



# 2nd Mid-Term Management Plan (MTP2) Update (Revised July 28<sup>th</sup>, 2022)

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## Advantest's Purpose & Mission and Growth Strategy: Our Grand Design

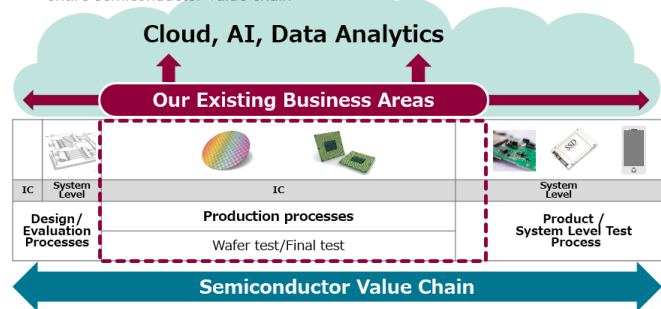
### Corporate Purpose & Mission

Enabling Leading-Edge Technologies

### Vision Statement

Adding Customer Value in an Evolving Semiconductor Value Chain

- Advantest will further contribute to the semiconductor industry by enriching, expanding, and integrating our test and measurement solutions throughout the entire semiconductor value chain



The above graph was formulated in 2018 to illustrate our Grand Design, launched in that year. It shows how we will realize our management vision. Since then, we have been working to add customer value in line with the concept shown above.

### ○ Advantest's Purpose / Mission and Growth Strategy: Our Grand Design

- Our corporate purpose and mission is to "enable leading-edge technologies."
- To continue to be a company that embodies this policy, we formulated a 10-year medium- to long-term management policy, our "Grand Design," in FY2018.
- At the same time, we codified our corporate vision of "Adding customer value in an evolving semiconductor value chain."
- To realize this vision, since FY2018, we have consistently striven to expand our business domains to related markets while identifying semiconductor wafer test and final test as our core business domain.

## MTP2 (FY2021-FY2023): Growth Strategies & 1st-Year Progress Report

We are steadily implementing the 5 strategies set forth in our Grand Design.

### Strategies

- 1 Reinforce Core Businesses, Invest Strategically
- 2 Seek Operational Excellence
- 3 Explore Value to Reach a Higher Level
- 4 Pioneer New Business Fields
- 5 Enhance ESG initiatives

### Key 1st-Year Achievements

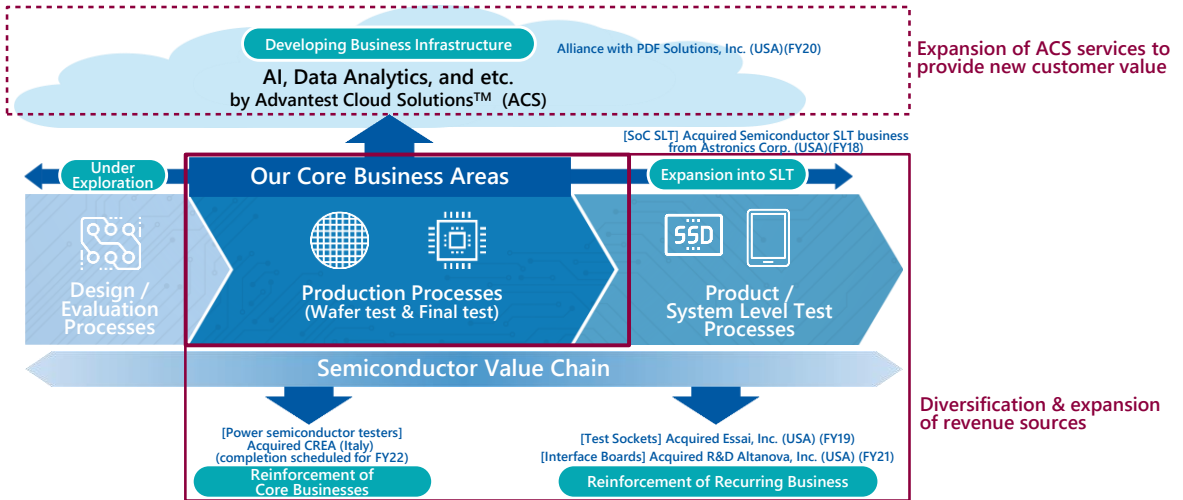
- In order to further enhance our mid/long-term presence in the tester market, we reinforced the lineup of modules for our V93000 EXA Scale SoC tester, and introduced two new memory testers.
- We executed R&D based on a long-term roadmap aligned with semiconductor technology trends. At the same time, by hiring more sales / support personnel, we expanded our tailored solutions for diverse customers and applications.
- To expand our SLT business, we cultivated HPC and smartphone-related demand and focused on sales to the automotive market.
- We acquired US company R&D Altanova, strengthening our test interface business.
- We expanded our Advantest Cloud Solutions(TM) (ACS) services, and implemented hiring with a view to future business expansion.
- The TechInsights Customer Satisfaction Survey named Advantest the SPE industry leader for the third consecutive year.
- We reviewed our global executive system to strengthen earning power, and introduced a CxO system.
- We formulated an ESG Action Plan to promote ESG understanding company-wide.

### ○ MTP2 1st-Year Progress Report

- Advantest has formulated consecutive three-year mid-term management plans to achieve our Grand Design goals.
- In FY2021, we updated our Grand Design in line with our business performance and evolving external environment, and at the same time, formulated our Second Mid-Term Management Plan (FY2021-FY2023) (MTP2). The entire company has been working together to implement this plan.
- These are our key achievements in FY2021, which was the first year of MTP2, towards our five Grand Design strategies.
- Last year, securing materials and responding to support for expanding customer demand became our highest priority throughout the year. In addition, the prolonged COVID-19 pandemic gave rise to various difficulties.
- However, even in this environment, as you can see, all Group employees were able to make progress on various mid/long-term efforts.

## Where We Are Now: Expansion of Business Domains Based on Our Grand Design

Vision Statement: Adding Customer Value in an Evolving Semiconductor Value Chain



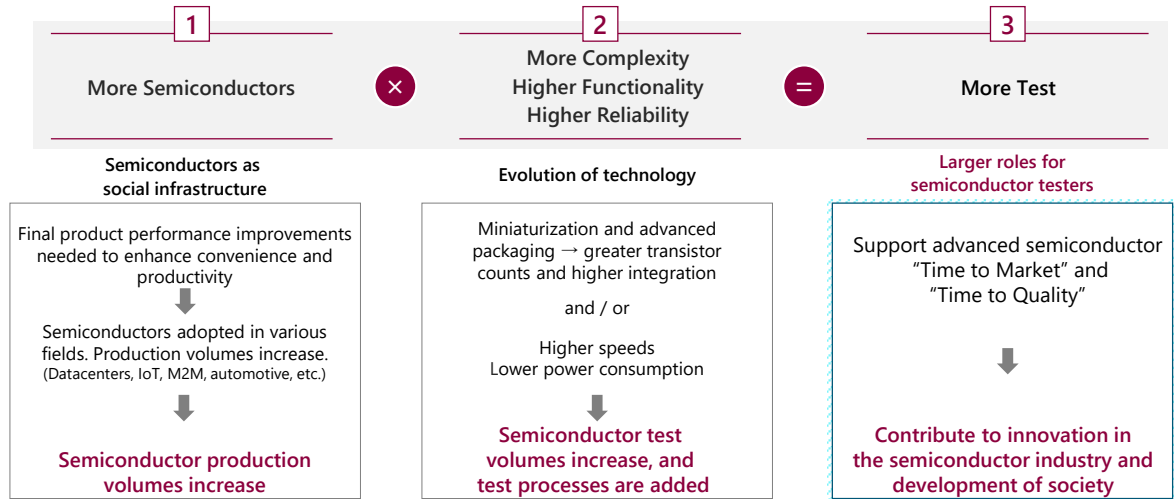
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### ○ Expansion of Business Domains Based on Our Grand Design

- This slide is an updated version of the graph shown a couple of slides back. Since FY2018, we have been proactively engaging in M&A and alliances in line with our Grand Design vision. This shows how these steps are organized conceptually.
- By expanding into the SLT field, starting from our core businesses, and strengthening recurring business, our business domains have expanded both horizontally and vertically.
- In the vertical direction, we are currently in the process of acquiring CREA of Italy in preparation for the future growth of test demand for high-power analog ICs such as SiC and GaN, which are currently attracting great interest.
- In addition to strengthening these hardware businesses, we have also developed and expanded our "Advantest Cloud Solutions" business in the upward direction, that is, in the areas of cloud services and data analytics.

## No Change to Growth Trends in Demand for Semiconductor Testers and Their Roles



### ○ Trends in Semiconductor Test

- This slide is unchanged from when we announced MTP2 last year.
- We explained that the role of test will become even more important in the future as the semiconductor market continues to grow.
- Even now, that view remains unchanged.
- The number of semiconductors produced continues to grow.
- In parallel, the technological evolution of semiconductors continues. Their increasing complexity will increase test needs both qualitatively and quantitatively.
- We believe these two factors ensure that the demand for semiconductor testing will continue to grow.

## Future Focus of MTP2

Our view that we are in a phase abounding with various mid/long-term growth opportunities remains unchanged. While basically following the growth measures set forth last year, we will promote various measures to strengthen our growth base for the future.

### Company-Wide

- Amidst long-term growth expectations in the semiconductor market, we will strengthen our growth foundation by strengthening supply chain management, DX / AI investment, capital investment, and human resources investment in order to secure our growth potential and reinforce robustness of our business.
- Respond quickly to technological evolution by strengthening partnerships with leading customers in the semiconductor value chain.

### Semiconductor and Component Test System Segment

- Capture the expanding demand for test equipment for SoC semiconductors, including HPC devices, a sector which is expected to grow robustly over the mid/long-term, by leveraging the strengths of the new V93000 EXA Scale.
- Establish a leading position in test for millimeter-wave related devices, a sector that will commence full-scale growth during the period of MTP2
- Capture demand in emerging markets such as power semiconductors and silicon photonics devices.
- Maintain a strong business foundation for DRAM and non-volatile memory device test.

### Mechatronics System Segment

- Expand sales opportunities by providing test cell environments that deliver better test quality.

### Services, Support, and Others Segment

- As demand for system level testing (SLT) increases, win more customers in mobile, HPC, automotive, memory / storage, etc. In addition, actively promote expansion of recurring business for consumables.
- Invest to refine our business model in the data analytics field and further develop infrastructure for this business.

## ○ Future Focus of MTP2

- There is just over a year and a half remaining in MTP2, our three-year medium-term management plan. We will aggressively develop growth measures.
- In SoC testers, we consider that the progress of miniaturization, advanced packaging, and roll-out of 5G millimeter wave devices will provide greater opportunities, and we will work to expand sales of the V93000, mainly for HPC applications.
- In addition to cutting-edge space, SoC tester market has many growth themes. We will promote design-in activities to the leaders in each area and build a structure that will ensure we can capture future demand opportunities.
- In memory testers, we will continue to claim a majority share of the market by leveraging our position as the only tester vendor that can provide solutions for all players and all testing processes.
- In the mechatronics business, we will expand sales opportunities by providing test cell environments that deliver better test quality by leveraging the technological resources we have cultivated over many years, such as high-precision thermal control and signal transmission technologies.
- In the Services, Support and Others business, the number of applications that require SLT continues to increase. We will work to increase the number of application and customers.
- In the area of data and analytics, we will work with customers to develop innovative solutions that integrate hardware and software based on ACS.

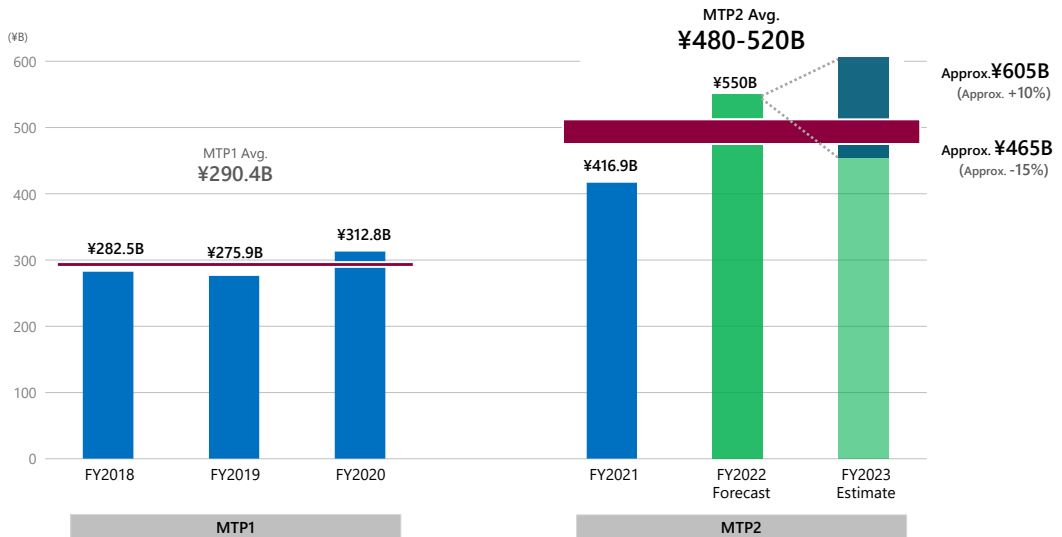
## Regarding These MTP2 Revisions

- The market outlook for FY2023 is currently uncertain, but inventories of some semiconductors related to consumer final products are in an adjustment phase. We recognize that Advantest is also in a phase where a certain degree of future slowdown needs to be taken into account.
- Despite these temporary adjustments, it is expected that the tester market will be supported in the future by demand from the automotive and industrial sectors, where semiconductor shortages continue, and demand for high-end SoCs and memory semiconductors, where customers are strongly motivated to make technology investments.
- In addition, our business structure has changed, and we do not anticipate a large-scale, long-term sales decline such as we sometimes encountered in the past.
- Based on these factors, we currently expect FY2023 year-on-year sales growth to be in the range of approximately -15% to +10%.
- Each of our MTP2 management metrics and related indicators has been revised in consideration of this market outlook, our sales forecast for FY2022-23, and past performance trends, assuming that the current slowdown in the global economy will remain within moderate bounds.

### ○ Regarding MTP2 Revisions

- We now turn to the financial side of the story.
- The momentum of the semiconductor market is rapidly changing.
- Despite our efforts to gather information, we must say that the visibility of the FY2023 tester market outlook is currently low.
- However, some semiconductors whose end market is consumer electronics have already entered an inventory adjustment phase, and some customers have revised their aggressive stance toward the future accordingly. Under such circumstances, it is necessary to consider the possibility of a slowdown in our sales in FY2023.
- On the other hand, the degree of adjustment varies from customer to customer and application to application. Demand for testers is expected to remain constant in businesses related to the automotive and industrial equipment areas, where semiconductor shortages continue, and in businesses for high-end SoC and memory semiconductors, where customers have a strong appetite for technology investment.
- In addition, our business structure has changed over the past several years, and we do not currently anticipate a large-scale decline in sales as we have seen in the past.
- We may also continue to benefit from strong investment in advanced technology without a significant deterioration in utilization rates at our major customers.
- Based on these factors, we currently foresee that FY2023 year-on-year sales growth will be in the range of approximately -15% to +10%.
- Given this market outlook and our past performance, we have revised our MTP2 targets and related indicators.

## Revised Sales Target



### ○ Revised Sales Target

- This graph illustrates the FY2023 sales outlook just mentioned.
- In order to evaluate the progress of the plan from a mid/long-term perspective, we use three-year averages for our management metrics to minimize the impact of single-year performance fluctuations.
- We summarize our sales trend in a year-over-year basis.
- At the timing of forming MTP2, we initially forecasted ¥350-380 billion of average sales during MTP2, a three-year period beginning in FY2021.
- However, based on actual FY2021 sales of ¥416.9 billion, and our new FY2022 sales forecast of ¥550.0 billion, as well as our sales growth outlook for FY2023 of -15%- +10%, our MTP2 sales target has been revised to be ¥480-520B on a three-year average basis.



## Revised Management Metrics

	MTP1 Results Avg. of FY2018-20	Previous MTP2 Targets <sup>*2</sup> (announced May 2021) Avg. of FY2021-23	MTP2 Targets <sup>*3</sup> (revised July 2022) Avg. of FY2021-23
Sales	¥290.4B	¥350-380B	¥480-520B
Operating Margin	22.3% <sup>*1</sup>	23-25%	27-30%
Net Income	¥60.1B	¥62-70B	¥98-120B
ROE	29.1%	20% or more	30-35%
EPS	¥309	¥320-370	¥510-630

\* 1. In MTP1 period, Advantest recorded one-off profit of approximately 12 billion yen.

\* 2. The exchange rates used in the previous announcement were 1 USD = 105 JPY and 1 euro = 130 JPY.

\* 3. The revised targets use exchange rates for FY2022 2Q-4Q and FY2023: 1 USD = 130 JPY and 1 euro = 140 JPY (actual rates in FY2021 were 1 USD = 112 JPY and 1 euro = 130 JPY, FY2022 1Q rates were 1 USD = 124 JPY and 1 euro = 134 JPY).

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### ○ Revised Management Metrics

- These are the MTP2 targets revised on the basis of the sales estimates given in the previous slide.
- The numbers have changed significantly since last year.
- Operating margin, net income, ROE, and EPS targets have all been raised significantly.
- We believe that stronger growth in the semiconductor test-related market than was expected in the past, our share gains, and reinforcement of recurring sales will contribute to growth of our financial results.

## Revised Cost / Profit Model

### Aiming for further profitability improvements while reinforcing our business

- We will further strengthen our R&D investments, human capital, and material procurement capabilities to create long-term sustainable corporate value.
- We will focus especially on maintaining a high level of R&D investment, which is key to increasing added value and maintaining sustainable competitiveness.
- Our revised MTP2 targets call for a cumulative total R&D investment of approximately ¥170B during the MPT2 period (total cumulative investment in MPT1: approximately ¥120B, previous MPT2 cumulative forecast: approximately ¥150B).
- We will respond flexibly to external changes amid considerable uncertainty in the global economy and our business environment.

	MTP1 Results (FY2018-20 Avg.)	Previous MTP2 Targets (announced May 2021) (FY2021-23 Avg.)	MTP2 Targets (revised July 2022) (FY2021-23 Avg.)
Sales	¥290.4B	¥350-380B	¥480-520B
Cost of Goods Sold	45%	45-46%	42-43%
SG&A as % of Sales	33%	30-31%	28-30%
Operating Margin	22%	23-25%	27-30%

### ○ Revised Cost / Profit Model

- MTP2 is positioned as a phase of strengthening our foundation for further growth.
- Since semiconductor tester demand is expected to grow over the mid/long-term, we will further boost our R&D investments--the source of our growth--from our previous plan.
- On the other hand, future uncertainties in the global economy and our business environment are rising due to the spread of COVID-19 variants, prolonged shortages of semiconductors and other components, geopolitical risks, inflation, and declining consumption.
- In the event of an emergency such as macro-scale deterioration in our external environment, we may flexibly implement cost controls.

## Revised Growth Investment & Shareholder Returns Policy

While prioritizing active investments, expand shareholder returns

### Capital Expenditures

- Amid long-term semiconductor market expansion and further semiconductor performance gains, we plan to increase R&D and production capital investment to ¥70B (previously announced value: ¥40B).

### Strategic Investment in M&A, etc.

- Search for good targets with potential synergies in areas that will lead to strengthening our end-to-end test solutions.
- Additionally, execute initiatives in line with mid/long-term strategy such as ramping up new businesses.

### Shareholder Return Policy

- To maintain stable and sustainable dividend payments, we will continue to issue a minimum dividend of ¥50 per share for half a year and ¥100 for the full year.
- We continue to target a full-year total return ratio,\* including acquisitions of treasury stock, of 50% or more.

(However, there is a possibility that we may not be able to disburse the targeted level of shareholder returns due to the occurrence of investment growth opportunities that require more funds than expected, and / or the deterioration of business performance due to changes in our market environment.)

	FY2018-20 Results	FY2021-23 Investment Targets		FY2018-20 Results	FY2021-23 Estimate
Capital Expenditure	¥30.2B	¥70B	Shareholder Returns (Dividend + Share buybacks)	¥61.7B	¥210B or more
Strategic Investments e.g. M&A	¥47.7B	¥100B			

\*Total return ratio: (Dividend amount + Share buybacks)/consolidated net income

## ○ Revised Growth Investment & Shareholder Returns Policy

- Based on our mid/long-term market outlook, we have reviewed the scale of our growth investments other than R&D.
- We will increase capital investment--the foundation for business expansion --to ¥70 billion, and we have already started making some of these investments. Strategic investments such as M&A are expected to total ¥100 billion, unchanged from our previous announcement.
- Regarding shareholder returns, we will maintain our returns policy for the MTP2 period as revised and announced last year.
- Initially, we expected shareholder returns for the MTP2 period to total ¥150 billion or more, but we now expect total returns to be ¥210 billion or more.

## Revised Capital Policy & Capital Allocation Outlook

Allocate cash flow to investments and shareholder returns, while maintaining financial soundness, to improve capital efficiency

### Operating cash flow outlook

- Expected to total ¥280-360B cumulatively during MTP2 period (previously announced value: ¥220B or more)

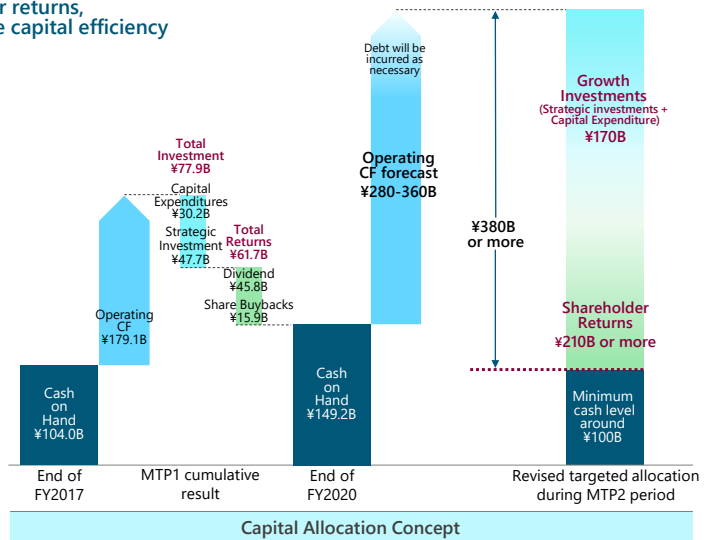
### Minimum cash reserves

- Expected to be around ¥100B under normal business conditions
- Increased from the previously announced value of about ¥80B due to business expansion

### Balance sheet KPI

: Foundation for further growth and shareholder returns

- Financial soundness: Seek appropriate capital level with shareholder equity ratio of 50% or more
- Capital efficiency: ROE 30-35% (previously announced value: 20% or more)
- ROIC-based business / investment management



## ○ Revised Capital Policy & Capital Allocation Outlook

- First, regarding balance sheet management, we are using a shareholder equity ratio of 50% or more as a benchmark for financial soundness. Our capital efficiency target is ROE of 30-35%.
- Cumulative operating cash flow for the MTP2 period is currently expected to range from ¥280 billion to ¥360 billion, depending on FY2023 sales. Treating this as a basic resource, we will allocate funds to growth investment and shareholder returns as appropriate.
- Regarding cash management, our minimum cash holding level is expected to be around ¥100 billion for the MTP2 period going forward, barring unforeseen developments. This has increased by ¥20 billion from the previously announced ¥80 billion thanks to business expansion.
- This completes my explanation of our MTP2 outlook.

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