



ASX / Media Release

## Pivotal Systems Half Year 2019 Results

**Fremont, California and Sydney, Australia; 30 August 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 announce its financial results for the half year ended 30 June 2019.

### Key operating highlights during the half year

- 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
- Appointment of Mr. Tim Welch as Chief Financial Officer
- Presentations and live demonstrations at key industry conference SEMICON West & CEO Summit
- Successfully passed ISO 9001:2015 recertification
- Backlog (confirmed orders not yet shipped) at 30 June 2019 was US\$5.8 million

Pivotal recorded revenue for the period of US\$8.0 million which was in line with our previously provided guidance to the market for 1H2019. The decrease on the prior corresponding period of ~28% (2018 1H: US\$11.2 million) was as a result of reduced shipments to customers in the period due to the slowdown in market conditions across the semiconductor industry.

Gross Profit decreased from US\$4.2 million in 2018 1H to US\$0.2 million in 2019 1H. The year-over-year reduction was impacted unfavorably by lower recorded revenue; by unfavorable product mix, as the current year sales comprised a greater percentage of unit sales to lower margin profile OEM customers; and by the incurrence of tariffs imposed as a result of the US-China trade dispute. The current period Gross Profit was also impacted unfavorably by non-recurring items including increasing inventory reserves for both excess & obsolescence and warranty. Excluding the non-recurring items, underlying Gross Profit Margin was 21.1%.

Total operating expenses for the half year were US\$5.3 million, a slight decrease from prior corresponding period (2018 1H: US\$5.6 million) The expense for the first half of last year included approximately US\$0.7million of IPO-related expense. Backing this out, operating expenses grew by \$400K, reflecting expenses related to our headcount growth from 35 to 46, a portion of which is included in Costs of Goods Sold.

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The Company recorded a net loss after tax for the period of US\$5.1 million.

Cash on hand was US\$9.7 million as at 30 June 2019 and the Company was debt-free. Cash outflow from operations was US\$5.7 million for the half year, which was significantly higher than the prior period, due to lower receipts from customers due to lower shipments and the shipment skew at quarter-end (US\$8.0 million revenue v US\$5.2 million in receipts). The Company continues to invest in new product innovation with capitalised development costs up 10% versus the prior period to US\$1.9 million.

Commenting on the Company's first half results, John Hoffman, Chairman and CEO, said: "The first half results are in line with our expectations and the market guidance we issued, despite the semiconductor capital equipment industry experiencing a significant and protracted slowdown, which has seen OEMs actively manage inventory levels as IDMs delay purchasing decisions. We are actively managing our position through the cycle by managing our costs while maintaining our commitment to innovation and productization of new technology in collaboration with our loyal customers to gain strategic market share. While not reflected in the financial results in the first half, we believe the Company is better positioned in terms of its product offering and market share for the eventual cyclical recovery."

#### **Significant Events after the Balance Date**

On August 27<sup>th</sup> 2019, the Company closed a US\$10.0 million business financing agreement with Bridge Bank. The new US\$10.0 million facility is comprised of:

- US\$7.0 million working capital revolving credit line ("**Revolving Credit Line**")
- US\$3.0 million term loan line of credit ("**Term Loan**")

The amount 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 US\$3.0 million Term Loan provides funds for working capital and other corporate purposes for three years, at which time amounts funded under the Term Loan then become payable in 36 equal monthly installments.

Pivotal also advises that it will end the manufacturing agreement between Pivotal and the Compart Systems ("Compart") Korean factory in October 2019. Pivotal will continue to engage with Compart China under its current contract and Compart will remain a qualified supplier for Pivotal Systems. Under the new arrangement, Pivotal will:

- Leverage its contracted facilities at Compart China, and its own facilities in Korea and Fremont, CA, to replace production steps currently performed at Compart Korea; and
- Continue to prudently monitor its production and operating expenses across its manufacturing operations to facilitate the expansion of gross margins over time while maintaining its existing stringent intellectual property and manufacturing protocols.

Importantly, Pivotal does not expect this new manufacturing arrangement to impact its product deliveries, or lead times to its customers. In the near-term there is sufficient capacity in both Compart China and Pivotal Fremont to meet expected customer demand. Pivotal is also assessing potential contract manufacturing partnerships for Product Customization in Asia to meet expected future volumes.



## **Outlook**

The Company maintains its view that 2H2019 revenues are expected to increase sequentially on the first half result. At this time, the Company sees some early signs of a strengthening in the overall semiconductor industry into 2020, where industry growth is anticipated to return.

Pivotal continues to work hard with customers during this downturn to assist them to maximise productivity and cost efficiency so that both the customers and Pivotal can emerge stronger, with the best technology, when the overall industry capex investment recovers.

Pivotal maintains that its client-led and innovative product development focus to deliver significant future market share gains.

## **Investor Conference Call**

The Company will host an investor conference call today at 9.00am AEST on Friday, 30 August (4.00pm PDT on Thursday, 29 August) 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-10001681-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: **10001681**

### **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  
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**Safe Harbor Statement**

This press release and the accompanying investor presentation, Appendix 4D and Half Year Financial Report contain 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.

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

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