

Pivotal First Half 2022 Financial Results

Summary:

- Product revenues down 35% to US\$9.0 million, versus the prior corresponding period (pcp)¹, software and service sales of US\$0.7 million, flat to the pcp
- Standard GFCs encountered downstream demand volatility, with integrators pushing out deliveries for memory Integrated Device Manufacturers (IDMs) into 2H 2022 and beyond
- Orders of US\$10.8 million versus the pcp of US\$9.9 million (up 9.1%)
- Pivotal has continued to effectively manage its upstream supply chain to meet demand to date, and continues to achieve 100% on time delivery, while maintaining industry leading lead times
- Gross margins of -6.2% versus 34.1% in the pcp due to one-time non-cash adjustments, and higher component costs
- Operating expenses of US\$9.2 million recorded, up 31% versus the pcp driven by one-time charges to General and Administrative
- Net Loss After Tax of US\$9.8 million, up 581% on pcp
- Closing cash of US\$6.2 million

Fremont, California and Sydney, Australia; 31 August 2022 – Pivotal Systems Corporation (“Pivotal” or the “Company”) (ASX: PVS), a leading provider of innovative gas flow control (“GFC”) solutions to the semiconductor industry, announces its financial results for the half year ended 30 June 2022 (1H 2022).

Pivotal recorded revenue for the period of US\$9.0 million, a decrease of 35% from 1H 2021, which reflected industry wide downstream supply chain volatility at the Original Equipment Manufacturers (OEMs) and downstream to IDMs. This volatility was largely triggered by OEM component shortages impacting their system shipments, coupled with supply chain synchronization issues with the IDM tool installation schedules. Despite the volatility, Pivotal continued 100% on-time delivery (OTD) through 1H 2022. The Company’s reported net loss after tax was US\$9.8 million, an increase of 581% on the pcp (1H 2021: US\$1.4 million).

Mr. Kevin Hill, CEO of Pivotal Systems said: “Fundamentally, the secular growth of WFE remains strong, but demand from IDM to OEM to Pivotal was volatile during the 1H 2022 period, slowing 1H revenues within the same period as raw material inflation and purchase price variances, compounded by several one time non-cash adjustments. Pivotal continued momentum in product development for ALD, and operationally the team did achieve industry leading lead times and 100% OTD of our GFCs to our OEM and IDM customers.”

Additionally, Mr. Hill continued “Recently, the US Congress passed the CHIPS Act, which includes US\$52 billion in domestic semiconductor manufacturing subsidies aimed to encourage chip manufacturers to build fab plants on American soil. This level of financial commitment will undoubtedly transform the domestic landscape in the US where Pivotal maintains strong domestic OEM and IDM relationships that could

¹ All figures for the prior corresponding period (half year to 30 June 2021) have been restated under US GAAP for comparative purposes.



potentially benefit our business in future years as fabs are constructed and significant equipment orders and installations result.”

The revenue split between OEM/IDM at 1H 2022 was 80%/20% versus 80%/20% in the pcp. Pivotal’s mix, while still prevalent in Etch applications, saw an added mix of Atomic Layer Deposition (ALD), cleans, and Chemical Vapor Deposition (CVD) applications in 1H22. Standard GFCs are seeded into leading ALD OEM systems, in the largest Taiwanese foundry. High-Flow GFC (>2SLM) sales are up significantly in 1H 2022 versus 1H 2021, as Pivotal improves position in CVD applications. The Company’s high temperature GFC products, in particular, have shown continued sales growth with a leading Japanese OEM, with a second OEM now actively ordering this product. Our Advanced Atomic Layer Deposition product development project continues test and evaluation with a leading Japanese OEM.

The installed base of Pivotal’s GFCs currently stands at approximately 68,000. As the Company’s installed base of GFCs progressively comes out of warranty, Pivotal’s Korean Center provides both repair and software upgrades to IDM and OEM customers globally. This revenue segment continued to be stable and was flat in 1H 2022 at US\$0.7 million, versus the pcp.

Product gross margins of -6.2% were down significantly versus the pcp (1H 2021: 34.1%). In 1H 2022 gross margins were negatively impacted by lower volumes, reduced overhead absorption, purchase price variances associated with procuring high demand IC components, supply chain inflation, and non-cash charges. Non-cash inventory charges cut the Company’s underlying gross margin performance by 13.8% of absolute margin, with Pivotal’s pro-forma 1H 2022 gross margin of 7.6% versus 34.1% recorded in 1H 2021.

Total operating expenses for 1H 2022 of US\$9.2 million were up 31% versus the pcp. The Company continued to invest in research and development, with expenditures of US\$3.2 million flat to the pcp. Sales and marketing expenditure of US\$1.7 million in 1H 2022 was down 2% versus the pcp, reflecting lower commission expense on lower revenues recorded, along with declines in associated staff travel and conference attendances. One-time charges affecting general and administrative are related to the closure of a Pivotal international entity, as well as unusually high professional fees.

The Company closed the half year with a cash balance of US\$6.2 million. In February, the Company completed a pro-rata accelerated non-renounceable entitlement offer which raised approximately US\$10.5 million. The Company has US\$1.3 million in unused financing facilities available at 30 June 2022 with Bridge Bank.

Outlook

Similar to the major OEMs, Pivotal sees the 2022 overall wafer fabrication equipment (WFE) spend adjusting to be on par with 2021, with a strong share of the WFE spend going to foundry/logic, and a contraction in memory WFE spending; an important served segment for Pivotal. We are watching memory IDMs carefully, as their WFE installation timelines are impactful to Pivotal revenue. This downstream volatility and uncertainty remains.

As the Company commences the second half, Pivotal expects a significant improvement to gross margins and an increase in shipments during the second half, but volatility continues, which in turn constrains the Company’s ability to issue FY22 revenue guidance to the market at this time.



Investor Conference Call and Webcast

The Company will host an investor conference call today at 9.00am AEST (4.00pm PDT on Tuesday, 30 August) 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 webcast 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/10024245-m5lsl2.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: **10024245**

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

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

<https://ccmediaframe.com/?id=G9TYg57o>

A recording of the call and slide presentation will be made available within the Investors section of the Company website at: <https://www.pivotalsys.com/investors#presentations>

THIS RELEASE DATED 31 AUGUST 2022 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 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 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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