

Advantest Corporation
Sustainability Briefing
Q&A Summary

March 30, 2023

Q: Following the acquisition of Verigy in 2011, your Post Merger Integration (PMI) has gone quite well. What is the secret of your successful PMI? You have recently acquired multiple other companies. What is your outlook for PMI with those companies?

A: We acquired Verigy in 2011 with the intention of establishing our presence in the SoC tester market. As the SoC tester market has expanded faster than the memory tester market, we were able to steadily capture market share through this acquisition, and as a result, the PMI was a great success.

However, integration with Verigy, whose culture and business had developed differently, was not an easy task. There were quite a few difficulties. But I believe that the biggest factor in our success was the fact that both companies had competed in the tester business for many years and understood it well.

Initially, there was talk of consolidating our business, such as by prioritizing either Advantest's T2000 or Verigy's V93000, and reducing our R&D costs, but in the end we decided to move forward with both platforms, and as a result, we were able to acquire a large market share. Having two platforms that cover various applications led us to experience great success, and that experience of success also worked to unify employees. This was a very important point.

Having recently made multiple acquisitions, we don't assume PMI will be easy. However, it is easy to share Advantest's goal of providing test solutions to semiconductor customers. I believe that the most important factor for success is that each employee can feel growth by pursuing a shared purpose. We believe we can apply what we have learned from the Verigy integration to these new PMI projects, and share new experiences of success with our newly acquired companies.

Q: Your employee engagement score did not reach your target value. How do you analyze the factors and background of this shortfall?

A: We asked Gallup, a US company, to survey the engagement of our employees around the world. The survey found that scores varied considerably from country to country. In general, countries such as Japan and South Korea score very low, while Europe, India, and China score high. Based on this trend, when we look at our engagement scores by country,

we recognize that each country's score is by no means low relative to average scores for that country. However, our goal is not to accept levels of engagement that vary by country, but to raise our overall score. Since it is a fact that we have not reached the set target value, we will continue to make efforts to increase engagement.

Q: Tell us more about the unit system. Will there be personnel transfers across the borders of the regional, business, and function matrices? Is it a correct assumption that global sharing of values based on The Advantest Way facilitates smooth cooperation even in the context of a matrix organization?

A: Personnel transfers occur frequently. In the Functional Units (FU), there are CxO positions such as CCRO (Chief Customer Relations Officer) for sales and CPO (Chief Production Officer) for production and quality, and they assign personnel to the Business Units (BU) and organizations that are subordinate to their FU regardless of region in a horizontal manner. There are also personnel transfers within regions and internal recruitment systems for vacant posts, and cross-regional transfers within business units also occur frequently. In general, I think it is recognized that managing a matrix organization is extremely difficult. BUs are our main players in promoting business, but if the FUs that support them do not have an awareness of their role of supporting the company's BUs as a whole, overall performance will not improve. The most important variable is communication. Our corporate culture is the foundation of communication that allows BUs and FUs, or CxOs and BU heads, to discuss how to improve the company across geographical and time differences. What we are working on to strengthen this is the development of a personnel system centered on "INTEGRITY." We believe the fact that we were able to increase revenues without delays in production or sales during the COVID-19 pandemic is proof that these efforts are working well.

Q: Regarding your points that tester environmental performance is a differentiating factor, and that the ability to provide value to customers and the ability to make industry-leading proposals generate competitiveness, do you have any specific examples?

A: Our mission is to thoroughly test the complex functions and specifications of rapidly-evolving semiconductors, and to develop and provide products that at the same time reduce CO2 emissions. On the other hand, there is always a demand for test to deliver cost efficiency in the semiconductor manufacturing process. Specifically, we are working to improve test efficiency by increasing parallelism, reducing power consumption, and testing at higher frequencies. Our goal of reducing CO2 equivalent emissions (basic unit)

per test by 50% by 2030, as stated in our ESG action plan, is one of our efficiency indicators.

Q: You mentioned the importance of foresight. For example, how did you use foresight to establish a dominant position in the HPC test market?

A: It is impossible for us to predict the future of semiconductors on our own. The guiding force of our business is our customer-facing capital, which gives us guidance for product development. Our tester product life cycle is based on the fact that we need 3-5 years for marketing, development, production, and delivery of a new product, and after delivery, the product must support next-generation semiconductors for more than 10 years. The total product lifecycle is thus about 15 years. We will continue to communicate with a wide range of customers about what kind of semiconductors will emerge 15 years from now, and what kind of functions and specifications will be required of testers then, as our ability to incorporate customers' opinions into product development has been a differentiating factor for us.

From a human capital perspective, there are three key challenges to maintaining our differentiation. First, we need to hire excellent human capital. In FY2022, we added about 10% more human capital compared to the previous fiscal year. We are aiming to increase the number of employees by a further 5% in FY2023, and we believe that this human capital will contribute to our future growth through customer support and research and development. The second challenge is human capital retention. In FY 2022, the company rolled out a new program to select 400 employees and grant them Restricted Stock Units (RSU). This is planned to continue after FY2023. The last is to foster excellent human capital. We support the development of employee skills through training programs. The number of classes taken on our e-learning platform also confirms that employees are striving to grow personally.

Q: You described the effects of Verigy's integration, but I have the impression that it has evolved even further after the formulation of your Grand Design in 2018. I would like to hear about the issues you had to tackle when you assumed the post of president in 2017, and the measures you have taken so far.

A: I was appointed president in 2017. Due to the volatility of our business performance, we did not have a lot of confidence that the market would accept a medium- to long-term plan from us even if we formulated one and communicated it to market participants. However, with encouragement from our outside directors that the direction of the company should be set from a medium- to long-term perspective, management held discussions for a year to

refine our Grand Design and Vision Statement. As for our business environment, the semiconductor market and the semiconductor test market have entered onto a growth trajectory due to the ongoing digitization of society, and we were convinced that we could continue to grow in the semiconductor test equipment business, which is our core business. This also supported the formulation of our Grand Design.

Looking back, I think we have just seen a five-year period in which product strategy and market growth went extremely well. One of the factors behind this is the evolution of digitization and consequent demand for a large number of semiconductors that handle data. The V93000 EXA Scale captures that growing demand, while the T2000 captures the growing demand for automotive devices, etc., and it is a big advantage for us that the two platforms can solidly cover a wide range of semiconductors and customers. In memory testers, our product strategy for DDR5 testers matched the reality of market growth.

Q: Will you continue to support the two platforms in the future? In the long run, do you see yourselves leaning towards one or the other?

A: In automotive semiconductors, for example, it is very difficult for a customer to change their test platform. The T2000 has a wide range of customers, not only in automotive but also in image sensor and other markets. We will continue to support our existing T2000 products as long as customers want us to.

In the R&D organization, we have embarked on various projects related to the fusion of the two platforms, V93000 and T2000. Amidst the expansion of the SoC tester market, there is a shortage of engineers for both platforms, so we will continue to increase human capital in FY2023.

Q: We recognize that Advantest is one of the few Japanese companies aiming to become a truly global company. You have implemented various initiatives since the integration of Verigy, but was there ever a time when unintended negative results appeared? If so, how did you overcome them, correct your trajectory, and fix your sights again on your current ambitious goals?

A: It's certainly never been smooth sailing. There is a tendency to argue about which of the two companies' methods to choose and which to abandon. I think that we are where we are now because we take the best from both companies, and instead of trying to find compromises, we draw on everyone's wisdom to come up with something completely new. For example, in development, discussions of which platform to favor, the T2000 or V93000, caused friction between the development teams of the two companies, creating a very negative situation. We overcame this by gathering the opinions of the sales and field

service departments, and ultimately decided not to make an internal decision for one platform or the other, but to make the best choice for our customers. The decision to offer the platform of the customer's choice ultimately secured the broad market share that we command today. In terms of production, Verigy had a history of using EMS, while Advantest relied on in-house production. Currently, we are both taking advantage of each other's strengths, and in addition to our own factories, we are also making strategic use of EMS. There was a lack of visibility into procurement of some parts on the EMS side, but by integrating the procurement of these parts into our own procurement structure, we are now able to cover the quantities required even if supply is tight.

Q: Did you ever let T2000 and V93000 sales representatives compete for customers?

A: We did have sales representatives from Advantest and Verigy for single customers, but after discussing which one to prioritize, the customers finally made the choice for themselves. In order not to lose the trust of customers, neither side directed sales to customers, nor allowed them to compete within the company.

Q: I think gender diversity is important for all companies, but it is very difficult in the semiconductor industry. How will Advantest improve in this way?

A: As you point out, the semiconductor industry as a whole has a low percentage of female managers. In FY2021, Advantest's ratio of women in managerial positions was 9.6%. We want to increase this ratio to 17% by 2030. There are companies in the industry with a higher ratio than our company, but we will continue making efforts to increase the ratio of female managers, and thereby increase their numbers.

Note

This document is prepared for those who were unable to attend the sustainability briefing and is intended only for reference purposes. The original content has been revised and edited by Advantest for ease of understanding.

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