

Pivotal Systems Corporation June 2023 Quarterly Activities Report

Fremont, California and Sydney, Australia; 28 July 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 June 2023 (“Q2 2023”)

Overview

- Capital raise completed during the quarter, securing a total of A\$4.9 million (US\$3.2 million).
- Industry cycles and an excess inventory bubble impacted Q2 2023. SEMI mid-year wafer fab equipment forecast models a year over year industry decline of 19% to US\$76.4 billion in 2023, then growing to US\$87.8 billion in 2024¹, with the memory segment hit hardest in 2023.
- Q2 2023 revenue of US\$1.4 million (unaudited) was nearly level with the last quarter (Q1 2023: US\$1.4 million) and down 75% on the prior corresponding period (pcp) (Q2 2022: US\$5.5 million)
- Gross margins were -42.7% (unaudited) compared to -7.3% in the pcp, driven by insufficient volume to surpass fixed cost supply chain infrastructure
- The Company's focus on operating cost controls continued with a 5.8% decrease in expenses to US\$2.5 million in Q2 (unaudited) versus US\$2.6 million in Q1 2023. These expenses were 40.6% lower versus the pcp
- Q2 2023 backlog (confirmed orders not yet shipped) was US\$1.1 million showing improvement versus US\$0.9 million in Q1 2023
- Net cash flows from operations continued to improve with cash outflows of US\$2.0 million versus a net outflow of US\$4.3 million in the pcp, a reduction of 54%
- Cash balance at 30 June 2023 was US\$2.1 million
- Appointment of Executive Director Dr Joe Monkowski to the Board, retirement of Non-Executive Directors Jason Korman, Ryan Benton and Peter McGregor

Quarterly Cash Flow Summary

The Company's cash position at 30 June 2023 was US\$2.1 million, compared to US\$1.1 million at the end of Q1 2023. The increase in cash reflects collection of investor funds from the Entitlement Offer. In addition, the Company consolidated cost reductions made in Q1 2023 and further lowered operating costs over the prior quarter.

Cash receipts from customers for the period were US\$1.7million, a 67% decrease from US\$5.1 million in Q1 2023. Cash payments for Product Manufacturing were US\$1.3 million, a decrease from US\$3.2 million in Q1 2023. The declines reflect an ongoing industry downturn - and the Company continues to focus on inventory management and debtor/creditor management to improve working capital balances.

¹ <https://www.semi.org/en/news-media-press-releases/semi-press-releases/global-semiconductor-equipment-sales-forecast-%2487-billion-in-2023-with-2024-rebound-semi-reports>



Pivotal's investment into product development was US\$0.7 million during the quarter, a 19% decrease from US\$0.8 million in Q1 2023. Capital directed to 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 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 (Q1 2023: US\$0.1 million).

Product Update

During the quarter, Pivotal made progress towards a further diversified customer-mix with its GFC product line, with repeat orders across 4 major segments:

- Chemical Vapor Deposition (CVD) applications of Hi-Flow GFC into US headquartered Logic Fabs
- Atomic layer deposition application of GFC into Taiwanese Headquartered Foundry Fabs
- Etch applications of GFC into Korean Memory Fabs. In fact, the GFC won new application positions at a key client, replacing and outperforming the leading competitor.
- Dry Clean applications of High Temp GFC into multiple type of Fabs on the leading Japanese OEM's systems

Pivotal remains on-schedule to release two new platforms by the end of the calendar year, targeting greater penetration into CVD markets and logic/foundry fabs. One platform is in head to head testing and outperforming competitor systems in flow ratio control. Another platform is internally testing with competitively superior speed and accuracy, in a much lower cost platform than the GFC.

Operations and Supply Chain Update

Pivotal continued to focus on aggressively reducing operating costs during the quarter as well as integrating reductions made in Q1. Total operating expenditures were US\$2.5 million, down 5.8% versus Q1 2023 and down 40.6% versus the pcp. And Pivotal's Q2 2023 full-time headcount was 34 employees, versus 35 in Q1 2023, reflecting the Company's efforts to re-base the business in advance of the next semiconductor equipment upturn.

Pivotal is now moving to a concerted production cost reduction strategy, which is targeting an overall effect on COGS of >20% on a full-year basis, in 2023. In 1Q 2023, the Company achieved 4.8% of the required cost reduction, which has improved by a further 5.5% in Q2 2023 for a first half improvement of 10.3%.

Board of Director Changes

On 13 June 2023, Pivotal's President and Chief Technology Officer, Dr. Joseph Monkowski was appointed to the Board of Directors as an Executive Director. Dr. Joseph Monkowski has extensive experience in the semiconductor industry focused on providing process equipment and metrology solutions for next generation device manufacturing. Joe founded Pivotal in 2003 and has led the Company's research and development activities as Chief Technology Officer.

Mr. Jason Korman, Non-Executive Director, retired as a Director at the conclusion of the Company's Annual General Meeting (AGM) held on 13 June 2023. The Company expresses its sincere gratitude to Jason for his invaluable insights as a member of our Board and his commitment to the Company since his appointment in December 2021. In addition, as previously announced, Non-Executive Directors Ryan Benton and Peter McGregor resigned in April 2023.



The Board remains in discussions with an Australian Independent Non-Executive Director candidate to further strengthen the Board.

Completion of a US\$3.2 million Capital Raise

During the quarter, the Company successfully completed an Entitlement Offer raising total proceeds of US\$3.2 million (before costs) and directed to working capital and for general corporate purposes. Pivotal continues to work with its bankers and investors to identify sources of capital that might bridge its current negative quarterly cash flows.

Outlook

SEMI forecasts investment into Wafer Fabrication Equipment (WFE) to decline 18.8% from 2022 spending levels during 2023, driven by an inflation fueled general economic slowdown and ongoing geopolitical tensions, with the memory segment hit hardest by lower consumer confidence in many markets.

The memory segment of the overall WFE market is expected to show a significant decline in 2023 with DRAM equipment sales expected to fall 28% in 2023 due to continuing weak consumer and enterprise demand for memory and storage and NAND equipment sales are projected to decline 51%.² However, both DRAM and NAND segments are forecast to show a significant rebound of 31% and 59%, respectively in 2024.

Although the Company continues to pursue strategies to diversify its revenue base away from the memory segment of the WFE market, Pivotal remains sensitive to movements in capital equipment spending by IDMs in this segment.

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.

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

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² SEMI July 2023, Equipment Market Data Subscription



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 Depository 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 2023

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	1,687	6,776
1.2 Payments for		
(a) research and development	(655)	(1,468)
(b) product manufacturing and operating costs	(1,344)	(4,563)
(c) advertising and marketing	(551)	(1,063)
(d) leased assets	-	-
(e) staff costs	(471)	(1,157)
(f) administration and corporate costs	(650)	(1,076)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(8)	(41)
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	(1,992)	(2,592)

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	-	-

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

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	(6)	(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)	(6)
3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	3,239	3,239
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	2	2
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(114)	(114)
3.5	Proceeds from borrowings	1,882	5,842
3.6	Repayment of borrowings	(1,882)	(6,971)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	a. Other (Lease principal repayments)	(73)	(144)
	b. Other (Redemptions of RBI Preferred Stock)	(63)	(344)
3.10	Net cash from / (used in) financing activities	2,991	1,510
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,131	3,213
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,992)	(2,592)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(6)	(6)

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

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)	2,991	1,510
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	2,125	2,125

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	2,125	1,131
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)	2,125	1,131

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	176
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. 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	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	65	-
7.4	Total financing facilities	65	-
7.5	Unused financing facilities available at quarter end		65
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, 2023, the maximum amount that could be borrowed under this facility is US\$65,000 as reported in item 7.5. This amount may increase/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 was fully drawn and paid off in September, 2022.</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 2023, and May 24th 2023, the Company redeemed 161 RBI and 36 RBI at US\$ 1,750 per share for a total of US\$281,750, and \$63,000, respectively. See 3.9 Section above.</p>		

8. Estimated cash available for future operating activities	\$US'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(1,992)
8.2 Cash and cash equivalents at quarter end (item 4.6)	2,125
8.3 Unused finance facilities available at quarter end (item 7.5)	65
8.4 Total available funding (item 8.2 + item 8.3)	2,190
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.1
<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>The Company has made significant progress on 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 2H 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>Pivotal continues to work with its bankers and investors to identify sources of capital that might bridge its current negative quarterly cash flows. In addition, the Company announced in Q1 that it is exploring 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>Yes, the Company expects to continue its operations and meet its business objectives. Pivotal continues to work with its bankers and investors to identify sources of capital that might bridge its current negative quarterly cash flows. In addition, the Company announced in Q1 that it is exploring strategic alternatives although there is no certainty of any outcome at this time.</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 2023 (AEST) / 27 July 2023 (PDT)

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.