

**Advantest Corporation**  
**FY2021 (Period ended March 31, 2022) Financial Briefing**  
**Q & A Summary**

April 27, 2022

Q: There has been a sharp slowdown lately in demand for consumer products such as PCs and smartphones, and orders for semiconductors and other components have declined substantially. By contrast, demand associated with defense and servers is brisk. Do you feel that these changes in mix are impacting your business? Have you seen orders cancelled or pushed out? Conversely, have you seen them increase or any other changes?

A: Our orders were even higher in 4Q than in 3Q, and we are not sensing any major slowdown at present. We struggle more on the supply side. Our customers who are working hard on developing such high-performance semiconductors have very strong demand for testers. It is for that reason that we have not seen a slowdown. Our full-year outlook is bullish. That reflects our desire to continue supplying the volume of testers required to sustain industry because we know that the global supply of semiconductors will not grow if we are unable to fulfill our supply responsibilities.

Q: The availability of FPGAs has become a bottleneck in a variety of areas. Some speculate that multiple major semiconductor manufacturers' efforts to lobby the foundries will ease supply constraints slightly. Have you seen any signs of that happening?

A: With semiconductor plants running at full capacity, it is not so easy to get them to produce specialty devices such as FPGAs. That said, we are hopeful that the instability in parts and materials supplies will lessen somewhat. We expect to see that happen in the second half of FY2022 rather than in the first half, which is why our plan is premised on greater sales growth in 2H than in 1H.

Q: Other than the risk of parts procurement shortfalls, were there any factors that informed your decision to lower the bottom end of your forecast range for the SoC tester market in CY2022? Also, despite continued challenges in the procurement environment, your 4Q FY2021 sales exceeded your plan. Is the procurement environment more challenging now than it was three months ago?

A: We lowered the bottom range of our forecast for the SoC tester market solely out of concern for parts shortages. The decision does not reflect any other factors. On your question as to whether the procurement environment has improved versus three months

ago, our perspective is that it has not improved at all. We are addressing issues that arise on a daily basis in order to sustain our supplies. Our 4Q FY21 sales may look like they were hardly up at all versus those of 3Q, but that is due to the limits of our capacity to procure rather than to any constraints imposed by our production capacity.

Q: Could you tell us what percentages of your SoC tester sales for computing/communications applications were accounted for by smartphones and high-performance computing (HPC), respectively, in FY2021 and what percentages are assumed by your FY2022 sales outlook? Do you expect computing/communications applications to continue to account for a substantial portion of your SoC tester sales, driven by HPC? If so, is it fair to assume that the current business environment is to your advantage?

A: We think that HPC will account for a higher percentage than smartphone APUs (Application Processing Units) in FY2022. One market trend we anticipate in CY2022 is that of substantial growth in demand for testers for HPC applications within the computing/communications category. This expectation is premised on growth in server-related demand, efforts to enhance performance by adopting leading-edge semiconductor technologies, and the adoption of 3D packages and other advancements that add to the number of testing processes required. This evolution in technology is resulting in longer test times. We have a high market share for HPC applications, and we see growth in the size of that part of the market as advantageous to us.

Q: How do you expect your sales to split between 1H and 2H in FY2022? Given your expectation for issues procuring parts in 1Q and 2Q FY2022, do you believe that you will be unable to improve your sales in those quarters much beyond what they were in 4Q FY2021? Please also share what kind of pacing you anticipate for SoC tester sales between 1Q and 4Q in FY2022.

A: We only disclose our sales outlook for the full year, but recently we have been generating roughly ¥120 billion in sales per quarter. Multiplying that by four gives you ¥480 billion, which you may say is less than our ¥510 billion guidance. However, we think that that figure is attainable for the full year given that we expect the situation with parts and materials procurement to improve in 2H. There may be some upside versus our outlook if the availability of parts and materials improves by more than we assume.

Q: My question concerns margins. If quarterly sales for the Semiconductor & Component Test Systems segment were to exceed ¥100 billion somewhere in 2H, would the operating margin increase even with inflation in parts and materials costs?

A: Given that we expect sales to be more concentrated in 2H, we naturally assume that our operating margin will be higher in 2H than in 1H.

Q: Why do you expect sales at your system level test (SLT) business to rise 27% in FY2022? Is that premised on booking deals with new customers, or are you expecting to capture demand from existing customers?

A: Our sales were around 38% higher in FY2021 than in FY2020. One reason that we expect 27% growth in FY2022 is that our customers are expanding their usage of SLTs. If you take smartphones as an example, SLTs were previously performed on the APUs and baseband for premium-tier smartphones. However, we now see increasing demand for SLTs for mid-tier and entry-tier smartphones as well. We therefore believe that the market is growing. In addition, we have engaged in M&A activity to broaden our base of recurring business, and we expect revenue from those recurring businesses to grow as more types of devices are tested using SLTs. We see this as another growth driver.

Q: Do you see the potential for demand for HPC applications to grow in the SLT business as well in FY2022?

A: We believe that like smartphones, HPC applications will be a growth driver for SLT demand going forward.

Q: Why were orders greater than you had expected in 4Q? Was it because of longer lead times for your testers or because real demand was better than you had anticipated?

A: 4Q orders exceeded our internal plan by a total of ¥50 billion. ¥34 billion of that overshoot came from SoC tester orders, breaking down to 60% from computing/communications; 30% from display driver ICs; and 10% from automotive, industrial, and consumer devices. Growth in devices using leading-edge processes drove tester demand. Around ¥6 billion of the overshoot came from memory tester orders, ¥7 billion from the portion of the Mechatronics Systems segment that tracks the tester business, and ¥3 billion from the Services, Support & Others segment, where it was the season for maintenance contract renewals.

Our product lead times are around nine to 10 months, which is longer than three months ago. Many of our customers are ordering based on production plans that extend farther out than they traditionally have, with some placing orders in attempts to secure capacity for testers that they will need as far as one year out. Some may express concern over cancellation risk, but given current conditions, our customers are securing the wafers and

the production equipment that they need based on a long-term view of real demand. As such, we see little risk of cancellations.

Q: Could you give us some additional color on what potential you see when you say that you expect parts and material availability to improve a little during 2H?

A: Semiconductor components are the most difficult to procure. We have been engaged in negotiations since last year, and now a variety of efforts of being undertaken to increase productivity. For example, we are sending our engineers to our customers' fabs to help them increase their yields, and the semiconductor manufacturers themselves are investing in adding to their production capacity. We expect these efforts to produce benefits starting at the end of 2022 and continuing through 2023.

Q: You said that customers placing orders in 4Q were asking for delivery dates six to nine months out, or even one year out in some cases. Is it fair for us to assume, then, that you expect to recognize sales on your 4Q orders during the course of FY2022? Also, I believe that the volume of inquiries you receive and sales negotiations you undertake before officially booking orders is several times larger than your actual orders. Could you describe the scale of business you are seeing at that negotiation stage?

A: We had an order backlog of ¥394.7 billion at the end of FY2021 that included the ¥199 billion in orders we booked in 4Q. We expect the entirety of that backlog to translate into sales during the course of FY2022. We are also seeing a constant stream of customers coming to negotiate orders that will translate into sales in FY2023. We did not announce an order outlook today, but our orders are not slowing down at present.

Q: Your FY2022 capex plan and R&D budget look quite ambitious. What direction are you planning for this increased investment to take you in?

A: The R&D spending is primarily to add tester developer headcount. The increase in capex is because we are poised to ramp up equipment installations at our plant in Phoenix in the US as part of a production capacity increase aimed at expanding our recurring business, which is a plan we announced last year. Also, because our business has expanded, we need more system and application engineers to provide local support to our customers around the world. It may seem that our profits are not growing as much as our sales, but this is due in part to strategic investing designed to ensure that we do not miss out on any business opportunities by securing the necessary resources for our operations in every location.

Q: What SG&A expense ratio and gross margin are you assuming for the ¥510 billion in sales you are planning for FY2022?

A: We anticipate a gross margin of around 58%. Our SG&A expenses totaled around ¥120 billion in 2021, and we are looking for them to increase by around 20%.

Q: Why did your gross margin decline slightly to 56.7% in 4Q despite your sales being higher than they were in 3Q? Also, what degree of inflation in parts and materials costs is assumed in your outlook for a gross margin of 58% in FY2022?

A: Our gross margin was also impacted by inflation in parts and materials costs in 4Q. Our FY2022 gross margin outlook reflects the entirety of the parts and materials cost inflation that we currently anticipate for the full year. We nonetheless expect a gross margin of around 58% because we expect our profitability to be boosted by higher sales.

Q: Will you be able to reflect higher parts and materials costs in the sales prices of your testers?

A: We think our customers will generally be understanding regarding the inflation in our parts and materials, logistics, and energy costs. However, given that we are currently unable to meet the delivery dates that our customers are asking for, we do not think this is the time to try to negotiate higher prices.

#### 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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