



ASX / Media Release

## Pivotal Systems Corporation June 2020 Quarterly Activities Report

Fremont, California and Sydney, Australia; 31 July 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 its Quarterly Activities Report and Appendix 4C for the period ending 30 June 2020.

### Key highlights

- Unaudited Q2 2020 revenue of US\$5.8 million was up 32% from Q1 2020 revenue of US\$4.4 million
- Unaudited 1H 2020 revenue of US\$10.1 million was up 26% on the pcp
- Backlog (confirmed orders not yet shipped) at 30 June 2020 was US\$3.2 million
- Semiconductor industry poised for solid growth in the second half and through 2021
- 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 the worldwide semiconductor industry; GFC production at our China based CM was also maintained during a challenging COVID-19 period
- Achieved qualification and multiple repeat orders for the standard GFC for Etch at the leading Korean Etch OEM
- Multiple Repeat orders for the standard GFC at multiple Chinese IDM’s for leading Etch Applications
- Multiple Repeat orders for the standard GFC at the leading Chinese Etch OEM for Etch Applications
- Shipped a next generation process tool flow control solution to a leading Japanese OEM as covered in the Customer Development agreement signed in 2018
- Continuing the Qualification of a new 2 channel Flow Ratio Controller (“FRC”) to a leading US Based OEM for deposition
- Appointment of Mr. Dennis Mahoney as Chief Financial Officer on 5 June 2020
- Appointment of Mr. Kevin Hill as Chief Operating Officer on 1 June 2020

### June 2020 Quarter Cash Flow Summary

The Company finished the Q2 2020 quarter with a cash balance of US\$9.1 million which included a US\$2.5 million balance drawn against the term loan with Bridge Bank and the first tranche of the US\$10 million RBI Preferred Stock funding from Anzu Partners.

Cash receipts from customers for the period were US\$4.9 million, up from US\$4.8 million from Q1 2020, evidencing stability in receivables management.

Cash payments for Product Manufacturing were US\$4.9 million, down 12% from US\$5.6 million in Q1 2020, reflecting a decrease in payments to key suppliers, contract manufacturing (CM), labor, and utilities to support production schedules. Pivotal continued to invest in product development with US\$0.7 million in capitalized costs incurred during the quarter.

During the quarter, the Company made salary and payments of US\$0.24 million to related parties and their associates comprising executive director’s salary payments and non-executive director fees.

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The Company remains adequately funded to meet its strategic objectives for the remainder of 2020 and to capitalize on the strength of growth in the semiconductor industry into 2021.

### **Product update**

Sales of the standard low flow GFC, commonly used for Etch applications, continued its momentum in the 2nd Quarter of 2020 driven by spending by IDM's in Korea as well as orders from IDMs in China, Taiwan, and Japan.

The Company continued its ongoing High Temperature GFC sales expansion with a leading Japanese OEM during the quarter. Together with the OEM, PVS will begin qualifying additional process gases for the High Temperature application(s) at various IDM accounts.

As mentioned in the Q1 commentary, the PVS Smartstik architecture was successfully demonstrated by Pivotal as part of the qualification process at a leading Korean Etch OEM. This has led to multiple repeat orders from that same OEM in Q2. Also, in Q2, the Smartstik architecture was demonstrated at a leading Chinese Etch OEM in Shanghai. This has led to multiple repeat orders from that OEM in Q2. The SmartStik architecture provides an illustration of the Pivotal GFC's industry leading performance in both speed and accuracy, while also demonstrating to the OEM that they could effectively eliminate redundant hardware required by the older pressure based and thermal technologies used by our competitors. SmartStik continues to demonstrate a method for etch OEMs to improve process tool performance while potentially reducing their overall costs.

The Flow Ratio Controller (FRC) 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. Based on continued work with the OEM, Pivotal has decided to accelerate the two channel FRC and release for both the 2 and 3 channel FRC by the end of FY 2020.

Pivotal's 2018 Customer Development agreement with a leading Japanese OEM for Pivotal's next generation process tool flow control solution highlights the Company's world class engineering team and leading-edge capability to develop sophisticated, highly differentiated, and innovative new product lines in collaboration with our industry partners. This GFC achieves exquisite control in gas flow, thereby increasing the efficiency of manufacturing process for the end customer, which will increase yield and lower overall input costs over time. Final payment from this agreement was collected during the current quarter.

### **Operations Update**

Second quarter full-time headcount was 45 employees.

During the quarter Pivotal's Korea CM launched its newly established "Transformation" center. Transformation manufacturing activity was transferred from Fremont, California to our Korea CM and this process was completed in July. Both the CM's production line and its personnel have also now been qualified. Pleasingly, Pivotal has commenced product shipments from this center in July 2020. Pivotal's Fremont, California facility will continue as an auxiliary capability to our Korea CM.



A significant financial benefit to Pivotal will result from this transfer of “Transformation” from Fremont, California to our Korea CM, specifically the substantial elimination of United States Customs Duty that would otherwise continue to be levied on shipments from our China CM of partially finished product to Fremont, California for Transformation steps. Regarding the duty that has already been levied by US Customs, and paid by Pivotal in prior periods, Pivotal is in the process of claiming duty drawback, or refunds, from the United States Customs Office. We are expecting refunds, which will potentially be in excess of US\$1 million to begin in late Q4 2020.

Pivotal also fully qualified the Repair and Upgrade Center in Korea which is operated by the same CM. This Center provides both repair and software upgrades to IDM and OEM customers globally. During the second quarter, the Company experienced 91% growth in repair revenue to US\$231K in Q2 2020 versus US\$121K in Q1 2020. As mentioned in the 2018 Prospectus, as Pivotal’s large global installed base continues to grow over time, an increasing number of GFCs will progressively come out of warranty. This will enable the Company to both repair and upsell with new software/feature enhancements to customers. Pivotal expects this business to continue to scale over time.

### **Industry Update**

In its latest industry forecast, SEMI<sup>®1</sup> has estimated global sales of semiconductor manufacturing equipment by OEMs are projected to increase 6% to US\$63.2 billion in 2020 compared to US\$59.6 billion in 2019 before delivering record revenues of US\$70 billion in 2021, representing growth of 11% on 2020. Foundry and logic spending, which accounts for approximately 50% of wafer fab equipment sales, will show single digit increases in 2020 and 2021. According to SEMI, both DRAM and NAND spending in 2020 will surpass 2019 levels and are projected to grow over 20%, respectively, in 2021.

### **Significant Events after the Balance Date**

The Company’s CM in Korea passed a major OEM Audit approving global product shipments on July 8<sup>th</sup> 2020.

Pivotal successfully passed its annual ISO 9001:2015 audit on July 15<sup>th</sup>, 2020.

### **Increase to Share and Option Pool under Pivotal’s Equity Incentive Plan**

During the quarter, Pivotal obtained shareholder approval in accordance with Section 422(b)(1) of the U.S. Internal Revenue Code, to amend Pivotal’s 2012 Equity Incentive Plan (Plan) to increase the number of shares of common stock (Common Stock) that are reserved for issuance under the Plan such that each of (i) the total number of shares of Common Stock under the Plan and (ii) the total number of shares issuable pursuant to the Plan upon the exercise of incentive stock options, shall be equal to 25,726,575 as previously approved by the Company’s Board of Directors. Shareholder approval was obtained by way of written consent in accordance with Section 228(e) of the Delaware General Corporation Law.

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<sup>1</sup> 21 July 2020. SEMI is the global industry association representing the electronics manufacturing supply chain, connecting over 2,000 member companies and 1.3 million professionals worldwide.

## Outlook

The Company anticipates that 2H 2020 revenues will increase sequentially on the first half. At this time, the Company sees continued strengthening in the overall semiconductor industry into 2021, where industry growth is anticipated to achieve record levels. While COVID-19 brings uncertainty, the Company continues to progress toward its growth goals. Pivotal maintains that its client-led new product development efforts are the key catalyst for future market share gains.

## Investor Conference Call

Pivotal will host an investor conference call today at 9.45am AEST (4.45pm PDT on Thursday, 30 July) with Mr. John Hoffman, Chairman and CEO and Mr. Dennis Mahoney, 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.

<https://s1.c-conf.com/diamondpass/10008572-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: **10008572**

### **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 JULY 2020 HAS BEEN AUTHORISED FOR LODGEMENT TO ASX BY THE BOARD OF DIRECTORS OF PIVOTAL SYSTEMS.*

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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/>.

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