

**Advantest Corporation**  
**FY2022 2Q (Three months ended September 30, 2022) Financial Briefing**  
**Q & A Summary**

October 27, 2022

Q: You have not changed your full-year forecast for FY2022, but how do you expect sales to split between 3Q and 4Q? Also, given the changing business environment, do you have any updates on your outlook for the tester market in 2023 or on the FY2023 sales forecast that you included in your mid-term management plan?

A: We expect sales to be roughly the same in 3Q and 4Q. Procuring parts remains difficult, which is constricting our ability to supply, and we expect this situation to continue in 2H. If parts availability were to improve in 4Q, we might be able to add a bit to our sales. We also note that it is extremely difficult to forecast what will happen in FY2023, not only because of the global economy, but also because of the recent additional factor of the US's restrictions on China. The mid-term management plan we released in July calls for year-on-year change between -15% and +10% in FY2023 sales, but our sense is that the positive end of that range has shrunk given recent conditions. That said, we also have an order backlog, so it is possible to anticipate that sales will either decline slightly or rise slightly on a year-on-year basis. Visibility is, however, limited.

Q: China grew substantially as a percentage of your sales in 2Q. How do you view the sustainability of that demand given that the US is stepping up its restrictions on China? Also, what sort of impact do you expect these tighter restrictions to have on your earnings?

A: We believe that the export restrictions that the US announced on October 7 will have little direct impact on us. Our core products are developed in Japan and Europe, produced in Japan or Asia, and make little use of US technology. However, while the current restrictions are unlikely to have a major impact on us, we remain vigilant for additional restrictions that may be enacted in the future, and we are focused on planning how we would respond to various contingencies.

Q: You revised down the SoC portion of your 2022 tester market outlook. Why was that? You meanwhile left your forecast for your own SoC tester sales unchanged. I suppose that means that you expect to gain market share. Again, why is that?

A: We shaved \$350 million off the midpoint of our July outlook for the 2022 SoC tester market because our peer cut its sales forecast and because we now expect somewhat less

upside from our procurement efforts. We expect to have around 55% of the SoC tester market, which would represent year-on-year growth in our share. We left our outlook for the memory tester market unchanged. The weak yen converts to fewer dollars than before, putting us at a disadvantage in terms of market share. As such, we are forecasting our market share at around 50%.

Q: What are your lead times like at present? You say that you have an order backlog, but compared to previous cycles, how frequently are customers asking you to postpone or cancel orders?

A: I cannot go into any detail regarding our orders as that is not information that we disclose. However, test demand continues to grow because of mounting testing needs driven by advances in semiconductor performance and because of our customers' plans for strategic capacity additions premised on expansion in the semiconductor market over the mid/long term. As such, booking orders and posting sales continues to keep our sales team extremely busy.

It is true that customers that supply semiconductors for consumer products such as smartphones and PCs have been asking us to cancel or postpone orders. However, we are being quick on our feet and reallocating those products to other customers, which is why we continue to guide for sales of ¥550 billion. Our lead times remain long at nine to 12 months.

Q: My understanding is that smartphone demand is the main driver of your system-level test (SLT) business. However, your 2Q results and full-year forecast for FY2022 seem to indicate that your SLT business is not being impacted by weak end demand for smartphones. Given conditions in the smartphone market, what is your outlook for your SLT business in FY2022 and FY2023?

A: Demand for smartphone SLT and related consumables is down of late due to the decline in smartphone volumes. At the same time, customers remain in talks with us because they need to bolster their testing to ensure reliability as semiconductor performance advances. Demand for sockets for consumer PCs and the like is also slow lately, but given plans for forthcoming processor launches, we expect to see demand pick back up in FY2023 and FY2024.

Q: What do you expect SLT demand to look like in FY2023 for applications other than smartphones?

- A: We expect to continue to see solid demand in FY2023 associated with high-performance computing (HPC), servers, and automotive applications. Automotive applications have different implications for tester demand than smartphones do, but we do expect to benefit from quality assurance needs driven by the electrification of automobiles.
- Q: Given that conditions are likely worse now than they were three months ago, what is it that has led you to the bullish demand outlook that has you expecting that your sales will only be slightly down or even slightly up year-on-year in FY2023?
- A: We no longer disclose order data, so I cannot share any detailed figures, but we have a substantial order backlog as our orders exceeded our sales in both 1Q and 2Q. That means that our supply has been unable to keep up with our customers' demand over the past year and that that remains the case now. Orders may weaken further in 2H and FY2023, but considering factors such as our order backlog, service revenue, and consumables revenue, we think the odds of any year-on-year decline in our sales exceeding 15% and reaching the level of 20-30% to be extremely small. If on top of that we consider the addition of new demand brought by new customers, we see no need for a grim outlook at present.
- Q: In that case, are you confident that you will have enough supply capacity when the market recovers in 2023-2024 or when there is growth in the new business domains that you have entered via acquisitions?
- A: Supply chain resilience has become a challenge globally, but we have taken every possible step since 2H of last year to obtain parts and increase our capacity to supply. We have started to work even more closely with the semiconductor manufacturers that are both our customers and our suppliers, and we have added to our procurement headcount. We have worked to be able to support increased production volumes by strengthening areas of weakness in our supply chain not only as regards semiconductors, but also such inputs as the materials used to produce consumables. Given that semiconductors are expected to represent a \$1-trillion market by 2030, we believe that we need to adopt a long-term perspective in building out our production capacity.
- Q: I do not believe it is contributing to earnings as of yet, but what is the status of Advantest Cloud Solutions™?
- A: In 2020, we tied up with the US firm PDF Solutions to create a new proprietary cloud-based platform called Advantest Cloud Solutions™ and to provide solutions. A few customers working to develop advanced technologies have begun to use our platform to improve their yields and bolster their quality by connecting and analyzing data generated

by equipment used in the semiconductor fabrication process, including at the front end. This is a major step forward. However, the scale of the platform's sales is still small, and it will take some time before it is contributing to earnings.

We are currently devoting efforts to moving the platform forward, including by recruiting a variety of experts and other talent around the world. We believe that we will have progress to report in 2023 or 2024. We are also collaborating with a software development firm to increase the number of applications on our platform.

Q: What is your outlook for the SoC and memory tester markets in 2023 in light of trends for individual applications?

A: We still have limited visibility on the tester market for 2023. With that in mind, our current view is that while some applications are likely to be stronger or weaker than others, we do not expect to see a major year-on-year slump in the tester market in 2023. In terms of a breakdown, we believe that the SoC tester market will see year-on-year growth in around the high single digits. Even if semiconductor production volumes were to remain flat, further miniaturization and greater quality assurance needs are increasing test demand. The memory tester market could meanwhile see a year-on-year decline if end demand for consumer products weakens further. However, some of the customers we talk to intend to make strategic investments premised on mid/long-term growth in the semiconductor market, so we do not anticipate a major slump.

Q: You say that you expect high single-digit growth in the SoC tester market in 2023. How much of that do you expect to come from new customers entering the market? Also, your peer's largest customer is set to migrate to the most advanced process node next year, which means your peer might see growth in demand for testers for mobile applications. Is it fair to assume then that there will be not much upside to your market share for a time?

A: We have limited visibility on 2023, but we have been in talks with new customers for some time, and so our outlook for the SoC tester market also naturally includes some demand of that nature. On the question of market share, if our peer sees increased demand from its largest customer next year, it is conceivable that our market share may decline. However, it is not the case that we have no business at all from that customer, so we would expect that to translate to some extent into additional demand for us as well.

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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