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Haivision

First Quarter 2022 Earnings Release Conference Call

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PRESENTATION

Operator

Welcome to the Haivision First Quarter 2022 Earnings Release.

Please be advised today's conference is being recorded.

I would now like to hand conference over to your speaker today, Mr. Mirko Wicha.

Sir, please go ahead.

Mirko Wicha

Thank you, Mel (phon).

Good afternoon, everyone. Thank you for joining us once again. And I'm thrilled to be back to discuss this time our Q1 Fiscal Year 2022 results. Demonstrated by the results we just announced earlier today, demand for our products remain strong and our business fundamentals have never been stronger. Let me just start with the amazing Q1 revenue results of $28.3 million, which exceeded all previous quarters and actually represents a 23.3% growth over the previous Q1 of 2021.

I also want to remind everyone that this time last year we had an unbelievable record breaking Q1, and also the previous Q1 before that, so to grow another 23.3% over that quarter is an amazing back-to-back impressive financial result as we continue to deliver on our promise to increase top-line growth and build operational efficiency into our long-term business model.

Now we also delivered our thirty-third, and you heard that right, thirty-third consecutive quarter of positive Adjusted EBITDA, not too shabby, right, when you look around the tech world and see many companies

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that still haven't made any money. All I can say is that I'm very happy to finally see the markets favoring companies that actually don't spend crazy money (audio interference). Number one, absolutely thrilled that we have signed an agreement to acquire AVIWEST S.A.S. in France. This is our second strategic and impactful acquisition since the IPO, which is expected to close by the end of this month.

AVIWEST is a phenomenal addition to the Haivision portfolio and enables us to be the only provider and vendor to deliver ultra-low latency wired and wireless streaming technology. This is huge. I mean, at Haivision, we will be looked upon to help solve the most complex and difficult contribution, streaming and remote production solutions in the industry.

We do expect a very quick global sales integration upon the closing, and customers are already excited to see how our products will integrate and provide an unparalleled portfolio of products under one roof. In fact, we already share many accounts where they use Haivision for their land-based wire needs. And actually, AVIWEST for the remote, mobile or cellular bonded systems when 4G or 5G is necessary. We see this as an amazing opportunity to strengthen our global customer presence.

In addition, we also have accounts that use other 4G and 5G solutions and will now have the opportunity to get their solution from a single vendor. And we see a massive, massive cross-selling opportunity worldwide into each other's accounts. In fact, we've already heard from many of our large broadcast accounts, wanting to see and test the AVIWEST technology.

I'm also very excited on our ability to scale this business globally and to increase our footprint not only in broadcasts but also to take these 5G IP-Bonding solutions into defense, government and the first responder market, and the urgent need for real-time low latency remote communications growing. We can now be the single source of supply into all these markets.

The AVIWEST acquisition is extremely synergistic in all key areas of sales, geographic expansion, technological synergies, and helping to solve our customers' challenges. This new combination will continue to fuel our growth well into the future. Although we're also holding a very special webinar broadcast tomorrow at 9:00 A.M. Eastern Time, which will feature Ronan, the CTO, and a Founder of AVIWEST, together with Mahmoud, the CTO of Haivision. And they'll be discussing the importance of these technologies and the vision going forward. You can register for this webinar on our website at haivision.com. I would highly encourage that.

Secondly, we have also decided to rename CineMassive to Haivision MCS, which stands for Mission Critical Systems, to better reflect our strategic focus on the government, defense, enterprise and public safety verticals. We believe our combined strength and clear focus in these markets will propel Haivision into an industry powerhouse globally.

Thirdly, our advanced cloud and self-serve SaaS video distribution platform, Haivision Connect, continues to receive very positive feedback from our house of worship and faith clients, and I'm thrilled to report that we now have 97 clients using Haivision Connect as part of our transition to this new SaaS platform, including from the largest multi-campus ministries in the United States.

As mentioned previously, which was only about six weeks ago in our Q1 and end of the year ‘21 earnings release, we continue transitioning all of our faith clients to this new innovative platform.

Now the next major step is for our full release of the advanced VOD features that everyone has been anticipating. It’s been a major development effort and represents the last step to enable all the key accounts of transition entire workflow to Connect. We expect this to begin shortly after the busy Easter holidays, as you can imagine.

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Our innovative cloud-based video streaming routing technology, the Haivision Hub, now has about 32 active clients as we are about to introduce our new appliance attachment features end of this month. As I mentioned about six weeks ago, these new features will enable full management and device control of Haivision end points, such as our Makito encoders and the Haivision Gateway, giving users powerful control of ultra-low-latency cloud routing or video security from anywhere to anywhere globally. The Haivision Hub is evolving into a powerful video routing and element management platform for all of our devices. This is very, very exciting for our long-term SaaS growth.

And in fact, our flagship encoder, the Makito, added some new important features that enhance remote workflows with full support for SMPTE 2110. This is for all IP-based broadcast workflows. This combined with its renowned ultra-low-latency continues to make the Makito the gold standard for everything remote and broadcast.

And I would say finally, our percentage of international revenue has decreased last quarter to now represent about 20.7% of our global revenue. This is mainly due to the addition of the heavily U.S. weighted Haivision MCS, or CineMassive, revenue. We expect this trend to continue obviously as Haivision maintains the leadership in mission critical real-time operational center deployments. As the Haivision MCS, or CineMassive, business continues to further add to our U.S. growth, it is expected over time to also increase our international business. And we believe having a strong international presence is important to maintain Haivision's leadership in the global IP video market.

Now I'd like to just discuss some product, technology and industry trends for a bit. Now on the product and technology trend in Q1, we already mentioned we'll release an important feature in our lineup to support SMPTE 2110. Now in contrast to SRT, which enables low-latency video over the Internet, 2110 is a new standard for distributing uncompressed video within broadcast facilities over high performance IP networks. Now with Haivision products, broadcasters can achieve full IP-based production workflow seamlessly, bridging their internal and external networks in support of remote and decentralized workflows. In fact, the next version of Haivision Hub to be released this month, as I mentioned, will enable full end-to-end control connecting all these IP workflows across facilities globally or directly to cloud production resources.

The importance of these end-to-end IP workflows cannot be overemphasized. And the move to IT is the most important trend in broadcast as was actually highlighted within the third annual broadcast IP transformation report that we just released. I highly encourage everyone to download the report from our website. In this widely respected report, we actually summarize data from over 650 broadcast professionals. As I mentioned before, the pandemic is accelerating the shift in broadcast and across all markets to embrace approaches that address distributed workforces, decentralized operations, reduce travel and work from home challenges. And in fact, this year's report shows that 65% of broadcasters are in the midst of migration to all IP workflows. And actually 60% now understand that the future is in hybrid on-premise, cloud and remote IP workflows.

Now, another important indicator shown in the report is the pervasiveness of SRT. From a live video connectivity perspective, SRT has become the most widely used transport protocol in broadcast. Haivision, of course, invented SRT and made a freely available open-source back in 2017. And many people have actually asked us, including many who are listening today, why did you open-source such an in demand technology? What are the benefits to Haivision? And the answer is very simple: leadership and access. Now, our SRT open-source strategy has elevated Haivision as a leading disruptor in broadcast and streaming. We are the beneficiaries of this strategy through several key areas such as CTO level access at the top clients globally. Access to strategic partnerships have developed to the SRT Alliance.

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Our position in supplying the market with solutions that continue to be favored as a gold standard for SRT workflows. I would say finally fueling our acquisition pipeline. For example, the last three or four acquisitions we did, which is Lightflow, Teltoo and how AVIWEST are all acquisitions have started with SRT partnerships.

The SRT Alliance formed a manageable Haivision is also just surpassed 550 members and includes support from the world's top public clouds, including Amazon, AWS, Microsoft and Google; the top broadcast solution providers, which include Sony, Panasonic, JVC, Harmonic; and the top media services organizations like IBM, Comcast and Compass, Tata Communications, and Telstra. All of these companies are bringing forward cloud-based and decentralized remote workflows based on Haivision's SRT. I've always respected that saying, lead, follow or get other way. Haivision prefers to lead. You can expect more disruptive open-source leadership in our future.

Finally, I would like to highlight a key point from our broadcast IP transformation report. For the third consecutive year of this report with 68% of the vote, 5G tops the list of technologies that will most impact broadcasters within the next five years. 5G is poised to make high bandwidth, low-latency internet access ubiquitous and extend IP-based workflow for any type of live event. I think that in itself should help explain why the AVIWEST acquisition is so strategic.

Let's talk about the AVIWEST impact and influence. In fact, remarkable achievements of the AVIWEST team, while just recent, delivering end-to-end latency of less than 200 milliseconds using live 5G transmission during the recent 2022 Winter Games. And this was an amazing breakthrough in wireless broadcast. This was made possible by complete understanding of the encoding pipeline and specifically how 5G network can we take advantage of not only for the native increased bandwidth but also for dramatically reduced latency. I mean, this is the expertise of the AVIWEST engineering teams. Broadcasters are looking toward a single solution that can deliver the lowest latency video regardless of a network.

Haivision Makitos are excellent for any wired installation. Those that are relatively fixed, it can be served with fiber cable or an ethernet drop. And the AVIWEST transmitters are a perfect complement when fixed lines are not available or the mobility or the camera man is essential. You may have noticed camera moving very quietly amongst the curling teens, for example, during the games, each connected wirelessly with little devices antennas in the back, the broadcast cameras. Low-latency and synchronized streams are absolutely required to fuel any production environment, whether it be on-site, remote, at home or in the cloud, dedicated to assembling and mixing these feeds for broadcast.

I would say that if you watched any of the 2020 Winter Games, the likelihood of what you saw was assisted in some way by Haivision and AVIWEST is quite high. Haivision and AVIWEST technologies together to deliver ultra-low-latency video to production is a clear sign of value in our combined company going forward. In fact, one last but most recent example of the move to hybrid workflows was within the coverage of the PGA Tour (inaudible) event held at TPC Sawgrass outside Jacksonville, Florida, both PGA Tour with their cloud production and remote production challenges respectively. The hybrid workflow approach is today's reality.

Let's discuss a few selected Q1 sales highlights and like broke that down by different markets. The sub within our enterprise and cybersecurity verticals, Haivision and now Haivision MCS, which was CineMassive, has been at the heart of organizations addressing the growing threats related to cybersecurity. There are many systems involved in a comprehensive cybersecurity plan. All that must meet an organization's strict system security governance, these systems span monitoring alerts related networks, firewalls, databases, communications, and even extend to simple physical security. The Haivision MCS solution manages the aggregation and presentation of any source so that decision makers

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can manage complex environments and react to unforeseen events that may shake the foundation of their organizations.

Now, this quarter, we have established or extended multi-site deployments of our mission critical solutions, some of the world's most important organizations, including Facebook, or now Meta, Salesforce and Pfizer. We have also started a recent deployment of Walmart for their video infrastructure within the conference training center. These are some pretty big names. Within our defense vertical, we have secured another significant phase towards supply in the U.S. Navy with additional IP video infrastructure, a retrofit program that we have been involved with for many years and part of our ongoing programmatic business. Q1 also saw a number of design-in wins for MX1 Rugged Encoder in both manned and unmanned aerial vehicles, helicopters and planes, domestically in the U.S. and internationally. These long-term ones are critical in building a programmatic business even further.

Now, one key observation to note that we are seeing a shift of the U.S. Government purchasing schedules affecting long-term programmatic business. It seems to be kind of moving back to the pre-COVID days and what we witnessed in the previous administration days, where emphasis was always placed on September year end budget spending, and because in the last two, three years, we kind of saw a move to split these budgets between April, May and September, October timeframes, which kind of smooth out our quarterly revenue makeup. But we now seem to be going back to the old spending patterns. That's kind of moving our government and programmatic business revenue more back to our traditional Q4, which ends October 31.

A little bit to talk about house of worship or faith vertical. Our Connect SaaS platform continues to be positively received within the market. And our focus sales team in this area has not only continued to transition the install base, but it's also secured some significant victories against the competition. A couple good examples, Meadowbrook Church (phon) and Life Church in Florida, Newlife Church (phon) in California and Victory World Church and Georgia have all signed on with Connect in absolute head-to-head competitive battles. Very proud of those. in fact, now, Joe Hayes, he's the Media Director of Redemption Church in South Carolina, explains the value of Haivision Connect beautifully. He says, Haivision always stepped up to the plate. The team understands our challenge and it's always able to help provide a solution. We absolutely love Haivision solutions. They've always been able to deliver an excellent quality, robust product for us, which means I always have a peace of mind on a Saturday night. I don't have to worry about Sunday morning, and whether the world is going to be able to watch. I just know that I can rely on Haivision technology.

And Robert Cuyar, the IT Director of Redemption Church, added, Haivision Connect is so simple to use and it's providing a significant savings on our bandwidth use, which is a great added benefit. Now this makes it both a reliable and affordable option for churches, with smaller budgets, or limited access to high speed internet. Not only is Connect helping us save time and bandwidth, but it has also helped us to reduce the number of systems we use. An all-in-one comprehensive live streaming solution, Haivision Connect is helping us to save money. Very nice quotes. The stock finally a little bit about the broadcast vertical, in addition to supporting a PGA and NBC Sports are highlighted earlier, Haivision continues to expand its presence in broadcast, a key market segment that has been seriously augmented with the AVIWEST acquisition.

In fact, in Japan, NHK, one of the world's cornerstone and larger broadcasters, is now using Haivision Makitos specifically to address the remote challenges associated with the Winter and Summer Games. Now Texas Star and SAMAA TV are collaborating by using Makitos and SRT to deliver 24/7 news, and current affairs channels through Etisalat in the UAE and other IP TV platforms globally. And closer to home in a rapidly expanding eSports market, Fan Controlled Football is now streaming to Twitch and DAZN, or DAZN some people call it, using Haivision.

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Now, before if I pass it to Dan, our CFO, for a more detailed analysis on our first quarter results, I would like to also mention that headwinds in 2022 absolutely do exist, which could affect business and growth. I mentioned that last time, and I will continue to mention it. The world is still dealing with an unprecedented supply chain and component shortage like we've never, never, never seen before. I believe this will continue well into 2023, especially with the unfortunate recent developments in Ukraine.

Our teams are working hard to mitigate any supply chain issues. And we are deploying cash and increase inventories to maintain our business flow. I do expect things may begin to ease during the second half of 2023. So we're in this for a while longer. And the good news is that our supply chain team has done an excellent job in mitigating these pains thus far and are focused like a laser beam on addressing anything that comes our way. But understand that costs are up, delivery times are longer, the challenges are there. And I'm sure Dan will speak to this in a little more detail.

Now just find the ad, unfortunately, we've also seen a disruption of business in Russia, given the latest developments in Ukraine, which we've spent years of building, export licenses to other countries such as Turkey and Saudi Arabia are also more difficult these days, which we need to consider as we plan for the remainder of 2022 and 2023. (audio interference) market. I do want to mention that I could not be prouder of the Haivision team, what we've accomplished since the IPO. It's truly been an amazing first year as a public company, and not only delivering but actually exceeding most of our expectations thus far.

And finally, I want to thank all of our investors and analysts in line today for their continued support of Haivision. I really look forward to speaking with many of these soon.

Dan, table is yours.

Dan Rabinowitz

Thank you, Mirko.

[redacted] Our initial focus has been to derive sales synergies. And the renaming of CineMassive to Haivision MCS represents a significant milestone in that integration. However, it also means that as we continue to integrate Haivision MCS's business into our systems, it's becoming increasingly difficult to identify Haivision MCS revenue and expenses on a standalone basis.

With that said, now let's get into the numbers.

Revenue for this first quarter of Fiscal 2022 was $28.3 million, representing an increase of $5.4 million, or 23.3%, from the same period in the prior year. As Mirko mentioned, typically our first quarter revenues are less than the fourth quarter revenues that precede it. We saw that in virtually every fiscal year prior to Fiscal 2020. With the onset of COVID, we did begin to see more consistency in revenue and a smoothing of our revenues across borders. Said another way, client purchases were more ratably throughout the year. Although this first quarter represented a 4.7% increase in sequential quarterly growth, we seem to be reverting back to our historical seasonality as government, broadcast and enterprise customers seem to be returning to work.

Recurring revenue, which we are now defining is our cloud solutions and maintenance and support, continues to be robust. Recurring revenue was $6.6 million in the quarter and represented just over 23% of this quarter's total revenue. This compares to our recurring revenue in the first quarter of Fiscal Year

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2021 where recurring revenue was only $5.2 million but still represented just under 23% of First Quarter Fiscal 2021 total revenue.

For this quarter, gross margins were 69.4%, down from recent history. We anticipated a decline in gross margins to accommodate Haivision MCS's business, which historically operated at a lower gross margin than Haivision's traditional business. With that said, we have been incurring higher direct product costs, including higher direct costs product costs related to the nature of Haivision MCS's products, higher component costs as the global shortage in electronic components continues to be a challenge. We've had expediting costs and we've made investments and subscription trials to customers interested in Haivision Hub and Haivision Connect platforms.

We've also seen increases in other costs of sales, including the redesign of products using latest componentry to solidify our supply chain, and investments in the new systems to provide a real-time assessment of our supply chain resilience. We've also incurred certain costs for qualifying alternative manufacturers for difficult to procure electronic components. I'll touch on supply chain constraints a bit later in my remarks here.

As presented, total expenses for the first quarter were $19.8 million, a decrease of $9.1 million when compared to the same period in the prior year. As discussed on previous calls, $14.2 million of those share-based payments were onetime non-recurring non-cash expenses resulting from the exercise of options related to our legacy employee stock option plan. Share-based payments related to the LTIP, our current stock option plan, was $0.8 million compared $0.2 million in the same period in the prior year due to the timing of the initial public offering and the initial grants of DSUs, RSUs and options (inaudible) and subsequent grants through the year to employees to attract, retain and motivate.

Normalized for the share-based payments, total expenses were only $19 million, an increase of $4.6 million when compared to the same period in the prior year. Compensation related expenses in aggregate increased by about $2.4 million compared to the same period in the last year. Headcount at quarter end was 338 people compared to 256 people at the end of the first quarter in Fiscal Year 2021. Haivision MCS added 64 People in August 2021. That's of the total 82 person increase. And as a reminder, approximately 75% of our total expenses, excluding share-based payments, is made up of people costs. That's why we focus on headcount numbers.

Amortization and depreciation expenses in first quarter 2022 were $1.1 million higher than in the same period in the prior year, as research and development, sales and marketing, and general and administrative expenses included increases in amortization expenses related to the intangibles acquired as part of the Haivision MCS transaction. We also witnessed a half million dollar increase in travel, the majority of which can be attributed to Haivision MCS's install business.

Adjusted EBITDA for the quarter was $2.1 million, a decrease of $1.4 million compared to the same period in the prior year. The $5.4 million increase in revenues contributed to a $2.1 million increase in gross profit. But that was offset by the increase in total expenses of $4.6 million, again, excluding those share-based payments. Nevertheless, this quarter now represents our thirty-third consecutive quarter of positive Adjusted EBITDA.

Net loss for the quarter was $0.5 million compared to a net loss of $12.1 million for the same period in the prior year. That's an $11.6 million improvement. But as was the case for the Adjusted EBITDA, share-based payments of $0.8 million represented a decrease of $13.7 million from the prior year. Now, again, $14.2 million was a onetime non-recurring expense related to the IPO. The $5.4 million increase in revenues that I spoke of before again contributed to an increase in gross profit. But that was offset by the increase of expenses, much of which was related to the recent acquisition.

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If we look at the balance sheet, we ended the quarter with cash balance of the $24 million. Total assets at year end were $124 million, an increase of 41.8 million from Fiscal 2021 year end. The increase in assets is largely the result of trade and other receivables again related to higher revenue levels, prepaid expenses, some of which are related to the supply chain shortages we've been seeing, and investments in inventory to minimize the risk of revenue disruption. These working capital increases were offset by the $2.8 million decrease in cash in the quarter.

Total liabilities at quarter end were $33.4 million, a slight decrease from Fiscal 2021 year end. But note that of our total liabilities, $11.2 million is related to deferred revenue. That's recurring revenue invoiced and yet to be recognized, and $8.5 million is related to lease liabilities resulting from the accounting treatment of IFRS 16. In terms of financial liabilities, we remain debt free. A $35 million revolving line of credit for general working capital, general corporate requirements and financing for acquisition remains completely available. And it includes an accordion feature that allows us to expand the line to as much as $60 million.

Obviously the big news this quarter was the announcement that we signed an agreement to acquire AVIWEST. Haivision will acquire 100% of the shares of AVIWEST on a cash free and debt free basis for cash consideration of about EUR20.5 million, which is approximately CAD29.6 million. Obviously, that's going to be subject to customary adjustments for transactions like this. Obviously the guidance provided last earnings call did not incorporate the performance of AVIWEST. So to assist, AVIWEST year end is December 31. In the 12 months ending December 31, revenues in terms of euros were about EUR10.5 million, or approximately CAD15.1 million terms. Interestingly, about 50% of last year's revenue were in the November/December timeframe, or in their first calendar quarter, months that will be part of our Fiscal 2022 results.

Gross margin for AVIWEST is about 70%, and although facing some supply chain constraints, we believe there are some opportunities for enhancements, margin enhancements. As will be the case with Haivision MCS, it will be unlikely that we will be able to report AVIWEST revenues or margins separately, as each of our entities cross-sell products to their existing client base. We had a similar experience with our Video Furnace, Kulabyte and Coolsign acquisitions. We do expect the acquisition to be modestly accretive in the near term with opportunities to enhance Adjusted EBITDA margins to mid-teens by the end of the calendar year.

Mirko mentioned significant headwinds. I want to touch on that just a bit. Our supply chain teams have done an excellent job in mitigating the sales impact given this worldwide component shortage. They have successfully addressed all the issues for the quarter just past and the current quarter, and the number of issues remaining for third and fourth quarter seem to be very limited and controllable. However, our successes are not without some real cost to the Company. For the last six months, we've been working with our contract manufacturer, as an example, to secure our six months needs for parts and components. We've had to increase our deposits with our contract manufacturer by approximately $1.3 million. And it will likely go up by a couple $100,000 before the process is complete. We've also made an approximate $2.5 million in incremental inventory to secure the high value, long lead time components necessary to keep the revenue line moving.

And in the past quarter, we did incur at least $0.5 million in additional direct product costs directly related to the worldwide shortage in components. We will likely have to re-spin certain of our boards to accommodate more available componentry, and new challenges seem to be popping out of the woodwork on a weekly basis.

(Audio interference) people side of the equation has also been challenging, and the cost of retention is becoming more significant. There is no doubt that our competitors and other industry participants view our employees with some degree of envy. Now, we evaluate compensation at the beginning of each fiscal

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year. That's November 1st for us. And a quick back of the envelope calculation suggests that the average increase in salaries have been between 5% and 10% in certain geographies. The cost of certain social charges and fringe benefits are increasing as a form of employee programs. And despite all of our attempts, the overall environment to attract and retain employees continues to be a challenge. We've invested in internal recruiters, but we're using third-party recruiters in more circumstances. And we believe that these challenges are compounded by the work from home initiative that has diluted the culture we have spent years promoting.

Now a quick note about currency. In the instance when we do provide guidance, we do not really consider the potential impact of foreign exchange gains or losses, as we do not attempt to estimate future movements in foreign currency rates. Now, we have seen currency rates, exchange rates remain relatively static in the last three months. But we don't know where that might go going forward.

With that said, we are now ready to take questions.

Operator

Thank you. The first question comes from the line of Nick Corcoran of Acumen Capital. Your line is now open. You may ask a question.

Nick Corcoran

Hi, guys. And thanks for taking my questions.

The first question has to do with the programmatic revenue in the quarter. Can you give any indication what that was of the total revenue and how you feel that'll trend through the year?

Mirko Wicha

Honestly, we don't usually give a number for what the programmatic business is. I don't even have it handy. But I think the trend, Nick, is that we are seeing definitely a shift into the typical government year end, which is in September, and the New Year is in October. Both kind of fall into our Q4. So right now, we're actually seeing already that early on. And I expect that Q4 to be much larger than we would have expected before we started the year.

But if I look back to map, what it was two, three years ago, Q1 was always traditionally the smallest quarter of the year and Q2 was a little bit bigger, Q3 was a little bit bigger, and then Q4 was a big one. I think that's kind of what the way we're going forward this year. And that includes not just programmatic business; that includes government spending. So we actually did get some good programmatic business in Q1. We kind of do that throughout the year anyway. Unfortunately, I've just seen a big shift in the government overall spending, which is in enterprise and defense, as well as programmatic business.

Nick Corcoran

That's helpful. And then moving on to CineMassive, how is the integration going?

Mirko Wicha

Sorry, the attrition?

Nick Corcoran

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Integration.

Mirko Wicha

Oh, integration. Dan, do you want to talk about that a little bit since that's the—

Dan Rabinowitz

For sure. Well, let's say we're happy with the integration thus far, but it hasn't been without some complications. And what I mean by complications is that because they've got this secured facility, we have to work with DCSA on how we integrate these two companies without allowing information to get into the hands of foreign owners. So that has slowed the process in terms of back-office integration. But it has not delayed the process in sales integration.

And for that matter, we have the team together in a real significant way. And that's part of the reason why we wanted to rename the enterprise Haivision MCS to highlight that it's one singular team that's going to be selling a full battery of products to each other's respective customer bases. So that has worked. And we have already started seeing a number of opportunities that include both Haivision product and CineMassive product on the same bill of material so to speak, same invoices, so it is working.

Nick Corcoran

Great. And then the last question has to do with the how the year is tracking compared to your previous guidance. I believe you had mentioned in your last call that you'd expect around maybe up to 35% and EBITDA north of 40%.

Dan Rabinowitz

Well, it's a little bit more of a complicated question, because we now have AVIWEST in the mix. Obviously we have an expectation that AVIWEST is going to close at the end of March, which means we should be seven months of that revenue added to the existing business. The existing guidance that we gave you, I don't believe there's any—we don't see anything that is changing the existing guidance. And I would say that between the existing guidance and what AVIWEST brings to the equation, we're probably looking at $130 million or better in this current fiscal year.

Nick Corcoran

And then with a supply chain challenges, do you think there's any headwinds to your previous EBITDA guidance?

Dan Rabinowitz

Well, we're certainly seeing some impact on gross margins, as represented by this last quarter results. So we've been able to mitigate much of it. I think we're halfway through the mitigation in terms of financial cost of the business, maybe more so from a balance sheet standpoint, and maybe 75% or 80% from a balance sheet standpoint. We're aware of it, and we're also aware of our needs generated EBITDA. We're not yet changing guidance based on that.

Nick Corcoran

Great. That's all for me. Thank you.

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Operator

Thank you. We have the next question comes from the line of Rob Young of Canaccord. Your line is now open. You may ask a question.

Robert Young

Hi, good evening.

There was a line in the press release, I just want to get some context around it. You said that you expect the acquisition to reach typical levels of Adjusted EBITDA contribution. Just wondering to get put some context around what you mean by that. Is that implying a target profile over time? And if not, like, what are the typical levels that you'd expect?

Dan Rabinowitz

Well, I guess that's my line, so let me see if I can add some colors to it.

We've always said that we believe we can grow this business to an EBITDA margin of 20% with some level of scale. And obviously, we're getting scale very quickly given the acquisitions we put in place. I believe that this fiscal year we're trying to move the EBITDA margins from the 13.3% level, there about, to just under 15%. And so when I speak about AVIWEST, we believe they too can accomplish just under 15% EBITDA margin through some synergies and through some opportunities that we've already identified.

Robert Young

Okay. Thanks. That’s good color.

Second question, I guess you're not going to break out the contribution of CineMassive, given the comments in the prepared comments. Like, can I think of that business as running similar to the CAD25 million run rate you guys highlighted when you acquired it? Or should I think of it as running a bit slower, a little bit faster? Any context relevant to that marker?

Dan Rabinowitz

Well, first of all, it was CAD15 million, not CAD25 million. Right?

Robert Young

Oh, no. You said CineMassive.

Dan Rabinowitz

Oh, I thought you said AVIWEST. I’m sorry.

Robert Young

Sorry if I said AVIWEST. Apologies.

Dan Rabinowitz

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Oh, okay. At this juncture, we're not seeing either one business or one vertical outgrowing other ones at this point. We are pleased with the results of CineMassive. They have not disappointed us. But they're also not outshining our expectation. So I would say that, collectively speaking, we're all sort of growing in concert.

Robert Young

Okay. And the reason I was asking, I was trying to so some back of the envelope math around the gross margins impact. If CineMassive is the biggest driver of the margins impact, by making that assumption, then kind of have to get to somewhere between 35% and 50% gross margins for that business? Is that about right? Is that good math?

Dan Rabinowitz

Thirty-five percent to 40% gross margin of CineMassive?

Robert Young

Thirty-five percent to 50%. Sorry.

Dan Rabinowitz

I think you're way low on that. We've always suggested to you that CineMassive has been between 55% and 60% gross margin. They've actually been on the higher end of that, in what we've been able to see. And so I'm not exactly sure how your math added to that.

Robert Young

Okay. So likely the part that squares that is the impact of supply chain and some of the things you're talking about, some of the gross cost pressures from supply chain. So if I were to break the impact on gross margins say year over year, the 7% difference, would be about half and half CineMassive and supply chain. Would that be kind of a rough way to think of it?

Dan Rabinowitz

I feel like I'm being put a little bit on the spot here. I think that may be accurate. But I would rather get back to you with a more definitive answer if I could.

Robert Young

Yes, sure. No problem. And then last question for me is just around the expectations for headcount you're going to add in 2022. I think you said something like 60 you're going to add in 2022. I'm not sure if that included AVIWEST in that number at the time. But the 338 that you gave earlier in the call, how much additional headcount are you thinking of in budget for the rest of the year? And then I'll pass the line to someone else.

Dan Rabinowitz

Very good question. Let me see if I can sort of unpack that a tiny bit.

Yes, our original budget, which was absent the AVIWEST acquisition, included the addition of 60 some odd people in our budget. Now there's two things that are happening that we are looking at. The first is

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the ability to attract employees is getting more challenging. And we are seeing that people are leaving Haivision for other opportunities, a little bit more so than they had in the past, which means the idea of us being able to get to 66 new hires in this fiscal year seem fairly unlikely. But we're still saying the same a little bit of catch up based on attrition that we're seen.

And now that we have AVIWEST on board, and now that the integration with CineMassive has become more apparent and more obvious, we have an opportunity to sort of derive synergies through those acquisition. And we will probably be rationalizing our new hires couched against what these other properties brings to the equation and can we derive synergies thereof. So I guess that's a long way of saying that it's unlikely that we're going to be hiring to our original budget, but we will probably ending there (phon).

Robert Young

Thanks for taking the questions. Appreciate your answers.

Dan Rabinowitz

Thanks, Robert.

Operator

Thank you. Next question comes from the line of Kevin Krishnaratne of Desjardins. Your line is now open. You may ask your question.

Kevin Krishnaratne

Hi, guys. Good afternoon, or good evening rather.

I just had a question on your sort of commentary on AVIWEST. You said CAD15 million for the December period, and I think you mentioned 50% of that came in November, December, which you're not going to capture this year. But I want to ask—

Dan Rabinowitz

Kevin?

Kevin Krishnaratne

Yes.

Dan Rabinowitz

What I said was 50% came from November, December and first quarter of 2021. So five months made up 50%. The fact that we're closing at the end of March means we're not going to be the benefit of January, February, March. We're not going to be the benefit of November, December because that's outside of our fiscal year. That's the nuance I was trying to get across.

Kevin Krishnaratne

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Okay. So I guess, was there anything in those five months that was a little bit anomalous in a way, or outside of the seasonality? I guess I'm trying to frame how to think about the real run rate of the business as I think about 2023 actually?

Dan Rabinowitz

It's a good question. We obviously are learning alongside a lot of people as we go through it. I would tell you November, December experience where they seem to have disproportionate amount of revenues in November, December, that's been there the last two years, and we believe that's part of their overall business. The January, February, March observation is not as obvious to us.

Kevin Krishnaratne

Okay, thanks for that. That's helpful. I had a question for you, again, on AVIWEST. It sounds really good. There's a lot of opportunities for cross-sell between your base customers and theirs. I know that 75% of the revenue comes from sort of the media and entertainment sector.

I'm just curious as to why that's been the case, and why they may not have had a strong business in military. the type of use cases I think that could come out of wireless encoders out in the field sounds very well suited for those industries. I'm wondering, do the other competitors out there—are they pretty deeply entrenched in those markets? Or is this something that could be brand new for customers in those verticals? Just curious as to the thoughts there.

Mirko Wicha

Well, let me take that one, Kevin. That's a very good question.

In fact, there's three I would say main competitors to their business. And it's very similar. A lot of players in that specific market have really, really focused on two markets, which is broadcast sports and news gathering, right. And so if you go to LiveU, TVU and AVIWEST, that's predominantly their business. None of them have really ventured into any of the other markets, with probably the exception of the Dejero, another one, a like smaller Canadian company. And AVIWEST obviously (audio interference) bring a massive amount of energy and resources of scale where we are in all those other markets that this is a natural fit for us. And interestingly enough, we will be able to be a significant player, because even LiveU and TVU, which are the two biggest vendors, are barely touching that space.

We see a huge, huge opportunity for us to go into the first responder market, the blue lights as we call them market. Not to mention defense, of course, and just pure government. So we see that as a big opportunity for us to really differentiate ourselves from the competition.

Kevin Krishnaratne

It sounds like a really good opportunity if those customers are not being served. Is it something that they've been looking for that you're hearing from those customers in those sort of industries? And I'm just thinking the opportunity just sounds pretty actually really good for you guys.

Mirko Wicha

Yes. A lot of our market is also pretty fragmented. But understand that 5G and 4G and cellular stuff will tend to be first picked up by some of these advanced broadcast initiatives, where if you look at some of the government defense work, a lot of radio type of stuff, so there are players doing that kind of a market

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thing. The 5G is still early. It's still in infancy in that space. And that's going to become a growth factor in the future.

There's an understandable reason why some of these players haven't been focused on the market. We have been in our market from a wired perspective, and we do have the ins in that market where we actually literally leverage this wireless stuff very quickly. There's another company called Vislink as well out of the U.S. that have been involved in some of that stuff. And they do have radio technology, point-to-point radio terrestrial type of stuff. But there's absolutely no clear leader or big vendor that's serving those markets with 5G cellular IP-bonding technology. I think we could be the guys.

Kevin Krishnaratne

Got you. That's good to hear. You sounded pretty excited on the house of worship business. You talked about some competitive wins there. I just wasn't clear there. Are you willing to talk about maybe who you're coming up against and winning, and is that on encoders, or on sort of like media player and Connect-type services? Just wanted to get a little bit more sense of what you meant by the competitive wins, where they're coming from, and what you're exactly winning there?

Mirko Wicha

Yes. It's definitely not the encoder business. I mean, we are pretty strong already. But no, this is actually head-to-head against some media properties. I don't want to mention any names, unfortunately. But let's just say (phon) one of the main competitors that we've been facing over the years and we're starting to take some pretty significant deals from them with Connect, which is very nice to see. No, it's Connect software properties, I mean, periods. It's our recurring revenue. It's our contractual revenue. And we're getting new names, which is great. Not just existing customers additionally. These are actual new names, competitive wins, and we seem to be getting more and more every quarter. So pretty excited about it.

Kevin Krishnaratne

Got you. Okay. Nice. Good to hear. The last one for me, maybe for Dan, if you could, you've done a couple of acquisitions now. And thinking back to the IPO, there were a few sort of ways that we could think about the business in terms of splits. We sort of had a view that between media, enterprise and government, it was sort of a third, a third, a third. We also had a view at time of IPO that if you looked at your revenue base, it's about 30% at any was programmatic. And just wondering what different moves that you've made, if we've sort of got a way to think about how those splits may look right now on a pro forma basis.

Dan Rabinowitz

Well, that's a really good question.

I think one of the encumbrances that we have is that we need to spend a little bit more time with the CineMassive folks and designate what the customers, what vertical the customers are. On the back of an envelope, we've always seen that as a 50% government, 50% enterprise kind of provider. But that would have to be validated. We'd have to look at their internal systems to make sure that they're capturing the essence of what that deal might be.

AVIWEST, we're going to have a similar challenge. And now they're a little bit more broadcast centric than the other entities. So we're going to have to look at this in aggregate and come back with a new sort of conclusion as to how you want to look at this.

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Kevin Krishnaratne

Okay. And then I guess the programmatic business is probably looking lower than 30%, given the addition of AVIWEST obviously?

Dan Rabinowitz

Well, programmatic business, I mean, understand that when we look at programmatic business, there's sort of a subjective element to it. Yes, these are customers for which we have visibility going forward, but it's not exactly contracted revenue per se. And so we sort of scrubbed our internal databases and said, well, this is going to be recurrent each year at this level, so on and so forth. And that's where we came to the 60% number. We have not yet gone down that exercise within AVIWEST, nor have we gone down that exercise with CineMassive. But we do know that CineMassive has a number of customers where they've put in security centers, and they're repeat customers per se. So that would be akin to our programmatic business. We just haven't had the time yet to get there.

Kevin Krishnaratne

Okay. Maybe just the last one. I know you talked about lingering supply chain issues. And obviously, things are unfortunately being a little bit exasperated now with the issues in Europe. But could you talk about the conversations that you might be having with clients in the European region? Obviously, AVIWEST is a major presence there. Has there been any shifting in tone, or any pushing out in terms of delays of orders? Just have to ask the question, just given what's happening in the region.

Mirko Wicha

Literally, I was there last week. I just came back on Saturday. I haven't really felt any major difference as of yet; whether that's going to continue, that's a different story. Definitely we've seen some, as I mentioned in my speech, that there's several countries always that has created tension, and Russia is obvious. But it's also getting more and more difficult in some of the other remote areas. But in Western Europe, if you want to say that, and for that matter even Eastern Europe, we haven't seen anything yet that would make me think that the business is changing or slowing down. I think at this point it's week by week, depending on how this nonsense in Ukraine keeps playing out.

Kevin Krishnaratne

Got you. Okay, guys. Thanks a lot for taking my questions. I'll pass the line.

Mirko Wicha

All right. Thanks, Kevin.

Operator

Thank you. There are no further questions at this time. I would now like to turn the call over back to Mr. Mirko Wicha.

Mirko Wicha

Thank you, Operator.

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I guess this is the end of the call, everybody, appreciate your time, and thank you for spending the hour with us. And look forward to talking to you about next quarter in three months now. So, thanks, and we'll see you then.

Operator

Thank you. This concludes today's conference call. Thank you all for participating.

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