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Haivision

Fourth Quarter 2021 and Full Year Earnings Release Conference Call

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Welcome to the Haivision Fourth Quarter 2021 and Full Year Earnings Release Conference Call.

At this time, all participants' lines are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, speaker Mirko Wicha, Chairman, CEO, and President. Thank you, please go ahead, sir.

Miroslav Wicha

Thank you, Operator. Well, thanks everybody for joining us today. I'm thrilled to be back to discuss our Q4 and our Fiscal Year 2020 results.

As demonstrated by the results we announced earlier today, demand for our innovative technologies remains strong and our investments in both R&D and sales to capitalize on future growth opportunities are clearly paying off. Let me start with the amazing Q4 results of $27.1 million, which exceeded all previous quarters and was a 22.3% growth over Q4 of last year. The strength of our CineMassive performance only shows the strategic importance of the acquisition of last August. I'll leave it to Dan to give us more details on all the financials right after my prepared remarks.

Now, for the full year Fiscal 2021, we delivered another record revenue year by delivering $92.6 million in revenue, which was up 11.4% over last year, and a record $12.3 million of Adjusted EBITDA, which was by the way, a growth of 22.6% over the previous year. I do want to remind everyone that this time last year, our Adjusted EBITDA grew 67% over the previous year, or 53% if normalized for the impact of IFRS 16.

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Thus, I would say it's an amazing back-to-back years of impressive financial results and delivering on our promise to increase operational efficiency. Not only did we deliver another record revenue year, but we also delivered our 14th consecutive year of positive Adjusted EBITDA. As you can imagine, we're very, very proud of these results.

Now, let me briefly discuss six key highlights of 2021.

Number one, let me begin by stating that I am thrilled for our first strategic and impactful acquisition since the IPO, which was closed in August of 2021. CineMassive is a great addition to the Haivision portfolio, and it enables us to be the only provider and vendor of a total end-to-end solution. What I mean by that is really encoding, ingest, contribution, display, record, playback, in the advanced visual collaboration space to really deliver innovative mission critical solutions for tactical operational centers that are heavily requested today by enterprises, governments, and defense partners globally.

We're already deriving incredible sales synergies with the CineMassive team, and I'd like to mention that we have already closed a significant but unfortunately confidential joint product deal within the ISR space, the intelligence surveillance reconnaissance space, with our Haivision media platform sold together with the CineNet tactical command and control wall to deliver full recording and playback capabilities, resulting in truly an innovative mobile operation center.

I'm very excited on our ability to scale this business globally and to increase our footprint in both enterprise and governments worldwide, and the urgent need for real-time, low-latency operational control centers is growing, especially given the cybersecurity concerns around the globe. This acquisition is perfectly synergistic for Haivision, and we'll continue our growth in these high value markets well into the future.

Point two, our advanced cloud and self-serve SaaS video distribution platform, Haivision Connect, has been receiving very positive feedback from our house of worship and faith clients and I'm thrilled to report that we now have 90 clients using Haivision Connect as part of our transition to this new SaaS platform, including some of the largest multicampus ministries in the United States.

As mentioned previously, we are transitioning all our house of worship and faith clients to this new innovative platform throughout this year and really establishing Haivision Connect as our next generation, fully scalable, SaaS-based enterprise platform for real user engagement. We are very pleased with the progress and feedback from the users, including some really exciting sales to new clients which I will mention a bit later.

Another point, we have also launched the Haivision Hub, our innovative cloud-based video stream routing technology, already with 27 active clients and plan to introduce new, significant features within the next few months. 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 of video securely from anywhere to anywhere globally. The Haivision Hub is really evolving into a powerful video routing and element management platform for all our devices. This is really, really exciting.

Point four, our flagship encoder, the Makito, really evolved during the year with new features that enhance remote workflows, including multi stream synchronization and stream redundancy across multiple network paths. These, combined with its renowned low latency has made the Makito the gold standard for everything remote and broadcast. This unmatched performance across our product line is the cornerstone of our strategic partnerships with global companies who are bringing forward their own decentralized and cloud solutions, including Avid for editing, EVS for replays, and Grass Valley for production.

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Now, our overall international revenue continued to increase at an impressive growth rate of 27.5% in 2021. Again, I would like to also remind everybody that last year this time I said the international revenue grew an incredible 39% over 2019. This absolutely shows that our investment in various regions over the years are clearly paying off. In fact, business outside of the U.S. today represents approximately 25% of our overall revenue, so very impressive.

Now, specifically, our international ISR defense business has continued to show solid growth in the past four years as we continue to benefit from our long-term successes with the U.S. Department of Defense. our reputation as being the gold standard for mission critical, low-latency ISR solutions for the U.S. DoD has been helping our allies in partner nations adopt similar technologies over the past several years and we expect this trend to continue as Haivision maintains its leadership in mission critical, real-time video streaming globally. In fact, CineMassive acquisition will further add to our international growth in this market, and we believe having a strong international platform and presence is important to maintain Haivision's leadership in the global IP video market.

The last point I would say is we have been discussing all along that one of our most important initiatives is to focus on operational efficiencies. We continue to benefit from our decision to reallocate our marketing resources away from the expensive tradeshows, both in 2020 and 2021, and will continue to '22, and focus more on digital marketing prowess. We also don't foresee the huge increases in R&D spending as we have made between 2017 and 2020. Together, with our continued reduced travel and the work from home directives, we do expect to be driving bottom line efficiencies throughout 2022.

Now, let's talk about some new logos as we added many new clients in Q4. Our broadcast customers continued to invest in Haivision technology, supporting their much-needed move to remote workflows and their thirst for more content at reduced cost. Haivision and our SRT-enabled connectivity over low-cost networks are at the heart of this transition, giving broadcasters and media companies the ability to do remote production, production in the cloud, high quality remote interviews, and to deliver any feed within a broadcast facility to homebound creatives, producers, and directors so they can really do their jobs more effectively.

Now, notable Q4 wins, many of them investing in infrastructure related to the return of sports include Western Mobile TV and Colorado Studios, both serving remote workflows for the '21 Sinclair Regional Sports Networks. Very, very cool wins. Gravity Media providing remote sports; event contribution using our technology to support multi-camera synchronization from a Pac-12; Fox Sports and other major sports providers in the U.S. Game Creek, although not a new client, continued to invest in Haivision to support NBC's regional sports networks' remote studio production in five city hubs, all managed from New Hampshire. Another major U.S. three letter network hired Haivision to suit up home facilities for their top news anchors to address continued under the threat of disaster or renewed lockdown.

In fact, internationally Haivision secured ZDF, MRD, and ARD in Germany, RTL in Luxemburg, Asahi Broadcasting in Japan, TV5's operation Hong Kong, and the Middle East Broadcasting Network, the MBN, serving a weekly audience of 31 million people across 22 countries. In fact, closer to home, Firstlight Media, an OTT provider out of Toronto, selected Haivision to help with their new challenge, supporting major Canadian broadcasters in delivering hockey broadcasts to viewers across the country.

Finally, and most importantly, is that many service providers and broadcasters are now using Haivision extensively to support live contribution, multi-region distribution, remote collaboration, and in-stadium video distribution for the '22 Winter Games in Beijing. Not to mention my favorite part, being that Haivision technology will be used extensively within the largest sporting event on the planet, the upcoming World Cup Soccer at the end of this year in Qatar. Haivision is really at the core of broadcast today. If you can tell, I'm really enjoying the broadcast market.

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Let's talk about the house of worship or faith market. It continues to be strong and Q4 wins for Haivision Connect have shown that this market segment is embracing our new platform that is highly differentiated from the competition by combining a very simple user interface tuned to the challenges of weekly streaming with an extremely powerful and reliable cloud distribution and delivery architecture. Some select Q4 and new faith clients include Samaritan's Purse. I mean, this is a humanitarian aid organization, very large, serving 100 countries. It was actually founded by Billy Graham's son, connecting seven campuses with three stream live video. Huge, huge account win.

Some highlighted brand new Connect customers are Durban Christian Church Center, Journey Church, the Ginghamsburg Church, Without Walls Church which was a huge victory, replacing a major competitor, and Edge Church in South Africa. The Celebration Church in Austin, an existing client for our other services is also adopting Connect due to its ease of use and performance, so a very strong and robust market.

Let me quickly talk about the enterprise market. It had suffered some setbacks early in the COVID pandemic because many enterprises, as you know, had strong work from home mandates and limited facility access. Now our solutions in this segment that deliver secure, real-time broadcasts throughout organizations are experiencing renewed demand as people are getting back into the office. In Q4, these are a small sample of some of the enterprises that have adopted Haivision.

These include the United Nations. They adopted Haivision Hub for connectivity to their stream platform. Interestingly enough, last quarter the U.N. in the Netherlands actually turned to us to support remote participation in the Dutch international courts. RBC Wealth Management turned to Haivision for live internal multi-site streaming between Minneapolis and Seattle. Hewlett Packard bridged their old and new headquarters together with secure real-time video using Haivision. Finally, the European Union and the European Commission both turned to Haivision to support home based interpreters.

I just want to kind of conclude with some feedback from our Haivision Connect success, a couple soundbites from our faith clients on our new cloud SaaS platform because this is very important. Jordan Grimes, production IT director from Encounter Church said, "Haivision's Connect user interface is intuitive and extremely easy to use. It's a real game changer and so much better than anything else in the market. I love that it's so fast and simple to get up and running."

From Roxane Griner, Communication Director from Grace City Church, "When I started using the new Haivision Connect interface, I was impressed with how simple everything was. I love the look and the many features that help make it easy to schedule and launch to multiple platforms with just a few clicks. I also love having all the demographics of our audience so easily accessible. I love most that Haivision has considered their clients' needs and implemented features that make live streaming a breeze for any skill level." Pretty cool feedback on our new SaaS platform.

Now, just before I pass it to Dan, our CFO, for a more detailed analysis on our fourth quarter and year-end results, I would like to also mention that headwinds in '22 do exist, which could affect business and growth. The world is dealing with an unprecedented supply chain and component shortage like never seen before. The good news is that our supply chain team has done an excellent job in mitigating these pains thus far and is focused like a laser beam on addressing anything that comes our way. But understand that costs are up, delivery times are longer, and the challenges are there. Dan will speak to more on this in detail.

Finally, I would like to add that we are continuing our aggressive focus on acquisitions as part of our M&A strategy since the IPO. I expect to share some more exciting news with you very, very shortly so please stay tuned.

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I also want to mention that I could not be prouder of the Haivision team and what we have accomplished last year in 2021. It's truly been an amazing first year as a public company at not only delivering but exceeding most of our expectations thus far.

I do, however, want to acknowledge one thing that I have received feedback from many of you regarding the lack of investor press or marketing material from Haivision as compared to other companies. Rest assured that I am going to take care of this and will engage directly to make sure that we increase our presence.

Finally, I want to thank all of our investors and analysts online today for their continued support of Haivision and look forward to speaking with you very, very soon.

Dan, it's all yours.

Dan Rabinowitz

Thank you, Mirko.

Let's get into the numbers. Revenue for this fourth quarter of Fiscal 2021 was $27.1 million, representing an increase of $4.9 million, or 22.3% from the same period in the prior year. We are pleased with CineMassive's performance this quarter, having contributed $5.1 million in our overall growth. Our book of recurring revenue, which we define as our cloud solutions and maintenance and support, continues to be robust.

Recurring revenue was $7.3 million, a quarterly record, and represented 27% of this quarter's total revenue. For this quarter, gross margins were 70.8%, down from recent history. As discussed on previous calls, we anticipated a decline in gross margins to accommodate CineMassive's lower margin business. As CineMassive and Haivision operated autonomously in the first quarter as the combined entity, gross margins for Haivision on a standalone basis were in fact higher than in our third quarter 2021, which is typical as higher quarterly revenues are able to offset the fixed costs of our production department and other cost of sales.

With that said, we have been incurring additional costs, including expediting costs and increases in direct product costs, as we didn't risk our supply chains. I'll have more to say on that subject later in my prepared remarks. We are continuing to invest in subscription trials for customers interested in both our Haivision Hub and Haivision Connect platforms and note that both Haivision and CineMassive invested in enhanced production facilities to accommodate even higher levels of revenue going forward.

The Company generated record revenues of $92.6 million for Fiscal 2021, exceeding the prior year by $9.5 million, or 11.4%. On a year-to-date basis, revenues from cloud solutions and maintenance and support contracts represented about 25% of total revenue for the year. For Fiscal 2021, gross margins were 74.9%, slightly behind last year's performance but again impacted by the CineMassive business which historically has operated at a lower gross margin than Haivision's traditional business.

As presented, total expenses for the fourth quarter were $19.7 million, an increase of $4.2 million when compared to the same period in the prior year. Normalized for share-based payments, noncash expenses we did not incur in the prior year, total expenses were only $18.8 million, an increase of $3.3 million when compared to the same period in the prior year. However, much of that increase can be explained by the $3.5 million in additional expenses from CineMassive's business.

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Now note this, as we continue to integrate CineMassive's business into our system, it will become increasingly difficult to identify CineMassive expenses on a standalone basis.

Total expenses for Fiscal 2021 were $74.8 million. However, that figure also included $16.8 million in noncash share-based payments that was not part of our cost structure in Fiscal 2020. The $16.8 million in share-based payments can be divided into two components. As discussed on previous calls, $14.2 million of those share-based payments were one-time, nonrecurring, noncash expenses resulting from the exercise of options related to our legacy employee stock option plan.

This was the culmination of a 14-year program that was truly an extraordinary below the line expense—$2.6 million relates to compensation expenses for grants of stock options, the scripted share units and deferred share units issued since the time of the initial public offering. Again, no such expenses were recognized in Fiscal Year 2020 or prior to that year for that matter.

When we normalize for these share-based payments, total expenses for Fiscal 2021 were $58 million, compared to $55.6 million in Fiscal 2020, an increase of $2.4 million. Now, as we've mentioned before, Fiscal 2021 financial results benefitted from the $1.8 million from the PPP loan forgiveness. If we normalize for both the share-based compensation and the benefits of the PPP loan forgiveness, the result is a fair comparison.

Total expenses for Fiscal 2021 would have been $59.8 million, compared to $55.6 million the prior year, a $4.2 million increase. CineMassive's expenses in that fourth quarter represented $3.5 million of that difference. Normalized, total expenses as a percent of revenue fell to 62.6%, compared to 66.9% for last fiscal year, a key contributor to operating efficiency.

Adjusted EBITDA for the quarter was $1.7 million, a modest decrease of $100,000 compared to the same period in the prior year. The additional expense of being a public company certainly contributed to the year-over-year shortfall. Nevertheless, this quarter now represents our 30th consecutive quarter of positive Adjusted EBITDA. More interestingly, for Fiscal 2021, Adjusted EBITDA was $12.3 million, an increase of $2.4 million, or 24.4% when compared to Fiscal 2020.

For Fiscal 2021, our Adjusted EBITDA margin was 13.3%, compared to only 11.9% for Fiscal 2020, but we could also argue that had we not adjusted EBITDA to eliminate the nonrecurring benefit of the Paycheck Protection Program, EBITDA for Fiscal 2021 was $14.1 million, a $4.2 million increase, or 42.3% increase from Fiscal 2020.

Clearly, our focus on operational efficiencies has continued to pay off but our financial performance may not adequately illustrate the headwinds we overcame in terms of supply chain constraints, hiring, the significant added expense of being a public company, and the stronger Canadian dollar in Fiscal Year 2021. Let's unpack each of these headwinds just a bit.

The global shortage in electronic components continues to be a challenge. However, we have done much to de-risk our supply chain in the short term and in the midterm. We have invested in higher levels of inventory across our supply chain to minimize the risk of revenue disruption and we've done that in the form of components, sub-assemblies, and finished goods.

We have qualified alternate manufacturers for difficult to procure electronic components. We've even redesigned certain products using latest componentry technology to prevent potential shortages with legacy components. We've invested in a new system to maintain a real-time assessment of our supply chain resilience with market changes. We've developed strategic partnerships with semiconductor and electronic component distributors to quickly mitigate future component shortages.

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Although certain of these initiatives have impacted our balance sheet through inventory, prepays, and deposits, I think it's fair to say that our customers have appreciated that they can still turn to Haivision for their immediate video infrastructure needs. Obviously, none of this is doable without our people and generally speaking, three quarters of our cost structure is related to our people cost.

We have always had a fairly distributed workforce, but we do have significant offices in Montreal, Madrid, Hamburg, Chicago, etc. but we acknowledge that a work from home posture is a bit more complicated to perpetuate a culture that we're proud of. As an example, since the pandemic we have hired 80 people that may have yet to meet their boss face to face or have yet to see one of our offices. In fact, about a quarter of our workforce has been with us less than two years at this point.

We know we have a high performance and valued workforce that is the envy of the industry, and our competitors are always trying to find a way to hire our people. We also have to acknowledge that we do have a general sense of fatigue during this pandemic. It is always challenging to maintain the culture that we are so proud of.

Nevertheless, we continue to make investments in our people and key initiatives include the introduction of a long-term incentive plan to attract, retain, and motivate our employees. We have offered an employee stock purchase plan. We've hired another full-time recruiter to help identify and recruit quality professionals. We have worked hard to continue our culture when most people continue to work from home.

The cost of being a public company certainly impacted year-over-year comparisons as well. The cost of directors and officers insurance, accounting audits and assessments, legal, translations, investor relations, filing fees are just a few of the expenses we have endured in Fiscal 2021. In aggregate, these expenses represent between 10% and 20% of our EBITDA performance, which is significant. Said another way, our operational efficiency would have been dramatically better had we not incurred these expenses.

Given our long operating history in Canada, we have decided to report our consolidated financial results in Canadian dollars, notwithstanding that our functional currency is the U.S. dollar. Thus, our results are impacted by changes in exchange rates, particularly the exchange rate between the Canadian dollar and the U.S. dollar.

We did see a strengthening of the Canadian dollar in the quarter-over-quarter comparison. In fourth quarter 2021 as an example, the exchange rate was about $1.25 compared to $1.32 in the prior-year period. That's a 5% difference. We saw a similar strengthening when comparing all of Fiscal 2021 to Fiscal 2020, again about 5% difference. Although the difference is small, the movement in exchange rates did have a modest impact on both top line revenue and resulting profitability.

With that said, net income for the quarter was $200,000, compared to net income of $1.5 million for the same period in the prior year. Share-based payments represented about $800,000 and an additional cost of being a public issue explains another $0.5 million. Net loss for Fiscal 2021 was $8.9 million compared to net income of $5.8 million for the same period in the prior year.

That's a difference of $14.7 million, but again, share-based payments impacted profitability by $16.8 million, the cost of being a public issue was another about $2 million, and the increases in depreciation and amortization between years was about $1 million. I think we are all looking forward to Fiscal 2022 when year-over-year comparisons will be more direct and more representative of our actual performance.

Looking at the balance sheet, we have ended the year with $26.8 million in cash. Total assets at year end were $122.5 million, an increase of $23.1 million from last quarter end. The increase in assets are largely

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the result of the $47.4 million in net noncash assets acquired, net of the $21.5 million in cash consumed related to the CineMassive transaction. Just a side note, the CineMassive acquisition did increase our right of use assets by $5 million related to the new real estate leases that accompanied that transaction.

Total liabilities at quarter end were $33.6 million, an increase of $5.1 million from last quarter end. We did assume $9.1 million in liabilities related to CineMassive, including $5 million in lease liabilities but we also retired all bank debts during the year. In terms of financial liabilities, we are currently debt free.

As we've discussed on prior calls, we did enter into a three-year credit agreement, providing for a new $35 million revolving line of credit with the Bank of Montreal. The revolving facility is for general working capital, general corporate requirements, and for financing acquisitions. It also includes an accordion feature that allows us to expand the line to as much as $60 million.

Obviously, the big news last quarter was the CineMassive transaction. CineMassive's year end is in fact December 31. However, in the 12 months ending October 31, revenues were in U.S. dollar terms, $21.1 million—$5.1 million of that was generated in our fourth quarter. Gross margins for CineMassive's business have historically been between 55% and 60% and was closer to 60% in the 12 months ended October 31.

We continue to believe there are additional opportunities for margin enhancement. As also stated earlier, it may be unlikely to report CineMassive 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.

Now, one of CineMassive's key assets, albeit a nonfinancial asset is their facilities security clearance. We continue to work with the Defense Counterintelligence and Security Agency, commonly referred to as DCSA, on a special security agreement. Our plans to integrate CineMassive have been discussed with DCSA and we are waiting approval on preliminary plans. We do expect the acquisition to be accretive to Adjusted EBITDA and to enhance our Adjusted EBITDA margin. Just to remind everyone, the transaction consumed $21.5 million in cash and included the issuance of 2,145,000 shares.

Before providing some guidance to Fiscal 2022 performance, a quick note about currency. Our current guidance does not consider the potential impact of foreign exchange gains or losses as we do not try to estimate future movements in foreign currency rates. Assuming business as usual, meaning a consolidated view of Haivision and CineMassive, we expect revenues to represent year-over-year growth of between 35% and 40%, and we expect Adjusted EBITDA to grow at a faster rate of between 40% and 45%. This should in turn, translate to increases in operational efficiencies in Fiscal 2022.

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

Operator

Your first question comes from the line of Robert Young with Canaccord Genuity. Your line is open.

Robert Young

Hi. Good evening. Maybe the first place I'll start, you highlighted a joint contract in the ISR space. Last quarter you had said that there was a headwind there because of the defense market, some softness there. I think the Afghanistan pullout was something that you highlighted. Is there an update there, outside of that joint win? Are you seeing like a return to strength in ISR or is that still a little bit of a headwind?

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Miroslav Wicha

Well, we're still seeing a little bit of a headwind, mainly I would say probably in the U.S. and less so in international. We are still seeing pretty good business, but I would not say that the headwind is over.

Robert Young

Okay, and then the second thing, I think you had said that Q3 there was a little bit of a shift of revenue into Q4 in the programmatic— the government business. Did that play out as expected? Like is there any way to quantify the benefit there or is that something that didn't come to fruition?

Miroslav Wicha

Yes, Rob, I know it's tough. It's because we have quite a lot of programmatic businesses, right, and some are shifting. In fact, there are some that moved up and some moved actually out several quarters, but all in all, I would say it probably had very little impact on Q4.

Robert Young

Okay, great. Great. Then you had said that 2022 you're expecting strength in the enterprise market. The Omicron wave, that doesn't seem to be having an impact. Was that an impact in Q4 and you're expecting it to get better in 2022 or are you just seeing strength to recover in enterprise more steadily?

Miroslav Wicha

Yes, I think we're seeing and we're hoping the second half of 2022 is going to be a little more open. I think we're already getting some feeling in the fact that countries are going to be opening up, regardless of what's going on, but we are seeing a lot of focus on the operational center type of business, the cybersecurity type of stuff.

All a lot of remote monitoring and in fact, that's really where something like a CineMassive acquisition is going to pay off. I think we're seeing a lot of interest and people getting heavily involved. I call that the enterprise business as well. It's not just the military side or just the government side but we're seeing it all across, also state, local, emergency response teams. All of that stuff really feeds very well into the overall enterprise space.

Robert Young

Okay. Maybe just a couple questions and I'll pass it on. The supply chain impact, the component costs, freight costs, all of that, are those costs that you think you can pass through to the customer over time or do you expect that elevated cost to remain? Are you thinking about that as a multi-year factor, or is that something that you think might be shorter term in nature?

Miroslav Wicha

Dan, do you want to take that one?

Dan Rabinowitz

Yes.

Robert Young

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I know that's a hard thing to answer but just based on what you understand.

Dan Rabinowitz

Yes, that's a hard question. I would say that there's two things that we're contending with. The first is making sure that we can fulfil our supply immediately, and in which case we're paying some spot rates that would be higher than what we typically would spend. I think those things are going to be dissipating, but I do think, I find it hard to believe that when these component manufacturers are able to increase prices that they're all of a sudden going to voluntarily decrease prices going forward.

My sense will be that we're not going to see as much of the shock of the spot buy but we may see the prices to be a little bit higher than we have been historically used to. At least that's my view until we start seeing more production of these components, maybe domestic production, what have you.

Robert Young

Yes, if I understood the comments before, it sounds as though any impact on gross margin is limited. It wasn't really as much from the supply chain headwinds or pricing of component costs. It was more about mix of revenue from CineMassive. Is that fair?

Dan Rabinowitz

Well, I would say that in the fourth quarter we did not see the cost of goods sold increase as a result of some of these purchases that we're making but we are always looking three months, six months, nine months out. As we're de-risking it, we're making investments and we're buying, procuring componentry to be able to address our forecasts and that is costing us a little bit more money than we had in the past.

Miroslav Wicha

But to answer, Rob, your question, yes in Q4 entire decrease in gross margin is due to the lower typical gross margin of CineMassive, absolutely. We said that in the beginning because remember, they are normally around a 60%, high 50s% to 60% and that's going to continue going forward. Hopefully we're going to derive better but our traditional margin as standalone maintains the same levels but blended.

Dan Rabinowitz

One of my comments was that our fourth quarter gross margins were actually higher than in the third quarter of our year.

Robert Young

Okay. Then last question, just if you could reiterate that guidance for 2022. I'm not sure I got the numbers right. You're going to give revenue and EBITDA growth. What were those numbers again?

Dan Rabinowitz

We expect year-over-year growth at between 35% to 40%, and we expect Adjusted EBITDA to grow at a faster rate of between 40% and 45%.

Robert Young

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Okay, well that's some very strong growth numbers. What would be the big driver behind that? Because I think last year the guidance was low single digits or mid-single digits growth, and so that's a big step up in the growth profile in 2022. What's the big driver behind that?

Dan Rabinowitz

Well, CineMassive obviously is a part of that thinking. When we talk about year-over-year growth, we're really talking about 2021 where Haivision was a standalone business until the fourth quarter compared to what we believe we can do together in 2022.

Robert Young

Right, and then so if I think of it just in terms of organic growth, would it be mid-single digits, same as last year? Is that the expectation?

Dan Rabinowitz

No, our expectation would be between 10% and 15% and probably closer to the 15% number.

Robert Young

Okay, so still a step up from last year. Okay, great. Okay, thank you. I'll pass the line.

Operator

Your next question comes from the line of Kevin Krishnaratne with Desjardins. Your line is open.

Kevin Krishnaratne

Hey gentlemen. Good evening. A question for you kind of on the guidance, on the EBITDA leverage that you're going to see there. Can you talk about the drivers there? How do we model the various lines, R&D, sales, and marketing? Can we take the fourth quarter numbers and sort of work it through for our 2022 forecast? Just how do we think about where other areas of investment might be? Are you thinking still about that international expansion and putting more resources towards CineMassive? I think those are some of the areas of investment you previously alluded to.

Dan Rabinowitz

Correct. I would say that it's a very good question and let's see if I can unpack that a little bit here, but I think the fourth quarter cost structure would be a good starting point for where we believe Fiscal 2022 is going.

Our budget for Fiscal 2022 includes the addition of 60 some odd people within our organization. If we look at where we're investing time and attention, yes, about I'd say a fifth of that number goes into the sales organization, about a fifth of that is going to go into the R&D organization, but I think we're making bigger investments in our infrastructure to support the growth of the business, particularly as it relates to internal systems, as it relates to technical support and what have you.

You might see that grow a little faster than you would in years past. As we've kind of said in the past, we've made some significant investments in our R&D area and for that matter, in our sales and marketing area, so we don't believe that those areas are going to grow commensurate with the top line growth, but we still make investments to grow the business.

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Kevin Krishnaratne

Got you, okay, so I'm looking at that what you disclosed in operations and support, that's where we would see upside to the Q4 numbers if we were trying to model out for next year.

Dan Rabinowitz

Correct.

Kevin Krishnaratne

Okay, thanks for that. Good performance out of CineMassive. I think it came in a bit higher than you had talked about on your last call. You talked about sort of cross selling. Is that really what drove the upside there? Because you also had thought I think at your last call that there would be a possibility for upside to that sort of formerly, and I think that you were initially expecting. I'm just trying to understand what really drove the outperformance there.

Dan Rabinowitz

Well, I think that what we said in our last call is that we expect formerly in the U.S. from CineMassive and $5.1 million actually represents...

Kevin Krishnaratne

Yes.

Dan Rabinowitz

Pretty much on target, so I don't think that's really explaining it. I would suggest to you that because CineMassive has this secured facility and because we are working with DCSA, we haven't yet put all the pieces together to fully integrate the sales teams and be able to leverage that to the degree that we expect to do so going forward. That is going to start commencing in the next week or two as we start making some moves, again, consistent with DCSA to be able to take full advantage of the opportunity that the combination of sales teams can generate.

Kevin Krishnaratne

Okay, thanks for that. A question for you just on the revenue build-out throughout the quarter. I know historically you've said Q4 has been your sort of strongest quarter on Haivision core. Can you talk about with CineMassive in the mix now because I think Q1 is the stronger quarter for them. How do we think about how to model out the quarter?

Dan Rabinowitz

Well, that's another good question. I think what we've been sharing with investors as of late is that historically, you're right, our fourth quarter was our strongest quarter, but we started to see the business shift a little bit and we had strong second quarters and fourth quarters, largely related to the defense and the government business of sorts.

Now, if you supplement that with CineMassive, which tends to have a higher first quarter as you pointed out, we're beginning to see a lot more consistency between our first, second and fourth quarter and

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perhaps a little bit more weakness in the third quarter comparatively speaking, but again, it's a matter of degrees in the scheme of things.

Kevin Krishnaratne

Okay, thanks for that. Just a question for you. I've got a couple more here on Hub. I might have not caught it accurately. Did you say you've got 27 active clients as of now? How does that compare to what you had the last time we discussed? I thought it might have been closer to 25. Just wondering what you're seeing there with your existing Hub users. Are they expanding usage more? Can you just talk about the customer build-out and also just the usage?

Miroslav Wicha

Yes, I can hit that one. Well actually, I think last time I probably was quoting people who are testing or trying it and not necessarily fully using it. I think that right now, we have 27 fully active, paying, large accounts using it. I think the last time the number just included some tests, some people using it, and also testing it. We had a lot more people testing it and playing with it, but I wanted to kind of now that we've got further down the road is really talk about active clients.

Dan Rabinowitz

I would also suggest, and Mirko touched on this in his remarks, we're adding some significant functionality to the Hub core business of sorts. I think we've got enhanced functionality. It's going to be sort of a relaunch of general availability, having much more functionality than it had in the past.

Miroslav Wicha

Yes, because before—it's basically a renewed focus on all of our installed base as well because we're really treating, I'm almost calling it next generation of Hub where it's going to be a real platform, not just for routing but for connectivity and management, full control management all of our devices. When you think about that, that's a big difference from just when we talked about the Hub previously. We're going to be able to—when you think about it, we've got over 70 or I don't know how many, I think 80,000 Makitos out there.

Dan Rabinowitz

One hundred fifty-eight thousand, end point.

Miroslav Wicha

Sorry, 158,000, geez. I'm sorry. Double that. That's a lot of installed base. Just think about now having a complete element management platform system that all of our end points can take advantage of, which is a very easy to use, UI based, point and click to connect devices. Forget the cloud routing for now. I'm just talking connecting our devices without the cloud, on-prem. Plus, through Hub you'll be able to do an easy point to click through the cloud on top of that. You've got two interesting revenue streams happening there.

This is a big shift and a big change for the Hub, and I think that's where a lot of people are getting excited about. You're going to see, obviously you're going to see a lot more hopefully uptick but you're going to see we're going to be focusing a lot on our installed base as soon as we launch the new features.

Kevin Krishnaratne

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Okay, well, lots of good detail there. Thanks a lot. I just want to ask (inaudible) I'm not sure you've answered this but any way to think about how much revenue you're generating out of Hub and is that all in the cloud solutions bucket right now?

Miroslav Wicha

Good question. Don't have a number for you.

Dan Rabinowitz

We don't have a number. I would not suggest that it's a big part of that cloud solution revenue that we have there. Not yet.

Miroslav Wicha

Yes, it's still pretty minimal.

Kevin Krishnaratne

Okay, we'll look forward to that. One last sort of big picture question maybe for Mirko there. Just given your strong relationship with Microsoft and given all of the great momentum in roster of customers that you've got in media and content creation, I've got to ask the question on metaverse. Microsoft is pretty involved here. Are you hearing anything from customers, any sort of initial trials? What are your thoughts on Haivision's role to play in this potentially exciting new paradigm?

Miroslav Wicha

Well, it's a great question. I mean, obviously we don't have—nothing I can really tell you right now that would be actually meaningful. We are talking. We do have a good relationship in many fronts with Microsoft but really honestly, nothing really to talk about at the moment. I mean, they're also one of our clients, too, right, so it's not just a strategic partner. They're also a customer, but no, there's not enough discussions to actually be mentioning at this point.

Kevin Krishnaratne

Okay, fair enough. Thanks a lot guys. I'll pass the line.

Operator

There are no further questions at this time. I would like to turn back the call over to the presenters for closing remarks.

Miroslav Wicha

Thank you, Operator. Well, thank you everybody. I really appreciate your time. I hope that we gave you a nice appreciation of what happened last year and look forward to seeing you sometime in March when we're doing our Q1 results. Thanks a lot. Take care.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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