



ASX / Media Release

Pivotal Systems Corporation September 2019 Quarter Update

Fremont, CA and Sydney, Australia; 30 October 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 ending 30 September 2019.

Key highlights

- During the quarter, Pivotal made substantial customer and product progress:
 - Successfully shipped the first prototype of the new high flow standard GFC to a leading Japanese OEM
 - The High Temperature GFC continued to perform well in both a Korean IDM and a leading Taiwanese IDM
 - Conducted live product demonstrations at SEMICON West in San Francisco
 - Conducted Technology Roadmap Review Meetings with both Top IDMs and OEMs.
- Unaudited Revenue of US\$0.9 million for Q3 2019 was in line with our expectations based on continued reduced capital expenditure by leading Korea IDMs.
- Net cash outflows from operating and investing activities of US\$3.4 million reflects the building of inventory for the new High Flow GFC and in preparation for Q4 shipments and investment in customer-led product development initiatives.
- Backlog (confirmed orders not yet shipped) at 30 September 2019 was US\$5.2 million.

September 2019 Quarter Cash Flow

The Company finished the Q3 2019 quarter with a cash balance of US\$9.3 million which included US\$3.0 million in a term loan drawn against the credit facility with Bridge Bank announced to the market in August 2019. The credit facility also has US\$7.0 million revolving line of credit. There is currently no borrowing against the revolving line of credit.

Cash receipts from customers for the period were US\$4.3 million, which was significantly higher than our Q3 shipments reflecting a decrease in our Accounts Receivable balance for the quarter.

Cash payments for Product Manufacturing were US\$4.7 million as we built inventory during the quarter in preparation for increased shipments scheduled for Q4. We also continue to invest in Product Development during the downturn.

This investment has been undertaken to deliver into four customer-led product 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 products.



Product update

The standard low flow GFC, commonly used for etch applications, continued its qualification with a leading Japanese OEM. The Company was also notified that both the standard GFC and the High Flow GFC were qualified on two additional deposition product platforms at a leading US based IDM.

The recently introduced Flow Ratio Controller (FRC) continues to perform well in beta site production tests at a leading Korean memory company.

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

Pivotal has also introduced the Remote GFC used for high temperature gas boxes commonly found in the most demanding process applications for both etch and deposition. The initial beta sites for this product are currently installed in Korean Memory factories as well as a leading Taiwanese foundry.

Operations Update

During Q3, full-time Headcount decreased from 46 to 45 employees.

During Q3 the Company reported that it will end the manufacturing agreement between Pivotal and Compart Systems ("Compart") Korean factory where software is loaded on to its products. Pivotal has capacity in Fremont, where this function was previously performed, and is in the process of putting in place parallel capabilities in Korea. Pivotal does not expect this new manufacturing arrangement to impact its product deliveries, nor lead times to its customers. Pivotal will continue to engage Compart China for the majority of the Company's contract manufacturing requirements.

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. We continue to move positively towards our market penetration and fan out objectives for FY2019 based on the rapid acceptance of the High Flow GFC.

The Third Quarter unaudited revenue of US\$0.9 million was in line with expectations as announced in the Company's half year results on 30 August 2019. We continue to expect that 2H 2019 revenue will be weighted towards Q4. We will keep the market informed of any updates to 2H 2019 guidance. Based on current feedback from customers around their spending plans, together with Pivotal's increasing market share, we continue to expect 2H 2019 revenue to be higher than for 1H 2019. Currently, we are seeing signs of a recovery in the Flash Memory market and optimism for a recovery in the DRAM market in 2020.



Investor Conference Call

A conference call will be held today at 9.00am AEDT, Wednesday 30 October 2019. Pre-registration and dial-in details are available at the following link:

<https://s1.c-conf.com/DiamondPass/pivotal-10002474-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: **10002474**

Participant Dial-in Numbers:

Australia Toll Free: 1800 908299
Australia Local: +61 2 9007 8048
New Zealand: 0800 452 795
Canada/USA: 1855 624 0077
Hong Kong: 800 968 273
Japan: 006 633 868 000
China: 108 001 401 776
Singapore: 800 101 2702
United Kingdom: 0800 0511 453

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For further information, interview and photos:

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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 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.

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 September 2019

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (9 months) \$US'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	4,300	9,967
1.2	Payments for		
	(a) research and development	(173)	(568)
	(b) product manufacturing and operating costs ⁽¹⁾	(4,731)	(13,040)
	(c) advertising and marketing	(629)	(1,917)
	(d) leased assets ⁽¹⁾	-	-
	(e) staff costs	(726)	(1,539)
	(f) administration and corporate costs	(710)	(1,678)
1.3	Dividends received	-	-
1.4	Interest received ⁽¹⁾	21	110
1.5	Interest and other costs of finance paid ⁽¹⁾	(36)	(102)
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	(2,685)	(8,768)

2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(3)	(103)
	(b) businesses (see item 10)	-	-
	(c) investments	-	-

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (9 months) \$US'000
	(d) intellectual property	-	-
	(e) other non-current assets (capitalised development expenditure)	(738)	(2,246)
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	(741)	(2,349)

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	13	63
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	3,000	3,000
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	(26)	(26)
3.8	Dividends paid	-	-
3.9	Other		
	- Lease principal repayments ⁽¹⁾	(49)	(102)
3.10	Net cash from / (used in) financing activities	2,938	2,935

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	9,805	17,489
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,685)	(8,768)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(741)	(2,349)

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (9 months) \$US'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,938	2,935
4.5	Effect of movement in exchange rates on cash held	(8)	2
4.6	Cash and cash equivalents at end of quarter	9,309	9,309

(1) Section 1.2 has been amended to reclassify cash outflows recognised in line with IFRS 16 *Leases*, resulting in Interest Expense \$102k and Reduction in lease liability of \$102k (year to date).

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	9,309	9,805
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)	9,309	9,805

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

Current quarter
\$US'000

234

-

- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

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

7. Payments to related entities of the entity and their associates	Current quarter \$US'000
7.1 Aggregate amount of payments to these parties included in item 1.2	323
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	

Salary and payments 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	3,000	3,000
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	7,000	-
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.		

On August 2019, the Group closed a US\$10.0 million business financing agreement with Bridge Bank, a division of Western Alliance Bank (NYSE: WAL). The new \$10.0 million facility is comprised of: US\$7.0 million working capital revolving credit line and \$3.0 million term loan line of credit.


9. Estimated cash outflows for next quarter	\$US'000
9.1 Research and development	(200)
9.2 Product manufacturing and operating costs	(4,900)
9.3 Advertising and marketing	(720)
9.4 Leased assets	-
9.5 Staff costs	(480)
9.6 Administration and corporate costs	(590)
9.7 Other	
- Capitalised development costs	(790)
- Other (Int. Expense/Loan Payments)	(300)
9.8 Total estimated cash outflows	(7,980)

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

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

Sign here:


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(Director)

Date: 30 October 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.