



ASX / Media Release

Pivotal Systems Corporation September 2023 Quarterly Activities Report

Fremont, California and Sydney, Australia; 31 October 2023 – 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 September 2023 (“Q3 2023”).

Overview

- Q3 2023 revenue of US\$2.2 million (unaudited) was 61% higher compared to the last quarter (Q2 2023: US\$1.4 million) and down 46% on the prior corresponding period (pcp) (Q3 2022: US\$4.0 million)
- Gross margins were -32.3% (unaudited) compared to -42.7% in the pcp, impacted by low volume purchase price variances, with some quarter over quarter improvement
- The Company's focus on operating cost controls continued with a 30% decrease in expenses to US\$1.7 million in Q3 (unaudited) versus US\$2.5 million in Q2 2023. These expenses were 46% lower versus the pcp
- Q2 2023 backlog (confirmed orders not yet shipped) was US\$1.4 million showing improvement versus US\$1.1 million in Q2 2023
- The Company won 2 new customers with contracts for engineering services in sectors outside of the semiconductor industry, leveraging the Company's system innovation talents to further penetrate the Energy Storage vertical and Magnetics vertical, serving industrial and automotive applications
- Net cash flows from operating activities were -US\$1.9 million versus -US\$1.8 million in the pcp and -US\$2.0 million in Q2 2023
- Secured US\$0.6 million from Anzu RBI Mezzanine Preferred LLC in promissory notes, with additional US\$1.0 million financing facility from Oxford Commercial Finance in October
- Shortly after quarter end, Pivotal announced the settlement of the FDS/Somani IP dispute, removing a significant overhang for the company

Quarterly Cash Flow Summary

Cash receipts from customers for the period were US\$1.7 million, essentially flat versus Q2 2023 and on a pcp basis were down 67% from US\$5.2 million in Q3 2022. Cash payments for product manufacturing were US\$1.4 million, a small increase from US\$1.3 million in Q2 2023 and a 60% decline on the pcp. The declines in both cash receipts and product manufacturing reflect the ongoing cyclical industry downturn. Pivotal has significantly lowered its cost base since 2022 and will benefit from operating leverage in the expected industry rebound in 2024.

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Pivotal's investment into product development R&D was US\$0.6 million during the quarter, flat versus Q2 2023. As mentioned previously, the investment in product development allows the Company to continue its leading-edge development of new customer-oriented devices with greater functionality and adaptability for atomic layer etch and deposition applications. During the quarter the Company launched a range of product enhancements.

Staff costs, administration and corporate costs were US\$1.2 million in Q3 2023, versus US\$1.1 million in Q2 2023, and down 21% versus Q3 2022 (US\$1.5 million).

During the quarter, the Company made salary and payments of US\$0.1 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 (Q2 2023: US\$0.2 million).

The Company's cash position at 30 September 2023 was US\$0.7 million, compared to US\$2.1 million at the end of Q2 2023. The reduction in cash reflects the operating cash outflows recorded during the period.

Product Update

On 24 August 2023, Pivotal launched a range of enhanced GFC features designed to meet semiconductor device manufacturer demand for advanced process monitoring and control of critical steps in the production of leading-edge silicon wafers.

Through continued technical innovation by Pivotal's R&D team, the Company maintains the industry's fastest gas flow control times at 50 milliseconds for the GFC20, GFC200, GFC1000, and GFC2000 products. This technical leadership in operating speed while maintaining the best in class flow control accuracy provides Pivotal a sustainable competitive advantage.

In addition to the speed improvement, the operating temperature range of these products has been expanded to reach higher safe operating temperatures, now up to 60 degrees Celsius. This represents a material development in the GFC market, providing reproduceable, controllable gas flows at higher temperatures, which are required to support the atomic layer deposition and etch production methods now being utilized by Pivotal's key customers.

The launch highlighted the rapid translation of Pivotal's R&D investment into additional products in the Pivotal range, expressly designed according to customer requirements today and into the future. Pivotal's R&D strategic roll-out continues across a number of initiatives, which over the last 12 months to 30 June 2023 represented approximately US\$3.4 million of investment.

Pivotal is taking orders now for this enhanced performance GFC, and there is no additional charge for new devices with this performance enhancement.

Operations

Pivotal continued to focus on aggressively reducing operating costs during the quarter as well as integrating reductions made in Q2 2023. Total operating expenditures were US\$1.4 million, up 4% versus Q2 2023 and down 60% versus the pcg.

Pivotal's Q3 2023 full-time headcount was 33 employees, versus 34 in Q2 2023.



As previously indicated, Pivotal is nine months into its production cost reduction strategy, which is targeting an overall effect on product cost of goods sold of >20% on a full-year basis, in 2023. The first half improvement of 10.3% has been complemented by an additional 2% saving in Q3 2023, providing total savings of 12% year to date, in-line with expectations.

New Funding Secured

On 29 September 2023, Pivotal announced that it has issued a promissory note to one of its major shareholders, Anzu RBI Mezzanine Preferred LLC to secure additional financing for the Company of US\$400,000. This amount is in addition to the US\$200,000 secured on identical terms as announced to ASX on 1 September 2023, providing US\$600,000 for general working capital purposes.

Post Quarter Events

On 9 October 2023, the Company announced that Oxford Commercial Finance (“Oxford”) has backed the Company with a financing facility for up to US\$1 million. The Revolving Credit Line financing facility will be used for working capital purposes through the semiconductor recovery.

On 17 October 2023, Pivotal reached a comprehensive settlement with Flow Devices and Systems, Inc. (“FDS”) as well as Bhushan Somani and other affiliates resolving all outstanding claims regarding intellectual property among the parties. In the settlement, FDS provided a comprehensive release for Pivotal as well as its customers, distributors, suppliers, and other related parties.

Following the settlement, a dismissal with prejudice was filed by both parties dismissing FDS’ existing claims against Pivotal in United States District Court for the Northern District of California. FDS and Bhushan Somani agreed that Pivotal Systems is not liable for infringement of the Patent, and each agree that neither they nor any Affiliates (as described in the Settlement Agreement) will ever assert any claim for patent infringement against Pivotal Systems Corporation or any of the Pivotal Systems Releasees (as defined in the Settlement Agreement).

Outlook

The industry has been through the 4th successive quarter of contraction, and based on historical trends, Pivotal is cautiously optimistic that 2H revenues will return to quarter over quarter growth into the 2024 calendar year industry recovery.

Pivotal is encouraged by the two recent engineering service contract wins with new customers in the Energy Storage and Industrial sectors, reflecting new growth opportunities outside the Semiconductor Industry.

The settlement of the IP dispute removes a significant overhang from the company.

The strategic process facilitated by Needham & Company continues to develop actively. However, there is no assurance of any particular outcome.

THIS ANNOUNCEMENT WAS AUTHORISED FOR RELEASE BY THE BOARD OF DIRECTORS

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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 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.

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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 September 2023

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	1,710	8,486
1.2 Payments for		
(a) research and development	(626)	(2,094)
(b) product manufacturing and operating costs	(1,394)	(5,957)
(c) advertising and marketing	(360)	(1,423)
(d) leased assets	-	-
(e) staff costs	(436)	(1,593)
(f) administration and corporate costs	(744)	(1,820)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(5)	(46)
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	(1,855)	(4,447)

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

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

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	3,239
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	2
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(114)
3.5	Proceeds from borrowings	600	6,442
3.6	Repayment of borrowings	-	(6,972)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	a. Other (Lease principal repayments)	(75)	(218)
	b. Other (Redemptions of RBI Preferred Stock)	(63)	(407)
3.10	Net cash from / (used in) financing activities	462	1,972

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,125	3,213
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,855)	(4,447)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	(6)

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)	462	1,972
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	732	732

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	732	2,130
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)	732	2,130

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	114
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. <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>	Financing facilities	Total facility amounts at quarter end \$US'000	Amount drawn at quarter end \$US'000
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	1,000	-
7.4	Total financing facilities	1,000	-
7.5	Unused financing facilities available at quarter end		1,000
7.6	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>Factoring Agreement with Oxford</p> <p>On September 25, 2023 Pivotal Systems ("the Company") and Oxford Commercial Finance Corp ("Oxford") executed a Factoring and Security Agreement for up to US\$1,000,000 whereby the Company can transfer accounts receivables, i.e., invoices considered eligible accounts, and receives cash equal to 80% of the eligible receivables to be used for working capital purposes. On October 11th the Company received \$350,000 under the facility. Even though the amounts drawn down under this facility are secured over the Company's inventory and receivables, Pivotal does not expect any bad debt or possible losses as the account receivables are in good standing.</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. 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 2023, May 24th, 2023, and August 31, 2023, the Company redeemed 161 RBI, 36 RBI and 36 RBI, respectively, at US\$ 1,750 per share for a total of US\$281,750, US\$63,000, and US\$63,000, respectively. See 3.9 Section above.</p>		
	<p>Promissory Notes</p> <p>On August 31, 2023, the Company executed a promissory note with Anzu RBI Mezzanine Preferred LLC, for \$200,000 to be used for working capital purposes and business operations. The interest rate is 15% and amortization period is 12 months. The note is payable on September 30, 2024. and allows the holder to demand repayment in case of a change of control at 300% of the outstanding amount of the note.</p> <p>On September 25, 2023, the Company executed a promissory note with Anzu Industrial Capital Partners Annex, L.P. for \$400,000 to be used for working capital purposes and business operations. The interest rate is 15% and amortization period is 12 months. The note is payable on September 30, 2024. and allows the holder to demand repayment in case of a change of control at 300% of the outstanding amount of the note.</p>		

8.	Estimated cash available for future operating activities	\$US'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(1,855)
8.2	Cash and cash equivalents at quarter end (item 4.6)	732
8.3	Unused finance facilities available at quarter end (item 7.5)	1,000
8.4	Total available funding (item 8.2 + item 8.3)	1,732
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	0.9
<p><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></p>		
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>The Company has continued reducing operating cash flows through many expense reduction initiatives. It does expect to operate at this lower level of quarterly operating expenses going forward – until there is a recovery in the semiconductor market. Based on historical trends, Pivotal is cautiously optimistic that revenues will return to quarter over quarter growth into the 2024 calendar year industry recovery.</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>On 25 September 2023, Pivotal secured a financing facility for up to US\$1 million through Oxford Commercial Finance. The financing facility will be used for working capital through the semiconductor recovery. In addition, Pivotal continues to work with its bankers and investors to identify additional sources of capital that might bridge its current negative quarterly cash flows, while continuing to explore strategic alternatives although there is no certainty of any outcome at this time.</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>The Company believes its value is in excess of the current market reference price. With that in mind, there is a belief that a strategic or conventional investor will express interest in assisting the Company under the strategic process and/or to bridge the cash flow gap during the downturn. The Company is in current discussions with several counterparties in this regard.</p>	
<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></p>		

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: 31 October 2023 (AEDT) / 30 October 2023 (PT).....

Authorised by: **Ron Warrington CFO**.....
(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.