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PRESENTATION

Operator

Welcome to Quantum's Fiscal First Quarter 2024 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.

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 First Quarter Fiscal 2024 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 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.

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 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. Earlier today, we announced our results for our first quarter fiscal 2024.

Turning to Slide 3. Here is a brief overview of the results from the quarter. We finished Q1 '24 with \$91.8 million in revenue, non-GAAP gross margin of 38.3% and adjusted EBITDA of \$0.8 million.

While the revenue came in well below expectations, which I will address in a moment, our global efficiency plan and cost reduction initiatives helped to deliver a 280-basis point sequential improvement in non-GAAP gross margins to above 38% as well as adjusted EBITDA improvements of over 2x year-over-year as we continue to focus on driving improved profitability.

Ken and I will walk through the quarter and the actions we are taking to deliver an improved year-over-year adjusted EBITDA as we described in our annual guidance.

Now turning to Slide 4, I would like to share some operational insights. Several factors impacted revenue falling short of our expectations. First, Media sales that traditionally do not finalize until the last week of the quarter from our partners, and has been traditionally steady for over the last 12 quarters, came in lower than anticipated by \$2.3 million in Q1 '24. Investigation into this shortfall revealed there was unseen excess capacity in the market compounded by higher-than-anticipated weakness in the Hyperscale vertical marketplace.

Next, we saw some end-of-quarter Hyperscale deliveries that were impacted by unexpected delays. And finally, some primary and secondary orders materialized later than anticipated, impacting this quarter's revenue.

Turning to non-GAAP gross margins, We improved to 38.3% based on improved operational efficiencies in manufacturing and services, combined with the reduced mix of lower-margin Device and Media sales and Hyperscale business. We anticipate the operational improvements in both manufacturing and services to continue through the near term. As you will hear from Ken, we anticipate another 400-basis point improvement to 42% gross margin in Q2 '24.

Margins are also improving with continued growth in our Annual Recurring Revenue and Subscription Revenue. Fiscal Q1 subscription ARR grew by 78% year-over-year to \$14.6 million. We continue to anticipate that general availability of Myriad by the end of this calendar year will continue our accelerated rotation from one-time hardware sales to a more stable subscription ARR model.

Next, as a result of our proactive actions, we have made significant progress from our self-help initiatives. This includes improving manufacturing and logistics productivity, reducing discretionary spend, and leveraging our global footprint. These self-help initiatives are a key part of our transformation along with improvements in our ability to sell the full portfolio of products. We expect to see continued positive benefits from these actions in fiscal Q2, given the timing of some actions was implemented late in the first quarter.

As a result, we anticipate non-GAAP operating expenses to begin to trend below \$34 million a quarter for the rest of the year as we continue to find opportunities to leverage our Global Footprint, drive deeper cost actions and improve operational efficiencies to increase our profitability.

Finally, I want to address the current market environment and actions we are taking. While there continues to be exponential growth in public cloud, heading into this fiscal year, we are seeing indications that the Hyperscale environment will not be as robust as in prior years. The drivers of this outlook are many, including indications of cloud storage slowdown due to the economic environment, tighter IT budgets, and the emerging trend of repatriation of certain data workloads to on-premise systems. All of these factors have led our Hyperscale partners to a cautious capacity outlook for the next 2 quarters.

Thus, subsequent to the Q1 '24 quarter end, our largest Hyperscale customer informed us that they were pausing all additional orders in our fiscal Q2 '24 with the potential to also extend into fiscal Q3 '24. While they are still deploying our solution from their on-hand inventory, we anticipate this pause in new orders to impact our revenue outlook, as this customer was our only concentration of revenue greater than 10% in fiscal 2023 and represented over \$22 million in our most recent Q1 '24.

While this Hyperscale slowdown was anticipated in our initial fiscal year '24 outlook, these recent developments will have a deeper impact than we anticipated, and we estimate that this and the potential for additional Hyperscale slowdowns will impact our initial fiscal year '24 full year outlook by \$35 million to \$40 million.

In addition, we anticipate this slowdown will also impact Device and Media sales to similar levels as Q1 '24 for the near term. While the media slowdown will have a very low margin impact, we anticipate a revenue impact of approximately \$15 million from our original fiscal year '24 outlook. Ken will give you more color on the full impact of guidance and our outlook in his financial update.

While the large Hyperscale drop is disappointing, we are encouraged by the improvement in our end-to-end opportunities in both primary and non-Hyperscale secondary solutions. In Q2, we see the potential for this market to increase 30% to 40% year-over-year. Additional opportunities are opening and being explored at these customers as Quantum now offers a complete end-to-end portfolio. We anticipate this trend to continue into the back half of 2024.

Now I'd like to turn it over to Ken to walk through our financial results and Q2 '24 outlook in more detail. Ken?

Kenneth P. Gianella - *Quantum Corporation - CFO*

Thank you, Jamie. Please turn to Slide 6, and I'll provide an overview of the financial results for our fiscal first quarter.

Revenue in the first quarter of 2024 was \$91.8 million, a decrease of approximately 5% year-over-year and 13% sequentially. As Jamie discussed, lower revenue for the quarter was on softer demand for Devices and Media, Hyperscale delays, and later than anticipated bookings. Even with the lower revenue, our overall profitability has significantly improved.

Our proactive actions in manufacturing and services, along with pricing actions and improving product mix increased our GAAP gross margins 280 basis points to 38.1% on a GAAP basis. We expect this improved operational performance to continue through the year.

Adjusted EBITDA in the first quarter was \$800,000. This represented an over 2x improvement compared with \$300,000 in the prior year first quarter. This improvement was driven by the better gross margin performance I discussed and the initial benefit of our ongoing cost reduction initiatives.

Now turning to Slide 7. I'll provide a breakdown of this quarter's revenue results and the year-over-year trends.

Similar to last quarter, our presentation of revenue breaks down the performance of our Primary and Secondary storage systems from both perpetual license and subscription delivery. Services on this slide consists of our traditional Quantum Services only and does not include subscription.

Primary storage revenue was \$11.1 million, down approximately 34% year-over-year and 24% sequentially. Late bookings in the quarter were the primary driver of this decrease.

To note, our StorNext product, which has a significant installed base serving the media and entertainment industry did not see an impact in Q1 2024 due to the ongoing entertainment industry labor work stoppages. Our outlook for Q2 '24 does factor in modest impacts, and we are anticipating potential second half headwinds if the labor situation does not improve.

Secondary Storage systems revenue increased 21% year-over-year and decreased 12% sequentially to \$40.6 million or approximately 45% of total revenue. As Jamie discussed, while our Hyperscale customers were the driver of the year-over-year increase, this vertical was down sequentially on waning capacity needs from cloud providers.

Looking at our Services business, revenue in the first quarter was \$28.7 million, down approximately 10% year-over-year, driven by end-of-service-life on our older tape product lines. We anticipate the declines in Service revenue to begin to level off later this fiscal year.

Next, in Media and Devices, revenue decreased approximately 28% year-over-year and was down 24% sequentially to \$8.3 million.

In Q1, while the total market capacity for media has remained essentially flat over the last few years, Media's sharp decline from its prior run rate of near \$10 million a quarter was driven by an unanticipated dip in demand.

With the recent reductions in Hyperscale capacity combined with the newer generation of LTO coming online later this year, we are shifting our outlook to be approximately \$8 million a quarter going forward.

And finally, royalties in the quarter were lower and totaled approximately \$3 million. We continue to anticipate royalty revenue to stabilize around current levels or an annualized rate of approximately \$11 million to \$12 million.

Moving to Slide 8. I want to provide an update of our Annual Recurring Revenue and Subscription metrics.

Total Annual Recurring Revenue, or ARR, for the quarter was approximately 40% of our total revenue at \$36.4 million with a gross margin on the combined businesses being approximately 66%.

As a company, we aim to consistently improve our Total ARR by maximizing our Quantum Service opportunities to both our partners and customers globally. Our Subscription growth continues to demonstrate the progress we are making on our business transformation efforts.

In Q1 '24, the Subscription portion of our total ARR increased approximately 78% year-over-year and approximately 9% sequentially in the first quarter to \$14.6 million.

Finally, of note, we continue to see strong implementation of our subscription offering with over 89% of new customers on Subscription. Also, as we enter our first subscription renewal cycle, we are very encouraged by the progress we are seeing with a near 100% renewal rate in Q1 '24.

Now turning to Slide 9, let's review our first quarter GAAP results.

GAAP gross margin for the first quarter was 38.1% compared to 35.1% of revenue in the first quarter of 2023. GAAP net loss in the first quarter was \$10.6 million or a loss of \$0.11 per share compared to a loss of \$10.6 million or \$0.13 per share in the same quarter last year.

Now turning to Slide 10 for non-GAAP metrics. Non-GAAP gross margin for the first quarter was 38.3%, representing an over 280 basis point improvement, both sequentially and year-over-year.

Non-GAAP operating expenses were \$35.5 million in the first quarter, down from \$36.3 million year-over-year and down from the \$37 million last quarter. Non-GAAP adjusted net loss in the first quarter was \$4.8 million or a \$0.05 loss per share, flat both sequentially and year-over-year. And finally, adjusted EBITDA for the first quarter improved to \$800,000, which shows our ability to improve our operational cost profile despite revenue coming below our expectations.

Our focus on improving EBITDA and total profitability will continue to center on our global cost reduction initiatives and our sales team's effort in driving more end-to-end, higher-margin subscription-based solutions. We continue to anticipate our efforts will deliver sequential and year-over-year improvements in profitability even on a lower revenue base in fiscal year 2024.

Now please turn to Slide 11 for an overview of Debt and Liquidity at quarter end. Cash, cash equivalents and restricted cash at the end of the first quarter were approximately \$25.7 million. Outstanding debt, split between Term and our Revolvers, was \$106.4 million, of which includes \$15 million in additional debt funding we secured during the quarter in conjunction with greater covenant flexibility. At quarter end, the company's net debt position was \$100.6 million.

We remain focused on improving our working capital and overall cash conversion metrics as we drive towards being cash flow positive in the second half of fiscal year 2024.

Turning to Slide 12. I'll now review the company's guidance for the second quarter and fiscal year 2024.

First, we anticipate total revenue in the second quarter to be \$80 million, plus or minus \$3 million. This outlook was significantly impacted by the recent news from our largest customer.

We expect non-GAAP adjusted net loss per share for the second quarter to be negative \$0.04, plus or minus \$0.02 per share, based on an estimated 93.9 million shares outstanding.

Adjusted EBITDA for the second quarter is expected to be approximately \$2 million. This improvement, on significantly lower revenue, is driven by anticipated gross margins to be approximately 42% and non-GAAP operating expense to be approximately \$34 million.

In terms of our outlook for the full year 2024, with the unanticipated drop in both media and Hyperscale verticals, we now expect revenue to be \$360 million, plus or minus \$10 million. This updated range also takes into consideration the potential second half impact of prolonged work stoppage in the entertainment industry.

While our full year revenue outlook dropped \$55 million at the midpoint, it was primarily in verticals with low gross margins. After evaluating our new product mix and our self-help improvement efforts, we anticipate gross margins of approximately 42% for the full year. This is a big driver of our anticipated adjusted EBITDA for the full year of approximately \$17 million with a range of plus or minus \$3 million.

To add some color to our progress and guidance, please turn to Slide 13. Our return to profitability programs continues to be focused on improving revenue mix, driving operational efficiencies, leveraging our global footprint and executing self-help cost reduction initiatives. All of these programs are actively underway, and we are making strong progress.

Unanticipated in our original full year outlook was the proportion of the declines in Hyperscale, media, and the impact of a prolonged entertainment industry work stoppage. Even with these revenue headwinds, Quantum is demonstrating our ability to run a disciplined manufacturing and service operation while implementing strong cost and discretionary spend controls across our operations.

Looking beyond Q2 and the second half of fiscal year 2024, our self-help programs are taking shape better than anticipated. While we have risk-adjusted the revenue outlook with this latest information, we will continue to work with our customers and our partners to find opportunities to improve this outlook as we progress throughout the year. With that, I'll now hand the call back to Jamie for closing remarks.

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

Thanks, Ken. Before we hand it over to questions, I want to end our prepared remarks with our view of the near-term demand and Quantum's go-forward focus.

While we were expecting a softening in Hyperscale at certain regional cloud and enterprise customers, as Ken said, the velocity of the reduction is faster and harder than our initial projections. This will have a significant impact on our Hyperscale revenue in the near term. However, there is an expectation that this will normalize in a couple of quarters.

While I am disappointed in the near-term weakness of our Hyperscale vertical, the overall demand trends for Quantum solutions are pointing in the right direction. The past 30 days, I have visited with customers and partners in the U.S. at our recent APAC partner event and during trips to Southeast Asia, India and China.

Based on customer input, they are beginning to see economic improvement in their businesses and customers are accelerating the need for cost-effective, long-term, unstructured data storage management that they can get from Quantum.

We are seeing the proof points in our Q2 '24 outlook with almost 40% year-on-year growth in our primary and non-Hyperscale secondary solutions, including higher-than-anticipated pipeline for these solutions in the back half of the year.

While CIOs continue to operate under tighter budgets in the near term, they are turning to Quantum to find ways to optimize the cost of their existing workloads, both on-prem and in the cloud. Quantum's end-to-end on-premise and cloud solutions are seeing significant traction, and it is up to us to capture this momentum over the next few quarters.

As early AI and ML adopters in video, biotechnology, and industrial technology-based companies give way to mass enterprise use cases that leverage AI and ML models, Quantum's Myriad, ActiveScale and turnkey service offerings are ready to manage cost-effective storage solutions between Flash, Disk and Tape, both in the Cloud and on-premise for any sized enterprise. Quantum remains both an enabler and beneficiary of the enterprise's need to effectively manage the cost of unstructured data between the cloud and on-premise at the lowest TCO per terabyte.

Quantum remains focused and dedicated to improving both its financial and operational results for all our stakeholders, and we look forward to providing more proof points over the months and quarters to come. 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 & Co.

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

Jamie, kind of building on your last comments about the way you're building guidance and being careful with the outlook, can you give us some perspective on your visibility into the second half of the year? It appears that you're fairly confident that there'll be a bit of a rebound with the full year guidance. And is there seasonality still built into the fourth quarter? Or do you expect trends to now improve from the third quarter to the fourth quarter?

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

Yes. There's a series of initiatives that we've been working on that are coming together and those things give us confidence about the second half. And it's not just seasonality. And those things are the following: we've been working for 6 quarters to improve our margins. And probably the single biggest takeaway I have from this call is the improvement to 38.3%, which is the best margin result we've had in 6 quarters and our forecast and confidence that we're moving into a 42% margins next quarter.

So that puts us in a very different earnings position than we've been in for quite some time. The second thing that's coming together is we have very good visibility into our North American enterprise and North American federal business. Those are our most profitable pockets. And we're seeing a 30% to 40% increase in revenues in those very margin-rich segments.

So, we are making the turn now that it's somewhat painful when you look at it from a revenue perspective, but when you actually look at the mix changes, we're making that change where we're getting margins back to 42%. Once we get sales back into the 90% to 95% range at those 42% margins, combined with the cost-cutting initiatives, we're in the \$5 million to \$7 million adjusted EBITDA per quarter range that we need to get to.

And so, we're making those changes. We have the pipeline we need. We have the visibility in the deals we need. And we're making that transformation. It's not a smooth line, but we have pretty clear visibility that we'll achieve that in the back half of the year and meet the \$17 million of EBITDA that we've projected.

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

Ken, one question for you. Just when we model out gross margins in the Hyperscale normalization, looking at 42%, do you have a range that we can look at as the Hyperscale kind of comes back into the mix?

Kenneth P. Gianella - *Quantum Corporation - CFO*

Well, I mean, you're asking me to project how much Hyperscale would be in that mix to tell you how that would pull it down. Our Hyperscale business, as we've said publicly before, that can range anywhere from a 10% to 20% gross margin type of clip. So, depending upon the amount of dollars that come into that, that's the weight you'd have on it. But the range we give from a gross margin perspective tends to be somewhere between 10% to 20%.

Operator

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

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

I just want to say thank you very much for all the transparency and the very detailed deck and in your prepared commentary. Ken, I was hoping to start with a clarifying question for you. So, our fiscal '24 revenue view is down about 10% or \$40 million from prior. And you and Jamie were both very clear that there's 3 variables impacting that. I was hoping you could just bin out the relative impact of each of those 3 as we look at the \$40 million revenue variance.

Kenneth P. Gianella - *Quantum Corporation - CFO*

Well, I mean, I look at it -- I mean, I know \$40 million is from your point. But for us, we were going for a midpoint of \$415 million down. That's roughly around \$55 million at the midpoint. \$35 million to \$40 million of that pure and simple is the Hyperscale portion of it that we were focused on. While we were very conservative in our minds going into the year, the volatility and the velocity of this dropping out so quickly was disappointing.

The second bucket is really around the media portion of it. Again, both of these are low margin, as I just told George, Hyperscale, that's the 10% to 20% margin. When you look at the media piece, that's 5% or lower once you get -- factor in rebates. So, the media side of it, that's probably another \$15 million to \$20 million potentially out depending upon how the market recovers there. So, the real 2 big buckets that we're looking at is the Hyperscale and the media portion of it.

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

That's really helpful, Ken. And then Jamie, I just wanted to follow up with one of your comments in your prepared remarks. You commented on being face-to-face with customers in numerous regions, and I know that's a big part of your time. The question is, we had picked up over the last month signs that there was a bit of a down shift economically in the U.S. and Europe and in enterprise spending intensity.

There's also been a lot of chatter about the mix of spending at enterprises, cloud and mostly Hyperscale customers thus far moving towards generative AI systems. What are you seeing on the former and on the latter? Are there benefits to Quantum? Or is that more of a risk to Hyperscale and other spending intensity?

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

Yes. For a long time, we spoke about the work we did in Hyperscale as proving our capabilities. And I am seeing more and more enterprises collecting very large amounts of data usually for the purpose of performing some type of analytics AI/ML work. Autonomous driving companies routinely have an exabyte of data.

I'm seeing just more and more companies talk about 500 petabyte exabytes of data that they're keeping. And they do make the basic intellectual step, if you will, that if they're going to keep this data for 50 to 100 years, the idea of paying a monthly fee to some type of service provider or cloud provider to store their data for 100 years, they just look at that and say that's probably not economically efficient.

If we're going to house data for analytics and house this data for 20, 50 or 100 years, they want to engage in a conversation with Quantum about how do we build our own infrastructure to do this. That is the single biggest conversations that Quantum is having now is many companies coming to us engaging in discussions around our ActiveScale cold storage capabilities and how do we help them save money by storing data more efficiently by building those capabilities themselves.

The other conversations we're having is around our high-speed platforms for both StorNext and the F-Series. and Myriad, about if they are also going to start performing these very high-performance AI/ML runs, they're seeing us as not only a viable provider of that, but also a very cost-effective provider of that because our systems are so performant that they can perform AI and ML workloads either on the cloud or on their own hardware more efficiently.

So, the faster you can perform an AI workload the less hardware, the less time on the cloud you need. And so, we're engaging in a lot of conversations about how we can perform AI workloads more efficiently than others. So, the conversations have been good. Our pipeline is the largest it's been since I've been here.

And that's why we're feeling more -- even though obviously, there's disappointment and frustration with the current quarter and some of the rapid changes our largest customers have made. But we're feeling pretty confident about the back half of the year because of the projects we're engaging with. And this is what we had hoped for some time is that our capabilities in the cloud will translate to enterprise sales. And we're starting to see that happen and seeing the pipeline develop where more and more people want our cloud capability.

Kenneth P. Gianella - *Quantum Corporation - CFO*

I think, I'd add on to that, Craig, is when the shift that Jamie talked about, we anticipated it happening eventually, but we were thinking this would be 1 to 2 years out before that shift would happen, and we would have the Myriad capabilities online to offset that movement. But as you can also see from our ARR numbers, we're very pleased with the uptick on that side of it, and that's going to help create some long-term stability as we can get more of that annual recurring revenue on our products and services.

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

That's really helpful, guys. And then just a follow-up to that, Ken. So, the \$360 million in annual revenue given the guide for fiscal 2Q would seem to imply that the business would rebound maybe mid-single digits and mid-teens in the back half of the year sequentially.

Can you just talk about the overall linearity? I know you're not providing specific guidance per quarter, but how do you see the linearity playing out? And as you look at the back half, what are some of the bigger risks to the rebound that's implied in guidance?

Kenneth P. Gianella - *Quantum Corporation - CFO*

No. I mean, that's exactly right, sequentially. I mean when you think about the efforts that we're doing right now, it's going to be, as Jamie said earlier, getting those proof points in North American Fed. We've been investing in the sales team there and the group there for over -- well over a year now. And we have a lot of confidence in the team that they have the visibility and the connections that we're going to close these pieces out.

When you start looking and thinking about the Object Storage market in the second half and the future pipeline growth associated with it, as Jamie said, the pipeline and just the basic conversion numbers associated with that give us greater confidence than the company has had in a while in those marketplaces.

Operator

Our next question is from Eric Martinuzzi with Lake Street.

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

Yes. I wanted to revisit the Q1, the linearity. I know you guys said it was June 6 when you gave the outlook for Q1. So -- and I'm talking specifically on the primary storage side. And with regard to the booking delays, did you see any patterns either government or enterprise, maybe verticals, GOs?

Kenneth P. Gianella - *Quantum Corporation - CFO*

Yes. So, I mean, I'll start with the one in the delay side that got us was our video surveillance side. These tend to be longer sales cycles. We had confidence with some pretty significant bookings that were going to come in. They did come in. Unfortunately, it was just late within the quarter to fully be able to fulfill those elements of it.

As I said before, there was delayed Hyperscale, delay in some of the deliveries there. And then you look at as I said, video surveillance -- and I'm just looking through my notes here, and media, obviously, was the surprise at the end of the quarter.

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

Okay. And was government where you thought it would be for June?

Kenneth P. Gianella - *Quantum Corporation - CFO*

Yes. We're trailing in that we were on track for what we anticipated that to be. Traditionally, this quarter is the big government quarter that you see across the board. So that's kind of -- we're looking at a pretty large step-up in the government business for this -- for Q2 -- our fiscal Q2.

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

Okay. And then a question regarding the debt and liquidity. So, this would be referring to Slide 11. You talked about getting to cash flow positive in the second half. I know in our prior conversations, you have been targeting in October, November time frame, is that still accurate? Or does that move to the right given the recast of the full year outlook?

Kenneth P. Gianella - *Quantum Corporation - CFO*

Yes. I moved that slightly to the right, just to be conservative as we come through, right? Obviously, at these levels, at prior outlook of where we were at, we were fairly solid with October, November. We're talking maybe months it moves out, not quarters, though. We still feel confident we can get to that in this fiscal year.

With this knowledge of what's come in, obviously, we were already pulling levers to be more disciplined in our spending. The CapEx portion of it was really going to be the biggest lever for getting there. And we've made some decisions over the last few days that we're going to be a lot more conservative on some of that CapEx spend, which will give us the flexibility to get back to free cash flow positive.

Operator

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

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

Ken -- well, both of you. So, the pipeline that you're seeing in your North American enterprise and federal vertical that gives you confidence in the back half of the fiscal year, what's the composition of that product pipeline, especially with respect to Myriad?

Kenneth P. Gianella - *Quantum Corporation - CFO*

Well, right, wrong or indifferent, there is no Myriad in that number that we're giving right now. So, we are focused purely on what's on the truck today. And that is really composing. That confidence comes of the ActiveScale and ActiveScale cold storage products that we have, that's really where we're focusing along with our other video surveillance and our other elements around primary storage in the StorNext elements.

The StorNext, we've taken some of the elements out of there just to be cautious in the back half of the year depending upon how the labor unrest goes within the media and entertainment industry.

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

Okay. And I really like Slide 13. It's really helpful. I appreciate it a lot. But it does bring up some additional questions, especially in the context of the explanation of the \$55 million takedown with basically \$35 million or \$40 million being Hyperscaler and the remainder being device and media. But as you just mentioned, you're being cautious with your StorNext with respect to M&E work stoppage. And so that's got to be an element as well, but I guess there is a positive lever that is offsetting that conservatism?

Kenneth P. Gianella - *Quantum Corporation - CFO*

Yes, there is. Yes, we -- as we discussed before, the ActiveScale portions and the elements from the governmental business are showing stronger than we anticipated. So that's some of the offsets associated with that in the primary business.

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

Got it. Okay. And then the net mix impact of \$7 million on EBITDA versus \$55 million of the takedown, that implies a healthy EBITDA margin like in the 12% to 15% range, which would add rich EBITDA margin relative to what you've been putting up. And so, reconcile that with the contention that the hyperscaler the device is basically low-margin business.

Kenneth P. Gianella - *Quantum Corporation - CFO*

So I heard the question, but I didn't get it, to be honest with you. So, with the fallout of the Hyperscale, we were always looking at the Hyperscale in the media business as this was just gravy on top of what we were doing with our operating business. When Jamie brought me on board, and we sat with the team looking out at this next year, it was about self-help and how do we get healthy with our margins, being more effective and efficient with our global footprint, how we can look and improve our operational margins, particularly in services with the declines with a lot of the end-of-service life.

A lot of our margin improvement throughout the year was always based on self-help. Now plus side to that is we also knew and felt confident that the themes going into this year, we're looking at how our ActiveScale cold storage and our rest of our primary business was going to pick up traction year-over-year. Both of those -- all 3 of those things are happening.

The thing that we lost going into this quarter -- I mean, we're talking days of knowledge here, was the dropout and -- the velocity of the dropout associated with the Hyperscale and the media business. Those 2 elements were the ones that, again, as I said, were gravy on top. All the other elements, we still have handles on. We're pulling the levers, and we see the path to execute to.

So, what we're cautiously optimistic is, as we start getting towards the back half of the year, we'll work through some of this excess inventory in the Hyperscale business, and there's a potential for some of that to start coming back in towards the back half of the year.

Operator

There are no further questions at this time. I would like to hand the floor back over to Jamie Lerner for any closing comment.

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

All right. Thanks, everyone, for attending today's call. If anyone wants to spend more time with us, dig deeper, Ken and I will make ourselves available. Thanks, everyone.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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