Financial Results for the 3rd quarter of the Fiscal Year ending March 31, 2020

Akifumi Kubota
Director
Executive Vice President
CFO
Anritsu Corporation
January 31st, 2020

TSE cord : 6754
https://www.anritsu.com

(No notes here)
Cautionary Statement

All information contained in this release which pertains to the current plans, estimates, strategies and beliefs of Anritsu Corporation (hereafter “Anritsu”) that is not historical fact shall be considered forward-looking statements of future business results or other forward-looking projections pertinent to the business of Anritsu. Implicit in reliance on these and all future projections is the unavoidable risk, caused by the existence of uncertainties about future events, that any and all suggested projections may not, come to pass. Forward-looking statements include but are not limited to those using words such as “believe”, “expect”, “plans”, “strategy”, “prospects”, “forecast”, “estimate”, “project”, “anticipate”, “may” or “might” and words of similar meaning in connection with a discussion of future operations or financial performance.

Actual business results are the outcome of a number of unknown variables and may substantially differ from the figures projected herein. Factors which may affect the actual business results include but are not limited to the economic situation in the geographic areas in which Anritsu conducts business, including but not limited to, Japan, Americas, Asia, and Europe, changes in actual demand for Anritsu products and services, increases or decreases in the competitive nature of markets in which Anritsu sells products or buys supplies, changing aptitudes at providing services, and exchange rates.

You also should not place reliance on any obligation of Anritsu to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Anritsu disclaims any such obligation.

(No notes here)
Agenda

I. Outline of our business segments

II. Consolidated performance review of the 3rd quarter of the Fiscal Year ending March 31, 2020

III. Outlook for full year of the Fiscal Year ending March 31, 2020 (Consolidated)

IV. Absorption-type merger of consolidated subsidiaries (simplified merger and short-form merger)

V. 5G Service Roadmap and Anritsu initiatives

(No notes here)
I. Outline of our business segments

(Revenue by business segment) FY2019 (Nine Months Ended Dec. 31, 2019)

<table>
<thead>
<tr>
<th>T&amp;M: Test &amp; Measurement</th>
<th>Mobile</th>
<th>Network Infrastructure</th>
<th>Electronics</th>
<th>PQA</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2019</td>
<td>55%</td>
<td>26%</td>
<td>19%</td>
<td>21%</td>
<td>8%</td>
</tr>
</tbody>
</table>

(Sales of T&M business by region) FY2019 (Nine Months Ended Dec. 31, 2019)

<table>
<thead>
<tr>
<th>Japan</th>
<th>Asia &amp; Pacific</th>
<th>Americas</th>
<th>EMEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>19%</td>
<td>44%</td>
<td>24%</td>
<td>13%</td>
</tr>
</tbody>
</table>
The Group’s consolidated order intake increased by 12% year on year to 82.6 billion yen and revenue increased by 7% year on year to 76.4 billion yen. Operating profit increased by 47% year on year to 11.3 billion yen. Profit increased by 33% year on year to 8.3 billion yen.
In the T&M business, development demand for 5G was steady, and both revenue and profit increased year on year, with revenue increased by 11% year on year to 54.2 billion yen, and operating profit increased by 53% year on year to 9.9 billion yen (operating margin: 18.3%).

In the PQA business, while the performance for 3Q was roughly equivalent to that of the same quarter of the previous year, it was not enough to make up for the decline in 1Q. Revenue and profit fell year-on-year, with revenue declining by 0.7 billion yen to 15.9 billion yen, and operating profit falling by 0.3 billion yen to 0.7 billion yen.

<table>
<thead>
<tr>
<th></th>
<th>FY2018 (Apr. to Dec.)</th>
<th>FY2019 (Apr. to Dec.)</th>
<th>YoY</th>
<th>YoY (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>T&amp;M</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>48.6</td>
<td>54.2</td>
<td>5.6</td>
<td>11%</td>
</tr>
<tr>
<td>Op. profit (loss)</td>
<td>6.5</td>
<td>9.9</td>
<td>3.4</td>
<td>53%</td>
</tr>
<tr>
<td><strong>PQA</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>16.6</td>
<td>15.9</td>
<td>(0.7)</td>
<td>-5%</td>
</tr>
<tr>
<td>Op. profit (loss)</td>
<td>1.0</td>
<td>0.7</td>
<td>(0.3)</td>
<td>-35%</td>
</tr>
<tr>
<td><strong>Others</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>5.9</td>
<td>6.4</td>
<td>0.5</td>
<td>8%</td>
</tr>
<tr>
<td>Op. profit (loss)</td>
<td>1.0</td>
<td>1.3</td>
<td>0.6</td>
<td>81%</td>
</tr>
<tr>
<td><strong>Adjustment</strong></td>
<td></td>
<td></td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Op. profit (loss)</td>
<td>(0.6)</td>
<td>(0.6)</td>
<td>0.0</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>71.1</td>
<td>76.4</td>
<td>5.3</td>
<td>7%</td>
</tr>
<tr>
<td>Op. profit (loss)</td>
<td>7.7</td>
<td>11.3</td>
<td>3.6</td>
<td>47%</td>
</tr>
</tbody>
</table>

Note1: Numbers are rounded off to the first decimal place in each column.
Note2: Adjustment includes elimination of inter-segment transactions and non-distributed company-wide expenses of each business segment.

T&M: Test & Measurement  PQA: Products Quality Assurance
The operating profit and the operating margin for consolidated and each business segment for 3Q are as follows:

Consolidated : 4.7 billion yen (Operating margin : 17.6%)
T&M : 4.0 billion yen (Operating margin : 21.2%)
PQA : 0.2 billion yen (Operating margin : 4.2%)
## II -4. Overview of operations by business segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>FY2019 3Q (April to Dec., 2019)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>T&amp;M:</strong></td>
<td>Steady progress of 5G commercialization schedule</td>
</tr>
<tr>
<td>Mobile</td>
<td>LTE: Continued curbing and reduction of investment in LTE-A</td>
</tr>
<tr>
<td></td>
<td>5G: 5G development demand remains steady</td>
</tr>
<tr>
<td>Network Infrastructure</td>
<td>Launch of 5G network infrastructure</td>
</tr>
<tr>
<td>Asia</td>
<td>Expansion in investment from 5G pre-service</td>
</tr>
<tr>
<td>Americas</td>
<td>Launch of 5G service. Will pay close attention to the future area expansion.</td>
</tr>
<tr>
<td><strong>PQA:</strong></td>
<td>Strong investment by food market for quality assurance, automation, and labor saving both in Japan and overseas</td>
</tr>
</tbody>
</table>

T&M: Test & Measurement   PQA: Products Quality Assurance

(No notes here)
Order intake of the T&M business in 3Q was 20.9 billion yen, which represents a year-on-year increase of 2.9 billion yen (16%), due to the capturing of steady demand related to the development of 5G.

Order intake of the PQA business in 3Q was nearly the same level as the previous fiscal year, at 5.4 billion yen.

The order backlog for the entire Group was 28.7 billion yen (23% year-on-year increase) and 20.5 billion yen (23% year-on-year increase) for the T&M business and 6.1 billion yen (23% year-on-year increase) for the PQA business.
II -6. Transition of Revenue by region

Revenue rose year on year in Asia and Japan, backed by strong 5G demand

Note: Numbers are rounded off to the first decimal place in each column.

(No notes here)
The operating cash flow was inflow of 9.0 billion yen.
The investing cash flow was outflow of 2.1 billion yen.
As a result, the free cash flow amounted to an inflow of 7.0 billion yen.
The financial cash flow was outflow of 7.4 billion yen. The main outflows were repayment of borrowing of 3.5 billion yen and dividends paid of 3.4 billion yen (Dividend per share: Fiscal year end dividend: 13.5 yen, Interim dividend: 11 yen).

Consequently, the balance of cash equivalents at the end of the period decreased by 0.7 billion yen from the beginning of the fiscal year to 44.4 billion yen.
The forecast for the full year results and dividend per share of FY2019 has been revised from October 30th as previously announced.

In our Test and Measurement segment, demands of measuring instruments for development in 5G related mobile markets are expanding continuously. With regard to revenue, principally in Asia, demands for the 5G development investment exceed our previous forecast. With regard to profit, we expect revenue-increase effects and cost rate improvement, based on the results of until this third quarter. Consequently, we revise up the Revenue and Operating profit for the fiscal year ending March 31, 2020.

In our Products Quality Assurance segment, we are steadily acquiring capital investment demands for improvement, automation and labor-saving for the quality assurance processes in the food product market. However, due to prolonged acceptance inspection at customers’ site, revenue and operating profit will be lower than our initial forecast. Consequently, we revise down the Revenue and Operating profit for the fiscal year ending March 31, 2020.

In our Other segment, the performance of device segment will exceed our initial forecast. Consequently, we revise up Operating profit for the fiscal year ending March 31, 2020.

With regard to Profit before tax, Profit and Profit attributable to owners of parent, we revise up for each due to Operating profit revision.
Due to the upward revision of the forecast, we plan to increase the annual dividend to 31 yen per share (an interim dividend of 11 yen and a year-end dividend of 20 yen), an increase of 9 yen from the annual dividend of 22 yen per share (including an interim dividend of 11 yen) announced on April 25, 2019 in the forecast for the full year results of FY2019. ROE is expected to be 12%.

[Dividend Policy]

The Company’s core policy of returning profits to its shareholders is to distribute profits in accordance with its consolidated performance, taking into account the total return ratio. With regard to the distribution from surplus, while taking the basic approach of raising dividends on equity (DOE) in accordance with the increase in consolidated profits for the fiscal year, the Company’s policy is to pay dividends twice a year as an interim dividend and a year-end dividend aiming at a consolidated dividend payout ratio of 30% or more by the resolution of the Board of Directors or the General Meeting of Shareholders.
IV. Merger (Simplified Merger and Short-Form Merger) of Consolidated Subsidiaries

The Company has launched a new initiative, “Beyond 2020” for profitable and sustainable growth, and the Company is promoting transformation to a company that strives to realize company philosophy and company vision as a group.

Under these circumstances, the Company has decided to absorb ANRITSU NETWORKS CO., LTD., ANRITSU ENGINEERING CO., LTD. and ANRITSU PRO ASSOCIE CO., LTD., all of which are wholly-owned consolidated subsidiaries in order to revitalize Anritsu Group, strengthen human resources, and to build a new management system that can respond to the complex and changing market environment and strive to create new businesses.

Expected merger date (effective date) April 1, 2020 (planned)

(No notes here)
V. 5G Service Roadmap and Anritsu initiatives

Hirokazu Hamada
Representative Director, President,
Group CEO,
Anritsu Corporation

(No notes here)
In the mobile T&M market, although there has been a decline in demand for measuring instruments related to LTE and those targeting smartphone manufacturing, the market is expected to grow gradually, with initial development investment for 5G as the growth driver. The mobile market peaked in 2012 on the LTE cycle, but we expect it will be around 2023–2024 on the 5G cycle.

Development investments by 5G vendors in Asia were greater than expected, and the scale of the (smartphone-related) mobile measurement market for the 5G cycle is now expected to be roughly 90% of the peak scale of the LTE cycle. Furthermore, when incorporating local 5G and the IoT and automobile-related markets, which are fields expected to utilize 5G, we believe that the scale of the mobile measurement market may exceed that of LTE at its peak.
In 2019, the U.S., South Korea, European countries, and China launched 5G services. In 2020, 5G Sub-6 services will be launched in places such as Canada, Mexico, South America, and Southeast Asia, and will be widely available in major cities around the world. Also, in 2020, Japan, South Korea, and Russia have plans for 5G millimeter wave services. From 2021 onwards, the number of countries with 5G Sub-6 services will grow further, and we expect an increase in number of countries launching 5G millimeter wave services as well.
**V-3 Increased investment aimed at 5G commercialization in China**

*Created by Anritsu referring to publicly available information*

<table>
<thead>
<tr>
<th>CY 2019</th>
<th>CY 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Chinese government</strong></td>
<td><strong>Chinese carrier</strong></td>
</tr>
<tr>
<td>Granted 5G license</td>
<td>Started commercialization of 5G</td>
</tr>
<tr>
<td>50 cities, 130,000 locations, 10 million users</td>
<td></td>
</tr>
</tbody>
</table>

- **Oppo**
  - Launched 5G devices

- **Xiaomi**
  - Launched 5G devices

- **Huawei**
  - Launched 5G devices

- **ZTE**
  - Launched 5G devices

- **MWC Shanghai 2019**
  - VIVO
  - Launched 5G devices

- **Lenovo**
  - Announced the world’s first 5G laptop PC

- **Quectel**
  - Succeeded in 5G mmWave communication

- **Xiaomi**
  - Ten or more models of 5G devices to be released in 2020

- **Oppo**
  - Launched a device equipped with MediaTek 5G modem

- **Oppo**
  - Launched 5G devices in Japan in 2020

(No notes here)
The development and manufacturing processes for 5G handsets have now moved into the mass production testing phase, and 5G Sub-6 demand has started to arise.