Advantest Corporation
FY2020 2Q (Three months ended September 30, 2020) Financial Briefing
Q&A Summary

October 29, 2020

Q: The market environment has changed so rapidly that it seems conditions are completely different than those of three months ago. When did you begin to feel the tides turning?

A: I think it fair to say that the major changes have been very recent given that it was in the latter half of October that we decided to revise our earnings forecast upward. There had already been a remarkable amount of change in the business environment for testers because of the tensions between the US and China. However, since conditions surrounding smartphones became more definitive in mid-September, activity at our customers has picked up considerably. They are moving more quickly to repurpose excess testers that they had had on hand and are considering investing in additional ones. It is these industry trends that we have reflected in our earnings forecast.

Q: To the extent possible, please describe what the latest competitive conditions look like in the smartphone-related market.

A: We remain on the back foot when it comes to a portion of the semiconductors used by the major North American smartphone player. However, for other chips at that player and for other customers, it is mainly Advantest products that are being used, and we are in the lead in terms of the number of customers in the smartphone space. That said, the scale of the tester investment made by the major North American smartphone player means that it has a considerable impact on annual tester market shares and drives significant changes in market shares each year.

Q: Your peer is touting the growth of its business in the memory tester market. What does competition look like in that space?

A: It is true that our US peer has entered our traditional stronghold, namely the backend for DRAM. However, we do not believe that we have lost a substantial amount of market share. Moreover, we do not expect to see major market share shifts for memory testers going forward, either. That is because customers in the memory tester market have long had dual-sourcing policies that have pit us against South Korean firms, but we have nonetheless maintained around 60% of that market. While we are now facing a different competitor in

those dual-sourcing arrangements, we believe that we are successfully maintaining our market share.

Q: You raised your full-year order forecast from 240 billion yen to 260 billion yen this time. In what domain are you seeing the demand growth that accounts for that additional 20 billion yen? Also, you are forecasting for stronger orders in 2H than what you booked in 1H. Could you describe what you expect in terms of order levels in 3Q and 4Q?

A: The upward revision to our order forecast primarily reflects increased demand for SoC testers. Also, at present we expect 2H orders to be roughly evenly split between 3Q and 4Q. It is difficult to see as far out as 4Q, in part because of the pandemic, but for now we expect 4Q orders to be on par with those of 3Q.

Q: I believe orders at your system level test business were extremely strong in FY19, but what do you expect them to look like in FY20 compared to that?

A: We look for FY20 system level test orders to decline versus the previous year. However, our 2Q results show that that business has grown as a percentage of sales at the Services, Support & Others segment, and we expect it to do the same over the full year.

Q: When you were discussing your outlook for the SoC tester business, you said that smartphone supply chain players are building up their inventories. With all the smartphone companies but Huawei investing so aggressively, is there no risk that current tester demand has been inflated beyond real demand?

A: SoC tester demand has been growing since September, but our analysis shows that the recent pick-up is being driven by smartphone companies competing over market share and therefore represents real demand and not artificially inflated demand. There may be some instances of double ordering, but we believe that for the most part, orders have risen because customers are now more certain that they will need more testing capacity in the future than what is available on the testers they currently have, which for a time had had excess capacity.

Q: Your presentation included your expectations for market growth next year. Could you tell us what you expect in terms of the size of both the SoC tester and memory tester markets in 2021?

A: We are still not in a place that we could accurately forecast the size of the markets next year given the variety of factors that warrant consideration, including US-China relations, coronavirus infections, and customer investment trends. That said, our sense is that there will

be growth on both the SoC and the memory side. On the SoC side, we expect to see greater use of advanced-node chips for smartphone, HPC, and AI applications. We also expect to see stronger demand for analog ICs and MCUs for automotive applications, which is an area showing signs of demand recovery. On the memory side as well, we see a variety of drivers of market growth, including longer test times resulting from node shrinkage and greater 3D NAND density, and production capacity increases by our customers.

Q: I would like to confirm about profitability at the Semiconductor & Component Test System segment. It seems the margin in that segment is trending around 26-28% in FY20, but there have been times in the past that it was over 30%. Could the margin return to its historical peak if there were to continue to be good growth in SoC tester demand?

A: The current margin trend is being impacted by the fact that we expect sales of our SoC testers, which yield good profitability, to be down by roughly 40 billion yen in FY20 versus FY19. If SoC tester sales were to approach the level that we saw in 2019, I believe the margin would improve by a fair degree.

Q: You booked 9 billion yen more in orders in 2Q than you had anticipated three months ago. Where did the overshoot come from?

A: SoC tester orders beat our expectations by just over 8 billion yen. About half of that overshoot was from the automotive, industrial machinery, and consumer arenas, and 40% was related to display driver ICs (DDIs).

Q: How big do you think the 5G-related tester market will be in 2020 and 2021, and what is your sales outlook like?

A: We estimate a total of $1 billion in demand in 2020 for testers for use on chips that we identify as being 5G-related, such as application processing units (APUs) and baseband processors (BBPs), and we expect that we will capture 40-50% of that market. We expect 5G-related demand to expand in 2021 and beyond for two reasons. Firstly, the number of 5G base stations and 5G smartphones should grow. Secondly, given the intensity of competition in the smartphone market, semiconductors that use the most advanced process nodes and therefore require long test times should start being supplied for use in high-end 5G smartphones.

Q: It looks like the customer mix on the SoC tester market could be a good one for you in 2021. What is your outlook for market share?

A: While not every smartphone supplier, we possess a broad customer base and a diverse product portfolio in the smartphone-related market that we believe gives us a strong presence. If the smartphone market grows, we believe that we will be able to capture a wide range of tester demand, and that it will bolster our overall market share.

Q: You increased your outlook for the SoC tester market to 2.7 billion dollars this time, which is 300 million dollars higher than your estimate as of July. Could you tell us how this 300 million dollars breaks down?

A: The breakdown of the 300 million dollars is 240 million dollars from APUs, 30 million dollars from CISs, and 30 million dollars from DDIs. We believe that we and our peer will split the growth in APUs and that it will be Advantest that benefits from the growth in CISs and DDIs.

Q: Could you share your forecasted growth rate for the tester market in 2021, if you have one?

A: At present, we expect year-on-year growth in both the SoC tester and memory tester markets to be somewhere in the mid to high single digits.

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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