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QMCO.OQ - Q1 2025 Quantum Corp Earnings Call

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PRESENTATION

Operator

Greetings. Welcome to Quantum Corporation's first quarter fiscal year 2025 financial results. (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 Cabrera - *Quantum Corp - Chief Administrative Officer*

Good afternoon, and thank you for joining today's conference call to discuss Quantum's first quarter fiscal 2025 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 revenues, 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 description 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?

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

Thank you, Brian, and thank you, all, for joining us today. Earlier today, we announced our results for our first quarter fiscal 2025.

Turning to slide 3, here are some brief highlights from the quarter. We finished Q1 2025 with \$71.3 million in revenue, non-GAAP gross margin of 36.9%, and adjusted EBITDA of negative \$3.1 million. These results were largely in line with our expectations, reflecting further rotation of our business toward our long-term initiatives. We continue to take steps to improve the company's capital structure and operational performance, as well as accelerating the growth of profitable revenue streams, which we will discuss further in today's call.

First, as part of our ongoing strategic and financial initiatives, we have reached an agreement with our current lenders that significantly increases our liquidity, allows us to take action on improving our operational initiatives, and focus on driving Myriad, ActiveScale and the rest of our business to the next level.

We added access to over \$25 million. This injection of growth capital, combined with the restructuring of our existing debt, allows the company not only to improve its overall capital structure and balance sheet, but positions us well for continued innovation and growth in our target markets.

Let me talk more about the company's continued transformation and driving the business to the next level. Quantum has proven experience managing unstructured data, with deep roots in video and media and entertainment. The ongoing exponential growth in unstructured data, particularly driven by AI use cases, is creating continued traction for our Myriad and ActiveScale platforms that are uniquely positioned to address these workflows end to end.

Our engineering team is delivering the committed Myriad roadmap on time and on plan, with our customers successfully adopting these new features as they are released, giving us confidence in their robustness for commercial rollout.

As I mentioned on the last call, while deal cycles can be long for this category of product, we currently have several proof-of-concept engagements underway and moving forward. These are concentrated primarily in visual effects and post-production, where we have extensive experience to accelerate adoption, along with life sciences, high-performance computing, industrial research, and manufacturing. We have added to this global pipeline during the quarter with additional AI use cases with one of note being a multi-billion-dollar enterprise with the potential for a scaled engagement.

Beyond Myriad, we are seeing momentum since deploying all flash options across our full portfolio. In fact, our DXi T10 had multiple closed deals within days of its formal launch announcement. We plan on aggressively targeting the enterprise backup market with our superior technology delivering an all-flash format, DXi immutability, and the one new form factor at one of the best total cost of ownership in the market.

We solve some of the most complex and important data center and storage problems for the world's largest organizations. While we have had headwinds in the near term, we believe our solutions provide unique value that no other company can offer. This motivates us to come to work every day and drive these solutions forward.

For example, we saw several notable ActiveScale wins in the quarter, including an NBA team that was an existing StorNext customer, with content archival needs leading to the purchase of more than 10 petabytes of active and cold storage. The deal included a net new ActiveScale deployment with cold storage, CatDV, and StorNext expansion, demonstrating a seven-figure deal size when we sell the full product portfolio end to end.

In addition to new ActiveScale deployments into existing StorNext and tape installed-based accounts, we saw ActiveScale expansion deals as unstructured data continues to grow exponentially. And we expect these footprints to continue to scale as well as net new customer accounts in both media and entertainment and healthcare.

Finally, we remain committed to strong cost and discretionary spending controls through this transformation, while continuing to evaluate and consider all possible alternatives. As we execute on our business initiatives that include achieving our operating performance driven by tangible proof points, accelerating growth of new products, and divesting non-core product and assets, our organization will become more focused and operationally efficient.

With that, I would now like to turn it over to Ken to walk through our financial results and our updated financing in more detail. Ken?

Kenneth Gianella - Quantum Corp - Chief Financial Officer

Thank you, Jamie. Please turn to slide 6, and I'll provide an overview of the GAAP financial results for our fiscal first quarter. Revenue was \$71.3 million, a decrease approximately 23% year over year and essentially flat to the fourth quarter of 2024. The revenue-year over-year decrease was

primarily driven by the loss of our largest hyperscaler. While the full quarter results do not fully reflect the continued rotation of our business toward our long-term initiatives, we are pleased with the progress.

For example, our gross margin for the period was 36.6% compared to 38.5% in the year-ago quarter and 38.2% in the prior quarter. This lower margin was due to a very large-scale strategic video surveillance sale to the world's largest packaging shipping company for all of their ground shipping locations.

Also impacting the quarter's profitability was supply constraints that prevented us from shipping higher volumes of higher-margin products during the quarter. These supply headwinds resulted in an increase of the quarter-end order backlog to approximately \$15.5 million, substantially above our normal run rate of \$8 to \$10 million.

While we anticipate gross margin returning to the low-40% next quarter, we expect higher supply lead times to persist through the end of the calendar year.

GAAP net loss in the quarter was \$20.8 million, or a loss of \$0.22 cents per share, compared with the loss of \$9.1 million, or \$0.10 cents per share in the same quarter last year and compared to a loss of \$18.9 million, or \$0.20 cents per share in the prior quarter. This higher loss in Q1 '25 was predominantly driven by one-time expenses of over \$10.7 million.

The gain on fair value of warrants was \$1.7 million in the quarter compared to a \$0.7 million gain in the same quarter in the prior year and a \$2.2 million loss in the prior quarter. We anticipate elevated levels of one-time spending to persist into Q2 '25 as we complete restructuring activities. However, they will significantly subside as we head into the back half of the fiscal year.

Now turning to slide 7 for non-GAAP metrics. Non-GAAP gross margin for the quarter was 36.9% compared to 38.8% in the prior year and 38.5% in the prior quarter. Non-GAAP operating expenses were \$30.8 million in the first quarter, a significant decrease from \$35.5 million year over year and in the prior quarter. This decrease in operational expenses was the result of our proactive actions to improve process and productivity, and we anticipate operating at or below these levels as continued cost actions begin to take hold into the back half of our fiscal year.

Non-GAAP adjusted net loss in the first quarter was \$8.4 million, or \$0.09 loss per share, compared to a \$4.1 million, or \$0.04 loss per share in the prior year quarter, and a loss of \$10.9 million, or \$0.11 loss per share in the prior quarter.

Adjusted EBITDA in the first quarter was a negative \$3.1 million compared with a positive \$1.5 million in the prior-year first quarter and a negative \$6.2 million in the prior quarter. This quarter's EBITDA reflects lower margin revenue mix and higher manufacturing costs due to supply chain constraints. We anticipate operational cost controls and improving revenue mix to drive higher EBITDA throughout the rest of the year.

We remain focused on improving EBITDA and total profitability, which will continue to be driven by our global restructuring, combined with our sales team's effort toward a more end-to-end, higher-margin, subscription-based solutions. We continue to anticipate our efforts will deliver sequential year-over-year improvements in profitability, even on a lower revenue base in fiscal year 2025.

Moving to slide 8, I want to provide an update on our annual recurring revenue and subscription metrics. Total annual recurring revenue, or ARR, for the trailing 12 months was approximately 49% of our total revenue at \$141 million, with a gross margin on the combined business being approximately 65%.

As a company, we continue to focus on total ARR by maximizing our Quantum Service opportunities to both our partners and customers globally. The best way to demonstrate our progress is through our subscription ARR. The growth in subscriptions continues to demonstrate the progress we are making in our business transformation efforts.

In Q1 '25, the subscription portion of our total ARR increased approximately 29% year over year and approximately 5% sequentially to \$18.8 million. Over 92% of new unit sales were subscription-based.

Now please turn to slide 9 for an overview of debt and liquidity at the end of the quarter. Cash, cash equivalents, and restricted cash at the end of the first quarter were approximately \$17.3 million (corrected by company after the call). Outstanding debt split between term and our revolver was \$75.8 million and \$35.8 million, respectively. At quarter end, the company's net debt position was \$94.3 million.

As Jamie discussed at the top of the call, subsequent to the quarter end, and as mentioned in our press release today, we added the ability to draw over \$25 million to give us more operational flexibility going forward, combined with reaching an agreement with our current lenders in which we restructured over \$110 million of existing debt that significantly improves our overall liquidity and operational flexibility.

The agreement was executed giving Quantum an elevated blended interest rate of approximately 300 basis points in addition to warrants and other considerations. There is an anticipated dilution related to the new warrants of approximately 7% on a fully diluted basis. The agreement has provisions that can reduce the issued warrants significantly in conjunction with pay down of the term loan at the company's discretion over the next couple of quarters.

This agreement allows the company to focus on driving Myriad, ActiveScale, and the rest of our business to the next level while becoming more profitable through our restructuring initiatives. Additionally, this amendment underscores our partner's commitment to the company's strategy and the long-term potential of Myriad and ActiveScale, including the company's commitment to getting back to profitability as we drive towards cash flow positive in the second half of fiscal year 2025.

With the new and restructured financing in place, combined with being back on file, the company can now fully focus on executing our business and expanding our value to our customers.

With that, let's close out by turning to slide 10 and I'll now review the company's guidance for the second quarter of fiscal 2025. First, we anticipate total revenue in the second quarter to be approximately \$73 million, plus or minus \$2 million. This is factoring all potential impact for elongated lead times for all storage media.

We expect non-GAAP operating expenses to be approximately \$30 million, plus or minus \$2 million, reflecting the aggressive cost reductions actions taken through fiscal year '24 and in-process actions in FY25. As a result, non-GAAP adjusted net loss per share for the second quarter is expected to be a negative \$0.06, plus or minus \$0.02 per share, based on an estimated approximately 96 million shares outstanding.

Adjusted EBITDA for the second quarter is expected to be approximately breakeven. This improvement is driven by anticipated gross margin improvements to the low-40% and continued non-GAAP operating expenses to be on par with Q1 '25 results.

In summary, we appreciate all our stakeholders' support through our transformation efforts. Quantum remains committed to improving our customers' experience, driving new and innovative products to market, and leveraging our global footprint to improve Quantum's overall operating model. All of this, combined with continuing our strategic initiatives, are actively underway, and we are making solid progress.

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

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

Thanks, Ken. As we discussed today, Quantum will continue to prioritize certain initiatives to improve our operating model and our customers' experience. This includes continuing to prioritize new products and services that help customers maximize their value.

Operationally, we will execute our transition to subscription ARR, focus on improved operational efficiencies, and work to strengthen our model, while also evaluating all possible alternatives to improve shareholder value.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Nehal Chokshi, Northland Capital Markets.

Nehal Chokshi - Northland Securities - Analyst

All right, thank you. I'd like to start with the subscription transition, the particular slide page on the subscription transition. Overall, it looks pretty good, except for that the subscription bookings was down to \$3.2 million from \$4.5 million a year ago. Is there a narrative behind that?

Kenneth Gianella - Quantum Corp - Chief Financial Officer

I think, mostly, it's a little bit of delayed. We're hoping to bump that up this quarter, but we had delays, as we mentioned, with some of the supply chain elements getting out there that we couldn't add that into the number.

Nehal Chokshi - Northland Securities - Analyst

Okay. Just to be clear --

Kenneth Gianella - Quantum Corp - Chief Financial Officer

We were anticipating higher shipments this quarter than what we gave in the results.

Nehal Chokshi - Northland Securities - Analyst

Okay. But can't you take in a booking without shipping?

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

No.

Kenneth Gianella - Quantum Corp - Chief Financial Officer

No. We relied for that one. It has to be in place for that.

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

Yeah, you can't rev rec the software unless you've shipped the hardware to run it on, because without the hardware, it doesn't have any value.

Nehal Chokshi - Northland Securities - Analyst

Okay. Got it.

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

We sell it separately, but these deals weren't separate.

Nehal Chokshi - *Northland Securities - Analyst*

Got it. Understood. Okay. On the gross margin, the three components of product, service, and royalty, it looks like product actually did quite well on a Q-on-Q basis -- I'm sorry, on a -- yeah, on a Q-on-Q basis, it did quite well. But the service gross margin went down 600 basis points both Q-on-Q and year over year. Why is that?

Kenneth Gianella - *Quantum Corp - Chief Financial Officer*

Part of this is just when we get to scale, it's trying to clean up some of the regions where we were operating in. We had a little bit staffing that we were working through in higher operating costs in some of our regions, predominantly North America and Europe. And we're looking to find ways to operate a little bit more effectively than we were in the past.

Nehal Chokshi - *Northland Securities - Analyst*

Okay. It has nothing to do with selling the receivables on the services business, right?

Kenneth Gianella - *Quantum Corp - Chief Financial Officer*

No, that was purely an operational element that would flow through. It would improve the overall COGS of business, but that was not an impact to it. This was more just operational efficiencies that we saw in the regions in Q1.

Nehal Chokshi - *Northland Securities - Analyst*

Okay. And then Jamie, can you comment on what is the Q-on-Q bookings trend for Myriad and ActiveScale?

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

Yeah. I mean, we don't we don't put those numbers out, but we're pretty encouraged right now. ActiveScale, it's really starting to stand apart from its competitors really based on two things. One is it's tremendous ease of install and ease of use, particularly at scale.

And the fact that it's one of the only, but pretty much the only object store that has erasure-coded tape integration. So the ability to support flash, disc, and tape simultaneously, there's just no other object store that does that. So we're seeing good adoption of ActiveScale. I think our partners are well trained to sell it. I think our sales team is well trained to sell it.

With Myriad, we're at an earlier part of the growth curve. We've been getting a lot of independent testing validation that shows the product is outperforming. Even what are viewed today as the world's fastest file systems, we're outperforming those in some cases by 250%, just 2.5 times faster than our next closest competitor.

So I really like how it's doing in trials. A lot of those trials are actually, right now, converting into sales. Myriad has a little bit of a more unique network configuration, but once configured, what it can do and its ease of use are incredible.

So I think this quarter, the current quarter we're in, subsequent quarters, we're seeing the Myriad trials that we were in last quarter converting. So I feel really good about that. I think we're getting a very high success rate and conversion rate on the trials.

And where we have more work to do there is training our broader sales force, training the partner community on selling what is a new product and a very new architecture. So that's where a lot of our energy. It's not just having our best people be able to sell it, but having our top integrators, our top resellers, our top distributors really starting to build that knowledge base as well. So we're putting a lot more energy into training and education around the Myriad products.

Nehal Chokshi - *Northland Securities - Analyst*

Okay. Awesome. That's great color. I appreciate that. I'll get back into the queue. Thank you.

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

Thanks, Nehal.

Operator

(Operator Instructions) Max Michaelis, Lake Street Capital Markets.

Max Michaelis - *Lake Street Capital Markets - Analyst*

Hey, guys. Thanks for taking my questions. First question here, just related to -- really no mention of the fiscal year '25 guide you guys provided last quarter. Just want to get a comment from you guys on maybe what went into stepping away from that or not. Reaffirming that, was it mainly just the supply chain constraints here? Or I guess comment on what you guys are thinking for the full-year guide.

Kenneth Gianella - *Quantum Corp - Chief Financial Officer*

Well, first, we gave the first -- the full-year outlook at the beginning of fiscal year. And traditionally, we give that at the beginning of the year, and we don't reiterate it. So I wouldn't read anything into it. I mean, Q1 was slightly down, but that went into backlog than what we anticipated.

Q2 is kind of the same thing, and we do see some headwinds, but we are looking for elements to try to catch up here as that loosens up towards the back half of the year. So I wouldn't read into that in any way other than traditionally how we approach it.

Max Michaelis - *Lake Street Capital Markets - Analyst*

Okay, I think I forgot. So that previous adjusted EBITDA guide for \$10 million to \$20 million still sort of stands, that's what you're saying.

Kenneth Gianella - *Quantum Corp - Chief Financial Officer*

Yeah. I mean we said on the prior call when we put that out there, it was going to be back-half weighted. You might have heard in my prepared remarks where we were very clear about \$10.7 million of GAAP expenses that were hitting the company.

That transition -- because if you guys remember, we were just getting back on file, coupled with active restructuring of the organization, coupled with several new NPI launches that we're doing in the back half of the year, as well as now as you heard Jamie mention, what I'm really proud of is the DXi launch that went out and was a couple days out in public GA, and we won two big deals away from one of our key competitors. So we've invested a lot of capital dollars here in the back half of the year and this first half of the year, that once we get through this one time spend, we see the profitability really starting to take hold into Q3 and to Q4 to make us up to that number.

Max Michaelis - *Lake Street Capital Markets - Analyst*

Okay, perfect. Thanks, guys. And then last one for me, I think the number was \$16 million of operational efficiencies. I kind of want to get an idea where we're at. I mean, how much have we recognized, I guess, in Q1 out of that \$16 million going forward throughout the year and if we're on track there?

Kenneth Gianella - *Quantum Corp - Chief Financial Officer*

I don't give that specific number. I don't want to get into a thing of every quarter announcing where we're at for a lot of reasons. But I will say that we are on track, and our goal is to have that number at least fully in hand by the end of the calendar year.

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

But I mean, Ken, like to give you a little more credit, I mean we did have OpEx last quarter of over \$35 million, and this quarter it was \$30.8 million. So that's over \$5 million annualized. That's pretty good. We have more we can do, but I don't -- other than one quarter where we had some anomalies, we've never had OpEx at \$30.8 million.

And I think we see a pretty clear path to getting under \$30 million, which is just, we've never been at levels of that kind of efficiency before, even before we made our acquisitions. It's pretty good progress. I'm pretty pleased with it. Now, the gross margin, not so much, but we'll resolve that.

Max Michaelis - *Lake Street Capital Markets - Analyst*

All right. Thanks, guys, for taking my questions.

Operator

With no further questions at this time, I would now like to turn the call back over to Jamie Lerner for closing remarks.

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

Yeah, look, thanks everyone. Thanks for sticking with us. I do think there's better days ahead. I'm really encouraged that our lenders supported us with the \$25 million that we brought in. I feel really excited in what we can achieve in the explosion in AI and just how much our media and entertainment experience translates to AI success and how our products, particularly Myriad and ActiveScale, are just turning out to be so unique in that space.

And now that we have the runway to really play that out completely with our lender support, I really am encouraged for what's going to happen in the future for us. And I'm excited to talk more over the coming quarters of how we're going to expand in these new markets. So thanks, everyone, and thanks for today's call.

Operator

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

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