

## Pivotal Systems Corporation March 2023 Quarterly Activities Report

Fremont, California and Sydney, Australia; 28 April 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 ended 31 March 2023 (“Q1 2023”)

### Overview

- Cyclical memory semiconductor capex downturn weighs heavily on Q1 revenue, driven primarily by customer cancellations of capex projects, and postponement of new product shipments as the industry lowers its existing component inventories prior to buying new components
- Various industry analysts expect the industry capex cycle to turn positive later in the year, although this remains uncertain
- Q1 2023 revenue of US\$1.4 million (unaudited) was down 73% sequentially over the last quarter (Q4 2022: US\$5.2 million) and down 60% on the prior corresponding period (pcp) (Q1 2022: US\$3.5 million)
- Repair and upgrade revenues of US\$0.4 million were down 25% on Q4 2022 to US\$0.5 million
- Q1 2023 Gross margins were -16.8% (unaudited) compared to 21.2% in the pcp, driven by lower sales volumes
- The Company continued to focus on prudent operating expense controls, which decreased operating expenses by 15% to US\$2.6 million (unaudited) versus US\$3.1 million in Q4 2022 and were 47% lower versus the pcp
- Q1 2023 backlog (confirmed orders not yet shipped) was US\$0.9 million versus US\$1.1 million in Q4 2022
- Net cash flows from operations continued to improve with cash outflows of US\$0.6 million versus a net outflow of US\$2.7 million in the pcp, a reduction of 78% and a further 28% improvement on Q4 2022 (net outflow of US\$0.8 million)
- Cash balance at 31 March 2023 was US\$1.1 million
- On 11 April, the Company launched an accelerated renounceable pro-rata entitlement offer to raise gross proceeds of up to approximately A\$5.1 million (US\$3.4 million)
- On 17 April, Pivotal received A\$3.78 million (US\$2.53 million) of commitments from the Institutional Entitlement Offer of the capital raise<sup>1</sup>

### Quarter Cash Flow Summary

The Company’s cash position at 31 March 2023 was US\$1.1 million, compared to US\$3.2 million at the end of Q4 2022. The significantly reduced net cash burn of US\$0.7 million for the quarter, reflecting a further reduction in expenditures from Q4 2022, is commensurate with the Company re-basing costs ahead of an expected upswing in demand in the 2H of 2023.

Cash receipts from customers for the period were US\$5.1 million, a 5% increase from US\$4.8 million in Q4 2022. Cash payments for Product Manufacturing were US\$3.2 million, a decrease from US\$3.3 million

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<sup>1</sup> \$1.03 million of which is subject to shareholder approval at the Company’s upcoming AGM.



in Q4 2022. The Company maintained its focus on prudent inventory management and improving working capital balances.

The Company's investment into product development was US\$0.8 million in costs incurred during the quarter, essentially flat with US\$0.8 million in Q4 2022.

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 (Q4 2022: US\$0.2 million).

### **Product Update**

During the quarter, Pivotal made progress towards a further diversified customer-mix, with penetration into 4 major segments, covering Logic/Foundry by shipping products in these applications:

- 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
- Dry Clean applications of High Temp GFC into multiple type of Fabs on the leading Japanese OEM's systems

Pivotal anticipates further product positioning improvement in 2023, with the launch of two new platforms by the end of year, targeting greater penetration into CVD markets and logic/foundry fabs.

### **Operations and Supply Chain Update**

Pivotal continued to focus on aggressively reducing operating costs during the quarter, with total operating expenditures recorded of US\$2.6 million, down 15% versus Q4 2022 and down 47% versus the pcp. Q1 2023 full-time headcount was 35 employees, versus 46 in Q4 2022, reflecting the Company's cost reduction strategy to re-base the business in advance of the next semiconductor equipment upturn.

In addition, the Company moth-balled an under-utilized manufacturing facility during the quarter, and will have the flexibility to resume operations there as business conditions require.

Production capacity remains at approximately 4,000 units per month with Pivotal using a completely outsourced contract manufacturing service for mass production.

The Company has implemented a product cost reduction strategy since the end of 2022, that is expected to result in an overall reduction in COGS of >20% on a full-year basis, in 2023. 1Q results accomplished 4.8% of the required cost reduction.

### **Outlook**

Pivotal expects investment into semiconductor manufacturing equipment to decline 20-30% over 2022 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 Company anticipates the current cyclical downturn will impact 1H revenues relative to the pcp and 2H of 2023. However, Pivotal believes 2H revenues will return to quarter over quarter growth into the 2024 calendar year.

## Post Quarter Events

### *Capital Raise*

On 11 April 2023, the Company announced an accelerated renounceable pro-rata entitlement offer (**Entitlement Offer**) to raise gross proceeds of up to approximately A\$5.1 million (US\$3.4 million<sup>i</sup>).

The proceeds of the Offer will be used for working capital and general corporate purposes and to cover the costs of the offer. For further information regarding the Offer and Pivotal's growth strategies can be reviewed from the ASX announcements made on 11 April 2023.

Major shareholders Anzu Partners and Viburnum Funds took up their full pro-rata entitlement of A\$0.9 million and A\$0.525 million respectively. Anzu Partners has also committed to taking up an additional A\$0.58 million in shortfall securities and Anzu RBI Mezzanine Preferred LLC has committed to subscribe for A\$0.45 million to the extent available, in each case subject to shareholder approval.

On 17 April 2023, the Company successfully completed the institutional component of the entitlement offer with approximately A\$3.78 million (US\$2.53 million) of commitments received<sup>2</sup>.

### *Changes to Board of Directors*

In conjunction with the Entitlement Offer:

- Non-executive directors, Peter McGregor and Ryan Benton retired from the Board; and
- Shareholders and new shortfall investors subscribing for more than US\$500,000 each under the entitlement offer will be entitled to together nominate one new independent director to the Board.

The existing board may also consider additional new appointments after the completion of the rights offering.

The Company expresses its thanks and gratitude to Ryan and Peter for their hard work and valuable contribution to the Company.

***THIS RELEASE DATED 28 APRIL 2023 HAS BEEN AUTHORISED FOR LODGEMENT TO ASX BY THE BOARD OF DIRECTORS OF PIVOTAL SYSTEMS.***

- ENDS -

### **For further information:**

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#### **ASX Representative:**

Danny Davies

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<sup>2</sup> \$1.03 million of which is subject to shareholder approval at the Company's upcoming AGM.



Company Matters Pty Ltd  
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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 ("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.

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<sup>i</sup> An exchange rate of AUD 1:USD 0.67

## 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 2023

<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	5,089	5,089
1.2 Payments for		
(a) research and development	(812)	(812)
(b) product manufacturing and operating costs	(3,219)	(3,219)
(c) advertising and marketing	(512)	(512)
(d) leased assets	-	-
(e) staff costs	(687)	(687)
(f) administration and corporate costs	(425)	(425)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(34)	(34)
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>(600)</b>	<b>(600)</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	-	-
(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>-</b>	<b>-</b>
<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	-	
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	
3.5 Proceeds from borrowings	3,960	3,960
3.6 Repayment of borrowings	(5,090)	(5,090)
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)	(282)	(282)
<b>3.10 Net cash from / (used in) financing activities</b>	<b>(1,482)</b>	<b>(1,482)</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	3,213	3,213
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(600)	(600)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	-	-

<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)	(1,482)	(1,482)
4.5	Effect of movement in exchange rates on cash held	-	-
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>1,131</b>	<b>1,131</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	1,131	3,213
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>1,131</b>	<b>3,213</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	147
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>	<b>Total facility amounts at quarter end \$US'000</b>	<b>Amount drawn at quarter end \$US'000</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>		
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	182	-
7.4	<b>Total financing facilities</b>	182	-
7.5	<b>Unused financing facilities available at quarter end</b>		182
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, 2023, the maximum amount that could be borrowed under this facility is US\$0.2 million 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><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 2023, the Company redeemed 161 RBI at US\$ 1,750 per share for a total of US\$281,750. See 3.9 Section above.</p>		
8.	<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)	(600)	
8.2	Cash and cash equivalents at quarter end (item 4.6)	1,131	
8.3	Unused finance facilities available at quarter end (item 7.5)	182	
8.4	<b>Total available funding (item 8.2 + item 8.3)</b>	<b>1,313</b>	



8.5 **Estimated quarters of funding available (item 8.4 divided by item 8.1)**

2.2

*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.*

## 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?

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?

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?

Not applicable.

*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.*

**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 2023 (AEST) / 27 April 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.