



ASX / Media Release

Pivotal Systems Corporation December 2020 Quarterly Activities Report

Fremont, California and Sydney, Australia; 29 January 2021 — 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 ending 31 December 2020.

Key Highlights

- Unaudited Q4 2020 revenue of US\$6.06 million was up 3% sequentially on the previous quarter (Q3 2020: US\$5.9 million) and down 5.9% from the same period a year ago (Q4 2019: US\$6.4 million)
- 2H 2020 unaudited revenue growth of 18.3% versus 1H 2020 to US\$12.1 million
- Unaudited 2020 revenue of US\$22.1 million was up 44% from the pcg of US\$15.3 million and represents an all-time revenue high for Pivotal Systems up from 2018 US\$20.3 million by 8.5%
- Received progress payment of US\$480,000 for Super GFC milestone achievement under the Development Agreement signed with a leading Japanese OEM in Q3 2020
- Unaudited Q4 2020 gross margins of 29.6% up from 22.1% in the pcg and up from 8.7% in Q3 2020
- US\$4.0 million share placement undertaken to strengthen balance sheet ahead of expected increased demand for Pivotal’s products in FY2021
- Cash at 31 December 2020 was US\$7.5 million
- Qualified the Remote GFC with a 2nd Original Equipment Company (OEM) in Korea
- Qualified the standard GFC with a new USA Based Foundry
- Continuing Qualification of a 2 channel Flow Ratio Controller (“FRC”) at a leading US Based OEM for deposition
- Backlog (confirmed orders not yet shipped) at 31 December 2020 was US\$3.5 million
- Maintained all Manufacturing activity in China, Korea, and the United States during the reported period
- Reduced material costs on the Standard GFC by approximately 10% in 2020
- Semiconductor industry poised for significant growth in 2021.

December 2020 Quarter Cash Flow Summary

The Company completed an equity investment of US\$4.0 million in December, strengthening its cash position to US\$7.5 million at 31 December 2020. This balance included a US\$1.75 million balance outstanding on the term loan with Bridge Bank and the first tranche of the US\$10 million RBI Preferred Stock funding from Anzu which was completed in February 2020.

Cash receipts from customers for the period were US\$5.7 million, up 4.7% from US\$5.5 million from Q3 2020, evidencing stability in receivables management.

Cash payments for Product Manufacturing were US\$4.8 million, down 15% from US\$5.6 million in Q3 2020, reflecting operating improvements in inventory management, contract manufacturing (CM), labor, and utilities while still fully supporting production schedules. Pivotal continued to invest in product development with US\$0.68 million in capitalized costs incurred during the quarter.

Pivotal Systems Corporation
ARBN 626 346 325
48389 Fremont Blvd. Suite 100, Fremont, CA, 94538
Phone +1 (510) 770 9125, Fax +1 (510) 770 9126
Web / <https://www.pivotalsys.com>



During the quarter, the Company made salary and payments of US\$0.21 million to related parties and their associates including executive director's salary payments, non-executive director fees, and fees for consulting services provided by a director-related entity.

Product Update

Sales of the standard low flow GFC, commonly used for Etch applications, continued its momentum in Q4 2020 driven by spending by US Based OEM's and both IDM's and OEM's in Korea, China and Japan.

Pivotal estimates its Etch Market Share doubled to approximately 10% in 2020 based on strategic OEM wins in Korea and China as well IDM wins in Taiwan, Europe and China.

The High Temperature GFC fanout continued in Q4 2020 with multiple repeat orders including on newly qualified gases. This momentum is expected to accelerate in 2021.

Overall, our strategic partnerships with leading OEMs continued in Q4 2020 as we worked diligently on ALD flow applications, high temperature applications with our existing Japanese OEM partner as well as an additional OEM. We also continued development of flow ratio controller applications for deposition with a leading USA Based OEM. Finally, the strategic development program with a leading Japanese OEM remained on track.

Operations Update

Fourth quarter full-time headcount was 45 employees.

During Q4 2020, Pivotal optimized production operations with a combination of standard product produced in volume at the Korean facility while the advanced and specialty products were produced at the Fremont facility. Combined, this global scalability drove the operation to higher volume thresholds with increased efficiency.

Overall material cost reductions for the year came in slightly better than our plan level at a near 10% overall reduction. Our Korea transformation strategy significantly reduced importation duties paid to USA Customs and Border Control with transformation now being performed in Korea rather than California. Duty expense paid in Q4 2020 decreased by 37% compared to Q4 2019. Total duty paid to USA Customs in FY 2020 was US\$1.6 million of which Pivotal has already received drawback, or refund, totaling US\$1.2 million. Additionally, manufacturing overhead decreased by approximately 50% from Q1 2020 to Q4 2020. These significant cost reductions, when combined with lower freight costs and reduced labor costs were significant drivers of our gross margin improvements. Management believes that these improvements are sustainable in 2021 and Pivotal will continue to work with our suppliers to gain even more savings.

In that regard, Pivotal surged manufacturing during December and achieved a production record of over 1000 units in one week. This high utilization coupled with operational efficiency effectively validated our factory strategy and demonstrated a current capacity of over 40,000 units in 2021. This is a strategic milestone as the company demonstrates its production readiness in a sustained industry ramp.

Industry Update

There was a flurry of positive news at the SEMI Virtual Industry Strategy Symposium (ISS) held the week of January 11th, 2021¹. Mario Morales, Program Vice President of Enabling Technologies and Semiconductors, Storage, and DataSphere Research at International Data Corporation (IDC) indicated the return to economic growth is expected to spark an expansion of the semiconductor industry. Worldwide semiconductor revenue is set to rise as much as 7% in 2021, with 5G deployments and PCs for remote work and learning among the key drivers. IDC forecasts show semiconductor revenue increasing to US\$450 billion this year and returning to US\$500 billion in market size in 2024, with steady annual growth between 4% and 6%.

Accelerating spending “across the board” on Information Communications Technology (ICT) will be a key catalyst of the expansion. The ICT segment includes mobile, Internet of Things (IoT), cloud, big data analytics, robotics, security, and artificial intelligence (AI). In sector growth, computing and mobile handsets will be standouts with a 4.5% CAGR over the next four years. In the computing segment - spanning data centers, PCs and peripherals - IDC forecasts growth to US\$170 billion, while IDC expects the mobile handsets segment to reach US\$144 billion by 2024.

At ISS, Andrea Lati, Vice President of Market Research at VLSI Research said semiconductor industry sales will increase 8% this year as memory leads the recovery - DRAM and NAND are forecast to grow 13% and 12%, respectively. The global IT infrastructure buildout, 5nm demand ramp, and continuing liquidity measures by central banks will also help drive industry growth in 2021. Equipment and semiconductor sales are expected to reach US\$200 billion and US\$1 trillion, respectively, in the early 2030s.

SEMI estimates the global semiconductor manufacturing equipment market reaching US\$71.9 billion in 2021 and US\$76.1 billion in 2022², highlighting the long-term growth expectations in this market. The majority of Pivotal’s sales are to semiconductor equipment manufacturers (OEM’s).

US\$4.0 million Share Placement

In December, the Company announced a US\$4.0 million strategic share placement to Viburnum Funds: an Australian high conviction, active ownership investment manager and recent investor in Pivotal.

The funds will provide the Company with additional financial flexibility to capitalize on the strength of the global semiconductor capital equipment market into 2021. Placement proceeds will be deployed in funding increased inventory based on an expected increase in product demand from customers, along with capital expenditures related to additional tooling required to manufacture Pivotal’s next generation gas flow controllers (GFCs) to service the fast-growing atomic layer deposition and etch (ALD/ALE) markets.

¹ <https://www.semi.org/en/news-media-press/semi-press-releases/virtual-iss-2021>

² <https://www.semi.org/en/news-media-press/semi-press-releases/semiconductor-equipment-2020-year-end-forecast>

Outlook

The Company anticipates that 1H 2021 revenues will increase from 2H 2020 revenues and maintains prior guidance of improving growth from 2020 to 2021. At this time, the Company sees continued strengthening in the overall semiconductor industry where industry growth is anticipated to achieve record levels. While COVID-19 still brings uncertainty, the Company continues to progress toward its growth goals. Pivotal maintains that its client-led new product development efforts are the key catalyst for future market share gains.

Investor Conference Call

Pivotal will host an investor conference call today at 9.30am AEDT (2.30pm PT on Thursday, 28 January) with Mr. John Hoffman, Chairman and CEO and Mr. Dennis Mahoney, 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/10011798-r06aPr.html>

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

Conference ID: **10011798**

Participant Dial-in Numbers:

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THIS RELEASE DATED 29 January 2021 HAS BEEN AUTHORISED FOR LODGEMENT TO ASX BY THE BOARD OF DIRECTORS OF PIVOTAL SYSTEMS.

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For further information, interview and photos:

Investor Relations & Media (Australia):

Dr Thomas Duthy
Nemean Group
tduthy@pivotalsys.com
+61 402 493 727

Media Contact (US):

Pia Brandt
ANZU Partners
pjb@anzupartners.com

ASX Representative:

Danny Davies
Company Matters Pty Ltd
davies@companymatters.com.au

If investors wish to subscribe to Pivotal Systems' email alert service for ASX Announcements, please follow this [link](#).

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 Corporation (ARBN 626 346 325), is a company incorporated in Delaware, USA, whose stockholders have limited liability. 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. For more information on Pivotal Systems Corporation, visit <https://www.pivotalsys.com/>.

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