



ASX / Media Release

Pivotal Systems Half Year 2020 Results

Fremont, California and Sydney, Australia; 28 August 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 announce its Appendix 4D financial results for the half year ended 30 June 2020.

Key highlights:

- **Customer and geographic diversification continued**
- **553% increase in new orders versus the prior corresponding period to US\$9.1 million**
- **Revenue growth of 26% to US\$10.1 million**
- **EBITDA loss improved 37% to US\$2.4 million**
- **2H 2020 revenues expected to show sequential growth over 1H 2020**
- **Semiconductor industry growth expected to accelerate to 12% in 2021 (6% in 2020)**

Pivotal recorded revenue for the period of US\$10.1 million, an increase of 26% from the 1H 2019 and reflected the continued strength of the global semiconductor market, rebounding from the lows of 2019. The Company’s reported net loss after tax of US\$5.0 million was down 2.5% on the prior corresponding period.

Commenting on the Company’s first half results, John Hoffman, Chairman and CEO of Pivotal Systems said: “The first half results are in line with our expectations of continued growth and the continued improvement we are seeing in the global semiconductor industry. IDM capital spending (CAPEX) for all segments continued to improve despite the COVID 19 situation, with strong growth in the Memory space across both DRAM and Flash and also within the Foundaries. I am pleased to report than Pivotal is working closely with the major OEMs in meaningful projects on new process tools or qualifying new process gases in this difficult time.”

Mr Hoffman continued: “Not only is SEMI forecasting record CAPEX spending in 2021, strategic CAPEX investment in the semiconductor industry is now being discussed in the United States Congress. Currently, there seems to be strong bi-partisan support and this would certainly add to the existing industry momentum. Also, there is no question that Pivotal Systems market share gains in 2019 and early 2020 are paying dividends. Our emphasis on the China market is especially significant as both China-based IDMs and OEMs have recognized the potential of our revolutionary flow control technology. China represents an important growth market for Pivotal, with equipment spending in that market expected to grow 30% to US\$17 billion in 2020. Overall, we continue to expect second half revenues will show sequential growth over the first half of 2020.”

During the half year, the number of repeat/qualified customers increased by 9% to 36 versus FY2019, while the total number of customers evaluating Pivotal’s GFCs stood at 6. The growth in customers was largely from IDMs rather than OEMs where the market is far more concentrated with three players, namely LAM Research (NASDAQ:LRCX), Applied Materials (NASDAQ:AMAT) and Tokyo Electron (TYO:8035) accounting for approximately 90% of the mass flow controller market. During the period, the Company

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continued to diversify its customer base away from Korean Memory players, with multiple repeat orders coming from a number of Chinese IDMs and one Chinese OEM during the half.

The revenue split between OEM/IDM at 1H 2020 was 94%/6% versus 79%/21% at FY2019. Pivotal's top global customers accounted for 85% of revenues in 1H 2020 versus 91% in FY2019. Pivotal's revenue mix is also expected to gradually diversify away from low flow (Etch) GFC sales in coming periods, which accounted for 99% in 1H 2020 versus 99.7% of sales in FY2019. The Company's high temperature GFC products have experienced continued sales growth with a leading Japanese OEM, with Pivotal to commence qualifying additional process gases for the high temperature application(s).

Additionally, as the global footprint for Pivotal's GFC expands, 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 from its Korean repair and upgrade centre, which was qualified in the second quarter. The Company experienced 45% growth in repair revenue to US\$352K in 1H 2020 versus the prior corresponding period (pcp).

Gross Profit of US\$0.1 million in 1H 2020 is comparable to Gross Profit of US\$0.2 million in 1H 2019. 1H2020 Gross Profit of US\$0.1 million 2020 was negatively impacted by the occurrence of approximately US\$1.8 million in duty levied by United States Customs and Border Protection. Pivotal is eligible for drawback or refund of these duties charges and is in the process of applying for drawback.

The Company anticipates that this duty expense will be substantially eliminated in future periods as transformation and shipment to customers will be occurring at our contract manufacture's facility in Korea, rather than at Pivotal's facilities in Fremont, California.

Total operating expenses for 1H 2020 were US\$5.0 million were comparable to 1H 2019 expenses of US\$5.1 million. The Company continued to invest in research and development, with expenditure of US\$1.4 million down 18% versus the pcp of US\$1.7 million. This decrease is due to a greater capitalization of R&D expenses. R&D expense before capitalization was essentially flat at US\$2.5 million in each of the half year periods, reflecting Pivotal's commitment to continued product development. Sales and marketing expenditure of US\$1.6 million in 1H 2020 was up 6% versus the pcp of US\$1.5 million, reflecting higher commission expense on higher revenues in 1H 2020.

The Company closed the half year with a cash balance of US\$9.1 million which included a US\$2.5 million balance drawn against the Company's term loan with Bridge Bank, the first tranche of the US\$10.0 million RBI Preferred Stock funding from Anzu Partners, and US\$0.9 million from a Payroll Protection Loan (PPP) from the United States Small Business Administration under the CARES COVID Relief Act. Pivotal expects the PPP Loan to be substantially forgiven during 2H 2020. 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.

Outlook

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



Investor Conference Call

The Company will host an investor conference call today at 9.30am AEST on Friday, 28 August (4.30pm PDT on Thursday, 27 August) 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. 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.

<https://s1.c-conf.com/diamondpass/10009378-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: **10009378**

Participant Dial-in Numbers:

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United Kingdom: 0800 0511 453

The presentation and audio can also be accessed via the webcast link:

<https://services.choruscall.com.au/webcast/pivotal-systems-200828.html>

THIS RELEASE DATED 28 AUGUST 2020 HAS BEEN AUTHORISED FOR LODGEMENT TO ASX BY THE BOARD OF DIRECTORS OF PIVOTAL SYSTEMS.

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Safe Harbor Statement

This press release and the accompanying investor presentation, Appendix 4D and Half Year Financial Report contain 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.

If investors wish to subscribe to Pivotal Systems' email alert service for ASX Announcements, please follow this [link](#).