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QMCO.OQ - Q4 2024 Quantum Corp Earnings Call

EVENT DATE/TIME: JUNE 17, 2024 / 9:00PM GMT

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PRESENTATION

Operator

Welcome to Quantum's fiscal full-year 2024 financial results and business update conference call. (Operator Instructions)

Please note this conference call is being recorded for replay purposes.

I will now turn the conference over to Brian Cabrera, Quantum's Chief Administrative Officer. Thank you.

Brian Cabrera - Quantum Corp - Chief Administrative Officer

Good afternoon, and thank you for joining today's conference call to discuss Quantum's fiscal 2024 financial results. I'm Bryan Cabrera, Quantum's Chief Administrative Officer. Speaking first today is Jamie Lerner, our Chairman and CEO; followed by Ken Gianella, our CFO. We'll then open the call to questions from analysts.

Some of our comments during the call today may include forward-looking statements. All statements other than statements of historical fact should be viewed as forward looking, including any projections of revenue, margins, expenses, adjusted EBITDA, adjusted net income, cash flows, or other financial operational or performance topics. These statements involve known and unknown risks and uncertainties we refer to as risk factors. Risk factors may cause our actual results to differ materially from our forecast.

The results reported in this earnings call are preliminary and unaudited and are subject to change. As previously disclosed, the company is in the process of restating its previously issued results for its audited, consolidated financial statements for the fiscal years ended March 31, 2023, and March 31, 2022, contained in its annual reports on Form 10-K. Unaudited interim condensed consolidated financial statements for each of the first three quarters in such years contained in its quarterly reports on Form 10-Q and unaudited interim condensed consolidated financial statements for the fiscal quarter end ended June 30, 2023, contained in its quarterly report on Form 10-Q, the restatement.

The company has not yet completed its annual financial close process for the fiscal 2024 fourth quarter and full year and its independent auditors have not completed their audit of the company's financial statements for the fiscal 2024 full year.

In addition, the company is in the process of completing the financial close process for the restatement and its independent auditors have not completed their audit and applicable reviews of the restatement. The financial results in this earnings report do not present all necessary information for all understanding of the company's results of operations for the fiscal 2024 fourth quarter and full year, as well as the financial statements that will be included in the restatement.

As the company completes its financial close process and finalizes its financial statements for the fiscal 2024 fourth quarter and full year as well as for the restatement and as its independent auditors complete their audit of the company's financial statements for the fiscal 2024 full year and complete their applicable audit and reviews of the restatements, it is possible the company may identify items that require adjustments to the preliminary financial information set forth in this earnings report and those changes could be material.

The company is in the final stages of confirming the revised financial results to be reflected in the restatement and expects to file its current financial results as well as its restated results in a super Form 10-K. We do not intend to update such financial information prior to the filing of the super Form 10-K.

For more information, please refer to the detailed descriptions we provide about these and additional risk factors under the Risk Factors section in our 10-Qs and 10-Ks filed with the Securities and Exchange Commission. We do not intend to update or alter our forward-looking statements once they are issued, whether as a result of new information, future events, or otherwise, except, of course, as we are required by applicable law.

Please note that our press release and the management statements we make during today's call will include certain financial information in GAAP and non-GAAP measures. We include definitions and reconciliations of GAAP to non-GAAP items in our press release.

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

Jamie Lerner - Quantum Corp - Chairman of the Board, President, Chief Executive Officer

Thank you, Brian, and thank you all for joining us. Earlier today, we announced in an earnings release our full-year results for fiscal 2024, and we are pleased to be back talking to all of our stakeholders live. We truly appreciate investors' patience and support, acknowledging the extended period during which the company was not able to comment on our ongoing business performance and conditions.

The reevaluation was done in conjunction with the top consultants in the industry. And we took a fresh look at everything, including analyzing hundreds of thousands of transactions over the last five years.

Before Ken walks through the specific change in methodology and details of the associated adjustments, I would like to acknowledge that while this process was a time-consuming and expensive project to undertake, this should reinforce to our stakeholders that Quantum holds itself to the highest standards to ensure our financial reporting methodologies are correct, compliant, and reflect the company's current and future business outlook.

Now turning to our operational overview and where the team has been focused since our last public conference call in August. We made it a high priority and initiated several actions to improve the company's capital structure and begin paying down debt. This included working closely with our lenders to ensure sufficient liquidity, as well as focusing on improving our working capital to execute on a renewed path to achieve growth and meaningfully improve operating performance.

During this time, we've also continued implementing self-help actions to further streamline our business and sales organization, increased operational efficiencies, and take costs out of the business. The initial results from these optimization efforts contributed to gross margin expanding 600 basis points year over year and $16 million of total annualized cost savings.

Moreover, we have used this time as an opportunity to analyze all aspects of our business and to frame a path forward that will enable us to accelerate future growth from a more stabilized base of legacy business as we scale our new solution offerings with more profitable revenue streams.

I will expand further on this repositioning and go-forward strategy in a few minutes. But let me first pass the call to Ken to review the results of our reevaluation process and reported financials as well as full-year fiscal 2024 results.

Kenneth Gianella - Quantum Corp - Chief Financial Officer

Thank you, Jamie. Please turn to slide 5, and I'll provide an overview of our efforts and timeline of events to expand on the steps we have taken over the last few quarters. First, in July 2023, Armanino, our then independent public accountant, due to their strategic decision to cease certain services to public companies, advised us as to the resignation. There were no disagreements between Quantum and Armanino on accounting principles or audit scope.

We promptly initiated a process to engage a new auditor. And in September 2023, we approved the appointment of Grant Thorton as our new independent registered public accounting firm for the fiscal year ending March 31, 2024. While working with Grant Thorton on our first filing with them in fiscal Q2 2024, we identified the need to reevaluate our historical approach for establishing stand-alone selling price or SSP under ASC Topic 606.

This effort was purely an accounting interpretation and an adjustment focused on the application of SSP. During this process, the company found no evidence of intentional misconduct associated with its revenue recognition process. We engaged third-party support to review our prior SSP evaluation and assist in assessing alternative approaches to establishing SSP.

As we progressed, we reengaged Armanino, our prior auditor, to review the analysis of our findings. In May, we completed our evaluation of the past application of stand-alone selling price. As previously announced, we determined our new process for establishing SSP would materially increase revenue in all restated periods. And these adjustments would decrease the deferred revenue on our balance sheet for the corresponding periods. Importantly, these changes did not have an impact on our invoicing, cash flow, or contractual obligations to our customers, and they are purely accounting adjustments.

Additionally, the company's in-depth analysis of its prior financial statements, we identified a series of outstanding warrant agreements issued to our prior and current lenders and concluded that our prior classification of these warrants as equity was inconsistent with an ASC Topic 815.

Subsequent to this review, we determined the company should classify these warrants as a liability, requiring accounting for the associated change in the fair value of the warrants through the income statement. This change of accounting for outstanding warrants has no cash impact. Furthermore, this change does not have an impact to the company's ongoing operations or its obligations to prior or current lenders.

Turning to slide 6, because of these accounting changes, we have restated our financial statements for the previously reported periods. These include the fiscal years ending March 31, 2022, and March 31, 2023, as well as for the first three fiscal quarters of fiscal 2023 and the fiscal first quarter ended June 30, 2023. As summarized on this slide for all these periods, net income increased for the restated reporting periods from both the SSP and warrant accounting adjustments.

Switching advisors is always an intensive effort. This transition and reevaluation process has been complex, requiring the company to engage external advisers to assist with reviewing and updating policies, process, and systems. While this has been a necessary but unfortunate undertaking for our company, we are confident in our path forward. And I assure all of our stakeholders that Quantum is committed to maintaining the highest standards of financial integrity and transparency.

Now using the restated GAAP results, I would like to provide some key financial insight into our performance year over year in relation to our prior expectations for fiscal year 2024. Please turn to slide 7, and I'll provide an overview of the financial results for our fiscal year 2024.

Revenue in 2024 was $311.6 million, a decrease of approximately 26% year over year. This was predominantly related to our largest hyperscaler and largest customer by revenue discontinuing new system orders at the end of fiscal Q1 2024. This, combined with lower tape media and LTO royalty payments, was partially offset by an increase in our primary and ActiveScale solutions. With revenue declining approximately $110.5 million year over year, our overall gross profit was down approximately $18.4 million year over year.

We responded to the loss of higher volume, lower margin, hyperscale and media business with proactive actions in manufacturing and services, along with pricing actions and improving product mix in our core business. This increased our GAAP gross margin 614 basis points to 40% on a GAAP basis over the prior year. We expect this improved gross margin performance to continue into FY25.

GAAP net loss for fiscal 2024 was $41.3 million or a loss of $0.43 per share compared to a loss of $18.4 million or $0.20 per share in the prior year. This number includes a positive gain from warrants in FY23 and FY24 of approximately $10.3 million and $5.1 million, respectively.

Turning to slide 8 for non-GAAP metrics. A reminder that a full comparison of our GAAP to non-GAAP metrics is available at the end of this presentation and our earnings release and our forthcoming Form 10-K. After the execution of warrants and other customary adjustments, non-GAAP adjusted net loss for fiscal '24 was $27.5 million or $0.29 loss per share compared to a gain of $3.2 million or $0.04 gain per share in the prior year.

Adjusted EBITDA in fiscal year 2024 was a negative $5.3 million and below our prior year by approximately $26.4 million. The decline in EBITDA primarily reflected lower than anticipated revenue and gross profit within the year and includes a negative FX impact of approximately $1.3 million.

We were able to offset some of the loss with actions in recent quarters that resulted in an over $10 million of permanent non-GAAP operating expense reduction and over $6 million of permanent cost of revenue improvements. We anticipate these and additional cost actions to help improve our overall operating performance in FY25.

Now please turn to slide 9 for an overview of debt and liquidity. Cash, cash equivalents and restricted cash as of fiscal year ending March 31, 2024, were approximately $25.7 million (corrected by company after the call). Outstanding debt, excluding debt issuance costs split between term and our revolver was $87.9 million and $26.6 million, respectively. At fiscal year end, the company's net debt position was $88.6 million.

Now a few comments on capital structure and debt reduction. Subsequent to our fiscal year end on April 12, we announced that Quantum completed a transaction with a partner to provide turnkey third-party logistics and asset management for its global service operations. As part of this arrangement, Quantum sold certain service inventory assets for an approximate payment of $15.0 million.

Quantum used proceeds from the disposition of these assets to improve its financial flexibility, including paying down approximately $12.3 million of its existing term debt. This transaction is consistent with the company's broader effort to prioritize certain strategic and financial initiatives to improve Quantum's capital structure and operating model. This includes projects targeting improvements to working capital, accelerated growth of new products, divestment of noncore products and assets, and restructuring our operations to a more focused business. Over the next 12 months, we are committed to finding ways to further reduce our debt profile and drive improved profitability.

Next, turning to slide 10, an important part of our operating model is continued focus on our annual recurring and subscription revenue streams. Total annual recurring revenue or ARR for FY24 was approximately 46% of our total revenue at $144.9 million, with the gross margin on this revenue being approximately 65%. As a company, we aim to continuously grow our total ARR by maximizing opportunities with both our partners and customers globally in our service and subscription offerings.

In FY24, the subscription portion of our total ARR increased approximately 33% year over year to approximately $17.8 million. We continue to see strong implementation of our subscription offering with over 92% of new customers on subscription. Also, as we complete our first subscription renewal cycle, we are very encouraged by the progress we are seeing with a near 100% renewal rate in FY24.

To accelerate our total ARR efforts, we recently launched Quantum GO as a way for companies to purchase our end-to-end solutions as a scalable turnkey model on a cost effective subscription basis. We'll be providing more detail on our Quantum GO program in future updates.

Turning to slide 11, I'll now review the company's guidance for the first quarter of fiscal '25 and our targeted outlook for the full year. First, we anticipate total revenue in the first quarter to be approximately $72 million, plus or minus $2 million. On a year-over-year basis, this range reflects the large reduction in revenue contribution from our largest hyperscale end customer and a significantly lower level of other tape-based solutions.

We expect non-GAAP adjusted net loss per share for the first quarter to be negative $0.09, plus or minus $0.02 per share based on an estimated 96 million shares outstanding. This non-GAAP estimation excludes our updated treatment of warrants.

Adjusted EBITDA for the first quarter is expected to be approximately a negative $2 million. Additionally, we anticipate first-quarter gross margin of approximately 40% and non-GAAP operating expense of approximately $33 million.

In terms of our targeted outlook for fiscal full year 2025, we anticipate revenue to be essentially flat year over year at approximately $310 million, plus or minus $10 million, which reflects the reduced baseline business for both our media and hyperscale solutions. Partially offsetting the lower revenue from legacy solutions, we anticipate increased demand for our higher-margin ActiveScale, StorNext, and Myriad products.

As a result of our ongoing cost improvements, we anticipate total non-GAAP operating expense to be approximately $124 million. Combined with a more favorable product mix, adjusted EBITDA for the full year is expected to be approximately $15 million, plus or minus $5 million. We anticipate free cash flow for the full year to be positive, reflecting improved operating performance and significantly less project spend in the back half of the fiscal year.

To close out, please turn to slide 12 and let me share some detailed insights on our business transformation initiatives we are expecting to contribute to adjusted EBITDA improvement for the full year. Our focus on recovering adjusted EBITA in FY25 and improving total profitability will continue to center on shifting resources to our global footprint, cost reduction initiatives, and our sales team's efforts in driving more end-to-end higher margin subscription-based solutions.

We anticipate our efforts will deliver year-over-year improvements in profitability and operating structure in fiscal year 2025. To accelerate these efforts, we engaged the external firm, FTI, to assist us in this journey. We are well underway on taking actions that will yield improvements throughout FY25.

Now let me walk you through FY24 and our path back to FY25. With the loss of Quantum's top customer and leading hyperscaler, combined with losses in other legacy products such as tape media, royalties, DXI, and video surveillance, the company saw a year-over-year decline in gross profit of over $31 million. While we accelerated the already targeted year-in savings to help offset the decline, we did not make a sizable impact.

The FY24 in-year impact of SSP to adjusted EBITDA was a negative $2.9 million for full year, resulting in a total adjusted EBITDA of negative $5.3 million. As a result, these results are disappointing and unacceptable. Due to the velocity of the declines in our hyperscale and other legacy products, our previous cost adjustments were not enough to significantly offset the declines.

However, looking ahead, we have additional actions underway to stabilize our legacy business and improve product mix while continuing to implement operational improvements. These projects should add at least $5 million in incremental gross profit combined with $8.7 million from previous cost savings actions taken in FY24 and an additional $6.7 million of savings in fiscal year 2025, collectively resulting in our adjusted EBITDA outlook of approximately $15 million.

Finally, what is not reflected in this chart is the company has spent significant time and capital on several self-help projects, including our restructuring and optimization restatement due to SSP and warrants, new ERP and support systems, and significant efforts to improve our capital structure. We anticipate the special one-time project spending to be completed at the end of fiscal second-quarter 2025, contributing significantly to improving operating free cash flow in the second half of 2025 -- fiscal year 2025.

As we emerge from these extraordinary headwinds, Quantum is demonstrating an ability to operate a disciplined manufacturing and service organization while implementing strong cost and discretionary spend controls. We will continue to find ways to reduce our debt and improve our capital structure for the long term. Our path to a successful operating model will be driven on proof points of focus growth in our subscription-based revenue, optimizing our performance through improved operational efficiency, leveraging our global footprint, and executing self-help cost reduction initiatives. All of these programs are actively underway and are making strong progress as we enter FY25.

Thank you for your time. And with that, I'd now like to hand the call back to Jamie.

Jamie Lerner - Quantum Corp - Chairman of the Board, President, Chief Executive Officer

Thank you, Ken. Compared to this time last year, our fiscal year results and guidance are far from where we thought they would be today. We'd always expected hyperscale revenue to scale down over time. However, the sudden discontinuation of orders from our largest hyperscale customer at the end of fiscal Q1 2024 was a sizable and unanticipated setback.

The magnitude and pace of this revenue decline more than offset the steps we had already been taking to meaningfully improve EBITDA by reducing costs, resulting in a significant impact to our overall financial performance. While we are clearly disappointed with our results, we have responded by taking this opportunity to accelerate our business transformation. This includes an ongoing focus on improving the company's capital structure as well as a series of operational and strategic initiatives, many of which have been underway for many months.

Turning to slide 14 and our capital structure. As Ken highlighted, in April we completed a transaction to reduce liabilities and carrying costs through the sale of service inventory assets. In addition to lowering the inventory that Quantum previously had to maintain to service certain customers, we used proceeds from this transaction to pay down $12 million of outstanding debt. Today, we are currently pursuing further strategic measures to monetize noncore assets in order to both strengthen the company's balance sheet as well as focus our future business around the most strategic and profitable product areas.

Turning to slide 15, we've also taken extensive actions to further streamline our business and sales organization in order to drive and accelerate improved operational performance. We have changed our sales leadership and reorganized our sales team structure. This includes refining our account segmentation with customer focus playbooks for cross-sell and upsell, as well as redefining our go-to-market motions across our sales organization.

These actions aimed to increase our outside team's ability to more efficiently focus on net new accounts, new product insertion, and growth-focused quotas. As an extension of our sales force, our partner community provides us with market scale. In recent months, we've announced an expansion of our global partnerships in Asia Pacific with broader distributor agreements in Korea, Japan, Australia, and New Zealand.

We also developed a partnership with Velesea, which has deep reach into retail analytics, AI use cases, and video surveillance. Additionally, we launched a new Quantum Alliances channel program with an improved partner portal that offers enhanced online deal registration, training and certification, robust lead programs, expanded partner incentives, and advanced reporting and analytics.

During this coming fiscal year, we will continue recruiting new resellers that have specific reach into AI, life sciences, and other technical workloads where Myriad and ActiveScale solve the most demanding data requirements. In addition to the sales team, we have revamped our larger organizational structure to achieve greater efficiency across the company, including simplifying our managerial layers with appropriate span of control.

We've also changed our product leadership, formed a product council, and recalibrated our product road map. This has streamlined our product resource allocation, rationalized our line card, and enabled vendor consolidation. Moreover, we've modernized our internal systems in direct support of optimizing our go-to-market model, reorganizing for efficiency and rationalizing our product lines. We have completed our ERP rollout to simplify tracking our processes and how we run the business, most importantly, how we configure price and quote our product solutions to customers.

And finally, turning to slide 16. In addition to operational improvements, we have been diligently working to accelerate growth of profitable revenue streams. This work has focused our efforts on a core set of use cases we excel at, with video and video-like data, coupled with streamlined product roadmap and effective go-to market.

In May of this year, we announced Quantum GO, a pay-as-you-go subscription model to meet customers' increasing data management needs and budgetary objectives, particularly as AI and machine learning continues to drive massive data growth. This is in line with Quantum's overall shift to software defined platforms as we saw subscription-based ARR increased 33% year over year.

Quantum has deep experience in storing and managing unstructured data, and particularly video. With AI driving the most unstructured data growth today and into the foreseeable future, Quantum is uniquely positioned to support this growing data set as an extension of our expertise.

To accelerate our presence in AI use cases across our key verticals, Myriad became generally available as we entered this calendar year. And while these deal cycles can be long, we are now seeing indications of momentum beyond our early access customers.

Our vision with Myriad was to build a modern architecture suited to the demands of today's data set and positions us on the right path to provide the performance customers need to prepare and curate data to train AI models. We currently have several proof-of-concept engagements underway, concentrated in segments where we have extensive experience, including those targeting media and entertainment, along with life sciences and healthcare as well as in industrial research and manufacturing.

Within AI use cases, the familiar workflow that we've served for more than 20 years in media and entertainment have some of our largest customers is following a very similar process to managing AI workloads. For example, we have two recent customers where we realize this advantage with ICON Therapeutics and the LA Dodgers.

With the LA Dodgers, we were able to expand our existing footprint to include CatDV alongside NVIDIA GPUs and Quantum professional services to begin implementing an AI workflow spanning sponsored logo recognition, facial recognition, object detection, and media enhancements.

ICON is a new Quantum customer that purchased Myriad and ActiveScale to meet the demanding performance requirements for their informatics and microscopy pipeline. Through AI and machine learning, they're able to rapidly analyze data and track individual proteins and live cells to support drug discovery. The high performance, low latency that Myriad provided was compelling for these demands and outperformed their existing environment, with ActiveScale providing a multi-tiered data lake foundation to preserve their critical data for decades.

As we grow deeper into use cases with life sciences and research institutes, where both Myriad and ActiveScale are well suited, we are seeing strong early indicators that we are able to solve some of the toughest customer challenges and expand further in this segment. We've seen persistent growth in this vertical, with revenue growing 20% over the last three years.

In addition, the ICON Therapeutics as the first Myriad customer, other customer wins in this vertical over the past year include: seven-figure ActiveScale expansion deals with both Genomics England and the European Bioinformatics Institute; a new ActiveScale cold storage solution at Fraunhofer Research Institute; and University of Texas Applied Research lab acquired our software defined StorNext architecture. These are all examples of organizations with exponentially growing datasets, and their research advantage lies in having their unique data stored and protected to extract insights and value.

Next, while our future growth with ActiveScale and Myriad is key, it is just as important we maintain a strong base in our traditional media and entertainment and federal segments. We recently closed a large set of deals with the US Navy, which we believe will lead to expanded revenue opportunities. Also, we see some significant wins in sports video and broadcast, including organizations with petabytes of video such as the NBA. Maintaining our traditional market verticals and customers is a great opportunity to upsell them on our latest ActiveScale and Myriad solutions.

High performance has always been important to our core market verticals. And as we expand further into life sciences and research and target AI use cases, flash solutions are expected to be increasingly important to our customer base. To close the gap in our portfolio, in April we announced the addition of flash to both our ActiveScale and DXI product families. Flash is now available across our data platform portfolio with the only exception being our tape libraries.

Our Scalar automation offers the highest density, greenest, and most effective cost per terabyte, which is a key advantage for Quantum. We were also pleased to recently announce our new i7 RAPTOR, the new low cost solution for AI data lakes to support hyperscale and exascale environments.

Looking ahead, we remain committed to driving accelerated revenue growth by stabilizing and improving the product performance of automation and StorNext while driving growth in our ActiveScale and Myriad product offerings. Quantum remains committed to use cases for media and entertainment, life sciences, industrial tech, and federal while we improve our position to address the prevailing industry trends around artificial intelligence across the multiple verticals we serve.

The operational efficiencies and business optimization we've driven over the over the past several months and continue to drive is being tied together with this strategy, culminating in higher ASPs and increased margins for future growth and profitability. The addition of flash across our portfolio not only yields the higher performance required by AI workloads, but also higher selling prices.

Quantum's end-to-end portfolio, spanning from high-performance flash to cost effective per terabyte data lakes, positions us to address a larger portion of a customer's overall storage spend, enabling them to buy the full solution from Quantum, not just a point product. Our software defined offerings are highly differentiated and command higher margins.

Our path to growth has been paved by our strategy and investment to deliver a modern data platform designed for today's demanding workloads, with a go-to-market approach focused on use cases with video-like data where we have deep expertise. Taken together with our ongoing strategic initiatives to realize further cost and debt reductions, we expect to drive increased productivity and operating performance, resulting in step change improvements to our profitability in fiscal 2025.

Thank you for your time today. Operator, we are ready to open the call to questions.

QUESTIONS AND ANSWERS

Operator

Thank you. And ladies and gentlemen, at this time we will conduct our question-and-answer session. (Operator Instructions)

Eric Martinuzzi, Lake Street.

Eric Martinuzzi - Lake Street Capital Markets - Analyst

Yes. I just wanted to get a sense of timing on when we think we might have audited results here. Obviously, as of today, you've said that we're still dealing with unaudited. But is this a question of a couple of weeks? Or is it potentially more open-ended than that?

Kenneth Gianella - Quantum Corp - Chief Financial Officer

Yes, this is Ken Gianella. First, the numbers are complete. We just needed some time and don't anticipate any material adjustments to them. We just needed some time with something this size with our internal auditors to complete final reviews, and we expect in the next few days to have that out to our shareholders.

We announced on our last plan, 8-K, with Nasdaq. We committed to have it out by July 1. So we're right where we want to be to get these financials out.

Eric Martinuzzi - Lake Street Capital Markets - Analyst

Okay. All right. And then obviously the big reset of the top line for this most recent fiscal year had to do with your large hyperscaler customer. What can you tell us more about their decision-making process? Was this an issue where they chose a different path? They chose a competitor? They misforecast their own needs? What more can you tell us and why?

Jamie Lerner - Quantum Corp - Chairman of the Board, President, Chief Executive Officer

No. I think they wanted to choose a business model that didn't align with our business model. We're a product company and our largest hyperscaler wanted a custom solution, uniquely designed for them that wouldn't be sellable to anyone else. It would also include contributing all the intellectual property to them to build that and build it in the business model of a contract manufacturer, which would operate in kind of 3% to 5% margins.

And we just looked at that and just said, look, that's not our business model. That's more like a Flextronics or someone in that business and we worked to try to convince them to go down the line of our products, but they were quite convinced they wanted to build something completely custom for themselves. And their business model and our business model just didn't align.

We don't operate at 3% to 5% margins. We don't contribute our intellectual property to our customers. It wasn't a business model that worked for us.

Eric Martinuzzi - Lake Street Capital Markets - Analyst

So they're essentially creating they're -- rolling their own, so to speak, when it comes to fleet automation?

Jamie Lerner - Quantum Corp - Chairman of the Board, President, Chief Executive Officer

Yes. And I would say other hyperscalers are using product; this one hyperscaler is just building something custom. And it's interesting that their custom build is drastically less efficient than many products that are available commercially, but they chose to go that path.

Eric Martinuzzi - Lake Street Capital Markets - Analyst

Okay. All right. And then you made a noncore asset sale here on April 2. So after the fiscal year end and you took the cash proceeds from that and applied it towards the debt. Are we close to any other sales of non-core assets? I know you're still evaluating now.

Jamie Lerner - Quantum Corp - Chairman of the Board, President, Chief Executive Officer

I mean, yes, I mean, I think it's safe to assume that we are going to look for follow-on opportunities. Whether they be in inventory, intellectual property, any non-core asset, I mean, we really see our future in ActiveScale and Myriad and the incredible growth in those spaces.

And we're going to look at pretty much everything that we've got to get us focused on that use case. And everything that we can leverage to reduce our debt and give the company the runway that it needs to fully play out the opportunity in Myriad and ActiveScale.

Eric Martinuzzi - Lake Street Capital Markets - Analyst

Okay. And then last question and I will let go of the microphone. The Q1 outlook, so we're talking about adjusted EBITDA loss of about $2 million. You talked about the full-year adjusted EBITDA in the range of $15 million plus or minus, $5 million.

At what quarter do we -- are we adjusted EBITDA positive and what quarter are we cash from ops positive?

Ken Gianella

Yes. No, we anticipate that going into Q2 and beyond. This quarter, we just gotten into the reductions and some of the activity that we talked about earlier on the call. And we see a positive outlook for Q2 ramping up into the back half of the year.

Jamie Lerner - Quantum Corp - Chairman of the Board, President, Chief Executive Officer

And I think it's worth adding that the EBITDA is not a function of some sales growth or steep sales growth. It's more a function of cost containment and cost management. So we're generating the EBITDA off of disciplined cost savings versus expectations of some type of strong growth.

And that's why you see we're flat year over year, more or less on revenue, but making a $20 million change in EBITDA, doing that all through very controlled cost management, efficiency, and streamlining in tight partnership with FTI, who's been advising us on how to make that turn.

Eric Martinuzzi - Lake Street Capital Markets - Analyst

Got it. Thanks for taking my questions and good luck.

Kenneth Gianella - Quantum Corp - Chief Financial Officer

Thanks, Eric.

Jamie Lerner - Quantum Corp - Chairman of the Board, President, Chief Executive Officer

Thanks, Eric.

Operator

(Operator Instructions)

Nehal Chokshi, Northland Capital Markets.

Nehal Chokshi - Northland Capital Markets - Analyst

Thank you and welcome back to earnings calls. You mentioned ActiveScale and Myriad, you expect that to be the future business and that's where your focus is going to be. Given that context, can you give us some sense as far as what was the ActiveScale, Myriad revenue for fiscal year '24? And what are your expectations for that to grow to in fiscal year '25?

Jamie Lerner - Quantum Corp - Chairman of the Board, President, Chief Executive Officer

Yes. I mean, currently, we only break out revenue by primary storage, secondary storage, service and support. That may change in the future. But what I can say is ActiveScale, currently by percentage growth, is the fastest-growing product in the portfolio.

The other thing we're seeing is every time we sell Myriad, there's almost 100% may be too high, but it seems like a near 100% attach rate that when you buy Myriad, you buy ActiveScale as the data lake. So, they combine together. And what that does is it drives a much higher ASP for us and the products, given one is all-flash and a lot of customers are doing all-flash data lakes and all-flash high performance, that not only are the ASPs larger, but the margin profile of that customer is much higher than our traditional customer. So we're pretty encouraged.

Obviously, we're not leaning into the growth of those products significantly right now. We need to get more evidence. But right now, I don't think we could take on any more Myriad trials. There's so much demand for the product.

And what we've done, I think is we've expanded into areas in media and entertainment where StorNext didn't fit. StorNext was never a great fit for visual effects, for rendering, for playout, for transcoding. And Myriad fits those really well. And what we're doing now is going to our traditional customers and picking up new workloads that we didn't use to be a fit for purpose and Myriad now is.

And having a lot of success there as we work to become more experts in life sciences and some of these areas that are a bit new to us and become experts more in AI. So right now, I would say ActiveScale, fastest grower in the company. Myriad will probably be right on its heels. And I feel pretty comfortable Myriad will be the fastest-growing product in the company.

Again, we're still working on getting initial deployments, getting -- it's still a very controlled rollout. But I think those controls will start coming off over the next three to four months as we move to the end of the summer. And you'll see that product rolling out with more velocity.

Nehal Chokshi - Northland Capital Markets - Analyst

Okay. And then it sounds like there's still hyperscalers in your revenue, but you hit a record fiscal year to year of $310 million and expecting that to be -- do you expect the hyperscale revenue to be now flattish or sounds like the large hyperscalers, it still had revenue contribution fiscal first quarter of '24. And so that's still a bit of a headwind that it's going to flow through fiscal year '25?

Ken Gianella

Yes. That headwind, that's correct. We expect that headwind in Q1 numbers here, and that will turn around with slight uptick in Q2 going forward but a year-over-year comparison. The main delta between the two is a decrease in the hyperscale revenue and a slight increase in our primary storage business.

Nehal Chokshi - Northland Capital Markets - Analyst

Okay. And then for the balance of the year, basically the -- I think about $15 million or $20 million year-over-year decline in your Q2 revenue that you're projecting, you're going to be making that up in the rest of the year. And so that's going to basically be coming from the growth of Myriad and ActiveScale, more or less?

Ken Gianella

That plus the StorNext product. One of the best side quests is we're seeing media and entertainment bounce back. And so that product, StorNext, is going to help contribute to that also.

The other piece that we have is we've put a really significant program in place to find ways that we can stabilize our legacy business, predominantly tape and stem some of those declines that we saw playing through last fiscal year. So between stabilizing the legacy side of it, making that more profitable, helping that gain at sea legs again, then you have the growth really coming out of Myriad and ActiveScale. That combination is where we see FY25 making that pivot back to profitability.

Nehal Chokshi - Northland Capital Markets - Analyst

Okay. And then looking at the fiscal year '24 gross margin by revenue line item, looks like product gross margin expanded only 200 basis points, a, is that correct? And does that signal that there's been some product gross margin pressure outside of the hyperscaler customer that has gone away?

Ken Gianella

Let me get the exact answer for you on that. I don't have that at my fingertips right this second, but I'll say this is the top line, not quoting specifically on the numbers is that we do anticipate that product is going to start contributing not as much as we focus more on our subscription-based revenue and our services-based revenue.

We expect those segments to tick back up and take on more of the go-forward gross product load in the future. Because remember, product, when you switch over to a subscription, you're essentially robbing the product side of it and putting it into a service revenue.

Nehal Chokshi - Northland Capital Markets - Analyst

Right, right. Okay. All right. I guess one last thing is that what's the status on the covenant waivers?

Ken Gianella

So I think right now and one of the things that you'll see what we're looking at is we are expecting to continue to work with our lenders here over the next 60 to 90 days to get that adjusted. We'll have more detail on that in our upcoming filing 10-K. Part of the issue we're dealing with is under GAAP accounting, not having that clear 12-month agreement in place.

We're still working with them. And so that's going to be treated as a going concern when that comes out. That said, everyone is being constructive with us. They want to see the same things that we do about rightsizing the business and moving forward.

Our lenders have generally been supportive with us in the process. And as you saw, we sold those assets and used the majority for debt paydown. But with that said, we're actively looking to sell off more nonstrategic assets, continue to pay down the debt, and work with our existing or future debt providers for a couple of things.

One, we want to look for more flexible ABL loan, something that gives us even more liquidity flexibility than we have today; and then continue to partner either with the existing or future lenders on the longer-term loan debt and really expand that horizon of that out beyond the '26 number we see today.

So lot of moving parts on that, and that's why it's not resolved right now. But now that we're back on file, we expect we expect to resolve that in the next 60 to 90 days.

Nehal Chokshi - Northland Capital Markets - Analyst

Okay, great. Thank you.

Operator

Thank you. As there are no further questions at this time, I'll pass it back to Jamie Lerner for any closing remarks.

Jamie Lerner - Quantum Corp - Chairman of the Board, President, Chief Executive Officer

Sure. Hey, I want to thank everyone for joining us today. It is June 17. Our quarter ends on June 30 and we hope to be back to a regular cadence. So we should be back on this call with everyone within the next six weeks' time with our Q1 results. So I will see everyone then. Thank you.

Operator

Thank you. And with that, we conclude today's conference. All parties may disconnect. Have a good day.
