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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 Fourth Quarter and Full Year Results for Fiscal Year 2021.

(Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to Leanne Sievers with Shelton Group.

Leanne K. Sievers - Shelton Group - President

Good afternoon, and thank you for joining today's conference call to discuss Quantum's fourth quarter and full year fiscal 2021 financial results. I'm Leanne Sievers, President of Shelton Group, Quantum's Investor Relations Firm. 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 on Quantum's website at www.quantum.com under the Investor Relations section. There's 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 facts could be deemed as forward looking. Quantum advises caution in 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 terms. 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'd like to turn our call over to Chairman and CEO, Jamie Lerner. Jamie, please go ahead.

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

Thank you, Leanne, and thank you all for joining us on today's call. Earlier today, we announced results for our fourth quarter and fiscal year 2021, with both adjusted net income and earnings per share exceeding our guidance. Strong demand led to our third consecutive quarter of increasing customer orders, allowing us to finish the year with a material increase in bookings while demonstrating early traction on our software and subscription contracts. As we announced in our earnings press release, the industry-wide supply chain shortages impacted our ability to fulfill all customer orders. Without these challenges late in the quarter, we would have been able to exceed our prior revenue guidance.

Given this dynamic, we are entering the first fiscal quarter with a significant backlog. We expect customer demand to remain strong, and we are working closely with our suppliers to manage through these temporary shortages.

Fiscal year 2021 posts numerous challenges for companies around the globe due to the pandemic, yet we made significant progress in transforming quantum. We made notable progress on our transition from selling point products to solving business challenges with a broader set of solutions and services. During fiscal 2021, we closed a record number of \$500,000 plus deals and saw new customers buy more services versus the prior year.

In addition, we introduced subscription licensing for many of our products in November and now have over 120 customers on the recurring revenue subscription. Also in earlier February, we completed an accretive \$100 million secondary offering using the proceeds to reduce our senior secured term loan by 50% and materially strengthening our balance sheet and cash position while reducing our interest expense.

Over the past year, we have also made tremendous progress architecturally, proving that StorNext 7 is the fastest file system for video workloads verified through independent testing. During the quarter, we introduced our software-defined architecture enabling StorNext software to run on standardized hardware or any cloud infrastructure.

We are entering the fiscal year with more momentum in our hyperscaler business. As of today, we have multiple engagements across many of the world's major hyperscale customers and are in various stages of evaluation with others. Our engagement is deeper than just serving point product or software solution needs, as Quantum's engineering teams have become an integrated partner to these hyperscaler customers allowing us to develop new technologies and solutions in tandem with the largest global consumers of data. Quantum has set the standard for architectural leadership in hyperscale, deep archive and cold storage, and we are years ahead of the competition in this space.

Our hyperscale customers are demonstrating this with an increased volume of orders as well as working with us to provide better visibility into their out-quarter demand as we work through industry-wide supply chain constraints.

We see our engagement with leading hyperscale customers as an advantage to constantly push Quantum to accelerate the innovation of technology, which allows us to not only expand our architectural leadership but create exciting new solutions and software that can be replicated for leading web scale and Fortune 500 enterprise customers facing the same Exabyte-scale data challenges.

As the economy moves into post-pandemic era, customer demand for video is accelerating. Movies, television and sports have begun to return and are driving big investments in technology as content delivery shifts from television and theaters to streaming services. Video has expanded as a communication platform in the enterprise, overtaking e-mail. And corporate video recording, editing and communications is in expansion

mode. Genomic research, driven by the dynamics of requiring effective COVID-19 vaccines and therapeutics development is in strong growth mode, along with life sciences and bioinformatics. Space exploration, satellite and advanced satellite tech is also driving massive growth in large-sized data storage requirements. Finally, as the world moves toward a more autonomous everything, not just driving, but delivery, forklifts, farming, mining, warehouses, these technologies are driving significant data growth used to develop complex machine learning models.

As we all experience, on an everyday basis, the world is generating enormous amounts of data and video content that must be managed, protected and analyzed, Quantum's portfolio is ideally suited to address these challenges.

Our solutions enable organizations to manage and store the increased flow of data, both on-premise and in the cloud. We're helping to protect valuable digital assets, not just for years, but decades and centuries, while enabling organizations to unlock the untapped potential and business value in this data through our storage and data analytics solutions.

As we look to the coming quarters, we remain focused on driving our transformational initiative forward and growing our recurring revenue and services revenue. Our products and software solutions are helping global customers solve their most challenging needs for long-term data storage and analytics.

While supply shortages have limited our ability to fulfill all the demand we are seeing in the near term, we expect this revenue to flow into the coming quarters as the supply chain normalizes and component manufacturing is able to catch up to the demand. I remain encouraged by the progress we've made over the past year and look forward to further accelerating our transformation throughout fiscal 2022.

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

James Michael Dodson - *Quantum Corporation - CFO*

Thank you, Jamie. Welcome to everyone who has joined our call today. As Jamie mentioned in his opening comments, our fourth fiscal quarter 2021 demonstrated very strong customer demand, representing the third consecutive increase in bookings with customer demand returning to pre-COVID levels.

However, the industry-wide supply chain shortages that materialized late in the quarter restricted our ability to fulfill all orders. As a result of these supply chain constraints, revenue was \$92.4 million for the fourth fiscal quarter of 2021.

These supply shortages had the most prominent impact on our secondary storage system customers. Despite this lower revenue level, all product segments grew sequentially with the exception of our primary storage systems, which declined sequentially, predominantly due to seasonality in the government business.

For the full year of fiscal year 2021, revenues were \$349.6 million, down 13.2% year-over-year, primarily reflecting the COVID related headwinds impacting all geographies and product lines. On a vertical view, year-over-year, the government business increased by 32% while the media and entertainment business declined by 36%, with all other verticals declining to a lesser extent.

Gross margin in the fourth fiscal quarter was 42.1% compared to 43.1% in the prior quarter. The sequential decline is primarily due to lower government business revenues, which carry higher gross margins. Year-over-year gross margin improved slightly to 43.1% compared to 42.8% in the prior year.

GAAP operating expenses in the fourth quarter were \$36.6 million compared to \$36.2 million in the prior quarter. Non-GAAP operating expenses during the fourth fiscal quarter were \$32 million, a decrease of \$1.7 million sequentially. The sequential decrease in non-GAAP operating expenses was primarily due to higher R&D expenses more than offset by lower G&A expenses.

The increase in research and development spending was due to increased headcount, primarily related to a business acquisition and professional services costs related to new product development. The decrease in general and administrative expense spending was primarily reduced compensation costs and other discretionary cost savings.

On a year-over-year basis, GAAP operating expenses were \$142.4 million compared to \$151.3 million in the prior year. The non-GAAP operating expenses of \$127.3 million in fiscal year 2021 was a \$3.8 million decrease versus prior year at \$131.1 million.

The year-over-year changes in non-GAAP operating expenses represent additional investment levels in Research and Development, more than offset by decreases in Sales and Marketing, and General and Administrative costs. The decrease in sales and marketing costs is primarily due to lower compensation as a result of lower sales levels and a decrease in marketing programs and related professional services costs. The decrease in general and administrative costs is primarily due to expense reduction actions in which we moved certain back-office functions in higher cost regions to a lower cost region and reduced facilities expenses as we consolidate our physical footprint, partially offset by increases to software expense as we modernize our existing IT infrastructure.

GAAP net loss in the fourth fiscal quarter was \$17.5 million or a loss of \$0.35 per share compared to a net loss of \$2.7 million or a loss of \$0.07 per share in the prior fiscal quarter. Our fourth quarter GAAP results included debt extinguishment charge of \$14.8 million related to the retirement of 50% of our senior secured term loan.

Excluding stock compensation, restructuring charges and nonrecurring charges, non-GAAP adjusted net income in the fourth fiscal quarter was \$2.1 million or \$0.03 per share compared to adjusted net income of \$10,000 or breakeven in the prior quarter.

Adjusted EBITDA during the fourth fiscal quarter was \$8.3 million and decreased on a sequential basis from \$9.4 million, primarily due to lower revenue. There's a full reconciliation of our non-GAAP results to the most directly comparable GAAP measure in both the press release and the Form 10-K released today.

Now turning to the balance sheet, liquidity and cash flows. Cash and cash equivalents were \$33.1 million as of March 31, 2021, compared to \$12.7 million on December 31, 2020. These balances include \$5 million in restricted cash under the credit agreements.

Adjusted working capital, excluding deferred revenue balances decreased by \$10.9 million during the fourth fiscal quarter to \$55.8 million from \$66.7 million at the end of the prior fiscal quarter. This decrease was primarily the result of a build of accounts receivable despite lower revenues due to a more back-end loaded shipping schedule for the quarter, more than offset by reduced inventory balances from moving certain product manufacturing to a new manufacturing partner that carries the related inventory and an increase in accounts payable.

Outstanding term debt as of March 31, 2021, on a gross basis, was \$102.5 million, and on a net basis, was \$90.9 million after netting \$9.7 million in unamortized debt issuance costs and \$1.9 million in current portion of long-term debt. This compares to \$167.8 million of outstanding debt as of December 31, 2020, on a gross basis, and on a net basis, it was \$146.8 million after netting \$13.7 million in unamortized debt issuance costs and \$7.3 million in current portion of long-term debt. Related to the long-term debt credit facilities, there remains a holiday period for certain financial covenants through June 30, 2021.

Following the expiration of the expensive "make-whole" repayment term of the debt agreement at the end of the first fiscal quarter of 2022, we expect to refinance the remaining balance of our senior secured term loan early in the second fiscal quarter at much more favorable rates compared to the 12% paid today. This should further reduce our annualized interest expense by as much as 50% once completed.

In the fourth fiscal quarter, there were no funds drawn on the company's credit line compared to \$6 million at the end of the prior quarter.

During the fourth quarter, before the effect of changes in assets and liabilities, cash used was \$1.4 million, offset by \$20.9 million of cash generated by changes in working capital accounts. Other uses of cash during the fourth quarter included \$92.8 million to pay down half of our senior secured term loan as well as \$2.3 million for capital expenditures.

Cash flows generated from operations for fiscal year 2021 before the effect of changes in assets and liabilities was \$2.9 million. Net cash from operating activities in fiscal year 2021 include use of cash equal to \$0.8 million as working capital was impacted by a decrease in inventories and an increase in accounts payable, partially offset by an increase in accounts receivable. Other notable uses of cash in fiscal 2021 were \$6.9 million in capital expenditures and the paydown of our senior secured term loan as previously noted.

Finally, turning to our financial outlook. As we disclosed in today's press release, we've experienced 3 quarters of increasing broad-based customer demand and we expect continued strength in demand and related customer orders at or above pre-COVID levels in the first fiscal quarter of 2022.

Given the widespread supply chain shortages in the fourth quarter, we entered the first fiscal quarter of 2022 with a sizable backlog. We continue to manage business supply chain constraints by working closely with our key suppliers and extending supply commitments as we address these short-term challenges. As a result, we are guiding revenue for the first fiscal quarter of 2022 and to be in the range of \$92 million, plus or minus \$3 million.

Non-GAAP adjusted net loss is expected to be \$1 million, plus or minus \$1 million, with adjusted net loss per share of \$0.01 per share, plus or minus \$0.01, and adjusted EBITDA of \$5 million, plus or minus \$1 million.

Despite these near-term supply chain constraints, we expect strong demand to continue throughout the coming fiscal year, further supported by an expanding pipeline of opportunities across our business. Although we remain cautious regarding the timing as to the normalization of the supply chain, we continue to work closely with our key suppliers, as I previously mentioned. As such, we expect revenues for the full fiscal year 2022 to be in the range of \$380 million to \$420 million, determined by the timing of supply chain improvements.

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

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

Thanks, Mike. As I reflect on the last year, I'm very proud of the Quantum team for how far we've come. We have demonstrated exceptional resilience during this global pandemic, and I want to acknowledge our employees and their families, many of whom have faced incredible challenges during the last year. It has been a unique year for everyone, including Quantum. But even in the face of these challenges brought on from the pandemic, we are still making substantial progress on our transformation initiatives throughout the year. In addition, during the fiscal 2021, we made significant improvements on our capital structure, which enabled us to reduce debt, strengthen our cash position and improve our operating flexibility to support our growth initiatives, both organically and inorganically. We are starting the new fiscal year with strong product bookings and increasing momentum in subscription and software contracts.

We're working closely with our suppliers to address the supply constraints but remain pleased with the increased level of demand we are seeing in a post pandemic world. With an expanded portfolio of solutions, and a solid balance sheet, we are much better positioned than in previous years to withstand these short-term supply chain disruptions, and we are poised for a return to growth with increasing demand and orders across our business. With that, we'll now take any questions you may have. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is coming from Craig Ellis.

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

Congratulations on the demand profile back at pre-COVID levels. Mike, I wanted to start off just by understanding the nature of component issues that you and Jamie spoke to. So one, you identified that they started to emerge late quarter. Can you provide some color on what components they were? We've seen tightness in HDDs and SSDs. But I think you said there was more of an impact on the secondary business, and that doesn't sound like HDD or SSD. Also, if you could just give some more color on what's at play there and the extent to which those issues are either stabilizing and starting to get better or maybe intensifying further that would help as well as a start on that issue?

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

Sure, Craig. Well, it was -- like we mentioned on the call, it was in the secondary area, which is our tape business, right? And we don't like to get into a lot of specifics as far as the suppliers, but it's really specialized silicon that is really, for us, it's a pretty short lead time. So it really surprised us at the end of the quarter from that standpoint. It's something we expect will work its way out, hopefully, in the next 1 or 2 quarters. But really, it's difficult to tell at this time.

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

Okay. And then that really relates to the second question. So nice to get the color on how you're looking at fiscal '22 with that range of \$380 million to \$420 million. Off of the guidance for the first fiscal quarter, at the low end, I think that could imply something like \$96 million a quarter at the high end, as much as \$109 million a quarter.

How quickly do you think you can get things for solved? It seems like the business has a demand profile that's at least \$105 million to \$106 million, but how quickly can the supply chain respond to the demand that you have? And can you provide any color on how that nice high level backlog is shaking out either amongst the primary business, the secondary business or for maybe services?

James Michael Dodson - *Quantum Corporation - CFO*

Yes. I think it'd be fair to characterize it in a way that when we start to get the supply back, it will come back very quickly. It's a matter of -- we've got the demand, we get the component, and we'll catch up very quickly. It's of that nature.

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

Yes. Craig, it's Jamie. The way Mike and I have been thinking about it is we -- when we think about the range of \$380 million to \$420 million for the year, we're confident we have the demand to meet the \$420 million or above. We'll have signed contracts, purchase orders at the \$420 million or above level. And the determining factor of where we're land between the \$380 million and the \$420 million is not a function of demand or sales performance it's purely a function of material availability. So if materials are available, we're at the high end of that range. If materials are not available, we're at the lower end of the range.

And if these industry-wide supply issues resolve themselves, which many people are thinking will resolve within 12 months, which is within our fiscal year, then I think all the backlog flows through. We've never given backlog guidance because the company's -- usually, when we sell something, we ship it within 2 weeks. So we've never really had a backlog of any sizable nature. And now we're seeing backlogs that are -- 10% to 15% of our quarter is going into backlog. And really, it's now becoming a function of the ability for that backlog to flow through. And will it flow through in the year, and will the supply chain constraints resolve within the year.

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

Yes. That's really helpful, Jamie. And if I could ask 1 more before jumping back in the queue. You mentioned you have, I think it was 120 customers that have signed up for subscription services. And I just want to use that as a segue to get some feedback on how the latest version of StorNext 7 is doing. What are you hearing back now that you've got the CatDV product that's out there that more customers can have access to under the Quantum umbrella and any of the other new or recently refreshed product developments, how are they resonating with clients?

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

Yes. We have basically an entirely refreshed portfolio. Every product we have has a new version out. So with StorNext 7, we've made it drastically easier to use. We now have it virtualized and containerized on the H4000. So it's effectively a cloud architecture. So it can now run on Amazon and other clouds.

It's available on subscription. It's monitorable and manageable from the cloud. And we set the worldwide speed record for reading and writing video files. And that, coupled with the return of media and entertainment, the strength in genomic research, autonomous vehicles, the product is doing really well. And it brings with it our other products because increasingly, we're selling the products as a suite where for many years, Quantum sold point products, right? You bought a tape product, you bought a backup product.

Now we're sitting with someone and saying, sitting with our customers and saying, "We want to help you solve all of your storage problems, whether they be surveillance related, backup related, high-performance analytics related." And we're really competing with our suite more than the point products. And I really think that's how we are going to move our company to a totally different class of competition over the next several years, where we really bring our whole storage portfolio forward.

So that -- CatDV just strengthens that, right? We have a high attach rate from StorNext to CatDV. We have a high attach rate from StorNext to tape and StorNext to backup products. And we're increasingly selling and designing our products to sell them as a suite of products or combination of products versus single point products.

Operator

Your next question is coming from George Iwanyc.

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

Jamie, maybe just following up on your previous comments about the sales motion. Can you give us a sense of how far along are you with that shift from product selling to solution selling? And I've already seen a nice step-up in average selling price. I think it was 21% year-over-year. Do you feel like there's a lot of room to continue to grow both large deals and then the overall breadth of the customer base?

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

Yes. I mean, I feel there's a large amount of headroom for us. And really, what we're doing is we're increasingly shipping our products as solution combinations so a good example is we have a forthcoming product that is a combination of CatDV and StorNext that they're bundled together in a virtualized fashion.

We have upcoming products that will be object storage using cold storage technology. So combining multiple products together to solve a business problem. So we'll be doing many more solutions of that kind. Think of it as a genomics solution, a genomic sequencing infrastructure, a movie making infrastructure, an autonomous vehicle development infrastructure versus how many terabytes of storage do you want. So we're doing more solutions. We're doing more surveillance related solutions as well. And I think that allows us to increase average selling price, it allows us to compete more effectively.

Many of our competitors just have a point product, and we come forward with a full solution. We just have a much stronger position. So I think we're getting much more competitive. I think we're getting more relevant with our customers. And I think the solutions we sell are much stickier than deploying products we previously sold. And that's why we're in this situation where the sales team sold well above the range we gave last quarter.

They are in accelerators. They are selling above our guidance levels. And really, we're throttled by material availability, which, as we all know, it eventually clears up and flows through. But what I'm most encouraged by is the sales team beating plan, selling above our guidance range and building a meaningful backlog. And I think that's happening.

Some of that is COVID recovery. But I think we all know Europe isn't fully recovered. Asia isn't fully recovered. A lot of us being at or above pre-COVID levels is the increased relevance of the products and the larger average selling size of our solution approach.

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

And maybe pivoting a little bit and just focusing on the primary storage. What type of attach rates are you seeing there? And how big do you think that business can get over the, let's say, the next 12 months? Is that within your annual guidance? How much of positive lever is that?

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

Yes. I mean, a lot of our success, our forward success in primary storage is becoming relevant outside of our traditional core strength. I think StorNext is considered to be the industry standard for post-production in movies and television and we have a lot of that market, certainly, the high end of that market. So for us to expand, we have to become relevant elsewhere. That would be genomic sequencing, medical imaging, autonomous vehicle development, enterprise and corporate use cases, corporate video, but other forms of unstructured data. And that does take us into some new competitors. But I think that's really where we see our growth is, can we begin to take our primary products, which are really StorNext and ATFS and begin to sell them into use cases outside of media and entertainment.

And we've -- we're seeing a lot of positive traction there, but we have a long way to go. And I think our road maps are getting us there in terms of making the product easier, making the products have different sizes. Particularly, as it gets more software-defined and get more cloud enabled, it will bring us into more use cases than we've traditionally served in media and entertainment. So it's really about can we be relevant in new vertical markets.

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

And Mike, just a quick question for you. On the gross margin side, it sounds like mix had the biggest impact on the quarter. But with the supply chain constraints, can you give us kind of a sense of the risk reward outlook for gross margin over the next couple of quarters?

James Michael Dodson - *Quantum Corporation - CFO*

Yes. I think when we look at our gross margins, the mix is important. So when we get into quarters for example where the government is strong, which is our Q3 and Q2, that will be beneficial. As we move to the software subscription, obviously, that's a better margin. So the transformation, we do expect to see the margin move north as we move forward, but it's going to be gradual. And the supply shortages that we see, we don't see that having a significant impact on our gross margins from that standpoint.

Operator

Our next question is coming from Nehal Chokshi.

Nehal Chokshi - Northland Securities - Senior Research Analyst

Congrats on seeing an order book consistent with pre-COVID levels and for an order book to continue to increase, that's great. And I do actually see a strong free cash flow generation in the quarter and the draw down inventory in the quarter. And so the explanation that you saw component shortages just definitely makes sense. However one little bridge I want to clarify here. Your days inventory heading into March Q sat at about 90 days and was \$13 million above the year ago level. So it seems like you guys would have had some buffer inventory for at least this quarter. Can you just explain what's the missing link here?

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

Yes. I think there's offsetting factors. First, as we had talked about on the call, we have moved inventory off the balance sheet to a contract manufacturer. So that reduced our inventory. Offsetting that, was with the shortages because it's a component shortage, we have essentially full units manufactured waiting for these components to be added, right? So that there was offsetting factors.

Nehal Chokshi - Northland Securities - Senior Research Analyst

The inventory that was moved to the contract manufacturer, was that finished goods? Or was that components then?

James Michael Dodson - Quantum Corporation - CFO

It would have been finished goods.

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

I guess, I would liken it to automobile makers who are building full cars but can't shift them because they're missing some chips. We're building full tape arrays and the components we need just -- the last small chips we need didn't arrive. So that's waiting for those components -- to ship them. So it may be counterintuitive to be supply constrained, but building up inventory, and it's -- we're building full units to ship, but they're waiting on a final component to be able to ship them.

Nehal Chokshi - Northland Securities - Senior Research Analyst

And are these basically the ASICs chips or sort of the controllers behind the tape arrays? Or is it something else?

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

I'd rather not get into which suppliers and suppliers of what, but they are chips that are integral to the operation of the -- predominantly the tape system. So that's why we're seeing this maybe before other folks are seeing it because it's very tape specific and it's very -- it's a very short-term product so it hits supply chain and comes to us in a very short cycle.

Nehal Chokshi - Northland Securities - Senior Research Analyst

Got you. Understood. By the way, is backlog typically reported in your 10-K?

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

No. We've always -- like I said, we sell and ship a week or 2 later. So we've never really run backlog or had a backlog that was significant. And now for the first time, we have significant backlogs. And again, if it continues, we'll probably provide more and more clarity, but I would go to this point. We gave guidance for this quarter of \$98 million, plus or minus 3%. So the high end of the range was \$101 million.

We were millions of dollars above that in our sales execution. So we are beating our range in sales achievement, and that's what I'm most encouraged about, right, we're executing, we're getting our deals done, the products are resonating. And we've got a deal with this, what I hope is a short-term supply constraint in some of these specialized chips for tape systems.

Nehal Chokshi - *Northland Securities - Senior Research Analyst*

Okay. Great. And it sounds like you would expect, given the guidance that you are providing and the commentary that you expect demand to be above pre-COVID levels, then that you would expect backlog to increase in the June quarter as well?

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

Yes. Slightly.

James Michael Dodson - *Quantum Corporation - CFO*

Yes. If supply doesn't clear, which it probably won't, we'll be building backlog.

Nehal Chokshi - *Northland Securities - Senior Research Analyst*

Yes. Okay. Great. And then nice little metric that you've given on the software and subscription customers in the quarter. Mike, can you give some context on how that compares to the prior quarter? And then maybe a percent of customers that transactions were made with overall? And maybe also a percent of the overall customer base that this now represents?

James Michael Dodson - *Quantum Corporation - CFO*

Yes. I mean we have over 18,000, 19,000 customers. So 120 as a percentage, it's still not meaningful, but it's growing incredibly fast, right? I mean, in December, we had 0, near 0. So we are over a pretty short period of time, moving this direction quickly. I think it will continue to increase at this pace, and we'll be moving more of our products to this model.

So we did our first wave, but all of our new product introductions, everything going forward is moving more to a subscription or an entire service-based model. And our new comp plan this year is weighting that even more for our sellers to push that there and the economics to our end customers are incentivizing them increasingly to go to service or recurring model. So I expect it to accelerate. We went from 0 to 120 in 4, 4.5 months, and I think that will just continue to go up. I hope to exit the year at well over 1,000.

Operator

Your next question is coming from Nick Mattiacci.

Nicholas Paul Mattiacci - *Craig-Hallum Capital Group LLC, Research Division - Research Analyst*

This is Nick Mattiacci on for Chad Bennett. I just had a question on the royalty business. I'm curious about what your perspective is on the time line for the rollout of LTO-9? And I guess, are you seeing any pent-up demand for this new generation or if demand is still strong for the prior generations? And then maybe if you could just talk about expectations for royalty revenue this year relative to the past year?

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

Yes. I'll talk to the road map, and Mike can cover the kind of how we've modeled the royalty. I do expect a surge in demand up when LTO-9 is available. I think there are people running LTO-7 in an M8 format that don't have a lot of incentive to upgrade to LTO-8 but have a lot of incentive to go to LTO-9. So right now, that is supposed to be, and I haven't heard otherwise, that is an early fall release. And I would expect a lot of customers to either refresh, upgrade or move to that architecture.

So I would expect that to increase demand. And obviously, the newer generations drive royalty as well. So -- and we do have customers that are giving us demand signal now that they are waiting for that and are going to be drawing heavily on that. You can imagine hyperscalers, they really -- they want the greatest density that they can possibly achieve. So you can imagine a lot of people are going to be moving to that as quickly as possible.

So I think it's positive for the library business. I think it's positive for refreshes and upgrades. And I think it's positive for the royalty. It is running late. But everything I've heard is it's now settling in on a September, October release time frame.

James Michael Dodson - *Quantum Corporation - CFO*

Yes. And as far as our expectation, I mean, our run rate is running between 4 and 5 right now per quarter, and it's a little bit lower than it was the previous year. And we would expect that to remain pretty constant in this coming year. So that's where you should be coming out.

Operator

Your next question is coming from Eric Martinuzzi.

Eric Martinuzzi - *Lake Street Capital Markets, LLC, Research Division - Head of Research & Senior Research Analyst*

I had a question on the supply chain issues. Just the things that you changed from a management perspective. Typically, when you get a disruption in the normal course of things, there winds up being an extra level of scrutiny or reports that you got once a week, you're now checking out once a day. Anything changed there as far as a tighter grip on the problem?

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

Yes. First of all, we know exactly where the problem is. We do talk to that supplier daily. Our supply chains are deeply integrated and have been deeply integrated for over 20 years. So we're pretty intimate with it. There -- because of the -- we're not talking about servers here. We're not talking about commodity equipment. This is a specialized chipset for a very specialized item that only several of us in the world make.

So there aren't lots of alternative suppliers, and it's not like you can make this chip or in another foundry very quickly. So we are -- I mean, we are beating the bushes in all alternative methods, we are open to buying allocation. If it's possible, we are looking at gray market allocation, buying allocation from other vendors so, I mean, we are grinding this one as hard as we can. And I think in terms of putting experts on it, actually flying people to sit at the suppliers, we have people actually sitting in certain fabs and factories to see how we can help.

So we're swimming up and down this one, I think, in just about every way that is helpful. And I think we understand this problem deeply and completely. This has been our wheelhouse for 20 years. So this is 1 we really understand. But I don't think it's a scenario where we could just buy the chip from someone else. This is one we have to work through the supply chain. And I don't -- and I have not seen issues like this last longer than 6 to 12 months. And I do not believe this will last longer than 6 to 12 months. And I think it will resolve within this year.

Eric Martinuzzi - *Lake Street Capital Markets, LLC, Research Division - Head of Research & Senior Research Analyst*

And then as far as you do get access to these components to turn them into -- to turn your units had to finished goods. Are you satisfying orders in the order in which they were received? Or are you prioritizing certain customers?

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

We are managing our allocation based on economics, right? Highest margin customers get allocation first. Solid orders with the best economics are going to receive allocation for them.

Eric Martinuzzi - *Lake Street Capital Markets, LLC, Research Division - Head of Research & Senior Research Analyst*

I understand the logic there. And then as far as you did talk on the hyperscalers. This was plural where we've got orders from hyperscalers, we're working with more hyperscalers in the design phase. Any issues here? Are your customers who had orders in place on the hyperscaler side, are they sympathetic to the supply chain issues? Do we have any reputation or brand damage here with the component issue?

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

I think they have full visibility as to the source of the shortage. And I think they recognize that it isn't a Quantum related item. It's from a downstream supplier, and they understand that. So I think they're sympathetic. They're frustrated because our hyperscaler customers are cranking their orders up.

I think almost every hyperscaler we have has increased their demand signal with us. They're buying more from us. They're almost saying they're running out of cloud, and they need to buy more. And this -- and it affects them. And so they're concerned. I don't think there's brand damage or anything along those lines because it's these aren't things that they're not commodity components. But we meet with them regularly. We're giving them -- we're asking them for a very clear demand signal. We're providing them very clear allocation expectations. And it's allowing us, in some cases, to reset the table in terms of margins.

Eric Martinuzzi - *Lake Street Capital Markets, LLC, Research Division - Head of Research & Senior Research Analyst*

Okay. And then last question for me has to do with -- you mentioned media and entertainment, it sounds like there is a little bit of a comeback. I don't know whether that's kind of a reopening of the ability to for them to conduct their business or reopening of them demanding products from Quantum. Could you address this media and entertainment kind of compared versus January of this year?

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

Yes. There's just -- there's -- there's more demand for movies. Now people can see opening of theatrical. There's more streaming. The content wars are heated back up, and it's game on for sports. It's game on for television production. It's game on for moviemaking. So I think we're returning to pre-COVID levels there.

To get our StorNext business above pre-COVID levels, we need to start moving to other markets. I think we've recovered there. And we're getting a lot more attach rate with CatDV, but to really grow that business, we're probably not going to grow a lot more in media and entertainment. We're going to start branching into bigger markets that are less niche markets.

Operator

Your next question is coming from Ananda Baruah, Loop Capital.

Ananda Baruah - Loop Capital

Jamie, a little bit of a bigger picture one here. How would you describe sort of the most important growth drivers for this year? And what are some of the things you feel like you need to do to go after them and generate the sort of the bookings that you want from them? And then I have a quick follow-up to do?

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

Yes. I think the big new motions, both technical and technical architecture motions as well as selling motions are all about solutions. We've refreshed our whole product portfolio. So our point products, StorNext, DXI, our scalar tape products, the ATFS product, the CatDV product every 1 of those is in a brand-new refresh. But now what we're doing -- and we did that last year.

Now what we're doing this year is combining them into solutions, specific solutions for genomic sequencers, for autonomous vehicle makers, for moviemakers. And it's that architectural bundling of products and the selling motion of a solution and a suite of products is really what we're working to execute on this year and moving more and more of those suites of products to operate both on-premise and in the cloud. And those are the 2 big moves. Selling solutions and those solutions being hybrid in nature and that they work on-premise and in the cloud. And as we do that, I just think the company continues to accelerate.

Ananda Baruah - Loop Capital

That's super helpful. And what -- the technical action items to do is to take them from point products into bundles. Are those sophisticated? Or are they pretty straightforward?

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

Well, I think there's 2 items that we have to achieve. The first is a cultural item. It's very easy for a product company to organize itself by product. But when you begin to build solutions, those siloed teams have to work together, communicate, so a lot of it is how we run our business, that our product teams now think about solving business problems, working together in combined products. So it's a different way of working is step 1. And step 2 is the technical issues. How do we combine our products that the combination is greater than the sum of the parts? And a lot of that is a much deeper understanding of the problem we're solving, right?

We're not just building a storage system. We're helping a genomics sequencer. We're not just creating storage features, we're helping someone make a movie or helping NASA go to Mars, right? So it's -- really changes in how we, as leaders, lead the team and how we organize our team and that they're organized to collaborate and they think about solving the business problem versus adding lots of technical features.

So it's all really an approach about how we build and sell. And it really starts with leadership and kind of what our goals are. Our goals are becoming less technical feature goals and more working with our customers to solve business problems. It's a big mindset change for us.

Ananda Baruah - *Loop Capital*

Yes. No, that's really helpful. I appreciate the detail. And just -- so just a quick follow-up here. On the supply constraint, given the specificity of the componentry, do you feel like you have a handle on how bad -- how constrained you could become. And what's the visibility there?

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

Yes. I mean, we have minimum volumes we've been given. So I think we know what the low mark is and we've been given strong commitments that it will not go lower than certain levels, and we packed that into our guide. So I think we understand the low mark and so far, our suppliers are meeting that or a bit above that.

So I think we're a model where it can only improve, but we can feel pretty comfortable that the that we basically receive these materials weekly. And it's -- we're getting what they committed to us. While it's not what we want. It isn't unstable. I think it's stable at lower levels. And they've committed that it won't go any lower. So to that extent, I don't think it's volatile. It's just consistently low.

Operator

Your next question is coming from David Duley, Steelhead Securities.

David Duley - *Steelhead Securities LLC - Managing Principal*

Got it. Just a clarification. I think you mentioned without supply constraints that you would have shipped or you would have had revenue at much higher levels in the current quarter. I can't -- my phone had some technical difficulties. Did you say that you would have hit the \$98 million or you would have hit the pre-COVID levels of like \$105 million?

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

Yes. I would say more in the pre-COVID levels. We were above the -- I mean, sales execution for this quarter, we said \$98 million plus or minus \$3 million to \$101 million, the high end of the range, sales executed above that range. Back at those pre-COVID numbers.

David Duley - *Steelhead Securities LLC - Managing Principal*

Yes. So without supply constraints, you would have been doing \$105 million both in the margin that Jim pulled or something greater than that?

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

Maybe not that hot, but we were above \$101 million.

David Duley - *Steelhead Securities LLC - Managing Principal*

Okay. Now given the supply constraints that you're seeing, is this -- like are your large enterprise and hyperscale customers essentially getting you longer visibility and bringing you closer into their planning so that they don't get surprised in the future from constraints from yourself?

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

Yes. I mean, one thing, I think we feel good we're not seeing is people playing -- placing abnormally large orders just to try to get supply. So we're not seeing like double orders or abnormally large orders, but we are seeing people giving us greater view into multiple quarters. For a long time, you gave us an order and you received it in 2 weeks. So people weren't really conditioned to give us a whole lot of visibility.

Now because -- not only are we supply constrained, but it's pretty industry-wide. I think we're getting much better behavior where our customers, particularly our larger customers are giving us some of them several quarters and our bigger customers are giving us full year, full 12-month demand signal. And some of them are giving us 12-month demand signal and the purchase orders behind it in an attempt to get in the queue.

So we are seeing better visibility. People are not just giving us a signal, but they're backing up the signal with POs and I think the POs they're putting on us are reasonable POs and not just large numbers to try and hold down supply.

So we are getting better demand planning.

David Duley - *Steelhead Securities LLC - Managing Principal*

Right. So for an assortment of reasons, right, you have new products and large customers want your products. But the fact is the current environment is basically forcing them to lay down their cards and give you much longer visibility than you've ever had before.

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

I think that's a fair statement.

Operator

Your next question is coming from Craig Ellis.

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

Just a couple of quick ones. If I went back to the last call, I think we were thinking that at the time we were shipping to 3 hyperscalers with the potential to go to 4 either in the fiscal fourth or fiscal first quarter, but given the comments around the next gen of LTO coming up maybe in the September-October time frame. Does that mean that, that fourth hyperscaler would be closer to that time frame? Or would we be potentially shipping inside of F-1Q?

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

Yes. I mean, we're loading up. I mean, the business is now at a point where we're just not listing out each customer. We are doing business now with more than 4 hyperscalers, they're at different levels of volumes. They're purchasing more than just tape products, and we're starting to work with groups that are somewhere between a webscaler and a hyperscaler, right?

So we're starting to sell now to businesses that are much larger than an enterprise, maybe smaller than the top 3 or 4 hyperscalers, but they're still enormous in nature. So we're just -- we're hitting with more customers. I think if you remember that pyramid slide, we used to just work with the top 2 or 3 hyperscalers in the world. Now we're dealing with large telcos. We're dealing with large -- different types of service providers, web scalers. So I think the business is becoming a little more diversified.

And what's -- the biggest movement that I'm encouraged by is more and more of these large-scale customers want our software as much as our hardware. And to the solution discussion, some of them are buying multiple products. Certain hyperscalers also make movies and television, and they're starting to buy our primary products. They're starting to buy our media asset management CatDV products. So what started as a big hardware sale, now we have multiple lines of business. It's just becoming a healthier and more diversified business.

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

That's helpful, Jamie. It's clear that you guys are using a tough situation to advance on some of the longer-term objectives of the company. You mentioned leadership a couple of times, so I just wanted to follow-up on a recent appointment. Brian Cabrera looked like a real important add to the broader team. And I believe you did add some video surveillance Asia sales experts.

So the question is from where you've got the organization set now, where are we relative to having that optimal organization that you would envision in driving the business forward? Still more appointments to make or are we meaningfully there?

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

Yes. I mean, when it comes to leadership, I'm not sure you're ever there, right? You're constantly evaluating, you're constantly improving. And the situation is our company is in a very different place than it was even 2 years ago, even 1 year ago, right? I mean, we're growing in size, we're growing in relevance. And so I think I'm constantly looking to put the very best leadership that we can find into the company.

So I think we have an amazing leadership team. I think it's a stronger leadership team than you would normally see at a \$500 million company because we don't see ourselves as building a \$500 million company. We see ourselves as building a \$5 billion company, and we put in that kind of a leadership team.

And I'm going to continue to overhire -- I mean, Brian was the GC at NVIDIA. Brian Pawlowski, hired before him, was the CTO at NetApp. I mean, we are hiring the absolute best executives in this industry because our goal is to be a heck of a lot more than a \$500 million company. And 3 years ago, I wasn't sure we could do it. But we have done so much in the last 3 years when we picked this company up and you remember the state it was in, and we've effectively 10x the market cap from our low point and we think we're going to 10x it again.

But to do that, we're going to need really strong leadership. We're going to need to be able to drive through all these choppy waters and we just need the most seasoned people we can find, and I'm not going to stop. If we keep finding better talent, I'm going to upgrade, bring on more leaders every time I have that opportunity. Because I do think it's leadership that makes the difference.

Operator

We have no further questions from the lines at this time.

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

All right. Well, I'd like to thank everyone for joining us today. Mike and I will be having calls with many of you. We always like to make ourselves available and just want to thank everyone and be safe. And hopefully, we'll all be meeting again in person very soon. So thank you so much.

Operator

Thank you, ladies and gentlemen. This does conclude today's event. You may disconnect at this time, and have a wonderful day. Thank you for your participation.

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