ASX / Media Release

Pivotal Systems Corporation December 2022 Quarterly Activities Report

Fremont, California and Sydney, Australia; 31 January 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 31 December 2022 ("Q4 2022")[1]

Overview

- Q4 2022 revenue of US$5.2 million (unaudited) was up 28% sequentially over the last quarter (Q3 2022: US$4.0 million) yet down 34% on the prior corresponding period (pcp) (Q4 2021: US$7.9 million) as customers rebalanced their inventory
- Q4 2022 Gross margins were 21.2% (unaudited) compared to 28.6% in the pcp, impacted by lower volumes
- Quarterly operating expenses continued to be well-controlled, decreasing another 5% to US$ 3.1 million (unaudited) for Q4 2022 versus US$3.3 million in Q3 2022 and [37%] lower than the US$4.9 million in the pcp
- Backlog (confirmed orders not yet shipped) at 31 December 2022 was US$1.1 million versus US$4.6 million in Q3 2022
- Net cash flows from operations improved to a net outflow of US$0.8 million (unaudited) versus a net outflow of US$2.7 million in the pcp, a reduction of 69% and a 54% improvement on Q3 2022 (net outflow of US$1.8 million)
- Cash balance at 31 December 2022 was US$3.2 million

Quarter Cash Flow Summary

The Company's cash position at 31 December 2022 was US$3.2 million, compared to US$3.8 million at the end of Q3 2022. The significantly reduced net cash burn of US$0.6 million for the quarter, reflects the full quarterly contribution of a reduction in expenditures implemented during Q3 2022. The cash position was partially enhanced by improvements in gross product margins, lower operating expenditures, and improvements in working capital.

Cash receipts from customers for the period were US$4.8 million, a 7% decrease from US$5.2 million in Q3 2022. Cash payments for Product Manufacturing were US$3.3 million, a decrease from US$3.5 million in Q3 2022. The lower US$3.3 million in payments for product manufacturing reflects a concentration of orders and deliveries in the second half of Q4. The Company maintained its focus on prudent inventory management, improving in working capital balances. The Company continued to direct manufacturing towards fulfillment of backlog shipments.

Pivotal proceeded cautiously with investment in product development with US$0.8 million in costs incurred during the quarter, a decrease of 26% from US$1.1 million in Q3 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

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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 (Q3 2022: US$0.2 million).

The Company continues to monitor and manage its cash position considering the industry's slow down, particularly in memory segment equipment spend, alongside price inflation associated with select component shortages.

Product Update

During the quarter, Pivotal continued product development and research in three key areas. First, Pivotal continued focus on performance, creating an Ultra High Speed (UHS) GFC device capable of settling times faster than any other device available in the industry. Second, Pivotal's R&D team concentrated on software enhancements for advanced digital profile control, with over 70 signals to monitor and custom control ECAT GFC performance. Third, Pivotal partnered with a Korean WFE OEM to develop prototypes for the fastest and most accurate Flow Ratio Control product platform for the semi industry.

Atomic Layer Deposition product development with the leading Japanese OEM continues test and integration on OEM wafer processing equipment, as Pivotal continues to work with this OEM to qualify for volume production.

Standard GFCs are growing market share in deposition applications following successful silane qualification for a major North American Logic IDM, and qualification into critical deposition application with a major North American WFE OEM. These segments are part of a Company initiative to expand beyond etch applications serving memory, into foundry/logic and deposition segments.

Operations Update

Q4 2022 full-time headcount was 46 employees, unchanged from Q3 2022.

Production pace was up 28% sequentially over Q3 2022, with considerable headroom to take on increased loading. Production capacity remains at approximately 4,000 units per month with Pivotal using a completely outsourced contract manufacturing service for mass production.

Supply Chain

PCBA component shortages continued in Q4 2022 but showed marked improvement over recent quarters. Inflationary pressures resulting from components shortages contributed to increased pressure on COGS.

Industry Update

As indicated in prior Quarterly Activity Reports, industry wide volatility is amplified at upstream component suppliers like Pivotal, who are not only affected by semi-component supply into the Pivotal GFC, but also face fluctuating demand as the entire Wafer Fabrication Equipment (WFE) supply chain continues to adjust to the end user demand.

On 12 December 2022, SEMI reported a significant three year forecast of new semiconductor facilities starting construction (front end equipment – includes GFCs on OEM tools) in the World Fab Forecast[2], driven by robust government spending initiatives to bolster domestic manufacturing capability. Growth is expected at 35% in 2021, 43% in 2022. A total of US$500 billion is forecast to be invested across 84 facilities starting construction in 2021-2023. Front end equipment typically comprises in the range of 45-55% of the total capital investment into a new production facility.

*THIS RELEASE DATED **31 JANUARY 2023** HAS BEEN AUTHORISED FOR LODGEMENT TO ASX BY THE BOARD OF DIRECTORS OF PIVOTAL SYSTEMS.*

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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

[2] https://semi.org/en/news-media-press-releases/semi-press-releases/global-chip-industry-projected-to-invest-more-than-%24500-billion-in-new-factories-by-2024-semi-reports

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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