

ASX / Media Release

Pivotal Systems Corporation March 2020 Quarterly Activities Report

Fremont, California and Sydney, Australia; 30 April 2020 – 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 period ending 31 March 2020.

Key highlights

- During the quarter, Pivotal made solid customer and product progress despite the COVID 19 pandemic
 - Maintained U.S. manufacturing operations despite “shelter at home” orders due to status as an “essential business” as a result of being a supplier to medical diagnostic and IT customers
 - GFC production at our China based Contract Manufacturer and our Fremont Facility was maintained without interruption except for a 3-week shutdown and all GFC Product shipments were on time to customer request
 - Received repeat production orders from a leading Japanese OEM
 - Successfully qualified the GFC at two leading Chinese Foundries
 - Received multiple repeat orders from a leading European foundry
 - Received multiple repeat orders in Taiwan
 - Received multiple repeat orders in the USA
- Unaudited revenue of US\$4.3 million for Q1 2020 GFCs
- Net cash outflows from operating and investing activities of US\$3.4 million reflects business operations, product development, inventory, purchases of production tooling and fixed assets
- Backlog (confirmed orders not yet shipped) at 31 March 2020 was US\$2.5 million
- The Company successfully closed its RBI Preferred Stock Financing on 24 February 2020.

March 2020 Quarter Cash Flow

The Company finished the Q1 2020 quarter with a cash balance of US\$11.7 million which included a US\$2.5 million balance drawn against the term loan with Bridge Bank. There are currently no borrowings against the Bridge Bank revolving line of credit (with US\$2.45 million available to be drawn). Cash flow from financing increased US\$9.7 million as the Company closed the first tranche of US\$10 million RBI Preferred Stock funding previously announced in February.

Cash receipts from customers for the period were US\$4.8 million, up from US\$3.1 million last quarter, due primarily to collections from strong shipments at the end of 2019.

Cash payments for Product Manufacturing were US\$5.6 million reflecting the increase in quarterly shipments relative to Q4 and certain cost increases while the Company temporarily transitioned select manufacturing activities back to Fremont, California and added a second shift in its manufacturing facility in Fremont to address social distancing measures. Pivotal continued to invest in product development with US\$0.8 million in capitalized costs incurred during the quarter although product



development progress has been limited to some degree by the “shelter in place” order in California which has now been extended through May 2020.

As commented on previously, Pivotal has made this investment in response to four customer-led product initiatives, along with increased inventory build of the new High Flow GFC and the new High Temperature GFC (also called the Remote GFC).

During the quarter, the Company made salary and payments of US\$283,000 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.

Post-quarter end financing

On 21 April, 2020, the Company was able to secure a loan with Western Alliance Bank for US\$0.9 million that is guaranteed by the U.S. Small Business Administration or SBA and is part of a program created by the U.S. Coronavirus Aid, Relief, and Economic Security Act, “CARES Act”, which provides financial relief from the COVID-19 emergency. The loan will mature in 2 years but the SBA may forgive all or part of this loan if all employees are kept on the payroll for eight weeks and the money is used for employee payroll and associated expenses.

Product update

Sales of the standard low flow GFC, commonly used for etch applications, continued its momentum in the 1stth Quarter of 2020 driven by spending by IDM’s in Korea as well as deliveries to IDMs in China, Taiwan, Japan and Europe.

The Company continued its High Temperature GFC fanout with a leading Japanese OEM during the quarter.

The Smartstik architecture was successfully used by Pivotal as part of the qualification process at the Korean Etch OEM and is currently continuing trials with a leading Chinese Etch OEM. The SmartStik architecture provides a live demonstration of the standard GFC’s industry leading performance in both speed and accuracy, while also demonstrating the ability of the OEM to effectively eliminate redundant hardware required by older technology pressure based and thermal MFCs utilized by our competitors. SmartStik continues to demonstrate a method for etch OEMs to improve process tool performance and potentially reduce costs.

The recently introduced Flow Ratio Controller for etch applications (three channel) continues to perform well in production at a leading Korean IDM. Pivotal successfully demonstrated the new FRC for deposition applications (two channel) at a leading US OEM in Q1 2020. Additionally, Pivotal expects to officially launch the three channel FRC in the first half of 2020.

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Operations Update

First quarter full-time headcount was 46 employees.

Pivotal will complete the establishment of a new “transformation” center in Korea in 1H 2020. During the quarter, Pivotal continued its previously announced temporary transition of certain manufacturing activities to Fremont as it completes initiation of final product transformation in South Korea. This resulted in the continuation during Q1 of final product transformation activities and product shipments from Pivotal’s Fremont facility. In future periods, the Fremont facility will continue as an auxiliary capability to Korea. Pivotal has sufficient capacity to meet expected customer demand for Pivotal’s GFCs commensurate with known requirements in the semiconductor manufacturing equipment sector for 2020.

Pivotal also established its repair and upgrade center in Korea. The facility, which is operated (but not owned) by Pivotal commenced operations in January 2020 and provides both repair and software upgrades to both IDM and OEM customers globally. As noted previously, Pivotal’s large global installed base continually has an increasing number of units coming out of warranty. Pivotal therefore expects the repair and software upgrade business to grow in scale over the short to medium term.

Industry Update

Prior to COVID-19, SEMI^{®1} estimated that global semiconductor manufacturing equipment sales are expected to increase 5.5% to US\$60.8 billion in 2020, but the industry has had to adjust its expectations and plans due to the COVID-19 pandemic and related challenges. SEMI expects the 2020 equipment market recovery to come primarily from advanced logic and foundry, new projects in China, and, to a lesser extent, memory.

“Interestingly, in the first quarter, it was apparent that mobile computing customers increased demand or did not reduce orders on concerns over future supply allocations. While this is promising in the near term, the industry has entered a low visibility period for the 2nd half of 2020. Both our OEM and IDM customers are cautious in this period of uncertainty,” stated Pivotal Chairman and CEO, John Hoffman.

Mr. Hoffman continued, “The recent coronavirus pandemic is a reminder to all of us that the future is always uncertain, and things can change quickly. With the worldwide economic disruption, the Company may be adversely affected going forward in ways currently unforeseeable to us.”

Outlook

Pivotal’s growth strategy continues to focus on successfully leveraging established IDM customers’ acceptance of its GFC technology into new semiconductor processes while gaining increased acceptance by the major OEMs into new applications or tool sets. We continue to move positively towards our market penetration and fan out objectives for FY2020 based on the acceptance of the High Flow GFC, the High

¹ 11 December 2019. SEMI is the global industry association representing the electronics manufacturing supply chain, connecting over 2,000 member companies and 1.3 million professionals worldwide.

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Temperature GFC and the Flow Ratio Controller (FRC). At this time, there is much uncertainty about the overall semiconductor 2020 outlook and we are closely monitoring end market semiconductor demand as well as IDM CAPEX announcements as we navigate through the beginnings of the COVID-19 pandemic.

Investor Conference Call

The Company will host an investor conference call at 9.30am AEST today 30 April (4.30pm PDT on Wednesday, 29 April) with Mr. John Hoffman, Chairman and CEO and Mr. Timothy Welch, CFO. Pre-registration and dial-in details are available at the following link:

<https://s1.c-conf.com/diamondpass/10005761b-invite.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: **10005761**

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 30 APRIL 2020 HAS BEEN AUTHORISED FOR LODGEMENT TO ASX BY THE BOARD OF DIRECTORS OF PIVOTAL SYSTEMS.

- ENDS -

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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/>.

Pivotal Systems Corporation

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Appendix 4C

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

Name of entity

Pivotal Systems Corporation

ABN

626 346 325

Quarter ended ("current quarter")

31 March 2020

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (3 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	4,797	4,797
1.2 Payments for		
(a) research and development	(219)	(219)
(b) product manufacturing and operating costs	(5,563)	(5,563)
(c) advertising and marketing	(657)	(657)
(d) leased assets	-	-
(e) staff costs	(409)	(409)
(f) administration and corporate costs	(410)	(410)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(68)	(68)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(2,529)	(2,529)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(87)	(87)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	(774)	(774)

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (3 months) \$US'000
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	(861)	(861)
3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities or convertible debt securities ¹	10,000	10,000
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	43	43
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(75)	(75)
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	Other (lease principal repayments)	(53)	(53)
3.10	Net cash from / (used in) financing activities	9,665	9,665
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	5,446	5,446
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,529)	(2,529)

¹ Refers to the 10,000 Revenue Based Redeemable Preferred Stock (RBI) issued by Pivotal Systems Corporation, "the Company", on 24 February 2020. The classification between debt and equity of these financial instruments in the Company's statement of financial position is still being considered.

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (3 months) \$US'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(861)	(861)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	9,665	9,665
4.5	Effect of movement in exchange rates on cash held	(12)	(12)
4.6	Cash and cash equivalents at end of period	11,709	11,709

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	11,709	5,446
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)	11,709	5,446

6. Payments to related parties of the entity and their associates

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	(96)

**Current quarter
\$US'000**

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

Salary and payments to key management personnel, including executive directors and non-executive director fees, and consulting services provided by director-related entity.

7. Financing facilities

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.

	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
7.1 Loan facilities	3,000	3,000
7.2 Credit standby arrangements	-	-
7.3 Other (Revolving Credit Line)	2,452	-
7.4 Total financing facilities	5,452	3,000

7.5 **Unused financing facilities available at quarter end** 2,452

7.6 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.

Financing facility with Bridge Bank

On 27 August 2019, the Company closed a US\$10.0 million business financing agreement with Bridge Bank, a division of Western Alliance Bank (NYSE: WAL). The \$10.0 million facility is comprised of:

- working capital revolving credit line of up to US\$7 million with the amount available to be drawn varying depending on the performance of the business ("Revolving Credit Line"); and
- US\$3.0 million term loan line of credit ("Term Loan").

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% above the Prime Rate. As of March 31, 2020, there are currently no amounts drawn under the Revolving Credit Line and the maximum amount that could be borrowed under this facility is US\$2.45 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 COVID-19 (or otherwise).

The US\$3.0 million Term Loan, reported in item 7.1, bears interest at a rate equal to 1.5% above the Prime Rate and provided funds for capital expenditures and other corporate purposes and is payable in 36 monthly instalments commencing on October 2019. This Term Loan was fully drawn and as of March 31, 2020, the owed balance is US\$2.4 million.

The facility is secured over all the assets of the Company.

COVID-19 Payroll Protection Program Loan entered into after quarter-end

In response to the potential adverse impact on the Company of the COVID-19 pandemic, on 21 April, 2020, the Company signed loan documents with Western Alliance Bank and received funding of US\$0.9 million from the US Small Business Administration, "SBA", Payroll Protection Program which is part of a program created by the Coronavirus Aid, Relief, and Economic Security Act, "CARES Act", which provides financial relief from the COVID-19 emergency.

This loan bears interest at a fixed rate equal to 1.0% per annum and is payable every month beginning December 2020. This loan, guaranteed by the SBA, will mature in 2 years.. SBA may forgive this loan if all employees are kept on the payroll for eight weeks and the money is used for payroll, rent, mortgage interest, or utilities.

RBI Preferred Stock financing

As noted in item 3.1 above, 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. Whilst this additional tranche was not available at the end of the March quarter, the Company has the ability to

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raise a further US\$3 million under the RBI Preferred Stock facility but this is conditional upon shareholder approval (which will be sought at the forthcoming AGM), repayment of the Bridge Bank facility and on the Company meeting certain trailing revenue requirements.

8. Estimated cash available for future operating activities	\$US'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(2,529)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	11,709
8.3 Unused finance facilities available at quarter end (Item 7.5)	2,452
8.4 Total available funding (Item 8.2 + Item 8.3)	14,161
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	6

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

- 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.

- 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.

- 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.

Compliance statement

- This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- This statement gives a true and fair view of the matters disclosed.

Date: 29 April 2020 (PST)

Authorised by: Tim Welch, Chief Financial Officer.
(Name of body or officer authorising release – see note 4)

Notes

- 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.
- 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.

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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.

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