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QMCO.OQ - Q1 2023 Quantum Corp Earnings Call

EVENT DATE/TIME: AUGUST 04, 2022 / 9:00PM GMT

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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 first quarter fiscal year 2023. (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 First Quarter Fiscal 2023 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 facts should be viewed as forward-looking. These statements include any projections of revenue, margins, expenses, adjusted EBITDA, adjusted net income, cash flows, backlog 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 may involve -- 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 implied by the forward-looking statements, including unexpected changes in our business. We include detailed information about these and additional risk factors under the section labeled the Risk Factors in our quarterly report on Form 10-Q and our annual report on Form 10-K, which we file 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 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 first quarter of the fiscal year 2023, with revenue results that exceeded the high end of guidance. Our revenue growth was driven by continued strong hyperscale sales as well as sequential growth in our video surveillance business. In addition to the strong revenue results, our backlog, as of July 31, was $67 million, a near record level. So demand continues to be strong, and we are confident in the prospects for growth.

We also delivered our fifth consecutive quarter of growth in the number of subscription customers, now at over 450, which is an increase of 200% year-over-year and 29% sequentially. We are pleased with the progress we have made thus far, but this only represents a fraction of the total opportunity that still lies ahead. Currently, we have over 10,000 active customers and 23,000 systems under support contract, which represents huge potential toward growing recurring revenue over the next few years. As these customers come up for renewal or have a need to refresh their Quantum products, they have been very receptive to moving to subscription licensing, most on multiyear contracts. As 1 example, in May, we closed the large StorNext 7 subscription deal with a well-known shoe and apparel company, who has been a customer for many years, using Quantum storage solutions to create all of their advertising and marketing content.

As they've expanded their brand, the amount of video and image data they are creating has increased and their legacy infrastructure was constraining their creative teams. To address this need, they upgraded their old StorNext infrastructure to StorNext 7, moving to subscription software on a 5-year contract and added F-Series NVMe storage to their infrastructure to provide increased performance and better efficiency. StorNext software licensing was the largest component of this deal, and this is a great example of how large brands and enterprises are creating more video and image data as well as a very repeatable sale we can make to our installed base of customers around the world.

We are also continuing to expand our software offerings and customer adoption of our services technology. StorNext software is now available for purchase on the Amazon Web Services marketplace, giving customers a new way to purchase StorNext and run it on the public cloud. We will be showcasing this new offering later this quarter at the International Broadcasting Conference in Amsterdam.

We have close to 1,000 customers that are now using the MyQuantum Service Delivery Platform that we announced in April. And we now have over 2,500 customers and close to 4,000 products connected to our Cloud-Based Analytics software, where we are collecting hundreds of thousands of data points to help our customers improve their operations every day. This service delivery platform enables Quantum to become more connected with our customers, increase the value we are providing, and ultimately monetize these services as we continue to drive growth in recurring revenue.

Also during the quarter, some of our largest wins were at international government agencies, for national film and sound archives, and digital preservation of valuable cultural artifacts. In addition to the size of these opportunities, these wins are also notable, because they combine Quantum file or Object Storage software with disk and tape, and in some cases, CatDV, which is used to index catalog and browse the archive. These wins provide a good example of a unique end-to-end architecture for data archiving and digital preservation that only Quantum can provide.

I'm also pleased to report that we had a very strong quarter in our video surveillance business, where we had big wins at 1 of the world's largest transportation companies as well as wins with transportation authorities, for surveillance and public transit systems, universities, hospitals and casinos. These wins provide further evidence of our success with the Pivot3 acquisition, while also serving as an example of the large opportunities available to significantly grow this business. As demonstrated this quarter, the business is characterized by large wins, and although it may fluctuate from quarter-to-quarter, we're excited about this initial momentum as we continue to ramp the business.

All of these organizations, cloud providers, Fortune 500 enterprises, household brands, hospitals and research institutions, and government agencies around the world trust Quantum to store, manage and protect their most valuable assets, their digital data. The products and solutions we provide are more relevant than ever with the exponential growth in video and unstructured data that is mission-critical to these organizations. With the strong position we have in these accounts, combined with our large installed base of customers, we are poised to significantly grow recurring revenue over the next few years, while driving improved margins and more predictable revenue streams.

In summary, I believe we have taken the necessary steps to position Quantum for continued improvements in our future operating performance. The programs we have put in place to control PPV, manage discounting and adjust pricing will begin to show more meaningful results in fiscal Q2, in which we expect to deliver sequential improvements in both gross margin and EBITDA, as Mike will discuss.

Demand remains strong with backlog currently at record levels. We are continuing to increase the conversion rate of customers to a subscription model and build our recurring revenue. We are committed to disciplined execution on our initiatives, delivering improvements in gross margin and reducing operating expenses that are collectively expected to result in substantial year-on-year improvements to adjusted EBITDA over the coming quarters.

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, everyone, and thank you for joining the call today.

Now turning to the results for the first quarter. Revenue came in just above the high end of guidance at $97.1 million, representing an increase of 9% year-over-year and 2% compared to $95.2 million in the prior quarter.

Backlog at the end of the first quarter was approximately $47 million, primarily reflecting the timing of large orders and subsequently increased to a new record of approximately $67 million at July 31, 2022. Approximately 75% of the first quarter ending backlog was related to hyperscaler customers and approximately $25 million of the ending backlog was shippable to customers if we were not supply constrained. Although we are seeing some signs of improved supply, we continue to be constrained primarily on tape drives as well as broad-based shortages of components.

During the first quarter, secondary storage revenues were up 1% sequentially, primarily driven by ongoing strong demand from hyperscaler customers, largely offset by a decrease in backup and data protection products. Primary storage systems had another solid quarter and was up 9% sequentially, primarily driven by a significant increase in shipments of video surveillance solutions.

In conjunction with our focus on driving the transition to a recurring software subscription model, last quarter, we introduced a series of supplemental metrics to track our quarterly progress. The first of these metrics was Annual Recurring Revenue, or "ARR", which increased 11% sequentially to $8.2 million. This figure includes recurring software subscription revenue across all of our transitioned product offerings, including StorNext, ActiveScale, DXi and CatDV.

Additionally, at quarter end, the cumulative number of customers under a subscription contract increased to over 450 active customers, which represents 200% year-over-year growth and sequential growth of 29%.

Another key metric we introduced was Total Contract Value, or "TCV", which sequentially increased by 16% to $16 million at the end of the first quarter, up from $15.8 million in the prior quarter.

Gross margin in the first quarter was 35% compared to 38% in the prior quarter. The sequential decrease reflected several factors, including our projected peak and purchase price variance driven from constraints in the supply chain, continued inflationary cost pressures in logistics costs, and a product revenue mix that was more heavily weighted towards our hyperscaler customers. Roughly 1% of the sequential decline in gross margin is attributed to the less favorable product mix and 2% of the sequential decline in gross margin is due to the higher PPV and other logistics supply chain costs. Assuming no meaningful deterioration in the overall market environment or supply chain dynamics, the company believes the gross margin in the first quarter represents a low point. As last -- as stated last quarter, it will take additional time to realize meaningful improvements in terms of both product mix and our higher pricing targeted to offset the inflationary cost environment.

GAAP operating expenses in the first quarter were $41.1 million compared to $41.8 million in the prior quarter. Non-GAAP operating expenses during the first quarter decreased $0.9 million to $36.3 million as compared to $37.2 million in the prior quarter. I want to emphasize that operating expense in the first quarter does not reflect the full anticipated benefit of cost reductions that were implemented in early June. We continue to expect to reduce the quarterly operating expense run rate, targeting approximately $35 million by the end of fiscal 2023.

Excluding stock compensation, restructuring charges and nonrecurring charges, non-GAAP adjusted net loss in the first quarter was $3.7 million or $0.04 per share compared to adjusted net loss of $2.8 million or $0.05 per share in the prior quarter.

Adjusted EBITDA for the first quarter was just above the midpoint of guidance at $0.3 million compared to $0.4 million in the prior quarter. As we have discussed previously, driving continued improvements in our adjusted EBITDA remains 1 of our highest priorities. We expect to achieve this through a combination of growing revenue, expanding gross margins and reducing operating expenses. We expect the cost reduction actions, together with product price increases and supply chain initiatives, will increasingly contribute to positive EBITDA results during the second half of fiscal 2023.

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

Now turning to the balance sheet, liquidity and cash flows, all of which now reflect the company's successful Rights Offering that was closed in April.

Cash and cash equivalents at the end of the quarter were $26.8 million compared to $5.5 million in the prior quarter.

Outstanding term debt at the end of the first quarter decreased to $78.4 million from $98.7 million at the end of the prior quarter. This decrease of approximately $20 million reflects the paydown of term debt after completing the Rights Offering. At the end of the first quarter, the outstanding balance on the company's revolving line of credit was $17.3 million compared to $17.7 million in the prior quarter.

In the first quarter, interest expense decreased to $2.1 million compared to $2.5 million in the prior quarter and $3.9 million during the same quarter a year ago.

Our cash and cash equivalents increased by $21.3 million during the quarter. Net cash used in operating activities was $18.3 million. Excluding changes in assets and liabilities, net cash used by operating activities for the quarter was $3.1 million, of which approximately 2/3 represented interest expense. The net cash used related to changes in assets and liabilities was $15.2 million, driven primarily by seasonality related declines in deferred revenue. Historically, the heaviest cash collections for service contract renewals have been the December and March quarters, with decreases in cash collections in the June and September quarters.

In addition to the normal seasonality, 1 other factor contributing to the current quarter sequential decline of $13.6 million in deferred revenue was the lengthy contract renewal negotiation with 1 of our largest customers that was not completed by the end of the quarter and represented an annual contract value of just over $4 million.

Also, a use of cash during the quarter was an increase in other current assets of approximately $2.7 million represented by the prepayment for key inventory as well as annual subscription for group insurance.

Net cash used in investing activities was $5 million, which included CapEx of $3 million and a $2 million deferred business acquisition payment. The net cash provided by financing activities during the quarter was $44.6 million and primarily represented the net proceeds of the Rights Offering, less approximately $20.6 million used to pay down outstanding term debt.

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 programs. We anticipate the most challenging area will be to address the pressure on gross margins. We do expect in the back half of fiscal 2023 to see measurable improvements in adjusted EBITDA.

We expect revenue for the second quarter to be in the range of $95 million, plus or minus $4 million.

Non-GAAP adjusted net loss is expected to be $1.5 million, plus or minus $1 million and adjusted net loss per share of $0.02, plus or minus $0.02 per share, using an anticipated basic share count of 94.5 million shares. We expect adjusted EBITDA in the second quarter to be $2.5 million, 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.

In closing, demand continues to be strong with strong revenue results and a large backlog. We're very pleased with the growth in subscription customers, and we see huge potential to continue to grow recurring revenue over the next few years. We have taken the steps to improve supply chain and deliver improvements in gross margin and adjusted EBITDA in the coming quarters.

With that, we'll open it up for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Craig Ellis with B. Riley Securities.

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

I'll start with a clarification on the gross margin outlook. So Mike, if I step back 3 months, I think or looking at gives and takes in gross margin that at the time we were going to sustain a 38% gross margin until we got some benefit from some of the initiatives that the Company had underway. And now we're at 35%. And I think the view is that this will be the bottom, and we hope for leverage against that bottom in the back half of the year. So given the significant change versus our recent outlook where gross margins could potentially bottom. What gives you the confidence that 35% is the bottom? And maybe more certainly, what are the specific things that are going to drive materially higher gross margin from here?

James Michael Dodson - *Quantum Corporation - CFO*

Yes. Sure, Craig. The -- what we experienced in Q1, we really expected and we understood our PPV, a lot of the broker buys that we did were 2 or 3 quarters ago, but the inventory didn't move out until this quarter. So we knew that this was going to be the toughest quarter for gross margin. And in our prepared remarks last quarter, we really said we expected to see meaningful improvement in the back half of the year.

So we knew it was going to be tough, especially the PPV because that was -- we knew that was being amortized, right? The inflationary cost pressures continued, but we do feel confident we can see PPV getting a lot better. We are no longer putting things on airplanes or on boats. We've done a lot that we can to control those costs. So we feel confident, unless there are some other macro events that impact the supply chain, that this should be the low point.

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

Okay. Then let me just ask a follow-up, because I think when we talked about the potential for gross margin in the current quarter, it was relatively late in the quarter. So I think the inputs would have been known and yet we were still 300 basis points below. So how do you feel about the business' ability to really drive the kind of inputs for forecasting when you knew the inputs that you need so that we've got the (inaudible) for a line item like that and the ability to execute on that line item?

James Michael Dodson - *Quantum Corporation - CFO*

Yes. I think we have very clear visibility into PPV, and we know that's improving. We also are getting more traction on the price increases that we put into place as well as efforts to reduce our discounts. We're seeing more and more traction there. So we have a number of programs in place that we're seeing improvements in. It still will be -- it will be a gradual improvement we would expect next quarter and then more improvement further in Q3 and Q4.

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

And finally, just to clarify, Mike, are you intimating that gross margin should be flattish fiscal 2Q and then you get those initiative benefits in the back half? Or are you looking for something up or down there?

James Michael Dodson - *Quantum Corporation - CFO*

No, we're in -- we're definitely expecting an improvement in Q2.

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

I'll just ask one more to Jamie, and then I'll hop back in the queue. So Jamie, nice to see subscription customers go up by almost 100 so there's good (inaudible) progress in the quarter. But when I look at the incremental value for ARR per customer, it looks like sequentially, it went from $13,000 to $8,000. So that's down pretty significantly from where we started. And I know that we've gone from a StorNext-centric mix with subscription to some of the other solutions. Can you talk about what a reasonable set of expectations would be from this level of incremental ARR per customer and where should it normalize in its long-term (inaudible) coming?

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

Yes. I mean you got to understand the mix of products available under subscription has changed significantly. We started predominantly with StorNext, which is probably our -- tends to have a large deal size. And now we've added DXi to that, which is a high runner product, but it has an ASP of below $25,000. So what you're seeing is we're building momentum and customers, the ASP's coming down because, again, we've added more products, more products that are high runners. And so I think we're still kind of characterizing the business as we've just begun adding these new products. So in terms of fully understanding the ASP, the 3-year value, I still think we've got some work to do there, but I mean, really, what we're looking for at this point is do customers want to go to subscription. Do they have pushback? Are there problems with the model?

And right now, we're not seeing a lot of problems and push back. And so we're just trying to pick up the velocity. And again, as we stated in our last earnings call, our goal is to double ARR this year. And I think we are on a path to achieve that. And so I feel pretty good about that part of the business. Obviously, all of --- a huge amount of our effort is all around EBITDA. And that's where I feel really good for the first time in several quarters where that EBITDA is jumping from $300,000 to $2.5 million. I mean that's -- that really shows you the work that we're doing on pricing, discounting, controlling our spend in OpEx and managing our suppliers and managing the unexpected price increases, and that's all coming more under the control.

And again, we're seeing that EBITDA return, which really for us as business operators, is the best thing we've seen in a few quarters, and we're just excited about that, and we're going to grow that every quarter. We're just going to bring our revenue up every quarter. We see line of sight to that. And we see that we're just going to keep expanding EBITDA over the next several quarters and get returned to the levels we used to be at. But to follow up on Mike's comments, we really view that 35% as our low point. This quarter looks much more in the 100 to 200 basis points above that. We see that pretty clearly right now. And I think we'll be able to build on that every quarter as we get the business back to historic levels.

Operator

Our next question is from Eric Martinuzzi with Lake Street.

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

My question is on the revenue guidance for Q2. I'm not expecting a lot of volatility in the service of the royalty revenue, but based on the midpoint of the guidance, we would be down sequentially. So I'm assuming that's in the product area. Is that assumption correct? And why would that be given normal seasonality?

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

Yes. I don't think those assumptions are correct. So what I've done is I guided to $92 million, 2 quarters ago, then to $94 million. And this quarter, we're now -- current quarter guiding to $95 million. So I'm guiding up every quarter. Now we all know that we've had late in-quarter supply fluctuation. Predominantly, we've had the rug pulled out from us a few times where our suppliers committed to delivering certain quantities to us and told us with days and weeks left in the quarter, they couldn't do it. So my guide incorporates that, right? The $95 million incorporates that I've got to reserve several million dollars for those surprises occurring. If those surprises don't occur, I expect we're going to be at the top end of the range.

So right now, I am expecting quarter-on-quarter growth. But I am taking several million dollars away from that until the supply chain and the late-breaking surprises are a thing of the past. If we don't get surprised, I don't think you're going to see -- I think you'll see it at the high end of the range. If we do get surprised, it won't be related to any business performance, it would be related to what product did we get shorted by a supplier. It won't be related to the sales of a part of the business being lower than we expected. Our sales are pretty much -- we're hitting our expectations. And the shipments and revenue are really tied to availability of materials. And as we said, right now, about 93% of our constrained materials are entirely related to tape drives.

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

Got you. So just conservatism on the product side, I understand. Shifting over to the services side. Historically, we would see -- given the healthy product sales, we would see a step-up in service and get that kind of stalled out here in the 33%, 34% range. Should we expect that to grow over time as we move back to a positive comp in the product?

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

Mike, do you want to address the kind of service projections?

James Michael Dodson - *Quantum Corporation - CFO*

Yes. I think when we look at service, I mean, we address the cash implications. It's just the seasonality. I think on a longer-term basis, the struggle that we have there, the challenge that we have there is the golden glide. So it's -- underneath that, we're growing the service, but we're also dealing with the golden glide, older established products as they come off and they're not renewed. So I think that's why you see a bit of a stall, Eric, it's that [struggle].

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

Okay. And then just macro commentary. You guys do have a global view, given thousands of customers worldwide. Curious to know what you're seeing in Europe. Is your guidance being impacted and this is both an FX question and a macro demand question, but just curious to hear what are your larger customers in Europe, are they on track? Are they getting more tentative? Have we seen any sales cycle extended? And then is there an FX impact in your outlook?

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

I mean I can -- yes, Mike, why don't I cover the macro and you talk FX. Right now in Europe, we are not seeing anything that I would call widespread, broad-based slowing down on technology spending. I think people are being judicious. So I'm seeing more process steps, where people are seeking greater approval. There are process steps to justify and make sure that people are making justified orders. But at this stage, we're not seeing a broad-based slowdown.

James Michael Dodson - *Quantum Corporation - CFO*

Okay. And on the FX side, to date, we haven't seen a significant impact on our business due to FX. First, when you think of our revenue streams after you back out the service business, because that's basically amortizing deferred revenue down. The level of business that we have outside the U.S. denominated in the foreign currency is about 20% of our total revenues. And when you look at that level and the mix of currency movements, we just haven't seen a significant impact.

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

Okay. That's encouraging. And then a couple of housekeeping items, if I may. The weighted average share count upon which you're basing your guidance for non-GAAP adjusted net loss per share for Q2 is 94.5 million shares. And I saw in the Q that you filed as of August 1, we've got 102.7 million shares. So help me understand the delta there.

James Michael Dodson - *Quantum Corporation - CFO*

Yes. The -- yes, I'm not familiar with the 102 million, Eric. But when we look at what our share counts -- how they've moved the last few quarters, because it's the impact of the rights offering, right? And just on basic level because as long as we have a loss, we don't have the dilutive effect of all the other equity instruments. But for Q4, we were at 60.3 million. Then Q1, we're at 83.6 million. And really, what we expect looking at the schedule now, Eric, is I would expect 91.6 million for Q2. It looks like the 94.5 really includes a dilutive effect, but that's only if we were profitable.

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

Okay. Sorry, 91.6 versus 94.5.

James Michael Dodson - *Quantum Corporation - CFO*

Yes.

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

And then last housekeeping on the -- what should we use for interest expense in Q2? I know you had $2.1 million in Q1, but that had some puts and takes in it.

James Michael Dodson - *Quantum Corporation - CFO*

Yes, I think that -- I mean, the $2 million is a -- it's a good number for right now.

Operator

(Operator Instructions) Our next question is from Nehal Chokshi with Northland Capital.

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

It seems like solid results. Congratulations on that. Your Slide 9 shows your shippable backlog and an order schedule for future quarters. Within those orders scheduled for future quarters, that is what happened within the June quarter. So does that mean that there are orders that are shippable within this September quarter?

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

Yes. Let me turn to that slide and see. Are you looking -- you're looking at the light blue shippable or the...

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

Yes, I'm just wondering if -- because that's orders that were scheduled for future quarters within the June quarter. And does that mean that it's shippable in the September quarter, some portion of that shippable in the September quarter?

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

Not necessarily, because some of it could go out beyond the quarter.

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

But I guess, the question is some of that still shippable within the September quarter?

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

Yes.

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

Got it. Okay. Because otherwise what it looks like is that you have very little visibility into your September quarter guidance relative to your June quarter guidance. And so that's essentially what my question is, is that what gives you this confidence to guide the flash Q-o-Q with what appears to be, if I were to just use a Q-o-Q change in shippable backlog plus your revenue as a gauge for what your orders were in the quarter, it looks like it went down significantly. But what you're trying to say is that no, that's not the case, your orders that are shippable within the September quarter remain quite robust actually. And that gives you confidence to guide in way that you have guided. Is that correct?

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

Yes, definitely, when you look at that July orders, that has Q2 business in it, right?

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

Yes. Got it. Very good. Okay. And then, Jamie, last quarter, you talked about your 4 levers to achieving a $25 million EBITDA in, I wouldn't say, the near future, but near to midterm future. And then the $50 million annualized EBITDA target mid to long-term basis. How do you feel about those -- how those levers have been coming along relative to when you made them out a quarter ago?

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

Yes, I think we feel we're on our plan. If you look at this quarter, we're bringing up gross margin. We're looking at kind of that 50 to 100 basis points a quarter, bringing that up. I think we'll do better than that this quarter. We're looking at getting greater supply. We're seeing we're selling faster than we're getting supply, but the supply is coming up and there's EBITDA in that supply, we need to get the company well over $100 million, given our mix. We see that coming together. We see that supply coming together.

Our pricing and discounting has been put in place. I think that's being generally accepted. At first, there was some grumbling, but I think people generally understood it's -- we're in an inflationary period, putting that in place. And then we've taken a series of OpEx reduction measures that are behind us at this point, and those are taking effect. And all that's coming together. And it's good to see us go from $300,000 EBITDA to $2.5 million, that's the kind of growth I think our investors want to see, and we've got to keep walking that up.

But it's taken a lot of work to get here. And now we're restoring that EBITDA and get free cash flow restored again, as we bring it up. But to go from $300,000 to $2.5 million is a good jump. We need to get that $2.5 million up to $5 million. And up to $25 million, up to $50 million and we'll keep working it out. But I -- what I feel also good about is most of the supply chain issues are now under control. We're not paying broker fees. We're not paying expedite fees. 93% of our supply chain issue is all about tape drives.

So we have everything else. We have our servers. We have our hard drives. We have our network cards. We have our power supplies. We have all the stuff we need to build tape libraries, literally 93% of our issue right now is just getting the tape drives shipped to us, and we just put them in libraries and ship them.

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

Okay. That's very helpful. And just with that 93% perspective, where was that a quarter and 2 quarters ago?

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

It was still pretty high. It was in the low 80s. So we had -- think of it as 80% of our issue was tape drives, 20% was other sundry items. We've gotten all those items kind of worked down and basically, our supply chain issue is laser-focused on a single supplier.

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

Okay. And if I recall correctly, 1 of the longer-term key levers was territory and vertical sales fill-ins. Presumably, that's something that's going to be worked on as you go through this fiscal year, not something that you worked on in this most recent fiscal quarter. Correct?

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

We've been working on that as well. I mean we're putting those people in place now. The hiring environment has changed drastically. There's a lot of talent available. I think there's a lot of people coming out of companies right now that are doing reductions in force, so I am seeing a much more favorable hiring environment for Quantum, and we are getting really good talent that we're placing into key territories. So I feel like we're getting much closer to full strength in our sales organization, and we'll see that as we get people through boot camps, training. I think we're going to see the sales come through. And we're hiring people to address mix.

I mean everyone knows a big part of our mix is hyperscalers. Those are big volume deals, but they're lower margin. And I feel really good about how that business is performing. So the people we're hiring are in higher-margin businesses to help us with mix. They're going after enterprise, media and entertainment, and other key verticals -- yes, U.S. Federal, absolutely. Other key verticals for us that will help us get our mix more balanced.

Operator

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

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

Okay. Thanks, everyone. Thanks for attending today, and this concludes our call. We'll see you next quarter. Thanks, everyone.

Operator

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