



Pivotal Systems Corporation June 2019 Quarter Update

Fremont, California and Sydney, Australia; 24 July 2019 Pivotal Systems Corporation (“Pivotal” or the “Company”) (ASX: PVS), a leading provider of innovative gas flow control (“GFC”) solutions to the semiconductor industry, is pleased to release a Quarterly update and Appendix 4C Report for the period ended 30 June 2019.

Key highlights

- During the quarter, Pivotal made substantial customer and product progress:
 - Achieved Preferred Supplier Status for both the Standard GFC and High Flow GFC at a leading US based Original Equipment Manufacturer (OEM)
 - Achieved record bookings (new orders) from China for both the Standard GFC and the High Flow GFC at a leading Chinese Integrated Device Manufacturer (IDM)
 - Achieved qualification and multiple repeat orders for the High Temperature GFC with a leading Japanese OEM
 - Successfully qualified the standard GFC at a leading European foundry
 - Successfully qualified and obtained multiple repeat orders at a leading Japanese Logic IDM
 - Successfully qualified and received multiple repeat orders for both deposition and etch at a leading Taiwanese IDM
 - Successfully shipped a second Flow Ratio Controller (“FRC”) to a leading Korean IDM
 - Successfully passed ISO 9001:2015 recertification
- Unaudited Revenue for 1H2019 of US\$8.0 million was in line with our expectations despite reduced capital expenditure by leading Korean IDMs.
- Net cash outflow of US\$3.7 million primarily reflects growth in the Accounts Receivable balance as shipments made closer to the end of the quarter will be collected outside Q2.
- Backlog (confirmed orders not yet shipped) at 30 June 2019 was US\$5.8 million.
- Pivotal appointed Mr. Timothy Welch as Chief Financial Officer.

June 2019 Quarter Cash Flow

The Company finished the Q2 2019 quarter with a cash balance of US\$9.8 million and no debt.

Cash receipts from customers for the period were US\$2.4 million, reflecting the low Q1 shipments and continuing soft market for semiconductor capital equipment as OEM’s continue to manage inventory levels.

Cash payments for Product Manufacturing (Section 1.2(b)) were US\$3.2M which is down from Q1. The skew in shipments toward the end of the June 2019 quarter means that a significant portion of Q2 cost of goods sold (“COGS”) will be paid in Q3. We also continue to invest in Product Development during the downturn.

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This investment has been undertaken to deliver into four customer-led product development initiatives, together with building inventory levels of the new High Flow GFC. This will enable the Company to respond quickly to any Increase in capital expenditure purchases from IDM and OEM customers that have qualified the High Flow product.

Product update

The standard low flow GFC, commonly used for tch applications, continued its qualification with a leading Japanese OEM and first units have shipped for testing. The Company also achieved new process gas qualifications for the standard GFC at a leading US based OEM for etch applications.

The High Flow GFC was qualified at a second leading US based OEM for the large deposition market. This qualification will potentially lead to a doubling of our existing market share with this OEM over time. The rapid qualification and subsequent selection as a “Preferred Supplier” by this OEM further demonstrate the excellent working relationships Pivotal has built while addressing their leading-edge process requirements.

The recently introduced Flow Ratio Controller continues to perform well in beta site production tests at leading Korean memory companies as evidenced by a second revenue unit being shipped in the 1H2019.

At the recent SEMICON West industry conference, the Company once again demonstrated a new architecture for the existing etch gas stick commonly used by the OEMs. This architecture is called SmartStik as it leverages all of the intelligent signals of the standard GFC, while operating at the microsecond (up to 1,000 times faster than standard GFC millisecond speeds). This design also includes the insertion of a Teflon coating to the GFC valve, enabling a positive shutoff capability. This new architecture potentially enables the elimination of costly components used on traditional etch gas sticks as the SmartStik makes them redundant.

The Company also provided live demonstrations at SEMICON West of the new High Temperature GFC, running at 100 degrees centigrade and the Flow Ratio Controller showing industry leading fast turn on, switching speeds at industry leading accuracy.

Pivotal is also intending to release a derivative of the High Flow GFC, which is expected to materially enhance metal-organic chemical vapour deposition techniques (“MOCVD”) used in the production of solar, LED and flat panel markets. The combination of these product initiatives is expected to increase Pivotal’s total available market to over US\$1 billion. The development and testing per specific application continued during the period, which is expected to be completed in the next 6-12 months.

Operations update

As of 6 June 2019, Pivotal appointed Mr. Timothy Welch as Chief Financial Officer (“CFO”). Mr. Welch is a highly experienced CFO for high-technology companies, has operations experience and a proven track record of building infrastructures, scaling revenues, and executing successful mergers & acquisitions.

Headcount grew from 44 to 46 full-time employees during Q2 2019.

As at 30 June 2019, the Company had an order backlog of US\$5.8 million.

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John Hoffman, Chairman and CEO of Pivotal Systems stated, "As we mentioned in our March Release, we believe industry slowdowns, while arduous and painful, are a time to get closer to key customers to better address their next generation flow control requirements. Pivotal has maintained our commitment to innovation and productization of new technology. As evidenced by the significant design wins in the 1H2019 we believe we are leveraging the current industry slowdown to gain strategic market share."

Outlook

Pivotal's growth strategy continues to be to successfully leverage established IDM customer acceptance of its GFC technology into new semiconductor processes while gaining increased acceptance by the major OEMs into new applications or tool sets. The Company continues to move positively towards our market penetration and fan out objectives for FY2019 based on the rapid acceptance of the High Flow GFC.

The preliminary unaudited revenue for the 1H2019 of US\$8.0 million is in line with the Company's prior guidance.

The Company expects to update the market on 27 August 2019 regarding its financial results for 1H2019. The Company expects 2H2019 revenues to increase sequentially from the first half. At this time, the Company sees strengthening in the overall semiconductor industry and we will be able to provide more specific guidance during our 1H2019 release and subsequent conference call.

Investor Conference Call

The Company will host an investor conference call at 9.00am AEST today (4.00pm PDT on Tuesday, 23 July) with Mr. John Hoffman, Chairman and CEO and Mr. Timothy Welch, CFO.

Details of the call are set out below.

In order to pre-register for the conference call and avoid a queue when calling, please follow the link below. You will be given a unique pin number to enter when you call which will bypass the operator and give you immediate access to the event.

<https://s1.c-conf.com/diamondpass/pivotal-10000986-invite.html>

Alternatively, you may dial in with the following details, shortly before the scheduled start time and provide the Conference ID to an operator.

Conference ID: 10000986

Participant Dial-in Numbers:

Australia Toll Free: 1800 908 299
Australia Local: +61 2 9007 8048
New Zealand: +64 9929 3905
Canada/USA: 1 855 6240 077
Hong Kong: 800 968 273
Japan: 006 633 868 000

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China: 1080 0140 1776
Singapore: 800 101 2702
United Kingdom: 080 0051 1453

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Safe Harbor Statement

This press release and the accompanying Appendix 4C contains forward-looking statements, which address a variety of subjects including, for example, our statements regarding expected growth rates, expected product offerings, product development, marketing position and technical advances. Statements that are not historical facts, including statements about our beliefs, plans and expectations, are forward-looking statements. Such statements are based on our current expectations and information currently available to management and are subject to a number of factors and uncertainties, which could cause actual results to differ materially from those described in the forward-looking statements. The Company's management believes that these forward-looking statements are reasonable as and when made. However, you should not place undue reliance on any such forward-looking statements because such statements speak only as of the date when made. We do not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law or the ASX Listing Rules. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results, events and developments to differ materially from our historical experience and our present expectations or projections.

About Pivotal Systems Corporation (ASX: PVS)

Pivotal Systems provides the best-in-class gas flow monitoring and control technology platform for the global semiconductor industry. The company's proprietary hardware and software utilizes advanced machine learning to enable preventative diagnostic capability resulting in an order of magnitude increase in fab productivity and capital efficiency for existing and future technology nodes. Pivotal Systems Corporation (ARBN 626 346 325), is a company incorporated in Delaware, USA, whose stockholders have limited liability.

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Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Pivotal Systems Corporation

ARBN

626 346 325

Quarter ended ("current quarter")

30 June 2019

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (6 months) \$US'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	2,412	5,667
1.2	Payments for		
	(a) research and development	(271)	(395)
	(b) product manufacturing and operating costs	(3,236)	(8,275)
	(c) advertising and marketing	(694)	(1,288)
	(d) leased assets	(68)	(115)
	(e) staff costs	(455)	(813)
	(f) administration and corporate costs	(572)	(969)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	30	52
1.5	Interest and other costs of finance paid		
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	-
1.8	Other (provide details if material)	-	-
1.9	Net cash from / (used in) operating activities	(2,854)	(6,136)

2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(66)	(100)
	(b) businesses (see item 10)	-	-
	(c) investments	-	-

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (6 months) \$US'000
	(d) intellectual property	-	-
	(e) other non-current assets (capitalised development expenditure)	(772)	(1,508)
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(838)	(1,608)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	34	50
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other	-	-
3.10	Net cash from / (used in) financing activities	34	50

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	13,467	17,489
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,854)	(6,136)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(838)	(1,608)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	34	50

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (6 months) \$US'000
4.5	Effect of movement in exchange rates on cash held	(4)	10
4.6	Cash and cash equivalents at end of quarter	9,805	9,805

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$US'000	Previous quarter \$US'000
5.1	Bank balances	9,805	13,467
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	9,805	13,467

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

**Current quarter
\$US'000**

245

-

Salary paid to executive directors and non-executive director fees.

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

**Current quarter
\$US'000**

81

-

Salary paid to key management personnel (excluding those in 6.1 above), and consulting services provided by director-related entity.

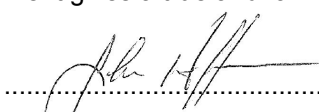
8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

9. Estimated cash outflows for next quarter	\$US'000
9.1 Research and development	(150)
9.2 Product manufacturing and operating costs	(4,507)
9.3 Advertising and marketing	(720)
9.4 Leased assets	(70)
9.5 Staff costs	(420)
9.6 Administration and corporate costs	(565)
9.7 Other (capitalised development costs)	(810)
9.8 Total estimated cash outflows	(7,242)

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

Compliance statement

- This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- This statement gives a true and fair view of the matters disclosed.

Sign here: 
(Director)

Date: 24 July 2019

Print name: John Hoffman

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.