

Advantest Corporation
FY2022 3Q (Three months ended December 31, 2022) Financial Briefing
Q & A Summary

January 31, 2023

Q: Sales remain high in your tester business despite weakness elsewhere in the semiconductor production equipment market. Why is that?

A: Tester demand has weakened lately due to the inventory correction underway in semiconductors for consumer electronics. However, we booked orders in excess of our sales in 1-3Q. The reason we are able to maintain a high level of sales is that we have long lead times of nine to 12 months, and while we have seen cancellations or deferral requests from some customers, they have not been substantial enough to significantly impact our sales. Moreover, our testers enable flexible configuration by switching out modules on a single platform, so when a customer defers a delivery, we are able to allocate that product to a customer requesting immediate delivery instead, thereby maintaining our sales.

Q: What are conditions like for memory testers in China? Do you see the potential for major cancellations?

A: Geopolitical risk is definitely on the rise. China accounts for roughly 25% of our total sales. We see little risk of US export restrictions on China directly preventing us from selling our testers. However, we could potentially be indirectly impacted as those restrictions put a halt to supplies of other companies' production equipment, prompting our customers to revisit their business plans. We are keeping a watchful eye on conditions at our customers as we manage our business.

Q: Your sales exposure to China rose to 33% in 3Q. Is that a result of R&D spending by your fabless customers translating into demand, as you had previously described?

A: Our tester sales in China are sustained by the combination of three sources of demand, namely indigenous Chinese fabless companies, outsourced semiconductor assembly and test (OSAT) vendors, and the operations of non-Chinese companies in China. It is true that 33% is somewhat high, but that percentage for 1-3Q FY2022 is the usual roughly 25%, and we think it will fall within the usual range for the full year as well.

Q: Given recent changes in your business environment, do you have a different outlook on your FY2023 sales than what you did when you previously reported results in July and October?

A: When we revised our Second Mid-Term Management Plan in July 2022, we stated that we expected year-on-year sales growth between -15% and +10% in FY2023. However, the business environment has changed significantly since then. Market conditions are worsening, so sales growth of +10% is beginning to look difficult. That said, because we have built up somewhat of an order backlog, we do not think that sales will decline by more than 15%. However, we may have to revisit this estimated range if the global economy should slump by more than we are anticipating or a recovery proves slow to come.

Q: At your October 2022 financial briefing, you said that you expected the tester market to be basically flat year on year in 2023. This time, however, you have lowered your expectations overall. Could you share your outlook for the 2023 tester market broken down by application?

A: I will address the SoC tester market first. Smartphone-related demand is stagnant, and we have little visibility on when in 2023 there might be a recovery. However, based on our customers' tester utilization rates and our discussions with them, we see a possibility that tester demand could pick back up in 2H FY2023.

For high-performance computing (HPC) and AI, there is a growing range of applications. In addition, new entrants from other industries are expanding the customer base beyond the existing players. As such, we believe that these markets will remain strong in 2023.

Semiconductors remain in short supply for automotive and industrial applications, so semiconductor manufacturers are investing in additional production capacity. We therefore expect a solid trend in that part of the tester market.

As regards memory testers, memory semiconductors themselves are experiencing worsening market conditions. However, if we look solely at our own customers, we see that they are making capex outlays with a mid/long-term view as they pursue further miniaturization and production capacity additions for high-end memory. The memory tester market might see negative year-on-year growth, but we also think it could potentially hold flat.

Q: What factors inform the range you are forecasting for the SoC tester market in 2023? What variables are involved, and what do you see as the greatest risk?

A: One factor that could drive the market to the low end of our forecasted range is a prolonged slump in the global economy. That would result in sluggish final demand for consumer electronics that would depress demand for testers. However, we would not expect a downturn in demand on par with previous ones as we believe that the impact of any recession would be partially offset by boosts to demand for high-end SoC testers stemming from technological advances that are extending test times. As such, while we think that the SoC tester market might see negative year-on-year growth, we do not think that it will decline substantially.

Q: You say that your share of the SoC tester market was in the 55%-60% range in 2022. What do you expect your share to be in 2023, and what variables do you think will be at play?

A: Thanks to a wide range of customers beginning to use our products, we were able to further grow our share of the SoC tester market in 2022. We will be able to maintain our market share if our customers generally continue to invest at the same pace in 2023. However, a potential variable would be investment by our competitor's largest customer. If that were to increase, our market share could potentially decline slightly. Even in such a scenario, we do not believe that our share would fall significantly below 50%.

Q: Your outlook for the tester market in 2023 seems to deviate from that of your competitor. What sort of visibility do you have, and what do you expect in terms of market share?

A: Our visibility on the 2023 tester market is low. Our forecasted range for the tester market is wide because of the increased uncertainty in the business environment. As regards market share, we expect automotive and industrial applications, as well as HPC and AI applications, to be the key drivers of the SoC tester market in 2023. The fact that we are able to solidly leverage our strengths in those domains provides us with a tailwind. We would attribute deviations between our expectations and those of our peer regarding the size of the tester market and market shares there to differences in how we each view the scale of investment by a particular major North American firm, which represents a major variable.

Q: My understanding of what you have said thus far is that you expect to see continued tester demand related to HPC and AI applications in 2023 and that while you think smartphone- and PC-related demand should decline in the first half of the year, you believe that it will recover in the latter half. That being the case, is it fair to assume that you do not expect a major trough for earnings in FY2023?

A: That is what we hope. However, no one can say what factors might arise and place downward pressure on the global economy. If what began in 2H 2022 is a typical economic correction, then a recovery should begin three or four quarters later, which would be in 2H 2023. We therefore think we should have ample opportunities to grow our sales between now and March 2024.

Q: Your lead times are currently nine to 12 months, which is longer than before. How do you expect that to change in FY2023 and over the medium term?

A: Our lead times remain long because of constraints on procuring parts. We are working to get our lead times back to the previous three to four months by holding multifaceted talks with our suppliers in an effort to bolster our procurement capabilities. It is difficult to say exactly when we will be able to reduce our lead times, but we expect them to gradually improve as we head toward FY2024. At the same time, we are considering how to approach procurement with greater efficiency so that we can prepare for long-term growth in tester demand.

Note

This document is prepared for those who were unable to attend the financial 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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