



ASX / Media Release

## Pivotal Systems Corporation March 2022 Quarterly Activities Report

Fremont, California and Sydney, Australia; 29 April 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 31 March 2022 (“Q1 2022”).<sup>1</sup>

### Key Highlights

- Overall, PVS is operating in a highly dynamic environment with gas panel integrators ordering “pushouts”, “pull-ins” and “pause” while downstream supply chains align to Device Manufacturers labor and material resources to accomplish tool installations. This environment is expected to continue in the near term, including Q2 and Q3
- Successfully demonstrated industry leading response times of sub 10msec control on the standard GFC for Atomic Layer Etching (ALE) and low flow deposition applications, at Semicon Korea
- Despite continuing supply chain challenges, Pivotal achieving 100% on time delivery while maintaining industry leading lead times
- Sales to a leading Japanese OEM for the Integrated High Temperature GFC was up 7.5 % (from \$119,050 to \$128,076) from pcp and 47% from Q4 2021 (from \$87,065 to \$128,076)
- Completed conditional qualification of 2<sup>nd</sup> Contract Manufacturing site in Malaysia as part of the company’s capacity expansion strategies
- Backlog (confirmed orders not yet shipped) 31 March 2022 was US\$5.9 million versus US\$3.9 million in Q4 2021
- Cash at 31 March 2022 was US\$10.6 million
- Unaudited Q1 2022 revenue of US\$3.5 million was down 55% sequentially on the last quarter (Q4 2021: US\$7.9 million) and down 40% on the prior period (Q1 2021: US\$6.3 million)
- Unaudited Q1 2022 gross margins of -4.6% down from gross margins of 32.9% in the pcp and down from 28.6% in Q4 2021, driven primarily by near term delays in the IC facility construction plans of East Asia-based IDMs, which resulted in decreased Q1 shipment volumes

### Quarter Cash Flow Summary

The Company’s cash position at 31 March 2022 was US\$10.6 million, compared to US\$4.0 million in Q4 2021. The increase in cash reflects the successful completion in February of the Company’s pro-rata accelerated non-renounceable entitlement offer to raise approximately US\$10.5 million (A\$14.8 million).

Cash receipts from customers for the period were US\$6.5 million, a 8% decrease from US\$7.1 million in Q4 2021. Cash payments for Product Manufacturing were US\$5.2 million, essentially flat to US\$5.2 million in Q4 2021. The increase in cash payments for product manufacturing reflect the increased investment into inventory to meet expected product demand in future periods.

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<sup>1</sup> 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\$1.4 million in costs incurred during the quarter, up 14.8% from US\$1.2 million in Q4 2021.

During the quarter, the Company made salary and payments of US\$0.4 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.

The Company has now moved from IFRS to US GAAP reporting. From a cashflow reporting perspective, GAAP development costs are not capitalized and therefore 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 has moved forward during Q1 with on-tool OEM testing. Results of the early testing indicate solid process results and show continued momentum forward with the highly sophisticated and innovative gas flow solutions across the spectrum of advanced deposition processes.

At Semicon Korea Pivotal demonstrated the next generation standard GFC for Atomic Layer Etching (ALE), demonstrating <10ms on/off switching as well as customized flow profiles. This new capability leverages existing intellectual property while opening new possibilities for semiconductor process engineers to move into next generation control of gas flows and ultimately etch and deposition rates.

Pivotal's Integrated-high-temp product line continues to progress as a second major OEM has begun to qualify the product. This device, launched in 2021, provides capabilities up to 70C without the use of remoted electronics, by utilizing advanced high temperature piezo electric actuators and superior electronics. Over time, we expect both IDMs and OEMs to move from remote electronics solutions to Integrated-high-temp GFCs to reduce footprint and overall operating costs.

### **Operations Update**

Q1 2022 full-time headcount was 45 employees, compared with 46 employees at Q4 2021.

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. During Q1, qualification and ramp continued at our CM's Malaysian site, expected to bring significant capacity available for the back half of 2022. This flexible manufacturing model enables Pivotal the ability to effectively react to supply chain disruptions.

Q1 revenue was achieved with the capability in place, with lead times maintaining their pre-pandemic averages for standard GFCs.

Gross Margin performance for Q1 2022 of -4.6% was driven by lower volumes in the quarter as well as continued purchase price variances associated with procuring high demand IC components. The company remains on track with full year cost reductions from our upstream suppliers in China, Thailand, Korea, and Malaysia, enabling gross margin improvement for FY 2022 vs FY 2021.

## Supply Chain

The company successfully managed upstream supply challenges in Q1, 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 a demand.

Downstream supply chain challenges from OEM and Integrators remains unpredictable and challenging in the near term, as OEMs adjust their delivery schedules to synchronize supply chain and match their delivery capabilities to the IDM's installation pace. As our customers face their own supply chain challenges, it introduces uncertainty in our near-term order book, despite a very robust medium term market environment.

## Industry Update

According to industry observers such as SEMI, the worldwide WFE market continues to experience very strong growth, driven by the global semiconductor industry's need to expand capacity to meet increasing demand.

On 22 March 2022, SEMI provided an update with global fab equipment spending expected to hit new high of US\$107 billion in 2022. According to SEMI, there has been a relentless drive to add and upgrade capacity to address a diverse range of markets and emerging applications, solidifying expectations for long-term industry growth. Over 83% of equipment spending in 2022 will stem from capacity increases at 150 fabs and production lines, with the foundry and memory sectors representing the bulk of the capacity increase.

Globally, there are 1,426 facilities and lines, including 124 future facilities and lines with various probabilities that are expected to start volume production no sooner than 2022.

While Overall Wafer Fabrication Equipment (WFE) market growth of 17% is expected in 2022 to top US\$100 billion<sup>2</sup>, Q1 saw multiple supply chain constraints hitting the industry from multiple sources. These included, COVID factory and port closures, the war in the Ukraine and parts shortages at the OEM's and integrators. Also, the leading Original Equipment Manufacturers have reported large scale shortages of major process tool components to include, power supplies, matching network components and pumps. This has resulted in IDM factory delays and delays at the integrators. These shortages are expected to continue into 2Q 2022.

The underlying drivers of growth for WFE remain in place, and industry observers such as SEMI expect the WFE market to show significant growth in the balance of 2022, off a record 2021 year. Additional government spending initiatives in the US, South Korea, Japan and the EU to support domestic semiconductor manufacturing and invest in leading-edge chip development remain as additional long terms drivers of industry growth.

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<sup>2</sup> Source: [SEMI](#)

## Outlook

The strong secular trends for semi are driving the equipment market structurally higher for Pivotal's global customers over the long term. When coupled with Pivotal's leading-edge product design, the production capacity in place, and upstream supply chain agility, the Company's outlook for FY2022 and beyond remains in place.

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 more clarity on the full year outlook at the first half 2022 result.

## Investor Conference Call

The Company will host an investor conference call today at 9.00am AEST (4.00pm PDT on Thursday, 28 April) with Mr. John Hoffman, Chairman and CEO, Mr. Ron Warrington, CFO and Mr. Kevin Hill, COO.

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/10021263-MclxIn.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: **10021263**

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 31 JANUARY 2022 HAS BEEN AUTHORISED FOR LODGEMENT TO ASX BY THE BOARD OF DIRECTORS OF PIVOTAL SYSTEMS.*

**- ENDS -**



**For further information, interview and photos:**

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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' CHES 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

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("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")**

31 March 2022

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$US'000</b>	<b>Year to date (3 months) \$US'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	6,469	6,469
1.2 Payments for		
(a) research and development	(1,358)	(1,358)
(b) product manufacturing and operating costs	(5,228)	(5,228)
(c) advertising and marketing	(763)	(763)
(d) leased assets	-	-
(e) staff costs	(801)	(801)
(f) administration and corporate costs	(1,037)	(1,037)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(25)	(25)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (Insurance claim)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(2,743)</b>	<b>(2,743)</b>

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

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (3 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)	-	-
<b>2.6 Net cash from / (used in) investing activities</b>	<b>(9)</b>	<b>(9)</b>

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	10,614	10,614
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	86	86
3.4 Transaction costs related to issues of equity securities or convertible debt securities	(640)	(640)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	(250)	(250)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 a. Other (Lease principal repayments)	(70)	(70)
b. Other (Redemptions of RBI Preferred Stock)	(420)	(420)
<b>3.10 Net cash from / (used in) financing activities</b>	<b>9,320</b>	<b>9,320</b>

<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of period	3,988	3,988
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(2,743)	(2,743)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(9)	(9)



<b>Consolidated statement of cash flows</b>		<b>Current quarter \$US'000</b>	<b>Year to date (3 months) \$US'000</b>
4.4	Net cash from / (used in) financing activities (item 3.10 above)	9,320	9,320
4.5	Effect of movement in exchange rates on cash held	0	0
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>10,556</b>	<b>10,556</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$US'000</b>	<b>Previous quarter \$US'000</b>
5.1	Bank balances	10,556	3,988
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>10,556</b>	<b>3,988</b>

<b>6.</b>	<b>Payments to related parties of the entity and their associates</b>	<b>Current quarter \$US'000</b>
6.1	Aggregate amount of payments to related parties and their associates included in item 1	401
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.	<b>Financing facilities</b> <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>	<b>Total facility amounts at quarter end \$US'000</b>	<b>Amount drawn at quarter end \$US'000</b>
7.1	Loan facilities	500	500
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	1,789	-
7.4	<b>Total financing facilities</b>	2,289	500
7.5	<b>Unused financing facilities available at quarter end</b>		1,789
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><b>Financing facility with Bridge Bank</b></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"> <li>• US\$7.0 million Revolving Credit Line, and</li> <li>• US\$3.0 million term loan ("Term Loan").</li> </ul> <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 March 31, 2022, there are currently no amounts drawn 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 March 31, 2022, the owed balance is US\$0.50 million.</p> <p>The facility is secured over all the assets of the Company.</p> <p><b>RBI Preferred Stock financing</b></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. 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.

<b>8.</b>	<b>Estimated cash available for future operating activities</b>	<b>\$US'000</b>
8.1	Net cash from / (used in) operating activities (item 1.9)	(2,743)
8.2	Cash and cash equivalents at quarter end (item 4.6)	10,556
8.3	Unused finance facilities available at quarter end (item 7.5)	1,789
8.4	Total available funding (item 8.2 + item 8.3)	12,345
8.5	<b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	4.5
	<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?	
	Answer: Not applicable.	
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?	
	Answer: Not applicable.	
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?	
	Answer: Not applicable.	
	<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 April 2022 (PDT) / 29 April 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.