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## PRESENTATION

### Operator

Good afternoon, everyone, and thank you for participating in today's conference call to discuss Quantum's financial results for the first quarter of fiscal 2022. (Operator Instructions) As a reminder, this conference call is being recorded. I would now like to turn the conference over to Brian Cabrera from Quantum.

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**Brian E. Cabrera** - *Quantum Corporation - Senior VP, Chief Legal & Compliance Officer and Secretary*

Good afternoon, and thank you for joining today's conference call to discuss Quantum's first quarter fiscal 2022 financial results. I'm Brian Cabrera, Quantum's Chief Legal and Compliance Officer.

Joining me today are Jamie Lerner, Chairman and CEO; and Mike Dodson, CFO. This afternoon, we issued a press release, which you can access a copy of from the Quantum's website at [www.quantum.com](http://www.quantum.com) under the Investor Relations section. There is also a slide presentation that we will be using in conjunction with today's call that may be accessed through the webcast link on the IR website and is also posted as a PDF in the Investor Relations section.

As a reminder, comments made during today's conference call may include forward-looking statements. All statements other than statements of historical fact could be deemed as forward looking. Quantum advises caution and reliance on forward-looking statements. These statements include, without limitation, any projections of revenue, margins, expenses, adjusted EBITDA, adjusted net income, cash flows or other financial items; any statements concerning the expected development, performance and market share or competitive performance relating to products or services. All forward-looking statements are based on information available to Quantum on the date hereof. These statements involve known and unknown risks, uncertainties and other factors that may cause Quantum's actual results to differ materially from those implied by the forward-looking statements, including unexpected changes in the company's business.

More detailed information about these risk factors and additional risk factors are set forth in Quantum's periodic filings with the Securities and Exchange Commission including, but not limited to, those risks and uncertainties listed in the section entitled Risk Factors in Quantum's quarterly report on Form 10-Q and annual report on Form 10-K as filed with the SEC. Quantum expressly disclaims any obligation to update or alter its forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

Additionally, the company's press release and management statements during this conference call will include discussions of certain measures and financial information in GAAP and non-GAAP. Included in the company's press release are definitions and reconciliations of GAAP to non-GAAP items, which provide additional details.

For those of you unable to listen to the entire call at this time, a recording will be available for at least 90 days in the Investor Relations section of Quantum's website.

Now I would like to turn the call over to the Chairman and CEO, Jamie Lerner. Jamie?

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**James J. Lerner** - *Quantum Corporation - Chairman, President & CEO*

Thank you, Brian, and thank you all for joining us on today's call. Earlier today, we announced results for our fiscal first quarter with revenues of \$89.1 million, up 22% year-over-year, and both adjusted net income and earnings per share at the high end of our guidance.

Our end demand remains robust, with strength at hyperscale customers driving a meaningful increase in sequential bookings. We remain restricted in our ability to fulfill all customer orders due to the ongoing supply constraints, which has caused our backlog to reach unprecedented levels. Historically, our backlog has been 5% or less of our reported quarterly revenue. As of the first fiscal quarter, our backlog has grown to \$30 million compared to \$14 million in the previous quarter and \$2 million in the year ago period.

While not all backlog represents potential revenues in the following quarter, our end demand remains robust across our business, particularly with the hyperscaler customers, and we are seeing significantly higher levels of visibility. We are starting to see signs from one of our key suppliers that there will be more strength closing out this quarter and continuing to strengthen in the following quarter.

Despite the near-term industry supply constraints, our long-term business transformation continues to move forward. During the quarter, our software and subscription customers grew more than 20% sequentially with bookings up 2x. While still off a small base, I'm pleased with the progress we continue to make toward our shift to a more recurring revenue model.

Also during the June quarter, we delivered an all-time quarterly revenue record for our recently formed cloud software and analytics group. This group, which represents the acquisitions of Square Box Systems and the CaTDV media asset management business benefited from the increased scale of the Quantum global sales force and generated a strong increase in six-figure contract wins during the quarter. We have already seen leverage in selling combined product solutions such as our StorNext file system, CaTDV software and Quantum services and created a significant increase in our ability to cross-sell to our current customer base.

Recently, we successfully refinanced our remaining outstanding term debt, reducing the total annualized interest expense by \$7 million and cash interest expense by \$4 million. This transaction represents the final step in our debt restructuring and significantly enhances both our covenant and financial flexibility. We see this completed debt refinancing as a commitment to our shareholders to operate with strong financial discipline in order to drive improvements in our bottom-line results while also maintaining a solid balance sheet. Mike will discuss more aspects of this transaction in greater detail during his prepared remarks.

In addition to our successful refinancing, we received notice from the Small Business Administration that our prior \$10 million Paycheck Protection Program loan has been forgiven. This \$10 million is currently represented in our short-term debt on our balance sheet as of June 30th, but it will be removed in the subsequent quarter, further strengthening our balance sheet.

Another significant development since our last earnings call, in July, we acquired the video surveillance portfolio and assets from Pivot3. The acquisition adds an established customer base and product portfolio in the multibillion-dollar surveillance market and provides a major advance in our share position in video surveillance. The transaction adds over 500 surveillance customers globally including large airports, casinos, transit systems and federal government programs. These customers currently use Pivot3 software running on server hardware to record and store surveillance footage in mission-critical workloads. Having served as the Chief Operating Officer at Pivot3 prior to joining Quantum, I am very familiar

with these products and the customers, and I believe there is tremendous opportunity for Quantum to leverage their hyperconverged software platform with our VS-Series product portfolio.

Our team has already had the opportunity to meet with a number of these customers, and the response both from customers and industry analysts has been very positive. As we stated, we expect this acquisition to be slightly accretive to EBITDA through the remainder of the fiscal year 2022, and we believe there is significant upside potential based on the market opportunity and the scale of Quantum's global sales team and customer base. We see a meaningful opportunity to cross-sell and upsell surveillance solutions to our customers in sports, media and entertainment, higher education, retail and government, and we are already seeing early traction.

As the demand for video, for entertainment and streaming services continues to grow, so does the use of video in the enterprise. Video is used for communication and training in many enterprises, and in particular, the market for surveillance is expected to significantly expand, thereby increasing the need for efficient storage solutions that retain the data for long periods of time and also provides quick and easy access for managing, analyzing and sorting the stored content.

Surveillance video is being used for much more than just security, and the emerging use of AI and analytics represents a big opportunity to help customers enrich this video content to drive new insights. Our acquisition of Pivot3 surveillance portfolio is a key step toward establishing a more prominent position in this market.

As I mentioned in my comments, we have continued to see strong demand and increasing orders from our hyperscale customers. We have established ourselves as the market share leader in this space, and we continue to gain share in this market based on the strength of our offerings. The orders are almost entirely for our tape storage products, which is the area that is being most affected by our current supply shortages. Our engineering teams remain engaged in the development of solutions and architectures, and we now have sold Quantum software into multiple hyperscale customers in addition to our tape storage systems.

Industry analysts are projecting massive increases in the amount of cold data that must be stored and protected in the enterprise. We see this projected growth as an opportunity to transfer our knowledge of cold storage software and solutions gained from working alongside the world's leading hyperscale customers to help Fortune 500 companies address this massive data expansion. We look forward to sharing more information regarding our progress in cold storage data solutions in the coming months.

In summary, the amount of unstructured data being generated globally continues to expand exponentially. We are seeing strong demand broaden our footprint across software and solutions within multiple end markets. We are building on our market share leadership in hyperscale archives, and the acquisition of Pivot3 establishes a strong share position in video surveillance. The ability to cross-sell software from our recent Square Box systems and CaTDV acquisitions in December demonstrates our ability to integrate and accelerate adoption of new services across our customer base. Our unprecedented level of backlog and demand momentum demonstrate the significant progress that we've been seeing across our business and in the underlying business trends.

With that, I'd like to turn the call over to Mike Dodson, our CFO, to discuss the financials. Mike?

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**James Michael Dodson** - *Quantum Corporation - CFO*

Thank you, Jamie. Welcome to everyone who has joined our call today. Our first fiscal quarter of 2022 represented another strong quarter of customer demand, demonstrating continued acceleration in our underlying business.

As Jamie mentioned, first quarter revenue was \$89.1 million, up 22% from the same period last year. Near-term supply shortages continue to present headwinds for our secondary storage systems business during the first fiscal quarter. Revenues from secondary storage were up more than 7% sequentially but remained restricted by our ability to obtain key components.

As Jamie mentioned in his opening remarks, we do expect the supply chain to begin to firm up by the end of this quarter and continue to show improvements into next quarter. Although it is still too early to understand the rate of improvement, we do believe we will see a demonstrative improvement starting in our fiscal third quarter.

Primary storage systems declined sequentially, primarily as a result of the lumpiness of the M&E business during the COVID recovery period and, to a lesser extent, the impact of deferring software revenue sold separately on a subscription basis. The slight sequential decrease in devices and media were impacted by supply constraints related to certain products.

In line with Jamie's comments, our business has had very limited backlog historically, equaling less than 5% of our reported quarterly revenue. Our backlog grew to \$30 million at the end of the June quarter, with significant order contribution from our hyperscale customers. In comparison, we reported fourth quarter revenues of \$92.4 million with a backlog of \$14 million; and in the year ago period, reported revenues of \$73.3 million, with a backlog of \$2 million. While not all backlog represents potential revenue in the following quarter, when looked at in total, we believe the underlying business trends remain robust, and our visibility has improved significantly versus the year ago period.

On a GAAP and non-GAAP basis, gross margin in the first fiscal quarter was 42%, flat with the prior quarter. GAAP operating expenses in the first quarter were \$37.3 million compared to \$36.6 million in the prior quarter. Non-GAAP operating expenses in the first quarter were \$33.3 million, an increase of \$1.3 million sequentially. The sequential increase in non-GAAP operating expenses was primarily due to higher general and administrative expenses, partially offset by lower sales and marketing expenses and R&D expenses. The higher G&A expenses were primarily driven by seasonal increases in audit-related services as well as increased legal and other expenses related to debt refinancing and business acquisition costs.

GAAP net loss in the first fiscal quarter was \$4.2 million or a loss of \$0.07 per share compared to a net loss of \$17.5 million or a loss of \$0.35 per share in the prior fiscal quarter, which included a debt extinguishment charge of \$14.8 million related to the retirement of 50% of our senior secured term loan last quarter.

Excluding stock compensation, restructuring charges and nonrecurring charges, non-GAAP adjusted net income in the first fiscal quarter was \$125,000 or breakeven compared to adjusted net income of \$2.1 million or \$0.03 per share in the prior quarter.

Adjusted EBITDA during the first fiscal quarter was \$5.4 million, which reflects an increase of \$4 million on a year-over-year basis and a \$3 million decrease sequentially primarily due to lower revenue and higher operating expenses. There is a full reconciliation of our non-GAAP results to the most directly comparable GAAP measure in both the press release and the Form 10-Q released today.

Now turning to the balance sheet, liquidity and cash flows. Cash and cash equivalents were \$24.6 million as of June 30, 2021, compared to \$33.1 million on March 31, 2021. Adjusted working capital, excluding deferred revenue balances, increased by \$2.8 million during the first fiscal quarter to \$58.1 million from \$55.3 million at the end of the prior fiscal quarter. This increase was primarily the result of a decrease in accounts payable and other accrued liabilities.

Outstanding long-term debt as of June 30, 2021, was \$81.3 million after netting \$8.8 million in unamortized debt issuance costs and \$11.9 million in current portion of long-term debt. Current long-term debt includes the \$10 million PPP loan, which was forgiven in July. This compares to \$90.9 million of outstanding debt as of March 31, 2021, after netting \$9.7 million in unamortized debt issuance costs and \$1.9 million in current portion of long-term debt.

During the first fiscal quarter, before the effect of changes in assets and liabilities, cash generated from operations was \$3 million, offset by \$10 million in net cash used by changes in working capital accounts. Other notable uses of cash in the first quarter of fiscal 2022 were \$1 million in capital expenditures and the paydown of long-term debt of \$500,000.

Last week, we announced the successful refinancing of the remaining portion of our outstanding senior secured term loan. Following a competitive proposal process, the company remained with the existing lenders and replaced the existing term loan facility with a new \$100 million senior secured term loan that matures in 2026. The new facility bears an interest rate of LIBOR plus 600 basis points. This refinancing significantly improves our covenant and operating flexibility while significantly reducing the related interest expense.

To put this into perspective, when we began calendar year 2021, we were incurring an annual run rate of interest expense of approximately \$30 million, of which \$22 million represented cash payments. When we raised equity in February of this year, we paid down half of the term debt, which reduced our annual run rate of interest expense to \$15 million, of which \$11 million represented cash payments. Then following the completion of our recent refinancing, our annualized interest expense was further reduced to just under \$8 million, of which \$7 million represents cash payments. Collectively, these transactions have reduced our annual interest expense by \$22 million with an EPS benefit of \$0.32 per share and a reduction of annual cash payments from interest of \$15 million. At the end of the first fiscal quarter, there were no funds drawn on the company's credit line.

Finally, turning to our financial outlook. Given the ongoing supply chain shortages for the second fiscal quarter of 2022, we are guiding revenues of \$88 million, plus or minus \$4 million, which includes a \$2 million contribution from the Pivot3 acquisition; non-GAAP adjusted net loss of \$2 million, plus or minus \$1 million; non-GAAP adjusted net loss per share of \$0.04, plus or minus \$0.02; and adjusted EBITDA of \$2 million, plus or minus \$1 million. At this time, we are maintaining our full year revenue guidance range of between \$380 million to \$420 million, with the range reflecting the potential timing and magnitude of the supply chain improvements. Our fiscal year 2022 guidance excludes any projected revenue contribution from Pivot3.

With that, I'll turn the call back to Jamie for closing comments. Jamie?

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**James J. Lerner** - *Quantum Corporation - Chairman, President & CEO*

Thanks, Mike. Demand is strong, evidenced by our growing backlog and continued customer order momentum during the quarter. We are seeing increasing opportunities to penetrate further into Fortune 500 enterprise accounts with both our software and product solutions. The acquisition of Pivot3's video surveillance business offers immediate access to over 500 new customers with whom we expect to see cross-selling opportunities across our portfolio of software and data storage solutions. With the significant milestone of our debt restructuring behind us, our new financial flexibility will allow us to responsibly grow our business.

I would like to welcome the new members of the Quantum team from Pivot3 led by Ross Fujii, General Manager of the Strategic Markets Business Unit, who most recently served as Vice President of Engineering and Alliances at SolarWinds; and Curt Wittich, who will be heading up sales.

In conclusion, I'm pleased with the execution our team has delivered in a difficult operating environment. The opportunities for long-term growth and transformation towards a more software-centric model remain intact. Quantum's focus remains on establishing and enhancing our position as a global leader in archived storage solutions.

With that, we will now take any questions you may have. Operator?

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from Craig Ellis with B. Riley Securities.

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**Craig Andrew Ellis** - *B. Riley Securities, Inc., Research Division - Senior MD & Director of Research*

Guys, congratulations on the growth in the backlog. I just wanted to start with a clarification on the dynamics within product revenue in the first quarter and what you're seeing in the second quarter. So for the first quarter, can you just provide a little bit more color on some of the things that were happening in primary storage since that was down more than what I had expected? What did you see in government and some of the new customer segments? And then with the second quarter, as we look ahead, what are some of the gives and takes at the primary and secondary level and then below that within guidance?

**James J. Lerner** - *Quantum Corporation - Chairman, President & CEO*

Craig, it's Jamie. I think we're seeing 2 things. Our cloud customers, particularly the 10 largest hyperscalers, are doing really well, and they're placing increasing orders on us. We're now engaged with 6 hyperscalers whether we're in production or going through trials or late-stage trials. So we picked up a lot of momentum there, but we are predominantly selling them tape products, which are the most constrained.

Now our other historic legacy market where we're the share leader in high-end post production is media and entertainment. Now media and entertainment, while it's up from a year ago, and you see our sales are up 22% from a year ago, they're still not at historic levels. So we don't see people going this summer, blockbusters and theaters, and major movie production is still hampered by COVID and the Delta variant. So we see a stronger media and entertainment business, but it is not at historic levels at this point. And I think it's even more troubled in Europe and Asia than it is in the U.S. So we have those 2 factors.

If you look at our backlog, they balance each other out and we're selling at historic levels, but the mix is weighted towards hyperscalers, which are most constrained. But we did get news that the constraints we have in our tape components will be improving this quarter. We still gave a conservative estimate, not anticipating it to improve. But as we get into October, November and December, we are seeing -- we're getting indications from our suppliers that we're going to be in a much better position. Now we're going to convert that into supply commitments. We don't have those commitments yet, but we're getting strong data from our suppliers that, while they're not ready to say we'll be at historic levels, they see very significant improvement as we get into the fall and winter, and we should be shipping at much higher levels in that time frame.

**Craig Andrew Ellis** - *B. Riley Securities, Inc., Research Division - Senior MD & Director of Research*

Got it. That's really helpful, Jamie. And then the follow-up is to Mike. Mike, I think I got most of the guidance elements, but if you could provide any color on your expectations around gross margin. And then with respect to the near-term guidance and the full year guidance, you included Pivot3 in the near-term guidance but didn't include it in the full year guidance. Why was that? And is it reasonable to think that just adjusting for the timing of the deal that the current quarter's revenue would be a reasonable proxy for what you could do going forward? Or can some of the synergies that Jamie talked about in his prepared remarks start to hit as we get into fiscal third quarter or fiscal fourth quarter of the year there?

**James Michael Dodson** - *Quantum Corporation - CFO*

Yes. So related to how we've included Pivot3. As we move forward, we'll be integrating that business into Quantum. But in the near term, we have good enough visibility to call it out in the current quarter as far as how much we expect it to contribute to the current quarter's revenues. So we called it out. But when we looked at the full year, we wanted to -- the statement we wanted to make was we were still standing by the full year guidance. And of course, the range, whether it's \$380 million to \$420 million is really going to be dictated by how quickly does the supply constraints come back, how quickly can we ship against the backlog that we have already. So that was kind of how we treated the Pivot3 as it related to our current quarter guidance and the annual guidance.

**Craig Andrew Ellis** - *B. Riley Securities, Inc., Research Division - Senior MD & Director of Research*

Got it. And then just a detail related to the acquisition. I know it was some cash, some shares. Can you help us with the share element so that we can get the share count right in the bottom of our models?

**James Michael Dodson** - *Quantum Corporation - CFO*

Sure. Well, when you look -- the total deal was \$5 million in cash, \$3 million in shares, and we had a little bit of certain licensing fees that we paid. So that's how we got to the total of \$8.9 million in purchase price, and the shares were based on the average price 5 days before we closed. When we look at just the total share count, taking everything into account, we know that on a weighted average, we were 57.1 million for the quarter ended 6/30. On a diluted basis, it was 68.6 million.

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**Operator**

Our next question comes from Nehal Chokshi with Northland Capital Markets.

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**Nehal Sushil Chokshi** - *Northland Capital Markets, Research Division - MD & Senior Research Analyst*

Yes. Sorry, I was on mute there. Nice booking strength, and thank you for that clarity and transparency on the backlog, and therefore, clear booking strength here. Looking at the guide certainly implies that you remain supply constrained. The key question is then given commentary around ongoing strong demand, can you comment on what you expect the bookings Q-over-Q profile to look like and thus, backlog at the end of September quarter, given, let's say, the midpoint of the current guidance?

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**James Michael Dodson** - *Quantum Corporation - CFO*

Yes. We would expect at this guidance level of \$88 million that we would continue to build the backlog, but at a much less rate than what we built this quarter.

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**Nehal Sushil Chokshi** - *Northland Capital Markets, Research Division - MD & Senior Research Analyst*

Okay. And so that then would imply that your bookings would not be as strong in the September quarter as it was in the June quarter. Is that seasonality? Or is that something else going on?

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**James Michael Dodson** - *Quantum Corporation - CFO*

I mean part of the strength that we saw this quarter was really the hyperscalers placing big orders that go beyond the quarter. So part of that is just getting in the queue, that they're already in the queue, so it's not necessarily indicative of lower demand per se.

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**Nehal Sushil Chokshi** - *Northland Capital Markets, Research Division - MD & Senior Research Analyst*

Understood. Okay. And then the software and subscription customers, that grew more than 20% sequentially, and then the bookings were up 2x. So that basically implies that you're getting more not only gross profit dollars, but actually revenue dollars per customer that converts from CapEx to a subscription. Is that...

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**James Michael Dodson** - *Quantum Corporation - CFO*

Yes. On average bigger deals, yes.

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**Nehal Sushil Chokshi** - *Northland Capital Markets, Research Division - MD & Senior Research Analyst*

Okay. All right. And presumably, most of the software and subscription is going to be hitting primary storage. Or if it's evenly distributed between primary and secondary storage?

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**James Michael Dodson** - *Quantum Corporation - CFO*

Yes. Definitely today, it's weighted very heavily towards primary because that's the StorNext product that is selling as subscription. As we move forward and we move forward with the cold storage software as a service, we'll see more on the secondary side, but that is yet to be released.

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**Nehal Sushil Chokshi** - *Northland Capital Markets, Research Division - MD & Senior Research Analyst*

Okay. All right. And we've seen other software and subscription transition stories where it does actually impact the product revenue negatively, and it certainly seems like that could be the case with respect to primary storage. Yet on the other hand, here you are saying that, look, it's actually growing not only gross profit dollars but revenue dollars. So can you just clearly say what's the bridge between the primary storage Q-over-Q decline versus you seeing an increase in actual revenue dollars as these customers transition to software and subscription?

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**James Michael Dodson** - *Quantum Corporation - CFO*

Yes. I think what we're seeing, we're really in the early stages of the transition. So we did -- as in our prepared remarks, we noted that our revenue was impacted slightly by the subscription revenue because it gets deferred -- you know that gets deferred out. So we saw a little bit of a dip. I would expect to your -- the early part of that question, that as it gets more scale, we'll see more impact, but it's typically...

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**Nehal Sushil Chokshi** - *Northland Capital Markets, Research Division - MD & Senior Research Analyst*

I'm not too sure if it's my connection, but you guys are cutting out.

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**James Michael Dodson** - *Quantum Corporation - CFO*

Yes. This -- someone seems to have noise. So -- can you hear me now?

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**Nehal Sushil Chokshi** - *Northland Capital Markets, Research Division - MD & Senior Research Analyst*

Yes, it's probably my connection. So just finish my question answer, and then I'll pass on the mic.

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**James Michael Dodson** - *Quantum Corporation - CFO*

Okay. So it's -- I mean just to repeat my -- the response. Yes, you would expect your revenue to be under pressure as you transition to a subscription model, recurring revenue subscription model. And we're seeing that but it's still -- because we're at the very early stages, it's not -- it doesn't have a material impact on us at this point. So we would expect as we get further into the transition to see more of that impact. But to date, it still is not at the level that it's significant.

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**Operator**

Our next question comes from George Iwanyc with Oppenheimer.

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**George Michael Iwanyc** - *Oppenheimer & Co. Inc., Research Division - Associate*

So maybe digging into the near-term guidance just a little bit more. So if you normalize for the \$2 million you expect for the Pivot3 in there, you're still kind of pulling back. How much of that is the software transition? And then is it still primarily primary storage in Europe that are the near-term headwinds that you're kind of projecting for?

**James J. Lerner** - *Quantum Corporation - Chairman, President & CEO*

Yes, it's Jamie, hey George. Almost all of the pullback is just not being able to get tape material. So we could sell at historic or beyond historic levels. I mean we are closing the contracts. It's just we have a higher mix of tape than primary, but it still meets all our sales objectives. I mean our sales team is meeting or beating their plans. We're just very restricted on how much tape libraries we can ship because we are missing a key component.

So we guided based on little or no improvement and actually some pullback in ability to get supply this quarter and then, again, anticipating improvements in our fiscal Q3, but anticipating no improvements in this quarter. And if there are significant improvements, we'll probably get back on the phone and give some visibility there. But right now, we're modeling no improvements and even some more deterioration.

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**George Michael Iwanyc** - *Oppenheimer & Co. Inc., Research Division - Associate*

Okay. So maybe with the positives you're seeing from the sales team, can you give us a sense of how you feel about the solution selling, selling strategy at this point? How much activity do you have with like the larger 500,000-plus deals? How much multiproduct units selling are you seeing right now?

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**James J. Lerner** - *Quantum Corporation - Chairman, President & CEO*

Yes. I mean a couple of updates. I mean we started with a single hyperscaler, and we had ambitions of closing multiple. And at this point, I would say of the world's 7 largest, we have 6 of them that are either customers, deep -- actually, they're all customers, and there are different levels of production purchasing. So I would say we are, hands down, the share leader in the top 10 hyperscalers when it comes to cold storage. We simply are ahead of everyone by a lot in that space.

Now our second ambition after winning the majority of hyperscaler business was can we press down into the webscalers, the companies that are big web properties. Think of them the likes of an Instagram or a TikTok, those ilk of companies. We found out, probably about 2 to 3 weeks ago, we were awarded our first webscaler win two exabyte, slightly over \$5 million. So we now feel comfortable that our ambition to close webscalers, we've now closed one of the world's largest, and we have others in the queue.

We have a product coming out later this month that clearly targets the webscalers and the Fortune 2000, and that will make that selling motion much more packaged and repeatable. In addition, of our 6 large hyperscalers, 5 of them have bought our software, monitoring software, storage software, data management software. So I think that's going really well for us.

We still remain the share leader in high-end post production. It's just -- there's just less movie and television making than there one time was. I think that'll come back. But right now, it will remain COVID-impacted.

Now to balance that, we had an ambition in video surveillance, and we found the fastest way to gain share there was to get a very economic purchase of a company that, you know I can tell you, is doing well more than \$2 million a quarter. We acquired that company halfway through our quarter, but that Pivot3 piece is certainly more than a \$2 million a quarter business.

So we're the share leader in high-end hyperscale. We're starting to get traction in webscale. We are still the share leader in high-end media and entertainment post production, just that business is COVID-impacted. And we've made a huge share advancement with the purchase of Pivot3. So our strategy is playing out, and I've got a supplier who's really made our life difficult. But that supplier is, I think, coming out of their restrictions and problems they've had. I think they're coming out of it in the next 2 to 3 months, and I think we'll get that behind us. And that backlog is going to flow through, and I think we're going to be well inside our \$380 million to \$420 million range.

And we'll have an investor conference, we're thinking, in late October in New York. And at that point, we'll be able to give an update on our guidance. So we'll narrow that range, and we'll have the Pivot3 selling motion pretty well figured out so that we can fold that into that guidance. And I think by October, we'll know exactly where we sit with supply constraints, and we'll be able to tighten that range in the \$380 million to \$420 million at that time. And I think a lot of things will get clarified in the next 2, or 3 months as we go through them.

**George Michael Iwanyc** - *Oppenheimer & Co. Inc., Research Division - Associate*

All right. And just maybe one last question. Looking at new opportunities, your software subscription transition. You talked about potentially getting to 1,000 customers in FY '23. Do you feel you're on pace for that? And like ransomware was another area that it felt like there was a good opportunity. I imagine the supply constraints are probably still limiting your ability to go like full fledge after that opportunity.

**James J. Lerner** - *Quantum Corporation - Chairman, President & CEO*

Let's tease the 2 out. I still think there's a strong ransomware opportunity for us. We actually have a very specific physical product that we're building for that. We have it in limited productions with a few hyperscalers who really need it, but we're going to make that more widely available towards the end of the year. But we're actually building some extremely unique intellectual property around really physical ransomware protection. So I feel really good about that piece, and I think that's gonna be really strong for us.

You had another part of your question?

**George Michael Iwanyc** - *Oppenheimer & Co. Inc., Research Division - Associate*

Yes. Do you feel you're on pace adding software and subscription customers?

**James J. Lerner** - *Quantum Corporation - Chairman, President & CEO*

Yes. I think we're -- our baseline goal was 500 customers, and my stretch goal is 1,000. I think we're on pace for the 500. I still think 1,000 is a stretch. And what we're going to need to do is move more of our products to subscription. Our CaTDV product is not on subscription yet. DXi is not on subscription yet. And so we've got to transform a few more products into the subscription model. And I think if we do that relatively quickly, I think we'll get closer to that 1,000 number. And it's just a function of getting a sense of how willing our customers to move to the new model.

So far, it's been pretty fluid with the StorNext transformation and the ActiveScale transformation. And we just got to bring more of our products over to that model. And I'm pushing our general managers to move to the subscription models more quickly.

**Operator**

Our next question comes from Bruce Goldfarb with Lake Street Capital Markets.

**Bruce Goldfarb** - *Lake Street Capital Markets, LLC, Research Division - Director of Institutional Sales*

Thank you for taking my questions. Congratulations on your results. First one, in regard to component shortage issues. Do you anticipate any contract changes in terms of price or terms with your suppliers to try to alleviate some of the shortages?

**James J. Lerner** - *Quantum Corporation - Chairman, President & CEO*

No. This supplier had some price changes earlier in the year and they -- their products pretty structured in how they go about it. So I don't see price changes. We've offered things like, hey, can -- if we offered more money, could we move further up in the queue? Could we purchase more supply? I mean, obviously, you're going to ask all those questions. Is there -- would you get -- if you had most favored -- if you provided the best pricing, would you get the best supply continuity? And we've tried all those angles, but they're on allocation, and it's not really a function of price. It's just a function of them getting these chips made and the volumes that need to make that. And you can spend more money, but it can't get people

with COVID into factories faster. And there's a COVID outbreak in a factory, you can write all the checks you want, and it doesn't get a different result.

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**Bruce Goldfarb** - *Lake Street Capital Markets, LLC, Research Division - Director of Institutional Sales*

And then do you anticipate any difficulty in integrating Pivot3?

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**James J. Lerner** - *Quantum Corporation - Chairman, President & CEO*

I don't. You know I think the sales synergy has been pretty great. What I mean by that is if you look at our current customers, they're large government customers, large sports franchises, large entertainment companies, large banks and retail companies, all of whom use surveillance, right? There's surveillance in every stadium that we do, media and entertainment work with, the auto racing, sports teams. And so we are seeing really good synergy where we go to a sports team and say, "Look, we've been helping you with your production video for 20 years. Would you also trust us with your video surveillance?" And that synergy is playing out really well, whether it's theme parks, critical facilities, also our university work as well as our work with national laboratories. I mean they are all places that are heavy users of surveillance.

So I think the selling synergy is playing out in real time. There is some integration work with IT systems. We're in the middle of an ERP upgrade. So we want to get our new ERP in place before we integrate some of these older ERP systems that we've required. I think it's -- will take some work, but I don't -- I wouldn't characterize it as difficulty. I think it's going to be pretty straightforward.

It also helps having been the -- you know I was the Chief Operating Officer responsible for supply chain, support. I ran sales, sales engineering. And so I just happen to have that unique insight that makes this one somewhat easier. Curt Wittich, who runs sales for that organization, had been with Pivot3 for 9 years. So we just had a lot of insight into how that company runs, and it certainly made the diligence quite a bit easier having worked there.

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**Bruce Goldfarb** - *Lake Street Capital Markets, LLC, Research Division - Director of Institutional Sales*

Great. That's all I had. And congrats on all the progress.

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**Operator**

Our next question comes from David Duley with Steelhead Securities.

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**David Duley** - *Steelhead Securities LLC - Managing Principal*

Thanks for taking my questions, a couple of them. Could you just perhaps try to take a guess at what you thought the impact was of the supply constraints, either in your June quarter or your September quarter?

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**James Michael Dodson** - *Quantum Corporation - CFO*

Yes. I think the easiest way to characterize that, Dave, is when you look at our backlog, the \$30 million of backlog that we carried out of the quarter, roughly 1/3 of that, had we had the parts, we could have shipped within the quarter, and then 2/3 of it is next quarter and beyond. So that's probably the easiest way to characterize that.

**David Duley** - *Steelhead Securities LLC - Managing Principal*

So it's then roughly \$10 million.

**James Michael Dodson** - *Quantum Corporation - CFO*

Yes. Yes.

**David Duley** - *Steelhead Securities LLC - Managing Principal*

Okay. And I guess when the supply is available to shift your -- all of your systems, would you expect this backlog to decline? Or are you kind of in a new model where you're going to have better visibility in this business?

**James Michael Dodson** - *Quantum Corporation - CFO*

No, I think this is...

**James J. Lerner** - *Quantum Corporation - Chairman, President & CEO*

Go ahead, Mike.

**James Michael Dodson** - *Quantum Corporation - CFO*

No, go ahead, Jamie. You can...

**James J. Lerner** - *Quantum Corporation - Chairman, President & CEO*

Look, I think we expect the backlog in our traditional hardware-based products to go back to the sub-\$5 million level where it's insignificant. We don't talk about it. What we want to talk about is backlog in the form of RPO, TCV and ARR. That's the backlog we want to talk about. We don't want to talk about, hey, I just can't ship tape libraries because I'm missing a component.

So I think the way we talk about just physical hardware backlog, which is essentially what we've got here, that will go back down to \$2 million to \$3 million level. And the backlog we want to grow is, again, our software subscription, which isn't really backlog, it's more RPO, ARR and ratable revenue, right, deferred revenue. That's really what we want to build, not hardware backlog.

**David Duley** - *Steelhead Securities LLC - Managing Principal*

Okay. And then could you perhaps give us your kind of goals in the surveillance business now that you've got a platform and 500 customers and you're doing \$2 million a quarter, let's say, is your run rate? What kind of expectations can we have for this business over the next 2 to 3 years? Is it kind of double in size? Or how should we think about the growth trajectory of the surveillance business for you guys?

**James J. Lerner** - *Quantum Corporation - Chairman, President & CEO*

Yes, we do view it as a growth business. Surveillance is a business that's growing at north of 20% CAGR per year. It's just we're putting more cameras, more higher fidelity cameras, more cameras with analytics, more cameras with facial recognition, more cameras with license plate recognition,

using license plate recognition for billing purposes and drive-throughs. And there's just many, many more applications, and they all just consume more storage, consume more compute power.

And we have a converged platform that does compute, analytics and storage. And that's -- it's a hyper-converged platform, which allows us to not just do storage, but actually do the analytics work, the GPU work, the computing work as well as the storage work. And we view that as all growth, and we're chasing growth there.

We've got a strong brand. We've got a product that's been in the market for 15 years, very stable. 500 customers that include the world's biggest casinos, the world's biggest natural gas pipelines, the world's largest police departments, prison systems some of the biggest smart city projects, large military and government installations. It really has a marquee customer base, and we absolutely plan to grow that, and we plan to grow it globally.

We do have the ability to sell Pivot3 as software only. So we can be competitive in markets like India and China, where you really do want to separate the hardware and the software for both geopolitical reasons, but also pricing reasons using localized hardware. And I think we're really well positioned for that. We have an amazing partnership with Lenovo, who can help us do business in geographies like India and China. They can handle the hardware portions where we handle all the software portions. So I think we're really positioned to grow.

We brought in very successful sales reps over with us in the acquisition. So now we've got almost -- just shy of 15 surveillance specialists that work around the world, and they're going to overlay the 200-plus salespeople that we have today. So I think there's a lot of synergies, both in our installed base, and I think there's a huge amount of new customers that are coming in through partnerships like we have with Lenovo as well as all of our security integrators.

So yes, it's a growth business for us. It's always been a growth business. We were a little slow to build our organic technology, and we had an opportunity to take years up our development by buying a stable, mature platform that was ready to go. So it really worked out for us. So yes, I think it's a business that, in 2 to 3 years, we can more than double.

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**David Duley** - *Steelhead Securities LLC - Managing Principal*

And then just a final, my question on gross margins in the back half of the year. It sounds like a conservative guidance in the September quarter. But the December quarter, I would guess, you're going to see a lot of the backlog move through into the sales funnel. What's the implications for gross margins, I guess, when that happens?

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**James Michael Dodson** - *Quantum Corporation - CFO*

Yes. I think we've got 2 factors, right? As the secondary business grows, and it's driven by the hyperscaler business, that's going to be a gross margin headwind. And as we grow the primary business and grow the subscription revenue, recurring revenue, that will improve the margins. So maybe they'll offset as we go forward in the near-term. So I'd expect, plus or minus, to be at the current level, maybe a little bit better, but only marginally.

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**Operator**

Our next question comes from Steve Busch with Everglades Resources.

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**Steven Henry Busch** - *Everglades Resources, Inc. - Founder & President*

Jamie and Mike, just want to say, hey, thanks for all your hard work for the last couple of years. It's been good to see Quantum's improvements. And so my first kind of question, on the component supplier, are they going to be able to keep up with any future growth that we have in that business if they even just get back to their historical levels?

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**James J. Lerner** - *Quantum Corporation - Chairman, President & CEO*

Yes, they'll need to get to historic levels and beyond historic levels. Historically, they've always been able to do that. The way we've worked with this supplier is they have a depot, and we literally have never hit the bottom of the depot. We literally draw as much as we want from the depot, and we give them visibility, we give them forecasts. And it's been pretty rare almost. And we've been drawing from this depot for over 20 years, and we just have never drawn from it and hit the bottom. And now that depot is routinely empty.

So that tells me if they're able to get back to normal, they usually carry enough headroom and excess inventory that it can handle when we get large orders or get growth, and I think they should be able to return to that. I don't know how quickly. I think it might be another few quarters until the depot just is overstocked. But I think we'll see -- we're getting very strong words from them that they're going to see quite a bit of strengthening coming into the fall. And again, we're waiting on the numerical component commitments that they're going to make, but they're indicating to us that they'll be able to deliver much higher levels than we're getting today.

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**Steven Henry Busch** - *Everglades Resources, Inc. - Founder & President*

Okay. So we don't need a second source? And there's no one in...

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**James J. Lerner** - *Quantum Corporation - Chairman, President & CEO*

Yes, there's no second source for this one.

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**Steven Henry Busch** - *Everglades Resources, Inc. - Founder & President*

Right. And so is there a problem? You kind of mentioned it. Is it COVID-related?

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**James J. Lerner** - *Quantum Corporation - Chairman, President & CEO*

Yes. I mean it's a single-source supplier. And when they -- and a lot of these components are made in Asia. When they have a COVID outbreak, they send everyone home. And those are mandated by the government. And so you don't have the choice like Amazon does here to say, "Hey, even if people get COVID, we're going to keep shipping and keep people in the factories." Some governments say, "Look, we're just not going to give you that option. If there's a COVID outbreak, everyone has to go home for 2 weeks." And you got a factory that's idle, and that's really been the core issue. And so it's a single supplier in a single country, and it's a pretty rigid model.

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**Steven Henry Busch** - *Everglades Resources, Inc. - Founder & President*

Right. Okay. Thank you for that. So I'm looking at your slide today, I think in Slide 5 of our presentation, which is very similar to the May investor slide, Page 14, where it lists a bunch of the -- I'm assuming those are all customers, correct, in the May presentation? It's titled Hyperscale and Web Scale Unstructured Data Archives, and it lists AWS, Microsoft, Google, Apple, Facebook, et cetera.

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**James J. Lerner** - *Quantum Corporation - Chairman, President & CEO*

I think that's describing the ilk of customers, but not meant to be an indication that those are Quantum customers. That's the type of people that are in that category for the simple reason that many of those are our customers as well.

**Steven Henry Busch** - *Everglades Resources, Inc. - Founder & President*

Correct. Okay. So are we able to do any kind of ransom -- you were discussing the ransomware products with -- a little while ago. Are we growing with them? Are we partnering with any companies to bring out like, say, an AWS to all their customers for ransomware?

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**James J. Lerner** - *Quantum Corporation - Chairman, President & CEO*

Yes. Yes. The solution that we're going to be bringing to market, think of it towards the end of the year, was codesigned with one of the hyperscalers.

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**Steven Henry Busch** - *Everglades Resources, Inc. - Founder & President*

Okay. That's good to know. And what would you say the overall market 2, 3 years out for that kind of product is?

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**James J. Lerner** - *Quantum Corporation - Chairman, President & CEO*

The short answer is we don't know. Like I said, it's a product that we haven't brought to market yet. It's a product that no one else has in the market. I think we all know that the security and anti-ransomware market is large. What percentage of that market our product is going to address is just yet to be seen. So we just need a little time in market to understand how it resonates.

It's a different approach than anyone's taken before. It is completely unhackable because it's just literally the data is physically turned off and not on a network. There's just no way to get to it. No matter how many hackers are present or have infiltrated the system, it's just literally unless you break into the building, you can't get it to data. And that's just a different approach, and it's going to be interesting to see how it resonates.

We've been talking to analysts, and they're giving us a lot of really positive feedback about both the anti-ransomware and the cold storage as a service, and we are going to combine them so that when you buy our cold storage solution, you can get it with the anti-ransomware package, which basically puts your data on to cold storage, then fully disconnects it from any network where no robot or no technology could ever get to that data. So we feel that combined package is going to be really compelling. But again, no one has anything like that on the market. We're excited about it, but I think we need a few quarters of sales to get a sense of how it resonates.

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**Operator**

Thank you. There are no further questions at this time. I'd like to turn the floor back over to management for any closing remarks.

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**James J. Lerner** - *Quantum Corporation - Chairman, President & CEO*

Thanks, everyone, for joining us on today's call. I hope within the next several quarters, we won't need to discuss supply constraints anymore, and I feel good that we're getting pretty positive data. That should be behind us pretty soon here.

With that, thanks, everyone. And Mike will be sending out details about the investor conference in the October time frame, and we'll provide a lot of updates at that time. Thank you.

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**Operator**

Ladies and gentlemen, this concludes today's webcast. You may now disconnect your lines at this time. Thank you for your participation, and have a great day.

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