



ASX / Media Release

Pivotal Systems Corporation September 2022 Quarterly Activities Report

Fremont, California and Sydney, Australia; 31 October 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 30 September 2022 (“Q3 2022”).¹

Overview

- Q3 revenue of US\$4.0 million (unaudited), constrained by semi-component shortages as well as deferred orders, was down 26% sequentially over the last quarter (Q2 2022: US\$5.5 million) and down 45% on the prior corresponding period (pcp) (Q3 2021: US\$7.4 million)
- Gross margins significantly improved to 25.2% (unaudited) from -7.3% in Q2 2022
- Operating expenses, driven by management directed spending controls, decreased by 22% to US\$3.3 million (unaudited) for Q3 2022 versus US\$4.2 million in Q2 2022 and significantly down from the high of US\$5.0 million in Q1 2022.
- Backlog (confirmed orders not yet shipped) at 30 September 2022 was US\$4.6 million versus US\$5.8 million in Q2 2022.
- Net cash flows from operations of -US\$1.8 million (unaudited) versus -US\$3.3 million in the pcp, an improvement of 24% and a 58% improvement on Q2 2022 (-US\$4.3 million)
- Cash balance at 30 September 2022 was US\$3.8 million

Quarter Cash Flow Summary

The Company’s cash position at 30 September 2022 was US\$3.8 million, compared to US\$6.2 million at the end of Q2 2022. The decrease in cash is largely related to lower than anticipated sales, as integrators deferred over US\$1.2 million of orders from Q3 to Q4 to balance their inventory. The cash position was partially offset by improvements in gross product margins, lower operating expenditures, and improvements in working capital, particularly inventory.

Cash receipts from customers for the period were US\$5.2 million, a 6% increase from US\$4.9 million in Q2 2022. Cash payments for Product Manufacturing were US\$3.5 million, down from US\$6.0 million in Q2 2022. Lower Q3 revenues were the primary driver of a decline in customer receipts. The decrease in payments for product manufacturing reflects the lower level of manufacturing activity during the period as the Company focused on releasing cash to operations via prudent inventory management, and only to complete backlog shipments.

Pivotal continued to invest in product development with US\$1.1 million in costs incurred during the quarter, up 33% from US\$0.8 million in Q2 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 2021.



The company continues to monitor and manage its cash position considering the industry's slow down. Pivotal has a tight focus on expenses, which has been pressured by select component shortages. Cost containment efforts to date have improved runway and remain at the forefront of management's attention during this volatile period.

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 (Q2 2022: US\$0.2 million)

Consistent with the transition from IFRS to U.S. GAAP reporting from Q4 2021, from a cashflow reporting perspective, development costs are not capitalized and are 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

Atomic Layer Deposition product development with the leading Japanese OEM is moving to the next stage - integration of Pivotal flow controllers on the OEMs wafer processing equipment. Further testing of Pivotal's unique digital control of gas flow profiles will be further tested for on wafer file deposition performance advantages. Pivotal continues to work with this OEM to qualify for volume production.

Market share gains continue as demand from two major IDMs are driving increasing business positions. A major Korean IDM has selected Pivotal GFC's to control low flow rates for Etch applications. Orders to support this application have already been placed. A major North American IDM has qualified Pivotal GFC as replacements for incumbent silane flow controllers on installed base Deposition equipment. Coordination on timing of new Pivotal GFC's delivery to replace incumbent flow controllers, is in progress.

Furthermore, additional market share gains are probable as active evaluations for GFC's to replace incumbent flow controllers at three Taiwanese IDMs are proceeding well. We expect to complete successful closure of these evaluations this year which will lead to new business opportunity in 2023.

Operations Update

Q3 2022 full-time headcount was 46 employees, versus 45 employees in Q2 2022.

Unaudited revenue of US\$4.0 million was down 26% sequentially over Q2 2022 and down 45% on the pcp. During the quarter, revenue was impacted by supply chain shortages. Several semiconductor components supplied to the upstream contracted manufacturer of printed circuit boards, did not meet the rigorous specifications and quality standards of Pivotal's precision manufacturing, and were rejected after thorough screening. Replacement components arrived too late in the quarter for complete shipment of the backlog in Q3. This shortage was successfully resolved during the month of October.

Despite the component shortage, Pivotal did meet all customer scheduled shipments, as simultaneously in the back half of the quarter, gas-panel integrators (Pivotal's customers) pushed out over US\$1.2 million of backlog from Q3 to Q4 in order to balance their inventory. Pivotal maintained 100% on-time delivery of GFCs.

The Company reported significantly improved unaudited gross margin performance for Q3 2022 of 25.2%, reflecting gross margin without the "onetime" non-cash impact seen in Q1/Q2 of 2022.



Supply Chain

The Company encountered significant upstream supply challenges in Q3, the most challenging for the Company since the supply chain crisis began, as the Company was impacted by scarcity as well as exceedingly high pricing for certain commodity chips. Component shortages, particularly attributable to the global shortage of semiconductor chips utilized in the manufacture of printed circuit board assemblies used in Pivotal GFCs, has been a theme of the past several quarters. 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.

During the supply chain challenges of Q3, Pivotal was able to work closely with its assembly and test contract manufacturers to flex with the peaks and valleys of production rate, gated by printed circuit board supply. Unfortunately, as long as upstream chip components are scarce and supply constrained, this will be an ongoing challenge for the foreseeable future.

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. As of Q3 end, Pivotal has not had any order cancellations, but as previously explained, has seen a portion of Q3 orders push to Q4 by customer request in an effort to balance inventory with downstream mix. This environment is expected to continue in Q4 2022.

After Q3 close, on 7 October 2022, the US government announced new export regulations that prevent US OEMs supplying certain Chinese chipmakers with wafer fabrication equipment and related parts and service used to produce certain advanced chips. This has resulted in at least one revision in revenue outlook for a leading US OEM, Applied Materials. As an upstream supplier to Wafer Fab Equipment (WFE) OEMs, Pivotal could see modification to demand as implementation begins, but does not foresee this as a significant long term negative impact to its market for two reasons. First, Pivotal's largest served market are Korean memory makers, who may benefit from this regulation. Second, the leading Multi National Corporations (MNC) manufacturers of memory in PRC are expected to successfully secure annual licenses to continue normal operations.

Furthermore, beginning on 12 October 2022, following the leading US OEMs' reduced near term outlook, other WFE OEMs, IDMs, and industry analysts have stated, or signaled, expectations of significant contraction in WFE spend in 2023. This is driven by the macro forces of inflation, rising rates, Covid-headwinds, and geopolitical instability plus the micro forces seen in a weakened consumer demand for chips, especially in the memory segment, a leading indicator. We are carefully monitoring and assessing this shift in outlook.

Outlook

As a technology leader in its segment, Pivotal is well-positioned to capitalize on market share gains at any point in the cycle as the GFC accuracy and reliability is an enabler for advanced technology, and the self-calibrating device design is an enabler for cost and productivity gains at the IDM.

In the near term, volatility in component supply and gas-panel-integrator demand will continue to be challenging, but Pivotal has adjusted cost infrastructure, leaned inventory, and adjusted supply chain to



respond to this volatility. Pivotal remains well positioned with a portfolio of robust product lines, growing applications at the leading-edge geometries, and capable to scale as demand increases.

Investor Conference Call

The Company will host an investor conference call at 9.00am today (3.00pm PDT on Sunday, 30 October) with Mr. Kevin Hill, CEO and Mr. Ron Warrington, CFO.

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/10025782-hqk3oz.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: **10025782**

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 OCTOBER 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 ("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 2022

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	5,216	16,623
1.2 Payments for		
(a) research and development	(1,056)	(3,206)
(b) product manufacturing and operating costs	(3,480)	(14,672)
(c) advertising and marketing	(931)	(2,317)
(d) leased assets	-	-
(e) staff costs	(695)	(2,121)
(f) administration and corporate costs	(804)	(3,083)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(86)	(133)
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	(1,836)	(8,909)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	(9)
(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	-	-
(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	-	(9)
3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	10,614
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	4	117
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	(640)
3.5 Proceeds from borrowings	-	500
3.6 Repayment of borrowings	(250)	(750)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 a. Other (Lease principal repayments)	(76)	(218)
b. Other (Redemptions of RBI Preferred Stock)	(317)	(925)
3.10 Net cash from / (used in) financing activities	(639)	8,698
4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	6,243	3,988
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,836)	(8,909)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	-	(9)

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)	(639)	8,698
4.5	Effect of movement in exchange rates on cash held	0	0
4.6	Cash and cash equivalents at end of period	3,768	3,768

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	3,768	6,243
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)	3,768	6,243

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	187
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)	1,794	500
7.4	Total financing facilities	1,794	500
7.5	Unused financing facilities available at quarter end		1,294
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 September 30, 2022, the Company drawn \$0.5 million under the Revolving Credit Line and the maximum amount that could be borrowed under this facility is US\$1.3 million as reported in item 7.5. 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 September 30, 2022, was totally paid off. 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 2022, the Company redeemed 280 RBI at US\$ 1,500 per share for a total of US\$420,000. On 28th May 2022, the Company redeemed 126 RBI at US\$ 1,500 per share for a total of US\$189,000. On 25th August 2022, the Company redeemed 209 RBI at US\$1,500 per share for a total of US\$ 313,500. 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)	(1,836)
8.2 Cash and cash equivalents at quarter end (item 4.6)	3,768
8.3 Unused finance facilities available at quarter end (item 7.5)	1,294
8.4 Total available funding (item 8.2 + item 8.3)	5,063
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	2.8
<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?	
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.	
<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: **31 October 2022 (AEDT) / 30 October (PT)**

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.

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

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.