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QMCO.OQ - Q4 2023 Quantum Corp Earnings Call

EVENT DATE/TIME: JUNE 06, 2023 / 1:00PM GMT

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## PRESENTATION

### Operator

Greetings. Welcome to Quantum's Fourth Quarter and Fiscal Year 2023 Financial Results Conference Call. (Operator Instructions) Please note, this conference is being recorded.

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

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

Good morning, and thank you for joining today's conference call to discuss Quantum's fourth quarter and fiscal 2023 financial results. I'm Brian 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 facts 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've referred to as risk factors. Risk factors may cause our actual results to differ materially from our forecast.

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-K 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 our financial statements we make during today's call 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?

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

Thank you, Brian, and thank you all for joining us today. Earlier today, we announced our results for our fourth quarter and full fiscal 2023 with revenue results that exceeded the high end of guidance.

We are pleased with the revenue results. We feel good about the supply chain, and we're excited about recent product launches, but we have work to do in fiscal year 2024 to improve our bottom line results. Today, Ken and I will walk through actions we have taken to strengthen our company and deliver adjusted EBITDA of at least \$20 million, as we described in our press release.

Turning to Slide 3. Here is a brief overview of the results from the quarter and the full fiscal year. We finished the quarter with \$105.3 million in revenue, above the high end of guidance and an increase of 10.7% year-over-year. Non-GAAP gross margin of 35.5%. Adjusted EBITDA of \$1 million compared to \$400,000 a year ago, driven by higher revenue and improved operating performance.

For the full fiscal year 2023, we delivered revenue of \$412.8 million, an increase of 10.7% year-over-year, primarily driven by strong demand from hyperscale customers and growth in our video surveillance business. Non-GAAP gross profit in fiscal 2023 was \$147 million or 35.6% of revenue, primarily driven by a higher mix of low-margin hyperscaler business, along with inflationary cost pressures in our supply chain. And adjusted EBITDA in fiscal 2023 was \$11.8 million.

Now turning to Slide 4. I would like to share some operational insights from the quarter. We exceeded revenue and EBITDA guidance in fiscal Q4 based on another strong quarter of hyperscale sales, a sequential increase in royalty revenue and improved operational execution. We had an incredible year of hyperscale sales with 2x revenue growth versus the prior year. As we discussed, that segment is characterized by generally lower margins. So, the hyperscale business has had a strong influence on our revenue and margin mix profile.

In addition to strong hyperscale sales, we are pleased with the progress we are seeing in our video surveillance business and improving our efforts to sell the full portfolio of products. We continue to see improving conditions internationally, and we are starting to realize the results of our transformation work, especially in the Americas.

As an example, we are seeing a higher volume of large deals becoming a bigger component of our revenue mix in the pipeline. As part of the sales transformation, we are directly engaging in larger "Enterprise" deals, especially in areas of repatriation of data back on Premise from Cloud providers. We also are extremely encouraged that our end-to-end portfolio of products is gaining traction, supporting AI/ML projects and expanding deeper to other verticals.

An illustration of this was a large-scale deal we closed in the financial sector at one of the largest banks in Asia and a [Fortune 50] (corrected by company after the call) company.

We are also working on several OEM partnership opportunities with global technology providers. Just this past quarter, we secured an ActiveScale OEM win at a global provider of video streaming solutions that will add to our subscription ARR in fiscal year 2024.

Expanding our solution footprint at existing accounts is a key part of our strategy. It is also notable that in fiscal Q4, we are selected by a West Coast Major League Baseball team to provide AI-driven analytics for their video and image content. This team is an existing Quantum StorNext customer, and we were able to drive a broader engagement with them to help them catalog, analyze and enrich their content to drive better fan engagement. This is a perfect example of our end-to-end strategy coming together and represents the opportunity in front of us to move from storing data to analyzing, managing, and enriching it to drive improved business outcomes.

These sales highlights are just an example of our sales transformation strategy. As we focus our execution to improve revenue mix, this includes growing Total Annual Recurring Revenue.

Another positive indicator in fiscal year 2023 was that we grew the subscription ARR by 81% year-over-year to \$13.4 million in subscription ARR and over \$22 million in TCV bookings. We anticipate our continued innovation will accelerate future growth of subscription ARR into new markets for us, such as the high-growth all-flash storage market.

Driving improved operational efficiency is another part of our transformation. Our supply chain continues to stabilize and improve with greater parts availability and at lower costs, and we expect that to carry forward into fiscal year 2024.

Also, our focused efforts to improve working capital and decrease inventory, yielded positive results to further strengthen our company.

As we execute our strategy, it is important that we operate our company to drive profitable growth. To that end, we recently implemented a global efficiency plan and worked with our lenders to improve our strategic flexibility by securing additional liquidity through an upsizing of our existing debt. Ken will discuss these items in more detail during his prepared remarks.

Turning to Slide 5, I would like to give you an update on our product innovation progress. On April 3, we announced Myriad, a new all-flash storage platform for the enterprise. This is a huge milestone for the company and introduces a totally modern software design to one of the highest growth segments in storage right now. The initial reception has been incredible, starting with phenomenal press coverage and positive reception from industry analysts and experts. We then showcased Myriad at the NAB trade show, which is the largest broadcast trade show in the world, with an opportunity for us to meet with our customers in this space.

The reception from our customers and partners has been outstanding. They were frankly blown away that Quantum has been able to develop an all-new software-defined storage platform to address this space. And the innovation was recognized by the industry with Myriad winning 3 industry awards, including this year's NAB Show Product of the Year.

We also introduced the latest version of our Unified Surveillance Platform software at the ISC West Trade Show in March. The Unified Surveillance Platform is the culmination of our strategy to combine the best software innovation from Pivot3 with a totally modern software platform that can run on any hardware. The Unified Surveillance Platform has also been recognized with multiple industry awards and will be a key opportunity for us to build on the success we achieved in our video surveillance business this year.

With the introduction of Myriad and the Unified Surveillance Platform, Quantum now offers end-to-end solutions for the world's biggest unstructured data workloads, including AI and machine learning, corporate video for entertainment, branding and communications, video surveillance, massive data lakes for archiving and digital preservation and data protection.

Only Quantum offers solutions that cover the entire data life cycle from high-speed ingest and processing through "forever" data archiving, along with AI-enabled data cataloging and monitoring software for managing and enriching unstructured data.

Now I'd like to turn it over to Ken to walk through our financial results in more detail. Ken?

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**Kenneth P. Gianella** - *Quantum Corporation - CFO*

Thank you, Jamie. Please turn to Slide 7, and I'll provide an overview of the financial results, starting with our fiscal fourth quarter.

As Jamie previously highlighted, strong operational execution in the fourth quarter of 2023 drove revenue above the high end of our guidance at \$105.3 million. This was approximately an 11% increase year-over-year, representing our strongest fiscal fourth quarter since fiscal 2017.

This growth was led by another strong quarter of secondary storage accounting for 42% of total revenue, up 1,000 basis points year-over-year on continued strong sales of hyperscalers.

Adjusted EBITDA in the fourth quarter was \$1 million and above our guidance. This represents a 2.5x improvement compared with \$400,000 in the prior year quarter, driven primarily by higher revenue.

Now turning to Slide 8, I'll provide a breakdown of this quarter's revenue results and the year-over-year trends.

Our presentation of revenue has been enhanced to better show the performance of our Primary and Secondary storage systems from both perpetual license and subscription delivery. Services on this slide is highlighted as our traditional Quantum Services only and does not include subscription.

Primary storage revenue was \$14.4 million, down approximately 8% both year-on-year and sequentially. Secondary storage systems revenue increased 40% year-over-year and decreased 12% sequentially to \$46 million or approximately 44% of total revenue. While our sales to hyperscale customers were down sequentially, the significant traction we have achieved in the hyperscale vertical continued with 62% year-over-year growth.

Looking at our Services business revenue in the fourth quarter was \$29.9 million, down approximately 6% over year due to a continued decline in support renewal revenue driven by end-of-service-life on our older tape product lines. We anticipate the declines in Services revenue to begin to level off in the first half of this fiscal year.

Next, in Devices and Media, while there was some sequential improvement, revenue was down approximately \$600,000 or 5% year-over-year.

And finally, Royalties in the quarter increased sequentially and year-over-year to \$4 million.

Moving to Slide 9, I want to provide a review of our Annual Recurring Revenue and Subscription metrics.

Total Annual Recurring Revenue, or ARR, for the full year 2023 was approximately 38% of our total revenue at \$155.9 million, with the gross margin on the combined business being approximately 62%. As a company, we are focused on improving our total ARR by maximizing our Quantum Service opportunities to both our partners and customers globally, combined with our strategic shift to delivering more of our solutions via software and service subscriptions.

Our Subscription offering is a strong proof point of the success of our business transition efforts. The Subscription portion of our total ARR increased approximately 81% year-over-year and approximately 20% sequentially in the fourth quarter to \$13.4 million. Today, we have over 734 cumulative active customers with over 78% of our new software sales being subscription, up from only 25% in the prior year.

As a reminder, Quantum now has subscription offerings that span our full portfolio, with the exception of tape. Plus, we are very encouraged by the progress we are seeing in the renewal of initial subscriptions in early fiscal 2024.

Now turning to Slide 10, let's review our fourth quarter GAAP results. GAAP gross margin for the fourth quarter was 30.2%, which reflected the unique product mix that we discussed last quarter as well as a \$5.3 million nonrecurring inventory reserve adjustment caused by pandemic-driven excess and obsolescence of certain inventory due to legacy products being discontinued.

GAAP net loss in the fourth quarter was \$13.6 million or a loss of \$0.15 per share. The increase in loss per share was primarily due to the previously mentioned gross margin, and as anticipated, higher operating expenses.

Now turning to Slide 11 for non-GAAP metrics. Non-GAAP gross margin for the fourth quarter was 35.5% compared with 38.4% in the prior year quarter and 36% sequentially. As previously mentioned, we had a large Life Sciences deal in Europe that was dilutive to gross margin, but a strategic account for us to grow long term.

Non-GAAP operating expenses were \$37 million in the fourth quarter, which was flat year-over-year and an increase from the \$34.5 million last quarter. The expected sequential increase was due to end-of-year commissions, seasonally higher payroll taxes and an increased investment in sales and marketing initiatives.

Non-GAAP adjusted net loss in the fourth quarter was \$3.7 million or a \$0.04 loss per share. And finally, adjusted EBITDA in the fourth quarter was \$1 million and above our guidance.

Now turning to Slide 12, I'll provide brief highlights of our fiscal 2023 results. Full year 2023 total revenues increased \$40 million or by approximately 11% to \$412.8 million. Growth was driven by strong performance in secondary storage systems with our hyperscale customers.

For the full year [2023] (corrected by company after the call) adjusted EBITDA was essentially flat with the prior year at \$11.8 million. This was largely a reflection of a higher mix of hyperscale business and supply chain-related headwinds in the first half of the year, which pressured gross margins. On the positive note, during the latter part of the fiscal year, supply chain headwinds and inflationary cost pressures began subsiding, and we anticipate this trend to continue into fiscal 2024.

Moving to Slide 13 for a breakdown of fiscal year revenue results and the associated historical trends. Primary Storage revenue for the full year 2023 was \$57.6 million compared to \$60.7 million in the prior year. Exiting fiscal year 2023, we are seeing positive signs of recovery of our primary storage systems going forward due to increased market demand, the introduction of our Myriad platform and our multiple year investment in our U.S. and international sales teams.

Secondary Storage systems revenue for the full year 2023 increased 48% or \$175.5 million as we continue to see significant growth of our hyperscale business over the last 2 years. While we anticipate revenue in our secondary storage solutions to come down from fiscal 2023 levels, we expect our higher-margin DXI, ActiveScale Object Storage, and Scalar Tape Storage solutions, all to gain traction with large enterprise companies seeking a more affordable solution as repatriation of their data from cloud-based environments continues to accelerate.

Next, looking at our traditional Quantum Services business, without subscriptions totaled \$123.6 million in 2023. While end-of-life services on older tape products have impacted our services business over the last few years, we anticipate this stabilizing in the first half of fiscal year 2024. Total Devices and Media revenue for 2023 decreased to \$42.4 million.

And finally, total royalties for the full year were \$13.7 million, primarily reflecting the transition to the latest generation and higher capacity LTO-9 node. We anticipate this to stabilize to an annualized royalty rate of approximately \$11 million to \$12 million going forward.

Now please turn to Slide 14 for an overview of debt and liquidity at the end of the quarter. Cash, cash equivalents and restricted cash at the end of the fourth quarter were approximately \$26 million compared with \$5.5 million 1 year ago, driven by proactive cash management and strong end of quarter collections. Outstanding debt split between term and our revolver was \$91.4 million and our net debt position was \$65.4 million. We anticipate our working capital will continue to improve, and we are pleased with the progress on our overall cash conversion metrics. Heading into next year, we believe it is important to create greater strategic flexibility and have a clear plan for improved profitability in fiscal year 2024.

As such -- turning to Slide 15, I'd like to start with an overview of actions we have taken subsequent to the end of the quarter. Recently, we proactively secured an additional \$15 million of liquidity and received greater covenant flexibility from our current lenders to better position the company as we bring our recent product innovations to market.

As Jamie discussed, our path to improved profitability is focused execution on improving revenue mix and driving global efficiencies. Improving revenue mix is a key lever to expanding gross margin and our earnings. This includes getting back to growth in our Primary Storage Systems, not only in our existing markets, but expanding into new enterprise verticals with our Myriad solution. We are seeing pipeline increase in large enterprise opportunities, including repatriation of data from the cloud and expansion of Enterprise AI and Machine Learning programs.

Equally important to driving improved revenue mix is the streamlining of our operations. While we have made progress over the last year, our work is not done. To that end, there are several self-help Global Efficiency Initiatives we are undertaking that I'd like to share with you.

First, Improved Operational Efficiency. We are actively executing on several projects, including improving manufacturing and logistics productivity; clawing back inflationary impacts from the last couple of years with value engineering efforts combined with a continued focus on reduced travel and discretionary spend.

Second is Leveraging Our Global Footprint. The goal is to expand our presence in focus areas, both domestically and internationally, including our growing international centers in Kuala Lumpur, Bangalore and Guadalajara. We believe investing more in focused locations will drive deeper collaboration, more effective processes, lower facility costs and create a more effective operation as we move forward as an organization. Third is a new Cost Reduction Initiative.

Turning to Slide 16, let me provide some insight on these efforts. As we execute our vision and our strategy, it is important that we operate our company to drive profitable growth. To that end, we have begun a cost reduction action that will initially impact over 10% of our global workforce. We anticipate these actions will result in an annualized net savings of approximately \$14 million fully realized exiting fiscal year '25. With a payback in less than 6 months, we anticipate a fiscal year 2024 non-GAAP P&L savings of approximately \$7 million from our Q4 '23 exit run rate.

As we move forward, we will continue to evaluate our performance, take measured actions as necessary, while balancing a strong customer experience and level of support that ensures we continue to deliver innovation and high quality of service to our customers.

Now to close out, please turn to Page 17, and I'll review the company's guidance for the first quarter and full fiscal year 2024. First, we anticipate total revenue in the first quarter to be \$97 million, plus or minus \$3 million.

We expect non-GAAP adjusted net loss per share for the first quarter to be breakeven, plus or minus \$0.02 per share based on an estimated 93.3 million shares outstanding. Adjusted EBITDA for the first quarter is expected to be approximately \$1 million.

We also are introducing guidance for the full year 2024, with revenue expected to be \$415 million, plus or minus \$10 million; non-GAAP adjusted EPS of \$0.01, plus or minus \$0.10, and adjusted EBITDA is expected to be at least \$20 million for the full year.

To add some color to our guidance, as I mentioned earlier, we do anticipate a decline in our Secondary Systems year-on-year due to declining Hyperscale business. We also anticipate those declines being replaced with an improving revenue mix of higher margin primary and secondary systems.

We foresee a stabilizing supply chain and decreasing inflationary environment, combined with our global efficiency initiatives, That at a minimum, drive our year-over-year improvement.

To be clear, the management team's expectation is to return the business to significantly higher earnings performance than our current outlook. We have a path and are working to accelerate our efforts through sales execution on growth and improved revenue mix, driving improved operational efficiencies, creating synergies and scale by leveraging our global footprint, and achieving our targeted cost reductions.

We covered a lot today, and before I hand it back to Jamie, I'd like to say, after my first quarter here at Quantum, I'm super excited to be here. The team is focused and extremely optimistic about our company, our transformation and we are excited about our future. I look forward to catching up with you all in the weeks and months ahead.

With that, I'll now hand the call back to Jamie for closing remarks.

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

Thanks, Ken. We're truly excited about the future. We finished the year with positive momentum and a major new product introduction in Myriad. We laid the foundation for end-to-end enterprise sales growth in the Americas and internationally. We see the supply chain stabilizing and inflationary pricing subsiding. We are executing on our transition to subscription ARR, and we have strengthened our company with increased strategic and capital flexibility to execute on the growth of the business.

We expect, these developments, combined with the global efficiency plan's cost improvements, will allow us to significantly increase earnings growth this year and continue our journey to elevating this company back to the kind of earnings potential we and our shareholders expect.

With that, let's open it up for questions. Operator?

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question is from George Iwanyc with Oppenheimer & Company.

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

Jamie, maybe you could expand a little bit about what you're seeing from a macro environment perspective? If you look at the various regions and verticals, are there any spots of weakness that you're still managing through?

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

Yes. I mean -- let me answer that across a couple of dimensions. Probably the first thing that is -- probably the first and most obvious thing is that the supply chain environment has changed drastically. Parts availability is -- it's almost -- almost everything is in an all clear state. We're not paying up charges to get things. And in some cases, we're even seeing parts and materials getting discounted to incentivize them to move more quickly as people have loaded up inventory.

The other things that I'm seeing, I am seeing our hyperscale customers slow down a bit. I'm seeing them still buying, but I would say the rate slowing down a bit as they adjust their inventory levels and think about the outlook for their business or rethink that.

And I'm also seeing a newer trend, which is, I am seeing certain organizations bringing large amounts of data back from the cloud for a variety of reasons. Some of them are just pure cost savings. I think if they plan to leave data in -- or archive data for 20, 30 or 40 years, I don't think they're looking at paying a monthly bill for 40 years, and they're looking at ways to use their own IT resources to do that.

I'm also seeing people doing that for security reasons and to have greater control over important data. So, I'm seeing a number of very large projects that involve just bringing data back from a variety of cloud and other outsourced models and bringing that under a company's own control.

But in terms of the macro, I am not seeing in the segments we share -- that we serve, I'm not seeing large pullback. In the moviemaking business, I'm not seeing slowing down. Sports and entertainment, I'm not seeing a lot of slowdowns. I'm seeing most enterprises buying at a normal and healthy clip. I think most large enterprises view IT as something that's very strategic and I think they're protecting those budgets. I think people are looking at AI as an area to gain efficiency and be more strategic.

So, more and more investments in IT, and I think people are looking at other areas if they have to cut costs. But cutting IT -- I think people are trying to protect those investments because I think most companies compete with data, they compete with their access to data and their analysis of data.

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

And maybe just to be clear on the hyperscale side, with the demand you're seeing. Have you fully worked through your backlog at this point? And are you kind of at a steady state on the shippable backlog level?

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**Kenneth P. Gianella** - *Quantum Corporation - CFO*

Yes. We're not giving the exact backlog level, but I can tell you it's about normalized for where we would be going year-over-year. The backlog that was super large, that we were working off of, that was mostly due to supply chain constraints, that we've worked through over the last couple of quarters. So, it's more back to normalized levels that we stated before is somewhere between the \$10 million to \$20 million range.



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

And just finishing up with one last question for you, Ken. With the cost reduction activity that you're planning, is that mostly going to be taking place over the next several months and you get to an OpEx level that you see as being sustainable after the first quarter of the year?

**Kenneth P. Gianella** - *Quantum Corporation - CFO*

Yes. It's going to happen really in -- over the next couple of weeks, the majority of it. And then we're going to see another slug coming in towards the back half of the year as we work through some international and regulatory locations. So, I think that when you think about the profile of it, we're going to see about \$7 million of OpEx savings coming in, in this fiscal year based off of a Q4 '23 exit rate. And then we should see the other half of it coming in by the end of FY '25.

**Operator**

Our next question is from Craig Ellis with B. Riley.

**Craig Andrew Ellis** - *B. Riley Securities, Inc., Research Division - Senior MD, Director of Research and Senior Semiconductor & Capital Equipment Analyst*

And guys, I just want to say thanks for the very granular transparency in the deck, really helpful. So, I'll just start with a revenue question. So clear on the trajectory overall with secondary storage customers at the hyperscale level, moderating their pace of purchase intensity, primary starting to pick up, not looking for explicit guidance, but if we look beyond fiscal first quarter, how does that dynamic play out in the fiscal second quarter, guys? Does that mean we could see revenue step down one more time before we start to reaccelerate? Or how do we weigh the different puts and takes that you're seeing in the business?

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

Yes. I mean, what we're trying to do, I hope it's somewhat obvious, we need to bring our margins up. And we bring our margins up based on the segments we sell to. So, if you think about a hyperscale sale that could be margins as low as 18%, whereas you look at federal government, sales could be as high as 70%. So that's a pretty big margin range. So, we're putting a lot of emphasis on our high-margin areas, software sales, North American sales, large enterprise sales, solution sales, and trying to bring down or turn the volume down a bit on our low-margin business, which are -- can be hyperscaler sales, certain OEM sales, tape media, things of that kind.

So, I don't think you're going to see -- or trying to avoid kind of -- any kind of upheaval where you see massive changes, but we're trying to bring down some of the lower-margin sales while bringing up the higher margin parts of our business. So, we're doing that through our channel incentives. We're doing that through our sales compensation plan. We're doing it through our marketing efforts. And what we're trying to do throughout this year is keep the revenue flat while bringing the revenues up significantly in our high-margin products.

So, you see things like primary storage coming up as high as 25%. You see our enterprise sales coming up 25% to 30% as we bring down some of the larger pieces of our sales that are more -- I wouldn't call them completely empty calories, but they're certainly less nourishing than our higher-margin business. So, we're trying to manage that, so you won't see any big drops, but really shifting the mix towards higher-margin products and services.

**Kenneth P. Gianella** - *Quantum Corporation - CFO*

Yes. And I'll just add on to that, Jamie, is that when you think about the services business over the last few years with the end-of-life runoff that we've seen, the team -- we had a change over there, and the team has done a great job of stemming the runoff there with finding ways to extend

some of these product life -- product service life in some cases. And we do see that subsidizing by the back half of the -- first half of this year. So, we should see going into the second half that stabilizing and potentially going back up. So, if you think about our services business, just the legacy Quantum service business, that carries anywhere from the high 50s to low 60s in margin. And so, preserving that and then growing that again is a key part of our total ARR strategy.

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**Craig Andrew Ellis** - *B. Riley Securities, Inc., Research Division - Senior MD, Director of Research and Senior Semiconductor & Capital Equipment Analyst*

Nailed the first question and I anticipated the second one on services. So, moving on, talking a little bit further on OpEx. So, it sounds like with the different levers that the company has we'll be seeing \$7 million of benefit this year. Is that mostly in the back half of the fiscal year to get to that \$7 million, Ken, or would we see some of it as early as fiscal 2Q?

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**Kenneth P. Gianella** - *Quantum Corporation - CFO*

It's ongoing right now. So, we started -- we had a lot of things going on this quarter, as you can see from our release, in order to get ourselves healthy and back in productivity mode. We have those elements going on right now. And so, we would expect to start seeing benefit of that in Q2 and then heading into the back end of the year to pick up the rest of the \$7 million. So, I think you're going to see a little bit of health of that coming through in Q2 and the rest coming in Q3.

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**Craig Andrew Ellis** - *B. Riley Securities, Inc., Research Division - Senior MD, Director of Research and Senior Semiconductor & Capital Equipment Analyst*

One more model question and then on products. On the model side, helpful to see what you've done with debt and taking it up another \$15 million to give you some operational flexibility. What does that mean for quarterly interest expense, Ken?

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**Kenneth P. Gianella** - *Quantum Corporation - CFO*

We expect it to bump up a little bit, And, looking at what's in the marketplace today, I think that we worked with our existing lenders to get a very favorable deal for where we were at on a blended basis. Our debt only goes up 67 bps. So, I think it's a really good deal overall. So, we're only expecting to see a little bit more interest payment in the year.

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**Craig Andrew Ellis** - *B. Riley Securities, Inc., Research Division - Senior MD, Director of Research and Senior Semiconductor & Capital Equipment Analyst*

And then finally, back to you, Jamie. So, when Myriad was announced, we spoke and you were very excited about it. And then it was richly awarded at NAB, as you noted. What is your sales team hearing on potential Myriad uptake as we move through fiscal '23? And how are you thinking about potential revenue impacts to the business either in late fiscal '23 or fiscal '24 on more of a qualitative than quantitative basis perhaps at this point?

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

Yes. So, as you said, we announced the product. We have put it in front of analysts and gotten a lot of praise around the product. We are now pitching it to customers and certain customers are starting to install it and run benchmark testing with it, run different use case testing, and we're extremely encouraged.

What we're learning is the product is very unique. It's much more modern than the products that we're competing against. So, it has many more capabilities in very modern AI and ML use cases. It has certain features and capabilities that make it very unique for AI and ML, especially, including integrated metadata tagging, and we're pretty encouraged.

And the other thing that we're really excited about and we may have underestimated, is that, every time we would sell Myriad as a high-speed analytics or a high-speed platform, it usually has a data lake that is a form of secondary storage where data waiting to be analyzed resides. And we're seeing that as, every time we sell Myriad, we expect to sell ActiveScale or ActiveScale Cold Storage as the data lake and then also sell management software that's moving data from the data lake into the high-speed analytics area and then back and doing metadata tagging, doing data classification, doing different forms of analysis.

And so, we're really seeing it evolve into where a Myriad sale would typically drag with it ActiveScale Cold Storage and likely also drag with it CatDV. So, it's almost like an analytic ecosystem that we would sell. So that's been really encouraging to see that develop. And in terms of looking forward, my best view into that is by watching the pipeline. And I would say it's the fastest-growing pipeline we have inside the company right now. So, I think it's -- as we suspected, it's the fastest-growing market in storage, and you can see it by its pipeline growth relative to other products.

So, we're pretty encouraged, but at the same time, it's a new product, and we've got to get it through its initial launch, get it through all of its trials and then get it moving in the market. But yes, it will have revenue impact this year. We've modeled it very conservatively until we start to see POs coming in, but there'll be revenue impact in this fiscal for sure.

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**Operator**

Our next question is from Eric Martinuzzi with Lake Street Capital Markets.

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

Jamie, the cadence of business in Q4, given the success on the numbers, I would anticipate that you saw kind of a normal February up from January and March up from February. Is that how things played out?

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

Yes. Typically, January and February are very slow for us, especially in Europe. And then you really hit the buying season in March, and that's really what we saw. Things really accelerated in March for us. That always puts a lot of pressure on the supply chain, that's build and ship that quickly. And -- but yes, it -- slow January and very rapid March.

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**Kenneth P. Gianella** - *Quantum Corporation - CFO*

Well, and to add to it, I mean, this was a fiscal Q4 we've had since 2017. So, if you look at the numbers that were coming through, a lot of that was aided by the improving supply chain. Also, that when these things came in, in March, historically, we had to just sit back on it and ---

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

They go to backlog.

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**Kenneth P. Gianella** - *Quantum Corporation - CFO*

Yes, it goes straight to backlog. And so, with the loosening of the supply chain and our improved operational performance this quarter, we were able to get that out of that and that's why you saw the higher end beat.

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

Yes, that was -- I mean, that was a big difference. I mean, 1 year ago, we'd order a product and it could be -- a simple product like a server, and it would be months to get a network card. And now we order a server and they can ship in like 2 days. And we get an order and servers can be at the customer site in 1 week to 2 weeks. It's just a very -- and not in all cases, but that wasn't even thinkable 1 year ago and now products are just shipping off the shelf, a lot like -- a lot more normalized, and that had a big impact.

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

And then for -- the Q1 outlook is a little bit below where I was modeling. Anything that you saw in April or May regarding kind of the normal seasonality here? Did we have maybe a tough comp on the hyperscaler side from 1 year ago?

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

Yes. I think that's probably where you see things happening. The hyperscalers are -- it's a big part of our revenue, and it's slowing down a bit. And -- whereas 1 year to 2 years ago, we were the only company that had a hyperscaler tape offer. Now -- 2 other companies now offer something similar to us. And you can imagine through the supply chain pressures, the hyperscalers are -- want to be sourcing from multiple vendors to manage their risks. So, we're sharing some of that load with other players as well.

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**Kenneth P. Gianella** - *Quantum Corporation - CFO*

Yes. In the investor deck online, we've tried to give a little bit more color when you look at the verticals of how we go at it. And so hyperscaler is going to be less of a mix when we look at this fiscal year. Obviously, that helps with the total rotation for margin as we talked about. But on the near quarters, that's going to be some pressure to the top line, but we would expect the margins to improve to offset that.

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

And then on the -- you talked about gross margins rising from the -- it was -- 35.5% was the non-GAAP gross margin in Q4. What are you targeting by year-end?

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**Kenneth P. Gianella** - *Quantum Corporation - CFO*

Well, for the full year in this mix, I'd love to see somewhere between 37% to 38% in total gross margins. And if you look at that, that's a number of things that are driving that. One is the improved mix that we have. Number two, as Jamie was saying, the overhead and the increased pricing from the inflationary pressures we saw for expediting goods and services. We expect that to come down pretty dramatically. But also our manufacturing organization. Eric is running that, and I think he's done a really great job of finding efficiencies within the total work and finding ways to bring our costs down from low-cost manufacturing. And so, I think you combine those 3 together, we're feeling really positive about the margin rotation this year.

The second piece -- and I don't want to discount it, some of these actions that we're taking, this isn't just an OpEx action. There's things that we're doing within our margin profile to specifically within our services business. We really didn't do a good job of keeping pace with the runoff of revenue in that business, and we let the margins drop down to put a fine handle on it.

I think, again, with the leadership that Jamie put in there with Ross and the team, really excited about what Ross is doing in the products and services that we're going to be offering to customers for an uplift. That service mix change will also help us out. But then you look at what he's doing with New York. The synergies that we can get from globalization and moving or -- to lower cost regions to help service and maintain these product sets, that's going to get us to a much better margin position going forward.

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

And then last question is on the balance sheet. Obviously, you made the borrowing move after the close of the fiscal year. Do you have a pro-forma cash and debt balance maybe as of the end of May or whenever you took the loan out?

**Kenneth P. Gianella** - *Quantum Corporation - CFO*

I don't have that to give right now, but we can probably make that public. The way we carry forward -- because I didn't want to do a walk of what we actually did during this quarter. But if you think about the dollars taken down, it's probably plus or minus another \$10 million.

**Operator**

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

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

Yes. So, with respect to the guidance, which I think is characterized as being down seasonally, but then you also talked about how you expect hyperscalers to be down year-over-year for you guys as well. So is it fair to say that you're expecting secondary storage to be the main component of your down Q-O-Q for the June Q?

**Kenneth P. Gianella** - *Quantum Corporation - CFO*

Yes. Listen, if we categorize it with hyperscaler in secondary the way we do today, yes, secondary is going to be down Q-on-Q. But I think that we're expecting to see some improvement out of the primary business this quarter, which is going to help the cause. But also you're going to see services coming down slightly. As I said, it's going to be more towards the end of Q2 that you're going to see that stabilizing. So that's going to be down a little bit in the quarter too, but it's primarily the secondary portion of it that -- and the hyperscaler segment within that, that is the decrease.

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

And given that the hyperscaler portion is relatively low calorie, why then -- and also given that the March Q had this negative impact from the dilutive lighthouse deal, I'm a little bit surprised to see the EBITDA guidance is to be effectively flattish Q-O-Q. Can you walk us through those dynamics there?

**Kenneth P. Gianella** - *Quantum Corporation - CFO*

Well, I think when we come into the quarter, we're looking this to be somewhere around that 36% to 37% gross margin. And again, all these things that we see movement on, there is still some mix of hyperscaler in there that is going to have an impact on the lower revenue number. So, it's purely just a number of going from \$105 million down to to that \$97 million range that we're in. But then you have to add on these actions that we're anticipating. We didn't just -- we didn't start them until this week. So I'm still carrying a little bit higher OpEx in the first 2 quarters, a little bit higher selling expenses in the first 2 months, I mean, I apologize -- in the first 2 months, including some higher sales and marketing in those first 2 months that is dragging that down.

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

And can you guys size what your expectation is for the hyperscalers in terms of the year-over-year decline for fiscal '24?

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

We don't want to give the specific piece of it, but I can tell you it's going to be pretty significant drop year-over-year. It's probably be normalizing a little bit more towards what we did in '22 versus what we did number wise in '23.

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

And then you did mention that you are seeing pipeline increase from large enterprises. That's really great to hear that. Can you give a little bit more detail as far as -- you gave workloads, but you didn't talk about the products that you're actually seeing for?

**Kenneth P. Gianella** - *Quantum Corporation - CFO*

Yes. We're seeing a couple of things. One is, we're putting a lot of emphasis on backup and our DXI product, which is a deduplication and compression backup target. So, we're putting -- seeing a lot of large deals there. I think we said in our prepared remarks, we did north of a \$10 million deal with a Fortune 50 bank with DXI. So seeing those kind of large deals come together is good to see in that business. It's probably our highest margin product.

The other business that is accelerating very quickly and a little bit unexpectedly is the ActiveScale Cold Storage product, which is essentially for storing enormous amounts of data for very long periods of time. And we're seeing people use this for storing movie and film footage. We're seeing people store video surveillance footage, autonomous vehicle footage, just anyone who had just large sums of data, the national labs, that they want to keep for long periods of time. So that offer has really begun accelerating. And we have probably over 10 deals in our pipeline that are over \$5 million.

So they are large, large, usually north of 100 petabyte, often north of 500 petabytes data lakes. It's just enormous data repository. So that product is gaining a lot of traction. And then StorNext for non-media and entertainment use cases, analytic use cases, analyzing large amounts of unstructured data, being just a high-speed file system for unstructured data and also strengthen its traditional area of media and entertainment. So StorNext is also a key part of that. But those are the products we're really placing in the enterprise ActiveScale, StorNext and DXI.

**Operator**

Our next question is from John Fichthorn with Dialectic Capital.

**John A. Fichthorn** - *Dialectic Capital Management, LLC - Co-Founder and Portfolio Manager*

A lot of things sound good. And as we sit here, and yet it's hard to kind of parse some of that out in your numbers, and I think it's because you've got a lot of different moving parts in your business. You've got some things with bad margins that were growing and some things with good margins that weren't growing and a lot of that's now reversing in theory going forward. You've said some things like primary storage could be 25% this year. I didn't know whether that was 25% growth or 25% of revenues. I don't know --

**Kenneth P. Gianella** - *Quantum Corporation - CFO*

25% growth.

**John A. Fichthorn** - *Dialectic Capital Management, LLC - Co-Founder and Portfolio Manager*

And I assume you're factoring Myriad into that, and so that is in the guidance for this year, maybe conservatively. So I guess my first comment -- you can comment on it, but it isn't necessarily intended to be a question is, it'd be great if you could, on the next quarter or next year, think about ways to -- if you're now focused on EBITDA over top line, which is what it sounds like you are effectively -- If you could break that out at a segment level so that we can really kind of analyze what you guys are looking at when you're driving the business so we can measure whether you're succeeding or not? Because it's very difficult to kind of look at the numbers now and know whether you're accomplishing your goals to a large degree. On the gross margin side, specifically -- yes, go ahead.

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**Kenneth P. Gianella** - *Quantum Corporation - CFO*

No, I just want to comment that, I heard that feedback from you and others when we were talking about it, and I encourage folks to look at our investor deck that we put out there this quarter on top of our earnings deck. So we do give a little bit of a color breakout of the segments and the verticals of what we're doing in a little bit more detail to help with that rotational view. So, you just gave me a good in to do a little advertisement there to folks to go check out that investor deck.

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**John A. Fichthorn** - *Dialectic Capital Management, LLC - Co-Founder and Portfolio Manager*

I have not seen it. I was looking at your earnings deck here. But you mentioned for gross margins, the year-end, 37% to 38%, and you're kind of coming into the quarter 36% to 37%. I would have kind of expected a little bit more gross margin improvement. Did I hear that wrong? Or is that what the target is? And if so, why is it so anemic? And then further, like where do you think you can get to a gross margin, over what time period?

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**Kenneth P. Gianella** - *Quantum Corporation - CFO*

Yes. So, part of this is -- and you said it at the top of your comments, was around the rotation and a lot of moving parts. So, we still have this declining services business that we have to work through. There's still a nice slug of hyperscale that is in there, that we're rotating out the hyperscale and we're rotating back in the primary and the secondary product sets that Jamie was talking about earlier. So, you have those 3 moving parts, all happening at the same time there, that as we take action going into the back half of the year with the cost savings that we're looking at, it's going to start rotating back up in a positive way.

So, I think it's just a matter of mix and rotation back up to get to the higher levels. So, if we can start rotating and we get towards that higher end of the range, and we see more of the primary and secondary come on as we anticipate -- because the guidance I was giving was more on that midpoint. As we start rotating more towards the higher end, I would expect those numbers to rotate up more into the 38% to 39%, maybe starting to peak at 40% as we get that rotation.

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**John A. Fichthorn** - *Dialectic Capital Management, LLC - Co-Founder and Portfolio Manager*

So you said peak at 40%, and I just want to make sure you -- what you're saying is --

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**Kenneth P. Gianella** - *Quantum Corporation - CFO*

I'm sorry, peaking at 40%. Looking at ---

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**John A. Fichthorn** - *Dialectic Capital Management, LLC - Co-Founder and Portfolio Manager*

So you can start to see 40% at the end of this fiscal year is what you're hoping for?

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**Kenneth P. Gianella** - *Quantum Corporation - CFO*

If we get to the higher end with the rotation of primary and Myriad starts picking up, absolutely. And I think again this is --

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**John A. Fichthorn** - *Dialectic Capital Management, LLC - Co-Founder and Portfolio Manager*

And then longer term, what do you see yourself building towards with the gross margin? Like looking at -- I'm not looking for specific guidance for FY '25. But just kind of curious, you're focused on -- I mean, is the Myriad gross margin 60% and is the things you're growing into as opposed to moving away from, where do you see that gross margin getting to longer term business? What does the business look like?

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**Kenneth P. Gianella** - *Quantum Corporation - CFO*

Well, in that investor deck that we put out there, we restated kind of what we're going for those goals, right? We want to see 45% plus gross margin. In the primary business with Myriad alone, the margins in that business, and we think about the rotation, traditionally are high 40s, low 50s. With this Myriad product line coming on, we want to see that rotation continuing more into the 50s. The secondary business, once you pull out hyperscale, it's a pretty healthy business, right, especially with DXI as one of our largest margin products that we have out there. Those underlying products, that can be carrying mid-40s type of gross margin to it, too.

Getting services healthy. Service is dipping down in the mid- 50s, high 50s, not where we want it to be. That business can be up into the 60s also. The other piece that we really didn't talk about a lot, but we are really, really stressing, the amount of subscription and how we're rotating there. Going from 25% a year ago of new sales being subscription to over 78% of our sales being subscription-based now and looking at a 60-plus percent margin with that, that's an awesome rotation that the sales team is doing there and the great traction that we're seeing.

So, I guess, John, what I'm trying to say is, the proof points that we're driving and why we feel confident we can get back to the mid-40s is all in the rotation of the primary coming back, driving the subscription portion of that versus being a one-time sale and then getting services healthy again and having that be in the 60s. Those elements of those 3 things combined with the self-help of -- the lower cost of production, that's why we feel confident that the trends going out of '24 into '25, '26, et cetera, we can get back up into the 40s plus.

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**John A. Fichthorn** - *Dialectic Capital Management, LLC - Co-Founder and Portfolio Manager*

So help me just -- last question -- drill down on this software subscription concept. It would seem like if you've seen the attach rate, I don't know what else to call it, go from, call it, 20s to 70s, that I would see a higher revenue jump than I have year-over-year. Look, the revenue growth is great. It's still a small number, though. And so, if I'm all of a sudden getting 70% of my sales with attaching to a software sale, why am I not seeing that a double-digit quarterly revenue number, for example? And where can that get to? So maybe flesh that out a little bit for us, if you would?

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**Kenneth P. Gianella** - *Quantum Corporation - CFO*

Well, I want to break the 2 out as I was very specific on the new sales that were coming in. We still have a lot of legacy sales. So, think of it as a 40%-60% split, 40% being new sales to new customers. Those are coming through as subscription. Where the add-on to legacy customers that were already in perpetual, they tend to want to add on in perpetual. So, we got to get that rotation for both new and legacy into the subscription side, John. I don't know if that answers your question, but that's the data point.

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**John A. Fichthorn** - *Dialectic Capital Management, LLC - Co-Founder and Portfolio Manager*

So it's the new sales as opposed to the legacy that is that -- So you're succeeding in new customers and new sales, they have now a very high attach rate. And as that blend increases versus legacy that will drive the growth?



**Kenneth P. Gianella** - *Quantum Corporation - CFO*

Spot on, John.

**Operator**

This concludes our question-and-answer session. I would like to turn the conference back over to management for closing comments.

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

All right. I'd like to thank everyone for attending today. And if you have further questions or want to speak to us directly, Ken and I are always available. Thank you, everyone.

**Operator**

Thank you. This will conclude today's conference. You may disconnect your lines at this time, and thank you for your participation.

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