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PRESENTATION

Operator

Good afternoon, everyone, and thank you for participating in Today's Conference Call to Discuss Quantum's Financial Results for the Fourth Quarter and Full Fiscal Year 2022. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to turn the conference over to Brian Cabrera from Quantum.

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

Good afternoon, and thank you for joining today's conference call to discuss Quantum's fourth quarter and fiscal 2022 financial results. I'm Brian Cabrera, Quantum's Chief Legal and Compliance Officer. Joining me today are Jamie Lerner, our Chairman and CEO; and Mike Dodson, our CFO.

This afternoon, we issued a press release, which you can access under the Investor Relations Section of our website at www.quantum.com. We are using a slide presentation in conjunction with today's call, and this is also accessible under the same section of our website.

During today's call, our comments may include forward-looking statements. All statements other than statements of historical fact should be viewed as forward-looking. These statements include any projections of revenue, margins, expenses, adjusted EBITDA, adjusted net income, cash flows or other financial items. These statements may also concern the expected development, performance and market share or competitive performance of our products or services. All forward-looking statements are based on information available to Quantum as of today's date. We advise caution in relying on these statements as they involve known and unknown risks and uncertainties we refer to as risk factors. Risk factors may cause our actual results to differ materially from those involved or implied by the forward-looking statements, including unexpected changes in our business. We include detailed information about these and additional risk factors under the sections labeled "Risk Factors" in our quarterly report on Form 10-Q and the annual report on Form 10-K, which we filed with the Securities and Exchange Commission. We do not intend to update or alter our forward-looking statements, 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.

If you are unable to listen to the entire call at this time, we will make a recording available for at least 90 days in the Investor Relations Section of our website.

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 this afternoon, we announced results for our fourth fiscal quarter and fiscal year 2022. I'm encouraged by the progress we've made throughout the year, delivering growth in recurring software revenue, integrating 3 acquisitions to build out our portfolio of solutions for video and unstructured data and resetting our balance sheet with a recently completed rights offering. Today, I will talk more about the progress we are making in our supply chain and how we plan to improve Quantum's earning power going forward.

Our fourth fiscal quarter revenue was up year-on-year and exceeded our preliminary results, and our backlog remains at near record levels. Our fiscal year 2022 revenue grew 6.7% year-on-year, and we made significant progress toward building recurring revenue -- exiting fiscal year 2022 with $7.4 million of subscription software ARR and $160.5 million in high-value recurring revenue.

The number of active subscription customers grew to 356, an increase of 290% year-over-year. And we expect continued growth in the fiscal year 2023 based on all the work we have done over the last 4 quarters to transition our product lines.

Earlier this quarter, we completed an oversubscribed rights offering to strengthen our balance sheet by reducing debt and increasing our cash position. With the completion of the rights offering, we have reduced our net debt balance by 2/3 from just under $150 million at the end of fiscal 2019 to currently just under $50 million. In addition, we have reduced cash paid for interest expense from $24.3 million in fiscal year 2021 to an estimated $8 million annual interest expense in fiscal year 2023. Mike will discuss more about our balance sheet in his section as well as how we have reset all debt covenants to more favorable levels.

Now I'd like to talk about our plans to increase earnings over the next 4 quarters. Through sales growth, operational expense reductions and price increases, combined with supply chain initiatives to drive margin expansion, our goal is to deliver substantial year-on-year improvements to adjusted EBITDA. While our sales are ramping, we are tightening operational expenses across the company. We are reducing discretionary spending, reducing our facilities footprint and expanding our global engineering presence as we continue to integrate recent acquisitions.

Now I'd like to talk about supply chain. As we stated in the press release, our backlog remains just over $60 million. And much of this backlog is tape storage systems for our hyperscale and enterprise customers. We are seeing signs of improved tape drive supply from our key supplier, though we expect the environment will remain constrained in the short to medium term. Starting last year under the new supply chain leadership of Eric Isom, we put in place a strategy to improve supply chain execution, and this is now starting to show results.

Our strategy is based on 4 main elements:

Reducing reliance on broker buys by purchasing long-lead components well in advance,

Replacing components that are supply constrained with more common and often cheaper components,

Stronger engagement with and management of critical suppliers,

Localizing supply of tape storage components in Mexico near our contract manufacturer.

The first encouraging sign we are seeing is that PO's placed last year for long lead time items are now being delivered, which is reducing the number of components we need to buy on the broker market. Certain components last year had lead times that increased to 60 weeks almost overnight. This left us gapped on supply, so we had to purchase components on the broker market at higher prices to cover the gap.

During this period, we also qualified over 70 alternative components in our tape storage systems. And these efforts are now showing results with broker buys decreasing 80% from fiscal Q4 to this quarter. In addition, as we are starting to get ahead of demand, we have started to see reduction in freight expedite charges from Asia, particularly this quarter. Going forward, we expect to use all ocean freight for key bulk materials. Longer term, as we localize more materials in Mexico, we will further reduce freight costs and geopolitical risks.

I'm confident that by executing on the programs above, we'll be able to increase the earnings power of Quantum while building high-value recurring revenue based on software and services.

Now I'd like to turn the call over to Mike to provide more detail on the results, then we can take questions. Mike?

James Michael Dodson - *Quantum Corporation - CFO*

Thank you, Jamie welcome to the call today. During the current year, we grew recurring software subscription revenue to a total ARR of $7.4 million as we transition StorNext, ActiveScale, DXi and CatDV products to a software subscription model. We also completed 2 acquisitions that established us as a serious player in a multibillion dollar video surveillance storage market. Also during the year, we saw a record-breaking backlog driven in large part by the demands of our hyperscale customers that we were not able to fulfill due to ongoing supply chain constraints.

So Fiscal 2022 was productive, but also a year with challenges. Our revenue, although higher than the prior year was lower than expected, primarily driven by supply chain constraints seen by much of the industry as well as the lack of a recovery for our U.S. federal business. Our gross margins were under pressure by unprecedented component - prices and supply chain logistic cost increases and to a lesser extent, a less favorable product revenue mix. And finally, our operating expenses increased primarily due to the integration of the operations from recently acquired businesses. These factors contributed to a weaker than expected operating result and significantly lower EBITDA. Jamie has already touched upon our plans to address these challenges, and I will go into more details later in my prepared remarks.

In conjunction with our focus on driving the transition to a recurring software subscription model, we wanted to introduce the supplemental metrics that we will use to track and report our progress.

The first key metric that we will be reporting is annual recurring revenue, or ARR.

We ended fiscal 2022 with ARR at $7.4 million. The actual related revenue recorded for the year was $8.4 million. The number of customers under active contract at year end was 356.

Another key metric is total contract value, or TCV, and it was $13.8 million at the end of the fiscal year. And finally, the last key metric that we will be reporting is total recurring revenue that includes our service and support contracts, software subscription revenue and royalty revenues that totaled $160.5 million for the year.

Turning to results for the fourth quarter, revenue was $95.2 million, an increase of 3% year-over-year and flat compared to the prior quarter and above the preliminary revenue results we provided in mid-April. Backlog decreased slightly to $60 million compared to $62 million last quarter as we continue to be supply constrained, primarily on tape drives as well as broad-based shortages of components for servers, network cards and circuit boards. Approximately $32 million of orders in the ending backlog could have shipped to customers if the quarter -- in the quarter if we would have had supply. This is an increase of $6 million from the prior quarter. Similar to last quarter, approximately $50 million of the ending backlog represented tape products for which the majority was orders from our hyperscale customers.

During the fourth fiscal quarter, secondary storage revenues were up 6% sequentially, primarily driven by ongoing strong demand from hyperscaler customers. We continue to see improving supply of tape drives that has helped support the sequential revenue growth. Primary Storage Systems saw a modest rebound in the quarter and was up 3.4% sequentially, primarily due to a continued gradual recovery in the media and entertainment business, partially offset by continued weakness in our U.S. federal business. Also in the fourth quarter, we continued to close multimillion dollar video surveillance deals that we were not able to fulfill due to ongoing supply chain constraints. We expect this business to contribute more significant product revenue in fiscal 2023, though this business is expected to be lumpy and characterized by large deals with long sales cycles.

For fiscal year 2022, total revenue increased 6.7% to $372.8 million, with year-over-year growth, primarily driven by strong demand from the hyperscaler customers combined with an increase in software subscription revenue and video surveillance product and services revenue related to our recent acquisitions. These increases were partially offset by lower U.S. federal business and the golden glide of lower service support revenues for end-of-life products.

Gross margin in the fourth fiscal quarter improved 110 basis points to 38% from 36.9% in the prior quarter, reflecting less than full benefit from the price increases we implemented. These improvements were partially offset by continued inflationary costs in the supply chain and product revenue mix. For the full fiscal year, gross margin decreased by 370 basis points to 39.4% from 43.1% in the prior fiscal year, which primarily reflects the substantially higher component, freight, warehouse and related logistics costs and to a lesser extent, a less favorable revenue mix of higher hyperscale revenue and lower U.S. federal revenue.

Despite the upside from increased pricing on our products, we expect the pressure on gross margins to continue at the levels experienced in the back half of fiscal 2022 into the first half of fiscal 2023 given that we expect it will take additional time to realize meaningful improvements in terms of both product mix and the inflationary cost environment. In addition, the deferred PPV will be amortized during the first quarter, and therefore, we don't expect any improvements from PPV margin pressure until the second quarter of next year.

GAAP operating expenses in the fourth quarter were $41.8 million compared to $42.4 million in the prior quarter. Non-GAAP operating expenses during the fourth fiscal quarter increased $0.9 million to $37.2 million as compared to $36.3 million in the prior quarter. The prior quarter expense level reflects a one-time non-recurring benefit of $1.8 million from reduced ERP support costs related to the legacy ERP installation that is being replaced. When you exclude this one-time prior quarter benefit, the operating expense run rate decreased by $0.9 million for the current quarter or just under the range of $1 million to $2 million that we noted on our call last quarter. In addition, the fourth quarter fiscal operating expense run rate does not reflect any anticipated benefit of additional cost reductions to be fully implemented by the end of the first quarter of fiscal 2023.

For fiscal 2022, GAAP operating expenses were $160.9 million compared to $142.4 million in the prior year. Non-GAAP operating expenses for fiscal 2022 increased $14.9 million to $142.2 million as compared to the prior year of $127.3 million. Just over 3/4 of the annual increase in non-GAAP operating expenses reflect the costs associated with the company's recent acquisitions and are primarily in R&D and sales and marketing. Other increases in operating expenses included travel costs as the global COVID travel restrictions were relaxed as well as increased investment for the development of the next-generation LTO technology.

As I mentioned last quarter, and Jamie mentioned earlier, we are implementing a series of cost reduction programs to right-size and align the business with current revenue and margin levels during the supply-constrained environment.

We are focused on reducing spending in areas such as R&D, T&E, facility costs and continued integration efforts related to recent acquisitions. We're also continuing our efforts to improve our geographic headcount mix to better leverage global facilities, with a focus in Asia. We expect these actions will reduce our current operating expense run rate by $1.5 million to $2 million per quarter by the second half of fiscal 2023.

GAAP net loss in the fourth fiscal quarter was $7.8 million or a loss of $0.13 per share compared to a net loss of $11.1 million or a loss of $0.19 per share in the prior fiscal quarter.

Excluding stock compensation, restructuring charges and non-recurring charges, non-GAAP adjusted net loss in the fourth quarter was $2.8 million or $0.05 per share compared to adjusted net loss of $4.6 million or $0.08 per share in the prior quarter. For the fiscal year 2022, non-GAAP adjusted net loss was $7.2 million or $0.12 per share compared to adjusted net loss of $4.9 million or $0.11 per share in the prior fiscal quarter.

Adjusted EBITDA for the fourth fiscal quarter was $0.4 million compared to $0.8 million in the prior quarter.

For the fiscal year 2022, adjusted EBITDA was $11.8 million compared to $28 million in the fiscal year 2021. The year-over-year adjusted EBITDA decrease was driven by the previously discussed challenges, including lower gross margins and higher operating costs. As we have been discussing, our priority is to drive improvements in our adjusted EBITDA by growing revenues, increasing gross margins and reducing operating expenses.

We expect the cost reduction actions, combined with the product price increases and supply chain initiatives will begin to show increasing benefits to our EBITDA results by the second half of fiscal 2023.

When discussing EBITDA trends, it's also important to understand the underlying cash implications of the company's efforts to reduce the outstanding debt balances and related interest rates. For example, in the prior year, the adjusted EBITDA was $28 million, but interest paid was $24.3 million, while in the current year, the adjusted EBITDA was $11.8 million and interest paid was only $9.1 million. The net cash implications of these 2 factors for these 2 years is within $1 million.

There's a full reconciliation of our non-GAAP results to the most directly comparable GAAP measure in both the press release and the Form 10-K released today.

Now turning to the balance sheet, liquidity and cash flows, given at our recently completed rights offering closed in late April, I'll first review the balance sheet and cash flows through the end of the fiscal quarter, then provide some commentary on the changes in our cash and debt balances subsequent to the rights offering.

Cash and cash equivalents as of March 31, 2022, were $5.5 million compared to $4.3 million on December 31, 2021.

Outstanding term debt as of March 31, 2022, was $98.7 million. This compares to outstanding term debt of $98.8 million as of December 31, 2021. At the end of the fourth fiscal quarter, the outstanding balance on the company's revolving line of credit was $17.7 million compared to $7.6 million in the prior quarter.

Interest expense was $2.5 million and $11.9 million for the 3 and 12 months ended March 31, 2022, respectively.

Net cash used during the quarter was $1.2 million. Excluding changes in assets and liabilities, net cash used by operating activities for the quarter was $0.3 million. The net cash used related to changes in assets and liabilities was $6.6 million and primarily represented increases in accounts receivable, inventories and a pay-down of accounts payable, partially offset by increases in deferred revenue. CapEx for the quarter was $2.4 million. The cash provided by financing activities during the quarter was $10.5 million and primarily represents the increase in the revolver balance by $10.2 million to $17.7 million at the end of the quarter compared to $7.5 million at the end of the prior quarter.

Net cash used during fiscal 2022 was $27.6 million. Excluding changes in assets and liabilities, net cash used by operating activities for the year was $3.2 million. The net cash used related to changes in assets and liabilities was $30.5 million and primarily represented increases in inventories, including pre-buys of inventory for the contract manufacturer of approximately $19 million and reductions in liabilities that include AP, accrued compensation, restructuring and deferred revenue in total approximated $11 million. CapEx for the year was $6.3 million and cash used for business acquisitions was $7.8 million. Cash provided during the year by financing activities was $20.2 million and primarily represents the $17.7 million outstanding on the revolver at the end of the year and $1.8 million from the issuance of common stock in connection with the employee stock purchase plan.

Turning to the improvements in the balance sheet subsequent to our oversubscribed rights offering. The company raised the maximum available of $67.5 million, in which we used $20 million of the proceeds to reduce outstanding term debt and added $45 million to our cash position. We plan to use the added cash for working capital for such purposes as purchasing key material or for paying certain manufacturing fees to gain access to additional supply. But I want to make it clear these funds are not earmarked for acquisitions. To provide more flexibility with managing the ebbs and flows of the working capital requirements of the business, we increased our revolving line of credit by $10 million to $40 million.

By using a portion of the proceeds from the rights offering to reduce our term debt, we were in a more favorable position to work with our lenders to substantially reset all the debt covenants to more favorable terms. For example, related to the revolving line of credit: we secured a waiver on compliance with the fixed charge coverage ratio until the fiscal quarter ended March 31, 2025; and amended the covenant levels for the total leverage ratio and minimum liquidity commencing with a current fiscal quarter ended June 30, 2022, at conservative levels that provide comfortable cushions to the current challenging business environment.

Related to the term loan covenants: we amended the covenant -- levels for the total net leverage covenant and the minimum liquidity financial covenant to match the revolver covenants, and likewise, these commence with the current fiscal quarter ended June 30, 2022.

Collectively, the reduction of debt, increase in cash balances and resetting the covenants to more favorable terms, significantly strengthen our balance sheet and financial position for the foreseeable future.

Now moving to our financial outlook, as we have outlined, our fiscal 2023 plan is to continue to grow our revenues while implementing cost reduction plans. We anticipate the most challenging area will be to address the pressure on the gross margins. We are beginning to see traction with our price increases and supply chain initiatives, but the inflationary cost environment is difficult to predict. We do expect, especially in the back half of fiscal 2023 to see measurable improvements in adjusted EBITDA, all while keeping the interest payments at the historical annual low level of approximately $8 million.

As we discussed last quarter, we have implemented a more conservative approach to forecasting primarily based on deals we have already closed and taking into consideration parts that we already have in inventory or on the way. Based on this approach, we expect revenue for the first quarter to be in the range of $94 million, plus or minus $3 million.

Non-GAAP adjusted net loss is expected to be $3 million, plus or minus $1 million; and adjusted net loss per share of $0.04, plus or minus $0.01 per share using a share count of $83.6 million to reflect the shares issued during the first quarter related to the rights offering. And we expect adjusted EBITDA in the fiscal first quarter to be breakeven, plus or minus $1 million.

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

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

Thanks, Mike. Even as we navigated challenging global supply environment and an increasingly challenging economic environment, Quantum is well positioned to execute on our long-term strategy. In the last 3 years, we have built a leading portfolio of solutions for video and unstructured data that has dramatically expanded our addressable market. Our balance sheet is stronger than ever, and we have reduced our debt and associated interest expenses by 2/3. We have a strong base of $160 million of recurring revenue, and we have demonstrated the ability to grow recurring software revenue across our product lines. And we are committed to our long-term vision of becoming predominantly a software company focused on storing, protecting, archiving and enriching video and unstructured data in all its forms.

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

QUESTIONS AND ANSWERS

Operator

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

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

So Jamie, could you give us maybe a little bit more color on what you're seeing in the macro environment? Have there been any changes to the sale -- length of sales cycles? Are you having different types of conversations with customers in any regions?

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

I am seeing a more value-oriented customer. And what I mean by that is a customer -- I think during the best of times, people are less price and value sensitive and they want to be with what is viewed as the hottest startup or what is the widest hot trends. I'm seeing people returning more to value, where they're looking at Quantum as many of our products are value-oriented.

People use tape because it's really good bang for the buck and really good value. People are looking at our compression technology in DXi because, again, it compresses 20:1. So it's really good value. StorNext gives you flash-like performance with a lower-cost disk-based product. So again, it's a value-oriented technology. So I've -- and I see that in the hyperscalers as well where they're becoming more oriented for value.

So in that sense, I'm seeing the value-oriented portions of the portfolio selling really well. Our i3 product is having record sales where I think more and more, smaller companies are leveraging tape both for its resilience to ransomware combined with the fact that you can get a lot of storage at a really aggressive price.

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

Okay. And that -- maybe just building on that with the follow-up question from a regional standpoint in Europe and Asia, are there any unusual dynamics going on there?

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

No, Europe continues to be really strong for us. The only areas that I've got a question mark on -- one is U.S. Federal. We're going -- next quarter is the final end of year for U.S. Federal. Last year, it was pretty soft. So it's going to be interesting to see if federal spending returns to historic levels. In addition, we did have to walk away from about $1 million in revenue in Russia because of the changes there.

But I don't think that was a big hit to us, but we did walk away from about $1 million in revenue to predominantly Russian television and media and entertainment outlets. And the area where we're just seeing tremendous growth is in China, and I expect India as well, just given the populations are so large and growing so quickly. And so we're putting a lot more energy into those regions, but I've not seen a macro slowdown in Europe.

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*

This one has 2 parts to it, one for Jamie, one for Mike. But Jamie, you mentioned in your prepared remarks that this year, you're targeting EBITDA expansion via sales growth, operating expense reduction, margin expansion initiatives and supply chain strategy. Can you just speak qualitatively to how those would rank in magnitude relative to the EBITDA expansion you had hoped to drive in my sense, margin expansion initiatives were part of that?

It was helpful to get your quantification around OpEx help. But can you help us understand what kind of gross margin expansion you'd expect in the back half of the year since it sounds like it will be pretty flat in the first half from current levels?

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

Craig, good to talk to you, I want to talk about how we're going to achieve EBITDA expansion through 4 major programs. The first program is we are looking to reduce our spending. We're targeting roughly a reduction of $8 million annually. We've already actioned over $5 million of that or 2/3 -- roughly 2/3 of that work is already done. And the remainder is insight to try and get our adjusted OpEx roughly at $35 million.

That's an important action. It's something we control completely and can execute, and that's why we're mostly already executed on that program. The second program, as you know, we've implemented 2 price increases. I don't feel, and I'm not seeing enough return from them. So we are contemplating a third pricing action, which could take place as a price increase, a discount reduction.

There's a variety of ways to achieve it, but we are roughly around July 1, going to implement another pricing action to drive -- more margin, increased margin and offset continual price increases that we're seeing. On the sales expansion plan, our #1 goal and that is to fill key territories where we are underrepresented.

So it's putting sales teams into the critical territories that we've historically driven the best sales and margin from combined with changing a bit of our channel focus and a bit of our sales focus from niche sales in automotive, medical, media and entertainment to more of a generalized enterprise focus as our portfolio becomes more generally targeted to the enterprise.

And then our fourth initiative is all about supply chain, reducing the broker buys, changing out bespoke components to more commodities, engaging with our critical suppliers and then vertically integrating more of the technology down in Mexico, so we don't need to ship it very far. We did build and vertically integrate as much as we can in Guadalajara and limit the amount of logistics required to build our products.

We think those together, our first focus is to get back to a $25 million EBITDA run rate. And then that's our first milestone, and we would view that as we're healthy. And then the second milestone is to get to back to a $50 million EBITDA where we view ourselves as prosperous.

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

Got it. And Mike, any color on second half gross margins?

James Michael Dodson - *Quantum Corporation - CFO*

Well the second half, as we had said in the prepared remarks, the first half, we expected to see a lot of the same pressure points, partly PPV, which we've amortized -- we're going to be amortizing over the first half. So we really -- even though the underlying market is getting better there, we just have carryover of that.

But we would expect that we're at 38% margin now, steady improvement in the back half that would build EBITDA, build our gross margins, and it will be -- is it 2 points better, plus or minus, to get into the low 40s. If we're successful, there is a lot of unknowns and dynamics. Obviously, the inflationary cost environment is going to be a big driver for that. If that continues and we don't see much relief there, it will just stretch it out a little longer.

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

Got it. And then the follow-up question on the number of subscription customers, up 100 quarter-on-quarter. So Jamie, that's 2x what the change was in the prior quarter, so real nice quarter-on-quarter gain so good for the team. What drove that? And what's the path to something that -- I've had 750 in the back of my mind, just the number we need to get to convert the installed base. How do we get there?

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

Yes - I guess there's a good and bad in your question, meaning the reason why it accelerated is we got several of our products moved from a perpetual model to a subscription model. And by getting more products on the model, we're getting more customers. The challenge is we were -- it was harder than we had expected to get those products converted. So they converted much later in the year.

We had expected them to convert to subscription several quarters earlier and be at a larger number than 356 at the end of the year. So we got the work done. We've gotten all the products converted but a little later in the year than we anticipated. So now we're at the right run rate. So I think we're accelerating the way we want to be -- just a little later at the end of fiscal '22 than we had hoped.

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

That makes sense. And within some of the objectives that you talked about on the earlier question, where would you expect or want the number of subscription customers to be when we exit fiscal '23?

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

I think we're thinking about it more in terms of the ARR. And I think we're still trying to figure out how that translates to customers because we've done some ARR deals that are $2 million a year, and we have some that are $2,000 a year, right? And they're both one customer. And so I'm thinking about it more in terms of the ARR. And we know we need -- we minimally want to double the ARR, and we think we could do quite a bit better than that. But our focus is to minimally double and try and go beyond that in our ARR. And what that is in terms of customers, I think that's was clear.

Operator

Our next question is from Max Michaelis with Lake Street.

Max Michaelis

Just one for me it's about price increases. I know you guys said you guys were going to increase prices again here in July. Just wondering if you guys have gotten any feedback, maybe some pushback from customers? And have you seen any customer attrition from your first price increase, I believe it was last quarter?

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

Yes, the short answer is no. And I think if I were to fault ourselves, I think we've been so sensitive about it that we've been too modest in the price increases. I'm seeing our competitors and the people we buy from increased their prices 10% to 25%. And we were much more modest than that. We increased list prices up to 15%.

But then after we apply discounts and rebates and whatnot, it came to something much more modest in the low to mid-single digits. And quite frankly, we've been not as aggressive as we have needed to be in that. So the price increases have worked. We haven't seen any churn. We haven't really seen any loss in business.

But the opposite is we've been too modest, and we need to turn those prices up more given the amount of price increases we're seeing in shipping, warehousing, trucking fees, chips, connectors, you name it, we just got to lift our prices more to just offset the prices that are coming in to us, and we're going to do that quite rapidly here.

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 and it looks like bookings using shippable backlog was about $101 million, which is up little above what we were expecting, still down a little bit, $3 million, I think, from the December quarter of $104 million. So what were the Q-o-Q downticks from a portfolio perspective for that bookings trajectory, albeit still very good, I think?

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

Well, I'm not sure exactly where you're pulling the numbers from, but what I would say is we have some enormous backlog expansion from predominantly our large hyperscaler customers placing -- 2 and 3 quarter out orders on us. The idea being, if we place a very large order on you going out several quarters that will improve our ability to, get in the supply.

And in our conversations with them, our conversations with our suppliers, that isn't getting Quantum or getting the hyperscaler any more material just because they placed a giant purchase order on us. And so I think, if you look at the graph that was provided in the PowerPoint, you'll see that the big out-quarter orders are coming down a bit because I think there's less motivation to place those enormous out-quarter orders.

And the part you see growing in the bookings or the backlog is the things that are shippable immediately. We just don't have the parts to ship them. So it's a higher quality backlog because more of it is shippable immediately.

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

Yes, so the calc comes from calculating the change in shippable backlog from that particular slide that you're referencing plus the revenue in the March quarter and the December quarter. So the shippable backlog was up, I think, $9 million Q-o-Q in the December quarter and $6 million Q-o-Q in the March quarter?

We weren't expecting it to be up $6 million Q-o-Q in the March quarter. So that's why I'm saying, hey, that's better than what we expected yet it's still down Q-o-Q when you look at the bookings -- shippable bookings basically. So that's the question. And the question is, what parts of the product saw that Q-o-Q downtick in terms of the bookings?

James Michael Dodson - *Quantum Corporation - CFO*

Okay. Was there -- sorry, was there a question?

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

Yes, the question is that from a bookings perspective, which we can back out based on that slide that you provide shippable bookings perspective, bookings was down $3 million Q-o-Q, much better than what we were expecting, but still down $3 million Q-o-Q from a product perspective, which products were down Q-o-Q?

James Michael Dodson - *Quantum Corporation - CFO*

Yes, I mean I think we really don't go into that level of detail on our bookings I mean, we know as we've shared where the revenue is and where the revenue strength is and where the revenue had declined.

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

Right, understood.

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

Okay.

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

Understood. And what's -- so it's great to see the revenue outlook as well as the statement of expect substantial improvement in EBITDA for the full year. But what's your outlook for bookings, which is the true rather shippable bookings, which is the indicator for demand as opposed to supply here.

James Michael Dodson - *Quantum Corporation - CFO*

Well I guess....

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

We provided guidance on bookings.

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

Yes, okay understood all right. And then the $25 million are EBITDA milestone, what's your thinking on timeframe for getting to that annualized level?

James Michael Dodson - *Quantum Corporation - CFO*

Yes, I mean we haven't provided annual guidance on EBITDA margin or revenue at this point. There's just too much uncertainty. Our goal, obviously, is to get there as fast as we can. I think it's going to take quarters to get there. I have every confidence we have everything at our disposal to return to that level, but we are not providing EBITDA guidance at this point. There's just too much uncertainty.

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

Uncertainty, yes.

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

Yes, especially in the context of the 4 levers that you're talking about.

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

Yes.

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

Certainly, I understand that.

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

Yes.

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

Okay. And then can you give us specific update on the Pivot3 video surveillance asset purchase?

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

Yes, that business is performing quite well. We've closed now multiple million dollar plus deals with U.S. federal agencies with large universities and school districts, one of the world's largest shipping and logistics companies did an enormous purchase with us. So I think it's going well. I think for us to break out will be that selling video surveillance becomes part of everything Quantum does.

Today, we have a specialist team that can sell it really well. What we need is the generalist team, the 200-plus salespeople we have to all sell it to their customers versus a specialist team. And that's going to take a while for everyone to fully understand how to sell that technology, how to explain it, how to be comfortable engaging with our customers, and that's one of our big goals for the year is move it from a specialist sale to a generalist sale.

And we think that's going to allow us to expand. I think the margins of that business have been really good, better than we expected. And the traction through the acquisition has maintained pretty steady. Sometimes an acquisition can destabilize the business for a period of time. And we've seen sales be pretty steady through the whole transition from Pivot3 being independent to being part of Quantum.

Operator

Our next question is from David Duley with Steelhead Securities.

David Duley - *Steelhead Securities LLC - Managing Principal*

I think in the past, you mentioned that you had a critical IC component shortage in your tape storage business. I'm just wondering when would, you think that that particular issue will be solved. And are you waiting for that particular customer to add capacity, which I'm guessing that would be calendar year end before that problem is solved? Or have you been able to shift the design or shift the manufacturing of that product to a different source?

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

Okay, I think what we're talking about is the tape drive.

David Duley - *Steelhead Securities LLC - Managing Principal*

Yes.

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

And that is only made by one company in the world. So there are no alternative suppliers. We engage very deeply with the supplier. I personally fly out to meet with them with other executives. And I would say the relationship is really strong. I would say that the communication and transparency is better than it's ever been. But at the same time, they are making that product or a pretty large amount of it in China.

There's, all the issues that we know about in China. So they are not clear to build in volume. They are under very constrained volumes. I feel comfortable we're getting a high-quality allocation of the volumes that they're making. I think those allocations are going to go up. And I think they are taking the steps that they need to take to bring their volumes up. And they're still telling us, while we're constrained now they believe they can meet our demand for the year.

Now clearly, they're not meeting our demand now, but they think they can pick it up in the subsequent quarters this year to get us at or pretty close to our full demand. We'll see. But so far, I'm pretty encouraged with what I'm hearing. But we're in a situation where we have to work very closely with the supplier because there are not alternative suppliers for this component.

David Duley - *Steelhead Securities LLC - Managing Principal*

So, that chip design cannot be imported to a different manufacturer?

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

Yes, the subcomponents can, yes. So the components that are constrained inside the drive, they are looking at alternative suppliers. They are changing out chipsets -- they are looking at alternative ways. They're now manufacturing in multiple countries. So they're taking the steps.

But like a lot of us are seeing you move from one chip that's constrained to one that isn't. And just about as soon as you do that, that chip you move to becomes constrained. I mean, because all of us are doing the same thing. We're all flip flopping from one chip to another to find supply and just about everyone is getting constrained.

David Duley - *Steelhead Securities LLC - Managing Principal*

Okay. Now as you mentioned, hopefully, in the back half of this year, this particular supplier picks up its supply to you of this component for your tape drives. And I assume what that would mean would be is you would then sometime in the back half of this calendar year or the first part of next year, sometime in that timeframe, you would be able to ship to current demand from the hyperscale customers and shrink this little backlog that they've built?

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

Correct.

James Michael Dodson - *Quantum Corporation - CFO*

Correct yes.

David Duley - *Steelhead Securities LLC - Managing Principal*

Okay, that's all from me.

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

Okay.

Operator

We have reached the end of the question-and-answer session. And I will now turn the call over to Jamie Lerner for closing remarks.

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

Yes, thank you. Listen, I want to thank everyone for the support of Quantum. Many of you on this call participated in our rights offer. And I want to thank you for that, thank you to show up support of the company. And I feel like we've got strengthen our balance sheet. I got to say the timing of the rights offer was pretty excellent given that capital is getting more expensive and more constrained.

So I think we have the capital we need. I think we've got the portfolio we need, and we're taking the very aggressive steps to get back to the levels of EBITDA that our investors expect, and I have every confidence we're going to get there. So thank you, everyone. And given how late we are in this call, given our end of year, we'll be back on a conference call in 6 or 7 weeks with Q1 results. So we'll all speak then. Thank you.

Operator

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