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ASX / Media Release

Pivotal Systems Corporation September 2020 Quarterly Activities Report

Fremont, California and Sydney, Australia; 30 October 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 30 September 2020.

Key Highlights

- Unaudited Q3 2020 revenue of US$5.9 million was up 2% sequentially (Q2 2020: US$5.8 million) and 558% from the same period a year ago (Q3 2019: US$0.9 million).
- Unaudited Q3 2020 year-to-date revenue of US$16.0 million was up 80% from the same period a year ago (Q3 2019 year-to-date US$8.9 million).
- Reached agreement with the leading Japanese OEM to develop the next generation flow controller for its fleet of planned Atomic Layer Deposition (ALD) tools. This agreement provides PVS with a non-recurring engineering fee of US$1.0 million. Initial new product prototypes are to be delivered in Q4 2020 and released GFC products are to be delivered in 2021.
- Achieved qualification and multiple repeat orders for the standard GFC using ultra high-speed communication with Ethernet Control Automation Technology (EtherCAT).
- Multiple Repeat orders at the leading Chinese Etch OEM.
- Continuing Qualification of a 2 channel Flow Ratio Controller ("FRC") to a leading US Based OEM for deposition.
- Backlog (confirmed orders not yet shipped) at 30 September 2020 was US$0.4 million
- Maintained all Manufacturing activity in China, Korea, and the United States during the reported period.
- Semiconductor industry poised for continued growth in the 4th Quarter and through 2021.

September 2020 Quarter Cash Flow Summary

The Company finished the Q3 2020 quarter with a cash balance of US$6.2 million which included a US$1.9 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.

Cash receipts from customers for the period were US$5.5 million, up 11% from US$4.9 million from Q2 2020, evidencing stability in receivables management.

Cash payments for Product Manufacturing were US$5.6 million, up 15% from US$4.9 million in Q2 2020, reflecting an increase in payments to key suppliers, contract manufacturing (CM), labor, and utilities to support production schedules. Pivotal continued to invest in product development with US$0.93 million in capitalized costs incurred during the quarter.

During the quarter, the Company made payments of US$0.15 million 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.

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The Company remains adequately funded to meet its strategic objectives for the remainder of 2020 and to capitalize on anticipated 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 Q3 2020 driven by spending by US Based OEM's and both IDM's and OEM's in Korea, China and Japan.

Pivotal considers the agreement with the leading Japanese OEM in ALD to be strategically significant. As the industry moves to reduced feature sizes required to continue scaling down transistors, precision in flow control becomes paramount. Under an Atomic Layer Deposition process, layers will be deposited one atom at a time. The precision required for advanced flow control in these applications will require a completely new flow control architecture. As the Company has said since the IPO, Pivotal Systems' flow control solutions are the fastest and most precise in the industry. This has led several OEMs to determine that they need to design their next generation process tools around the leading technology platform PVS provides. Currently, the Company has Korean, American and now Japanese OEMs designing new process tools with Pivotal. We expect these types of partnerships to continue in the future. Such collaborations provide a strategic advantage to Pivotal, as there are very high switching costs associated with these process tools, once qualified and orders generated. Of course, once an OEM designs a new product around the microsecond control PVS offers, the competition is limited based on their older, less capable technology.

The Company continued its High Temperature GFC fanout with a leading Japanese OEM during the quarter. Together with the OEM, Pivotal has begun qualifying additional process gases for the High Temperature application(s) to include NH3, ClF3, 20% F in Ar. By adding 3 new process gases, the High Temperature GFC has effectively expanded the addressable market for this product by 300% for 2021. Accordingly, the Company expects high temperature processes to be rapidly increasing in the existing chemical vapor deposition (CVD) market.

Operations Update

Third quarter full-time headcount was 44 employees.

During the quarter Pivotal's Korea CM completed the launch of its newly established "Transformation" center. Transformation manufacturing activity was fully transferred from Fremont, California to our Korea CM at July month-end. Both the CM's production line and its personnel have been qualified. Pivotal began product shipments from this center in July 2020. Pivotal's Fremont, California facility will continue as an auxiliary capability to our Korea CM and is now transitioned to become our Pilot Manufacturing Center. As part of this, over 20 Fremont contractor positions have been eliminated. The Company estimates that in Q4 2020 less than 5% of GFC revenue will be produced in Fremont.

The Company is seeing a significant financial benefit resulting from this transfer of "Transformation" from Fremont, California to the Korea CM; specifically the substantial elimination of United States Customs Duty that would otherwise continue to be levied on shipments from the China CM of partially finished product to Fremont 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 US Customs Office.

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Pivotal also fully qualified the Repair and Upgrade Center in Korea which is operated by the same CM during the quarter. This Center provides both repair and software upgrades to IDM and OEM customers globally. The Company experienced 21% growth in repair revenue to US$279K in Q3 2020 versus US$231K in Q2 2020. Pivotal's large global installed base continues to grow over time, as 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

On 8 September 2020, SEMI reported COVID-19 inspired increases in global fab equipment spending of 8% in 2020 growing to 13% in 2021[1]. This represents a further upgrade to expected growth from July's forecast of 6% and 12% in 2020 and 2021, respectively. The principle driver of the growth profile is rising demand for semiconductors for datacenter infrastructures and server storage due to the structural changes of the traditional workplace and connectivity under COVID-19, along with the increases in safety stock as U.S.-China trade tensions intensify. According to SEMI, memory will see the largest spending increase in 2020, growing US$3.7 billion, or 16% year-over-year (YoY), to US$26.4 billion, and tack on an 18% increase to reach US$31.2 billion in 2021. 3D NAND spending will log the largest percentage surge this year, expanding 39%, and register modest growth of 7% in 2021. DRAM is expected to see 4% growth after a slowdown in the second half of 2020 before jumping 39% percent next year.

Events after the Balance Date

On 22 October 2020, SEMI reported the North American semiconductor equipment industry sales (billings) report, which highlighted industry worldwide sales of US$2.75 billion, representing accelerated growth of 40.3% over the prior corresponding period (pcp) and consecutive month on month growth since June 2020, where billings were up 14.4% over the pcp.[2] SEMI commented the semiconductor industry remains resilient despite challenges posed by the pandemic and geopolitical tensions.

On 26 October 2020, the Company received a first refund from the US Government for US$27,000 as part of the duty drawback claim process. Over time, the Company expects to progressively recoup between US$1.5 to US$2.0 million, with the majority in 2021.

Outlook

The Company anticipates that Q4 2020 revenues will increase from Q3 2020 revenues and maintains prior guidance of sequential growth in 2H 2020 revenues versus 1H 2020. 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.

[1] https://www.semi.org/en/news-resources/press/covid-19-global-fab-equipment
[2] https://www.semi.org/en/news-media-press/semi-press-releases/sept-2020-north-america-billings-report

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Investor Conference Call

Pivotal will host an investor conference call today, Friday 30 October, at 9.30am AEDT (3.30pm PDT on Thursday October 29th) 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/10010466-Klw2ka.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: **10010466**

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
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Singapore: 800 101 2702
United Kingdom: 0800 0511 453

*THIS RELEASE DATED **30 OCTOBER 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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