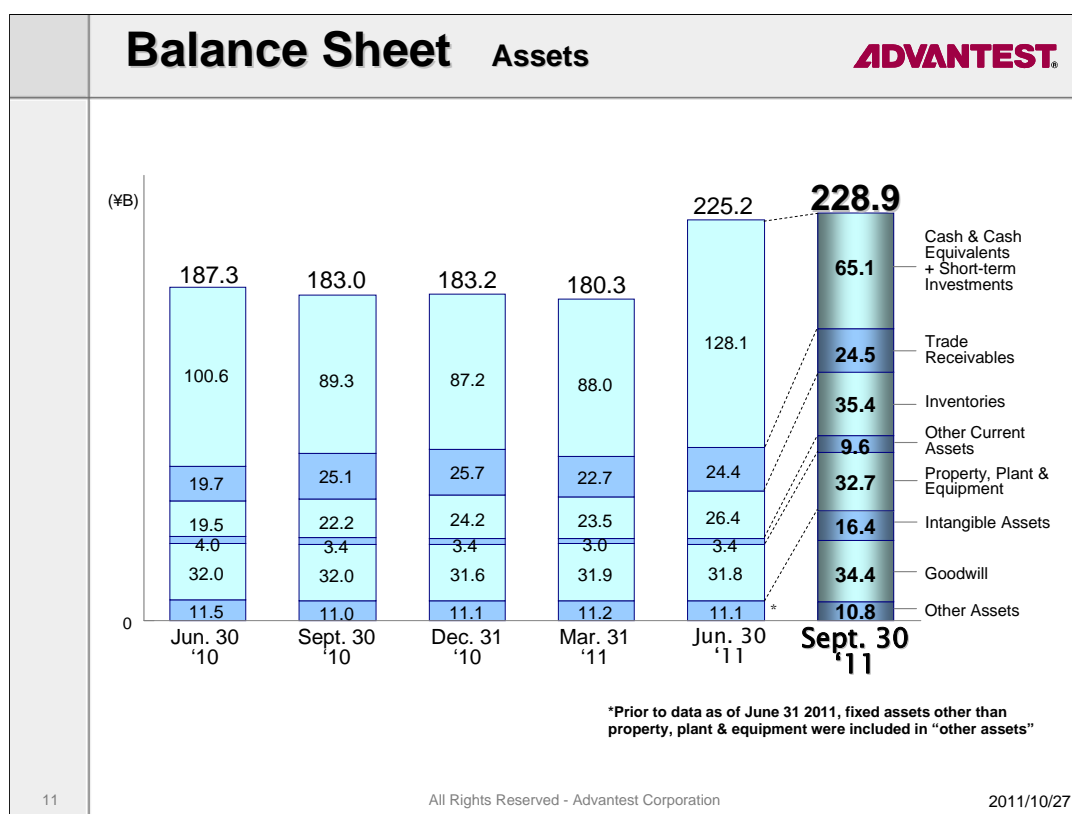
- FY2011 2Q Operating Income
  - Gross Profit Margin 45.7%
    - Lower QoQ on integration expense effects
    - Margin excluding integration expense effects 50.4%
  - Operating Expenses 20.3 billion yen
    - Integration expenses 2.3 billion yen (booked at operating level)
    - Verigy operating exp. 4.6 billion yen
    - Others: impairment of unused assets 0.9 billion yen
  - Operating Loss 3.1 billion yen

# R&D Expenses/CapEx/Depreciation

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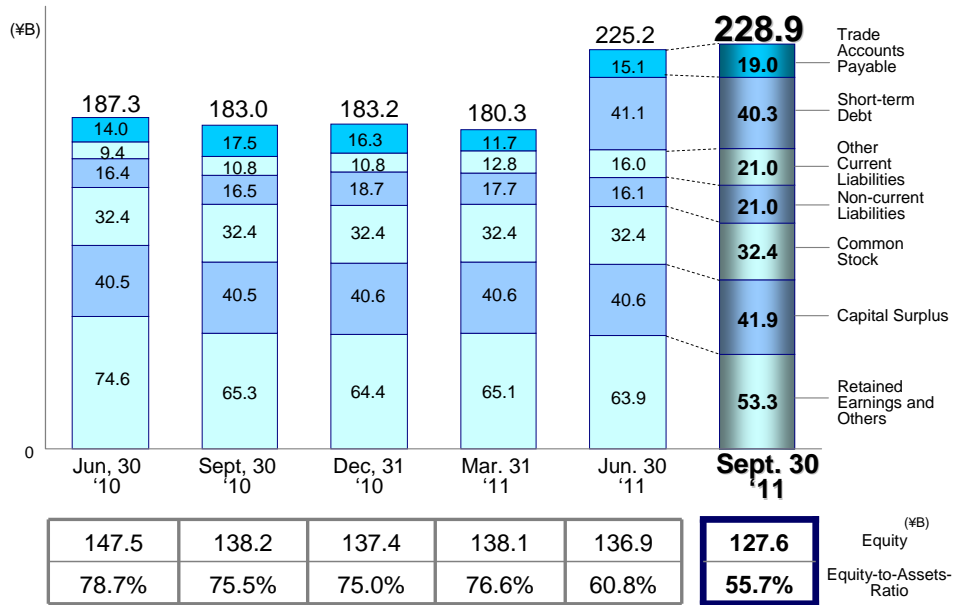
- R&D Expenses
  - QoQ up 39% 8.0 billion yen
  - Verigy R&D 2.2 billion yen
- CapEx
  - 2.9 billion yen
- Depreciation & Amortization
  - 2.1 billion yen
  - Intangible asset amortization within integration expenses 0.7 billion yen



- Balance Sheet as of Sept. 30 2011
- Assets
  - Cash, cash equivalents and short-term investments  
Down 63.0 billion yen vs. Jun. 30 2011    65.1 billion yen  
Mainly due to Verigy share purchase
  - Inventories  
Up 8.9 billion yen vs. Jun. 30 2011        35.4 billion yen  
Mainly due to Verigy accretion
  - Due to Verigy Acquisition, as of Sept. 30 2011  
Intangible assets            16.4 billion yen  
Goodwill                      34.4 billion yen
- Total Assets  
Up 3.7 billion yen QoQ    228.9 billion yen

# Balance Sheet Liabilities & Equity

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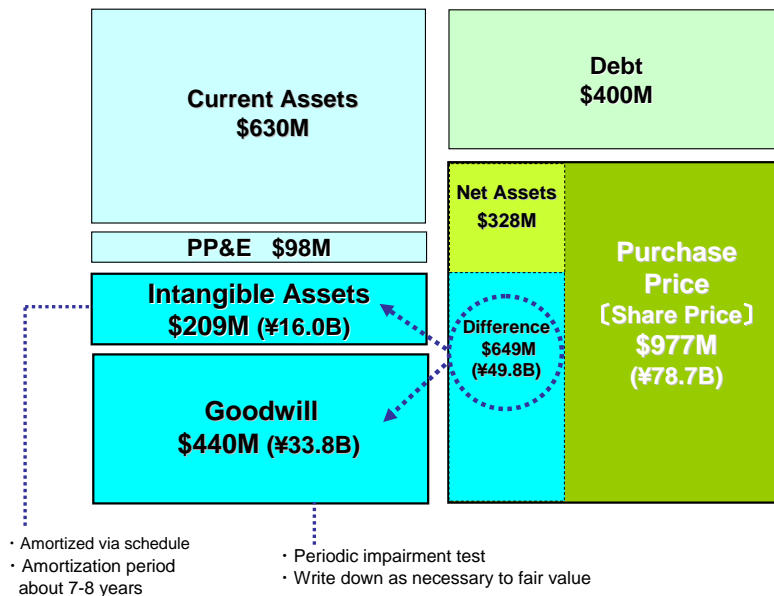
○ Liabilities & Equity

• Equity 127.6 billion yen

• Equity to Assets Ratio  
Minus 5.1 points vs. Jun. 30 2011 55.7%

## Verigy Purchase Price Allocation

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### ○ Verigy Purchase Price Allocation

- Purchase price 977 million US dollars (78.7 billion yen), net assets of 328 million dollar
- Difference of 649 million dollars (49.8 billion yen) between purchase price and net assets
- Via purchase price allocation, this 649 million dollar amount Allocated to intangible assets and goodwill
- 209 million dollars (16.0 billion yen) booked as intangible assets  
Amortization via a schedule  
Amortization period varies by asset type, but 7-8 years overall
- 440 million dollars booked as goodwill; under US GAAP goodwill is not amortized. Periodic impairment tests; write down as necessary to fair value
- Purchase price disclosed at acquisition announcement approximately 1.1 billion dollars, that amount included 175 million dollars in the convertible notes, which Verigy repaid, so actual purchase price was 977 million dollars

# **FY2011 Business Update**

- The next section provides an overview of Advantest's outlook for the rest of FY2011

**• Non-memory testers**

- Advantest will utilize our strong product and customer portfolio**
- Demand growth for sophisticated and multi-function SoC devices is expected to continue. We will maintain and expand business in this area**
- We aim to raise market share and sales in MCUs, power devices and imaging sensors, areas that remain strong**

## ○ FY2011 2H Non-memory Tester Business Environment

- Customers are being very cautious in new CapEx spending, demand slowing
- Advantest will however utilize our rich product and customer portfolio in this market, which was strengthened by the Verigy acquisition
- SoC devices are becoming more sophisticated and gaining functionality, and device demand continues to grow. We will maintain and expand business in this area
- In other areas, Advantest aims to raise market share and sales in MCUs, power devices and imaging sensors, areas we expect to remain strong in the market

**•Memory testers****•Severe market conditions should continue****•Rising latent demand in DRAM****- Mobile-device DRAM:  
more product variety, higher speeds,  
move to wider I/O multi-bit****- PC DRAM:  
process shrink and increased memory  
capacity caused longer test times****•We expect business expansion on new  
products for high-speed NAND flash**

## ○ FY2011 2H Memory Tester Business Environment

- Severe market conditions should continue due to flat PC demand and falling DRAM prices
- Rising latent demand on production capacity increases
  - Mobile-device DRAM: more product variety, higher speeds, move to wider I/O multi-bit
  - PC DRAM: process shrink and increased memory capacity leading to longer test times
- In high-speed NAND flash, we expect continued strong demand due to increased demand for SSD and mobile device applications. We expect business expansion on new products announced this summer

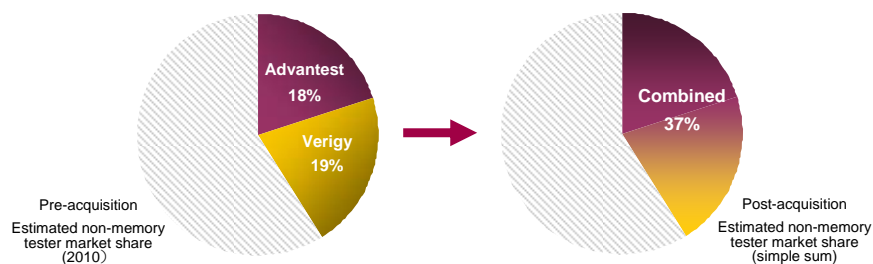


# **Mid-term Vision Toward Further Growth**

- In this next section Advantest explains initiatives to bring out the benefits of the Verigy acquisition and foster growth of the company

## Stronger Business Foundation

- ◆ Acquisition of industry no.3 Verigy completed in July
- ◆ Acquisition greatly expanded market and brought steady market share increase in non-memory testers
  - Moved to an operating structure less susceptible to DRAM market conditions
- ◆ Now can offer high-level non-memory testing technology and even higher quality global solutions to customers



### ○ Again, Advantest Explains the Reasons for the Verigy Acquisition

- Acquisition completed in July
- Via the acquisition Advantest has much larger share of the non-memory tester market, which is larger and more stable than the memory tester market
- With this Advantest has moved to an operating structure less susceptible to DRAM market conditions
- Using Verigy's non-memory tester technology and global operational base, Advantest can offer high quality global solutions to customers

## Main integration costs

(¥B)

	FY2011 (Partially accrued already)	FY2012 onward (per year)
Intangible asset amortization	2.2	1.7
One-time costs	6.3	/

## Cost synergy effects

- **5 billion yen cost reduction expected in FY2014 by integration process such as combining sales offices and IT related savings**

- Expected Integration Costs and Synergy Effects
  - Ongoing and one-time integration costs
    - Ongoing costs: expected intangible asset amortization
      - FY2011           2.2 billion yen
      - FY2012 onward  1.7 billion per year
    - One-time costs: FY2011  6.3 billion yen
  - Synergy Effects
    - 5 billion yen expected in FY2014 by integration process such as combining sales offices and IT related savings

**1. Strengthen global management & Share Best Practices**

◆ **Reorganize/combine overseas affiliates/subsidiaries in each region including Verigy**

(Expected Outcome)

- R&D: Better R&D efficiency via knowledge sharing among 3 R%D centers in Japan, US, Europe

- Sales & Support: Strengthen global sales & support system from customers' perspective

- Admin: Enhance operational efficiency and globalization

(Time Period)

Expected completion within FY2011

◆ **Expand overseas production bases**

- Next Advantest outlines initiatives going forward for corporate growth based on the Verigy acquisition
- The 1st initiative is strengthening global management
  - Verigy is currently a wholly-owned subsidiary of Advantest
  - To maximize benefits from the acquisition, Advantest will reorganize/combine overseas affiliates/subsidiaries in each region and make business more maneuverable in each region
  - Taking best practices from each company, improve efficiency and strength globally in R&D, sales & support, and admin divisions
  - To improve profitability, strengthen the company against FX movements, and aid in business continuity planning, Advantest will strengthen and diversify overseas production bases

## 2. Achieve Dominant No.1 Market Share

- ◆ Increase competitiveness via fast integration of technology, customer base and product portfolio
- ◆ Further increase trust from current customers and pursue expanded, stable market share
- ◆ Aim to be Dominant No.1

**VLSI**research  
2011 Customer Satisfaction Survey on Chip Making Equipment  
*No.1 in Testers Verigy*  
*No.2 in Testers Advantest*  
*No.1 in Handlers Advantest*



- The 2nd initiative is gaining Dominant No.1 market share in the tester market
  - Upon completing the acquisition, Advantest examined each company's technological, sales and support strengths, and formulated a growth strategy for the tester market going forward
  - The core strategy is to increase competitiveness via fast integration of technology, customer base and product portfolio  
This will be the focus going forward. Some R&D projects brought about by the integration have already launched
  - According to a customer satisfaction survey from a research company, Verigy and Advantest took the No.1 and No.2 spots in testers  
Advantest took No.1 in handlers  
Advantest will further increase trust from current customers and expand business opportunities
  - Advantest aims to be the Dominant No.1 company in test solutions, to that end we will expand market share in non-memory testers and handlers

**3. Expand tester-related businesses, go after new business areas**

- ◆ **Execute in new tester markets via early response to new testing technology and needs, e.g. TSV**
- ◆ **Expand tester-related business such as service solutions and probe cards**
- ◆ **Cultivate new non-tester business areas, e.g. terahertz imaging systems, MEMS devices and electron beam products**



TAS7500, terahertz spectroscopic imaging system for non-destructive pharmaceutical pill analysis

- Third is expanding tester-related business and entering new markets
  - Advantest has announced reallocating our staff resources, enriched by the acquisition, to growth areas
  - Areas of focus to cultivate benefits from the acquisition are expanding the tester-related business and cultivation of new business areas
  - Specifically
    - Execute in new tester markets via early response to new testing technology and needs, for example TSV
    - Expand tester-related business such as service solutions and probe cards
    - Cultivate new non-tester business areas, such as terahertz imaging systems, MEMS devices – which Advantest has produced for its products and now aims to sell externally – and electron beam products

<b>Mid-term Targets</b>		<b>ADVANTEST.</b>
<b>Sales 250 billion yen</b>		
<b>Operating Income Margin 20%+</b>		
<b>Combined Tester &amp; Handler Market Share 50%+</b>		
<ul style="list-style-type: none"> <li>◆ <b>Expand sales and income in these areas</b> <ul style="list-style-type: none"> <li>• <b>Tester business, handler business</b></li> <li>• <b>Tester-related business</b></li> <li>• <b>New business areas</b></li> </ul> </li> <li>◆ <b>Above targets are for 3 years after integration (FY2014)</b></li> </ul>		
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- As a finale, an overview of Advantest's mid-term management targets
  - As discussed in previous slides, to maximize benefits from the Verigy acquisition, Advantest will quickly reorganize group companies and utilize staff resources enriched by the acquisition.  
Advantest aims to expand sales and income of its 3 pillars of testers, tester-related businesses, and new business areas
  - Specific targets
 

Sales	250.0 billion yen
Operating Income Margin	20%+
Combined Tester & Handler Market Share	50%+
  - These targets are for FY2014, 3 years after integration
  - The business environment for semiconductor equipment makers is weak, and the outlook unclear. In times like this the Advantest Group will vigorously work together in lockstep, with a sense of speed, for future growth and prosperity

**NOTE****•Prepared in accordance with US GAAP****•Cautionary Statement with Respect to Forward-Looking Statements**

This presentation contains "forward-looking statements" that are based on Advantest's current expectations, estimates and projections. These statements include, among other things, a discussion of Advantest's business strategy, outlook and expectations as to market and business developments, production and capacity plans. These forward-looking statements can be identified by use of forward-looking terminology 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. These factors include: (i) changes in demand for the products and services produced and offered by Advantest's customers, including semiconductors, communications services and electronic goods; (ii) circumstances relating to Advantest's investment in technology, including its ability to develop in a timely fashion products that meet the changing needs of semiconductor manufacturers and communications network equipment and component makers and service providers; (iii) significant changes in the competitive environment in the major markets where Advantest purchases materials, components and supplies for the production of its products or where its products are produced, distributed or sold; and (iv) changes in economic conditions, currency exchange rates or political stability in the major markets where Advantest procures materials, components and supplies for the production of its principal products or where its products are produced, distributed or sold. A discussion of these and other factors which may affect Advantest's actual results, levels of activity, performance or achievements is contained in the "Operating and Financial Review and Prospects", "Key Information - Risk Factors" and "Information on the Company" sections and elsewhere in Advantest's annual report on Form 20-F, which is on file with the United States Securities and Exchange Commission.