

Advantest Corporation
FY2020 (Period ended March 31, 2021) Financial Briefing
Q & A Summary

April 27, 2021

Q: Multiple promising events look likely to take place around the end of 2021 or beginning of 2022 in the market for front-end semiconductor equipment, including the announcement of investment plans by multiple major semiconductor manufacturers. What about the tester market? You are doing amazingly well at the moment, but do you have any additional evidence that might sustain our expectations for Advantest a little farther out?

A: We look for brisk demand for SoC testers throughout the fiscal year. We anticipate a positive business environment associated with 5G smartphones in the first half of the fiscal year. In the second half of the fiscal year, we are expectant that our major customers launching mass production of semiconductor devices at the most advanced nodes will spur considerable tester demand. We are also expectant of memory tester investment commensurate with customer production capacity increases. In addition, we anticipate industry trends such as density gains driven by DRAM node shrinkage and by multilayering in NAND flash memory, as well as the start of full-fledged mass production for DDR5/LPDDR5-DRAM. We also expect good demand for memory testers.

Q: How far out is capacity at your plants currently booked?

A: Our production floors are extremely busy at the moment thanks to very strong demand. Our lead time is three months, and our slots are currently booked that far out, which is tending to add to our lead times. While that raises the concern that customers could be placing tester orders early as a result, conditions at the moment suggest that that is not necessarily the case. We believe that we are currently receiving orders based on real demand.

Q: Advantest has had a string of unique growth drivers over the past several years, including your entry into system-level testing and your capturing of replacement demand for DRAM testers. What about this fiscal year? Do you have any plans for promising new product launches or other initiatives likely to impact your earnings?

A: The structure of our industry remains unchanged in that semiconductors are becoming more complex as technology evolves, resulting in ever more requirements for testers. In that context, it is not a forthcoming new product, but we last year unveiled the V93000 EXA Scale, which responds to testing needs for semiconductors produced on advance nodes of

5nm or smaller. We look for demand for that product to mount this fiscal year. In addition, we also have a variety of forthcoming products for which we have high hopes, including testers for CMOS image sensors and display driver ICs.

Q: You increased your estimates for the tester markets versus what you had released in January. Could you tell us what parts of your outlook you revised in the case of both the SoC and memory tester markets? You also referenced the potential for further expansion in SoC testers, but could you tell us what applications you anticipate may exceed your expectations?

A: We raised our CY21 estimate for the SoC tester market to \$3.4 billion primarily in response to demand trends in three areas. Specifically, we look for growth in semiconductors produced on advance process nodes for smartphone and HPC applications, we think demand for testers for analog semiconductors could expand, and we expect functionality gains for display driver ICs. We also see the possibility that demand associated with semiconductors produced on advance process nodes (especially for use in HPC applications) could beat our expectations in the latter half of the fiscal year. In the case of the memory tester market, our outlook and the market's overall direction have not changed significantly since January. We did raise our market estimate by \$100 million versus what we had issued three months ago, bringing it to \$1.3 billion. This was to reflect the pace of growth in tester demand stemming from node scaling and density and speed gains for DRAM and non-volatile memory.

Q: What percentage of FY20 orders and sales did the system-level test business account for in the services, support & others segment? Also, what are your general expectations for those orders and sales in FY21?

A: We expect the SLT business to account for roughly 50% of the orders and sales in the services, support & others segment in FY21, as was the case in FY20. The industry has grown even more deeply involved in SLT because the evolution of semiconductors has increased the importance of quality assurance. Against that backdrop, we expect to see orders and sales numbers grow as SLT expands to cover everything from smartphones to HPC to automotives.

Q: You have presented full-year orders/sales guidance of ¥350 billion. Could you tell us about your general expectations for orders going forward and how they look at present?

A: 4Q orders were extremely strong. Orders often decline after a strong quarter, but we are unable at present to detect any signs of a decline in 1Q. Our full-year plan for ¥350 billion in orders anticipates that 1H will be slightly stronger than 2H. That said, we do not have sufficient visibility on 2H orders as of yet due to lead times. It is difficult to get a handle on

conditions at customers and reflect those in our plans until the last minute. Once we get better visibility on 2H trends at our customers working at advanced nodes, we may see our orders increasing somewhat.

Q: What is the maximum level of quarterly orders/sales that your current production footprint could support? Please also tell us what, if any, measures you have in place to mitigate the risk of components shortages.

A: Our production footprint includes our own capacity and outsourcing capacity both in Japan and overseas. Our overall capacity is not that tight at the moment, and we still have ample room to scale by making greater use of outsourcing. We do not have many concerns in terms of our ability to create a production footprint capable of supporting the ¥400 billion in sales we target under the mid/long-term management policy we refer to as our “Grand Design,” which would mean ¥100 billion in sales per quarter. As regards component procurement, we endeavor to act ahead of time to ensure that no problems arise. This approach has proven successful, and we face no major problems at present.

Q: Just to confirm, is it your understanding that your recent orders are based on real demand and reflect no double ordering or the like on the part of customers?

A: We are aware of the wariness of double ordering in the industry. We believe, however, that the orders we are booking are based on healthy demand, and we are not seeing any tendency for customers to cancel orders, either.

Q: You are estimating a CY21 SoC tester market worth \$3.4 billion and are guiding for FY21 SoC tester sales of ¥169 billion. While one is for the calendar year and the other for the fiscal year, simple math suggests a market share for Advantest of less than 50%. Given that demand is poised to grow in CY21 in areas at which you excel, such as smartphones and HPC, your earnings guidance seems conservative. Or do you see a possibility that your market share may not recover to past levels?

A: As you have noted, the difference between the calendar and fiscal year impacts how our market share looks.

Q: You seem to have expectations for customers in the HPC space to make leading-edge investments in 2H FY21. Does this imply that you expect investment in advanced packaging associated with high-performance servers?

A: It is indicative of our expectations for greater mass production at the 5nm node by multiple customers in the HPC space.

Q: You made reference to geopolitical risk, but have you seen any changes in the order environment? Please elaborate as to what sort of risks or opportunities you see associated with geopolitics.

A: We have worked to better attune ourselves to geopolitical risk. We have stepped up our information-gathering capabilities based on our experience last summer of having been impacted by the intensification of the conflict between the US and China. However, we see our duty as nothing more and nothing less than providing our customers with leading-edge technologies that meet their requirements regardless of where they are located, while ensuring that we comply with the laws and regulations of each country.

Q: I believe that semiconductor nationalism will drive regions such as China, Europe, and the US to develop their own semiconductors. Has this already bolstered tester demand in China in particular?

A: Demand in China is growing up and to the right, as described in our geographic breakdown of quarterly orders and sales. Demand remains quite strong at present as China needs our products to fill in gaps in its local technology when developing and testing leading-edge semiconductors.

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.

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