



ASX / Media Release

Pivotal Systems Corporation June 2022 Quarterly Activities Report

Fremont, California and Sydney, Australia; 29 July 2022 – 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 quarter ending 30 June 2022 (“Q2 2022”).¹

Key Highlights

- Unaudited Q2 revenue of US\$5.5 million was up 56% sequentially over the last quarter (Q1 2022: US\$3.5 million) and down 25% on the prior corresponding period (pcp) (Q2 2021: US\$7.3 million)
- Industry downstream supply chain volatility continues to cause delays in process equipment deliveries to Integrated Device Manufacturers (IDMs), this environment is expected to continue into the 2H 2022
- Pivotal continues to effectively manage its upstream supply chain to meet demand to date, and continues to achieve 100% on time delivery, while maintaining industry leading lead times
- Advanced Atomic Layer Deposition (ALD) product development project continues test and evaluation with a leading Japanese Original Equipment Manufacturer (OEM)
- Strong demand continues for the new High Temperature GFC platform - Q2 shipments (US\$173k) grew 35% over Q1 (US\$128k), and a major OEM has expanded into new applications using the platform
- Unaudited Q2 2022 gross margins of -7.3% down from 37.9% in the pcp and down from -4.6% in Q1 2022, driven primarily by decreased product shipments, expedite fees to obtain semi-components necessary for production, and non-cash inventory charges
- Backlog (confirmed orders not yet shipped) at 30 June 2022 was US\$5.8 million versus US\$5.9 million in Q1 2022
- Net cash flows from operations of -US\$4.3 million versus -US\$0.5 million in the pcp
- Cash balance at 30 June 2022 was US\$6.2 million

Quarter Cash Flow Summary

The Company’s cash position at 30 June 2022 was US\$6.2 million, compared to US\$10.6 million in Q1 2022. The decrease in cash is largely related to lower than anticipated sales and a reduction in gross margins to -7.3% during the quarter. The negative gross margin is a result of lower than anticipated overhead absorption, unfavourable supply chain impacts as well as non-cash charges during the quarter. These one-time, non-cash charges resulted in a US\$1.25 million negative impact on COGS, or approximately 22.8% reduction in gross margin resulting from non-cash inventory charges.

Cash receipts from customers for the period were US\$4.9 million, a 24% decrease from US\$6.5 million in Q1 2022. Cash payments for Product Manufacturing were US\$6.0 million, up from US\$5.2 million in Q1 2022. The decrease in receipts from customers reflects lower Q1 revenues. The increase in payments for product manufacturing reflects ongoing investment to meet expected higher revenue in Q3/Q4 2022.

¹ All numbers unless otherwise indicated are reported using U.S. Generally Accepted Accounting Principles (“U.S. GAAP”), consistent with ASX announcement dated 23 December 2021.



Pivotal continued to invest in product development with US\$0.8 million in costs incurred during the quarter, down 42% from US\$1.4 million in Q1 2022.

During the quarter, the Company made salary and payments of US\$0.2 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.

Consistent with the transition from IFRS to U.S. GAAP reporting from Q4 2021, from a cashflow reporting perspective, development costs are not capitalized and are reported as operating cash flows not investing cash flows, as was the case in the Company's Appendix 4C reporting in Q1-Q3 2021.

Product Update

The new GFC for advanced ALD applications continues forward with on-tool OEM testing. Results of the testing indicate solid process results and show continued momentum with the highly sophisticated and innovative gas flow solutions across the spectrum of advanced deposition processes. Of particular interest is Pivotal's unique ability to customize gas flow profiles, allowing for the digital device to enhance process tuning and on-wafer results, productivity, and wafer processing cost.

Pivotal's High Temperature GFC platform continues to roll out with two major OEMs serving the largest foundries in Taiwan and the USA. This platform, launched in late 2021, provides capabilities up to 70C without the use of remoted electronics, by utilizing advanced high temperature piezo electric actuators and superior electronics. Q2 shipments grew 35% over Q1, and a major OEM has expanded into new applications using the platform.

Operations Update

Q2 2022 full-time headcount was 45 employees, unchanged from Q1 2022.

Revenue grew significantly over Q1, during a highly dynamic first half with continued gas panel integrator demand instability tied to further downstream supply chain volatility at OEM and IDM levels.

The Company's China and Korea based Contract Manufacturers (CMs) continue to operate to a capacity of 4,000 units per month based on a 5-day, 2 shift production.

Gross Margin performance for Q2 2022 of -7.3% was driven by lower volumes in the quarter, reduced overhead absorption, supply chain inflation, and non-cash charges. Inflationary pressure continues to impact COGS, with cost increases affecting semi-grade metal as well as sub-systems such as pressure transducers and piezo assemblies. Markup on semiconductor chip components remain the most impactful element of the pressure on Gross Margin, particularly with isolator chips which are also commonly used within automotive electronics. Unaudited Q2 gross margin was negatively affected by non-cash inventory charges.

Industry leading lead times have begun to open up opportunities for market share gain as both OEMs and IDMs are seeing revenue delays (deferred revenue) due to process tool or gas panel shortages. Pivotal's industry leading lead times offer a potential solution to both OEMs and IDMs in this regard.

Supply Chain

The company successfully managed upstream supply challenges in Q2, particularly attributable to the global shortage of semiconductor chips utilized in the manufacture of printed circuit board assemblies used in Pivotal GFCs. We remain cautious and vigilant regarding future expected challenges procuring these types of components throughout 2022; currently pandemic issues are still impacting the industry generally in East Asia.

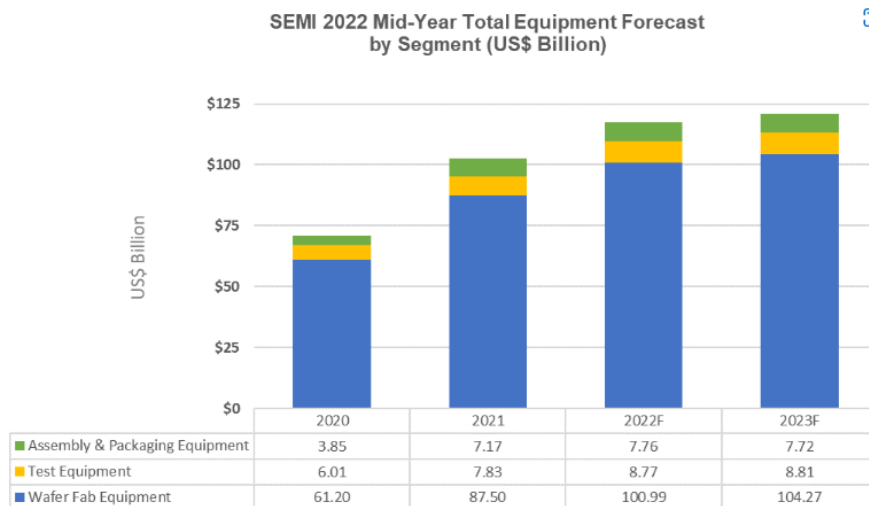
Pivotal continues to take steps to manage the impacts of the dynamic supply chain crisis to preserve product availability, so that we can provide our customers with lead times at the pre-pandemic level. Upstream alignment remains rigorous to ensure metal, PCBA, and critical parts are staged and available to fulfill demand.

During Q2, qualification efforts continued for a second source of most critical IC components. Pivotal has managed this industry wide challenge to date and we continue to make every effort to maintain viable supply channels with second source subsystem assembly in Thailand, Malaysia, Singapore, Taiwan, and China.

Industry Update

The industry wide volatility is amplified upstream at Pivotal, as the entire Wafer Fabrication Equipment (WFE) supply chain continues to synchronize components, subsystems, systems, and system installation. This environment is expected to continue into the second half of 2022. Pivotal continues to believe the robust secular market environment for equipment sales remains strong, driven by device 3D geometry implementation and increasing layers of wafer complexity, as confirmed by SEMI in July.

On 12 July 2022, SEMI forecast global sales of the WFE segment, which includes wafer processing, fab facilities, and mask/reticle equipment, is projected to expand 15.4% to a new industry record of US\$101 billion in 2022, followed by a 3.2% increase to US\$104.3 billion in 2023, driven by secular trends across a diverse range of markets, coupled with strong investments in digital infrastructure.²

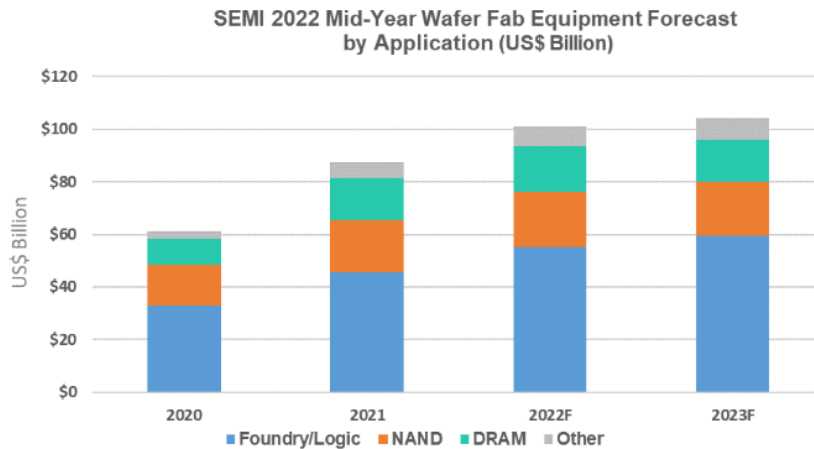


Source: SEMI

² Source: [SEMI](https://www.semi.org/)

SEMI has forecast demand for both leading-edge and mature process nodes, the foundry and logic segments are expected to increase 20.6% year-over-year to US\$55.2 billion in 2022 and another 7.9%, to US\$59.5 billion, in 2023. The DRAM equipment segment is leading the memory expansion in 2022 with expected growth of 8% to US\$17.1 billion. The NAND equipment market is projected to grow 6.8% to US\$21.1 billion in 2022.

Pivotal is well-positioned to capitalize on these industry macro trends because the GFC accuracy and reliability is an enabler for advanced technology, and the self-calibrating device design is an enabler for cost and productivity gains at the IDM.



Source: SEMI July 2022, Equipment Market Data Subscription

Outlook

The strong secular trends for the semiconductor industry are driving the equipment market structurally higher for Pivotal's global customers over the long term.

As a result of the ongoing downstream supply chain issues driving order deferrals by Pivotal's customers, Pivotal is in the process of reviewing its outlook for the 2022 year and expects to be in a position to provide further clarity on the full year outlook later this quarter.

Investor Conference Call

The Company will host an investor conference call today at 9.00am AEST (4.00pm PDT on Thursday, 28 July) with Mr. Kevin Hill CEO and Mr. Ron Warrington, 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. Investors are advised to register for the conference in advance by using the Diamond Pass link to avoid delays in joining the call directly through the operator:



<https://s1.c-conf.com/diamondpass/10023165-shdy6c.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: **10023165**

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

THIS RELEASE DATED 29 JULY 2022 HAS BEEN AUTHORISED FOR LODGEMENT TO ASX BY THE BOARD OF DIRECTORS OF PIVOTAL SYSTEMS.

- ENDS -

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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

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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/>.

Notice to U.S. persons: restriction on purchasing CDIs

Pivotal Systems is incorporated in the State of Delaware and its securities have not been registered under the U.S. Securities Act of 1933 or the laws of any state or other jurisdiction in the United States. Trading of Pivotal Systems' CHESS Depositary Interests ("CDIs") on the Australian Securities Exchange is not subject to the registration requirements of the U.S. Securities Act in reliance on Regulation S under the U.S. Securities Act and a related 'no action' letter issued by the U.S. Securities and Exchange Commission to the ASX in 2000. As a result, the CDIs are "restricted securities" (as defined in Rule 144 under the U.S. Securities Act) and may not be sold or otherwise transferred except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. For instance, U.S. persons who are qualified institutional buyers ("QIBs", as defined in Rule 144A under the U.S. Securities Act) may purchase CDIs in reliance on the exemption from registration provided by Rule 144A. To enforce the transfer restrictions, the CDIs bear a FOR Financial Product designation on the ASX. This designation restricts CDIs from being purchased by U.S. persons except those who are QIBs. In addition, hedging transactions with regard to the CDIs may only be conducted in compliance with the U.S. Securities Act.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Pivotal Systems Corporation

ARBN

626 346 325

Quarter ended ("current quarter")

30 June 2022

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	4,938	11,408
1.2 Payments for		
(a) research and development	(792)	(2,150)
(b) product manufacturing and operating costs	(5,964)	(11,192)
(c) advertising and marketing	(622)	(1,386)
(d) leased assets	-	-
(e) staff costs	(626)	(1,427)
(f) administration and corporate costs	(1,242)	(2,279)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(22)	(47)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (Insurance claim)	-	-
1.9 Net cash from / (used in) operating activities	(4,330)	(7,073)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	(9)
(d) investments	-	-
(e) intellectual property	-	-

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (6 months) \$US'000
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) 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	-	(9)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	10,614
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	27	113
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(640)
3.5	Proceeds from borrowings	500	500
3.6	Repayment of borrowings	(250)	(500)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	a. Other (Lease principal repayments)	(71)	(141)
	b. Other (Redemptions of RBI Preferred Stock)	(189)	(609)
3.10	Net cash from / (used in) financing activities	17	9,337

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	10,556	3,988
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(4,330)	(7,073)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	(9)

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (6 months) \$US'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	17	9,337
4.5	Effect of movement in exchange rates on cash held	0	0
4.6	Cash and cash equivalents at end of period	6,243	6,243

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	6,243	10,556
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)	6,243	10,556

6.	Payments to related parties of the entity and their associates	Current quarter \$US'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	231
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amounts at quarter end \$US'000	Amount drawn at quarter end \$US'000
7.1	Loan facilities	250	250
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	1,848	500
7.4	Total financing facilities	2,098	750
7.5	Unused financing facilities available at quarter end		1,348
7.6	<p>Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.</p> <p>Financing facility with Bridge Bank</p> <p>On 27 August 2019, Pivotal Systems Corporation ("the Company") closed a US\$10.0 million business financing agreement with Bridge Bank, a division of Western Alliance Bank (NYSE: WAL). The US\$10.0 million facility is comprised of:</p> <ul style="list-style-type: none"> • US\$7.0 million Revolving Credit Line, and • US\$3.0 million term loan ("Term Loan"). <p>The amount of liquidity available under the US\$7.0 million Revolving Credit Line is based upon the Company's balances and composition of eligible customer receivables and inventory, as well as other factors. Amounts borrowed under the Revolving Credit Line, mature and become due and payable in 24 months, unless extended by the parties. The Revolving Credit Line bears interest at a rate equal to 1.5% above the Prime Rate. As of June 30, 2022, the Company had drawn \$0.5 million under the Revolving Credit Line and the maximum amount that could be borrowed under this facility is US\$1.8 million as reported in item 7.3. However, this amount may reduce (or not be available) in subsequent quarters if Pivotal's business is adversely affected by market conditions in the SEMI industry (or otherwise). The US\$3.0 million Term Loan, reported in item 7.1, bears interest at a rate equal to 2% above the Prime Rate and provided funds for capital expenditures and other corporate purposes and is payable in 36 monthly instalments commencing in October 2019. This Term Loan was fully drawn and, as of June 30, 2022, the owed balance is US\$0.25 million.</p> <p>The facility is secured over all the assets of the Company.</p> <p>RBI Preferred Stock financing</p> <p>On 20 February 2020, the Company received US\$10 million funding from the issue of RBI Preferred Stock to Anzu Industrial RBI USA LLC as previously announced to the market.</p> <p>On 2 June, 2021, the Company raised a further US\$3 million under the RBI Preferred Stock facility.</p> <p>Since 1 March 2021, the Company has been redeeming on a quarterly basis RBI Preferred Stock in accordance with the terms of the RBI Preferred Stock and the Certificate of Incorporation of the Company.</p> <p>On 28 February 2022, the Company redeemed 280 RBI at US\$ 1,500 per share for a total of US\$420,000. On 28th May 2022, the Company redeemed 126 RBI at US\$ 1,500 per share for a total of US\$189,000. See 3.9 Section above.</p>		

US\$10.6 Million Rights Offering

On February 3, 2022, the Company entered into an underwritten rights offering of 30,317,527 CDIs to raise gross proceeds of \$10.6 million. One CDI represents one share of common stock. As a result of this offering, on February 15, 2022, the Company issued 16,410,646 CDIs, and on February 28, 2022 the Company issued 13,906,881 CDIs and raised \$10.0 million, net of \$0.6 million issuance costs. \$3.9 million of the proceeds were received from Viburnum Funds and \$3.7 million from Anzu Partners, LLC.

8.	Estimated cash available for future operating activities	\$US'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(4,330)
8.2	Cash and cash equivalents at quarter end (item 4.6)	6,243
8.3	Unused finance facilities available at quarter end (item 7.5)	1,348
8.4	Total available funding (item 8.2 + item 8.3)	7,591
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.8
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>		
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
	<p>Pivotal does not anticipate operating cash flow will continue at the current level. The main driver of our operating cash flow was receipts from customers. Revenue in Q1/Q2 were well below expectations. As a result, receipts from customers declined, corresponding with lower associated revenues. While Pivotal has been able to supply our customers on time, lower revenues in Q1/Q2 were the result of downstream supply chain issues that negatively affected our larger customer's ability to produce and sell their product. These customers are forecasting improved capability in Q3/Q4, which would result in higher revenues for Pivotal and improved corresponding operating cash flows. In addition, Pivotal has taken steps to reduce our operating expenses in both R&D and G&A.</p>	
8.6.2	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
	<p>As enunciated in item 7.6, Pivotal has a Revolving Credit Line with Bridge Bank, that the Company intends to use as needed to fund further cash flow requirements. Pivotal believes that this facility provides working capital beyond the next two quarters. The Company is also considering various capital raising and cost saving measures.</p>	
8.6.3	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
	<p>Pivotal believes it will continue its operations and meet its business objectives. Pivotal has not lost market share, and market conditions related to its customers' supply chain are expected to begin easing in 2H FY22. As a result, considering the Q3/Q4 demand projections from the Company's larger customers, Pivotal believes revenues will be sufficient to enable the Company to meet its business objectives.</p>	
<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>		

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.

Date: 28 July 2022 (PDT) / 29 July 2022 (AEST)

Authorised by: Ron Warrington, Chief Financial Officer.

(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.