



ASX / Media Release

Pivotal Systems Corporation December 2019 Quarter Update

Fremont, CA ; 30 January 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 December 2019.

Key highlights

- During the quarter, Pivotal made solid customer and product progress:
 - Successfully passed an audit from a major Japanese Original Equipment Manufacturer (OEM) and manufacturing audits at facilities in Shenzhen, China and Fremont, California
 - Received first ever production order from same Japanese OEM
 - Repeat order from large Chinese Integrated Device Manufacturer (IDM) and maintained 100% Market share at this IDM
 - Successfully qualified the standard GFC with a Korean Etch OEM and received first order
 - First orders from new Sales representative in Japan
 - Qualified at large European foundry and received first order
 - Multiple repeat orders in Taiwan
 - Multiple repeat orders in the USA
 - First ever quarter where Pivotal received orders from all targeted geographic regions.
- Unaudited Revenue of US\$6.4 million for Q4 2019 was up significantly on the third quarter, driven by an overall increase in demand for Pivotal’s proprietary range of GFCs
- Net cash outflows from operating and investing activities of US\$3.4 mil reflects higher shipment related costs and continued investment in R&D.
- Backlog (confirmed orders not yet shipped) at 31 December 2019 was US\$3.1 million
- Momentum in semiconductor sector recovery continues.

December 2019 Quarter Cash Flow

The Company finished the Q4 2019 quarter with a cash balance of US\$5.4 million which included a US\$2.8 million balance drawn against the term loan with Bridge Bank. There are currently no borrowings against the US\$7.0 million revolving line of credit.

Cash receipts from customers for the period were US\$3.1million, resulting from lower shipments during Q3.

Cash payments for Product Manufacturing were US\$4.8 million due to the increase in quarterly shipments relative to Q3 and certain cost increases while we temporarily transition select manufacturing activities back to Fremont. Pivotal continued to invest in product development with US\$0.6 million in capitalized costs incurred during the quarter.

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 Q4 the Company experienced an increase in demand from IDM

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and OEM customers that had qualified the Standard GFC, the High Temperature GFC and the High Flow GFC products.

Product update

Sales of the standard low flow GFC, commonly used for etch applications, continued its strong momentum as it was sold into all targeted markets as a retrofit in the 4th Quarter of 2019. This is a first-time event for the Company.

The Company successfully completed its High Temperature GFC qualification with a leading Japanese OEM during the quarter. Pivotal GFCs are now qualified at all three of the major OEMs for either etch or deposition applications.

The Smartstik architecture was used by Pivotal as part of the qualification process at the Korean Etch OEM and is currently in 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 MFCs utilized by our competitors. SmartStik continues to demonstrate a method for etch OEMs to improve process tool performance and potentially reduce costs.

PVS conducted live demonstrations of the Standard GFC, running on SmartStik, at Semicon Japan in December and conducted Executive Technology Reviews with leading Japanese OEMs.

The recently introduced Flow Ratio Controller (three channel) continues to perform well in production at a leading Korean IDM. Pivotal will begin testing a new version of the FRC (two channel) at a leading US OEM in Q1 2020. Additionally, Pivotal expects to launch the three channel FRC in the first half of 2020.

Operations Update

Fourth quarter full-time headcount remained flat at 45 employees.

During the quarter, Pivotal made excellent progress in temporarily transitioning certain manufacturing activities to Fremont and laying the groundwork for backfilling capacity in Korea. This resulted in final product transformation activities and product shipments from Pivotal's Fremont facility. The Fremont facility has sufficient capacity to meet expected customer demand for Pivotal's GFCs commensurate with continued improvement in the semiconductor manufacturing equipment sector for the 1H2020. Pivotal is currently establishing a new "transformation" center in Korea and expects to activate this new factory in 1H2020.

Pivotal is on schedule to establish a repair and upgrade center in Korea. The facility, which will be operated (but not owned) by Pivotal is expected to commence operations in Q1 2020 and will provide 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.

As indicated to the market on 20 January 2020, fourth quarter revenues were impacted by approximately US\$0.825 million due to a shipment of Pivotal GFCs being shipped from our third-party contract

manufacturer to Pivotal later than the committed shipment date. During the quarter, Pivotal experienced an increase in lead times from its contract manufacturer as their end customer demand also increased. At this time, Pivotal has returned to being 100% on time to committed customer deliveries and we continue to monitor our supply chain as we grow the business.

Industry Update

According to SEMI^{®1}, global semiconductor manufacturing equipment sales are expected to increase 5.5% to US\$60.8 billion in 2020. SEMI expects the 2020 equipment market recovery to be fueled by advanced logic and foundry, new projects in China, and, to a lesser extent, memory. SEMI expects further expansion into 2021 with revenues climbing to US\$66.8 billion as leading device manufacturers invest in sub-10nm process equipment.

“As expected, we saw the industry rebound in the 4th Quarter of 2019 and this growth is continuing into the 1H2020. At this time, we are highly optimistic about the business as we are working very closely with our OEM partners to meet their required shipments” stated PVS Chairman and CEO John Hoffman. “We continue to see the powerful advantages the semiconductor provides the global community especially in the areas of communications, AI, Biotech and Automotive”.

Post Quarter Events

On 20 January 2019 Pivotal announced unaudited second half revenues of US\$7.3 million, resulting in Pivotal’s full year revenues for the year ended 31 December 2019 of approximately US\$15.3 million (FY2018: US\$20.2 million).

Today, Pivotal separately made an announcement to the ASX in relation to the signing of a definitive Redeemable Preferred Stock Purchase Agreement between Pivotal and Anzu Partners LLC (Anzu), which provides the Company up to US\$13.0 million in additional funding to grow and expand the business.

The issue of Revenue-based redeemable “RBI” Preferred Stock to Anzu is subject to Pivotal shareholder approval under ASX Listing Rule 10.11. The Preferred Stock is redeemable by the Company based upon a percentage of revenue levels achieved. Shareholder documents were also lodged with the ASX today including a summary description of the terms of the RBI Preferred Stock as well as the details of the Special Meeting of shareholders to be held at the company offices in Fremont, Ca at 4:00 pm Pacific time on February 12th, 2020 to approve the financing.

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 rapid acceptance of the High Flow GFC, the High Temperature GFC and the Flow Ratio Controller (FRC).

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.



Investor Conference Call

A conference call will be held today at 9.00am AEDT, Friday 31 January 2019 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/10003491-invite.html>

Alternatively, you may dial in with the following details, shortly before the scheduled start time and provide the Conference ID to an operator.

Conference ID: **10003491**

Participant Dial-in Numbers:

Australia Toll Free: 1800 908 299

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 JANUARY 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 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. Pivotal Systems Corporation (ARBN 626 346 325), is a company incorporated in Delaware, USA, whose stockholders have limited liability.

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Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Pivotal Systems Corporation

ARBN

626 346 325

Quarter ended ("current quarter")

31 December 2019

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (12 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	3,113	13,081
1.2 Payments for		
(a) research and development	(248)	(816)
(b) product manufacturing and operating costs	(4,767)	(17,807)
(c) advertising and marketing	(496)	(2,413)
(d) leased assets	-	-
(e) staff costs	(398)	(1,938)
(f) administration and corporate costs	(485)	(2,164)
1.3 Dividends received	-	-
1.4 Interest received	27	137
1.5 Interest and other costs of finance paid	(85)	(187)
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	(3,339)	(12,107)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(8)	(110)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (12 months) \$US'000
(d) intellectual property	-	-
(e) other non-current assets (capitalised development expenditure)	(607)	(2,853)
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) 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	(615)	(2,963)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	410	473
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	-	3,000
3.6 Repayment of borrowings	(250)	(250)
3.7 Transaction costs related to loans and borrowings	-	(26)
3.8 Dividends paid	-	-
3.9 Other		
- Lease principal repayments	(74)	(177)
3.10 Net cash from / (used in) financing activities	86	3,020

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	9,309	17,489
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(3,339)	(12,107)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(615)	(2,963)

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (12 months) \$US'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	86	3,020
4.5	Effect of movement in exchange rates on cash held	5	7
4.6	Cash and cash equivalents at end of quarter	5,446	5,446

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	5,446	9,309
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)	5,446	9,309

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$US'000
234
-

Salary paid to executive directors and non-executive director fees.

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$US'000
4
-

Salary and payments to key management personnel (excluding those in 6.1 above), and consulting services provided by director-related entity.

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	7,000	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

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

- US\$7.0 million working capital revolving credit line ("**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.

The US\$3.0 million Term Loan provides funds capital expenditures and other corporate purposes and are payable in 36 monthly installments commencing on October 2020. The term loan bears interest at a rate equal to 1.5% above the Prime Rate.

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

9. Estimated cash outflows for next quarter	\$US'000
9.1 Research and development	(250)
9.2 Product manufacturing and operating costs	(5,100)
9.3 Advertising and marketing	(680)
9.4 Leased assets	-
9.5 Staff costs	(360)
9.6 Administration and corporate costs	(400)
9.7 Other	
- Capitalised development costs	(700)
- Other (Int. Expense/Loan Payments)	(290)
9.8 Total estimated cash outflows	(7,780)

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

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.



Sign here: (Director/~~Company secretary~~)

Date: .30 January 2020 (PST)

Print name: John Hoffman

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.