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Haivision Systems, Inc. (HAI.CA)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Haivision Fiscal Year 2020 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

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

Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

Thank you, Chris. Appreciate it. And good afternoon, everyone. Thank you for joining us. And I'm very thrilled to be here today actually for our first earnings call as a public company. As was demonstrated by the results that we just announced shortly after our market closed earlier today, demand for Haivision's innovative technologies remain very strong, and our investments in both R&D and sales to capitalize on future growth opportunities are clearly paying off. Our Q4 results exceeded our expectations, capping off our third consecutive year of record revenue and believe we're on our 14th consecutive year of positive EBITDA. And I'll leave it to Dan a little bit later on to give us some more details on those financials shortly.

For the full fiscal year 2020, we delivered a record CAD 83.1 million in revenue, which was up 12.2% over 2019 and an impressive CAD 9.9 million of EBITDA, which was up 67% from 2019. Or you could say 53% increase, if normalized, for the impact of IFRS 16. Now, this is in line with our focus on operational efficiencies that we discussed during our pre-IPO road show back in November. And as you can imagine, we are very encouraged with the full year results.

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Now in Q4, we continue to advance on our three strategic priorities. Number one is really continued development in our advanced cloud and self-serve SaaS products, our next-generation Makito X4 encoding platform including the MX1. Second was really extending our reach with international expansion to accelerate growth. And thirdly, really increasing our operational efficiencies to strengthen our profitability to create value for our shareholders.

Now, let me briefly discuss some of the highlights of these top priorities. Number one, really starting with our advanced cloud and self-serve SaaS products, let's begin with an update on the technology in our product roadmap. Over the last few years, we've been investing heavily in technology and development to ensure we can deliver a predictable cadence of leadership products.

Now, we have effectively doubled actually our R&D spending since 2017 to just under CAD 20 million which we expect will deliver additional innovative products later this year and well into 2022 and 2023. And we are currently in early trials with the new Haivision Hub and expect to be launching this innovative cloud-based video stream routing technology in the late spring timeframe.

Our self-serve SaaS video distribution system platform called Haivision Connect is already receiving very positive feedback from our initial beta clients and we plan to officially launch Connect sometime during the summer timeframe. Now, we will be transforming all of our house of worship and faith clients to this new innovative platform throughout this entire year. We're really establishing Haivision Connect as our next-generation, fully scalable SaaS-based enterprise platform for true user engagement.

Well, these products are just coming out of the oven, right, after several years of development, and we plan to really start selling both later this year but they really are aimed at increasing our recurring revenue into the 2022 timeframe and beyond. However, I would say we're very excited to see the early customer enthusiasm for these products.

Now, our Makito X4 decoder was also launched back in 2020, last year, and was very well-received by our clients, giving us an unparalleled end-to-end low-latency, highest density HD and UHD encoding and decoding platform. The 11th generation Makito X4 encoder has already won awards and proven itself to be a contribution workforce in the industry. But now paired with a decoding partner makes Haivision even more compelling in all our markets.

Now, in 2020, we have also launched our first-ever small form factor ruggedized MX1 single-channel HD [ph] compact and corner appliance (04:59). This is certified for your [ph] D01-16 (05:02) military-grade use ideal for defense, ISR, police, first responders or anyone that needs a ruggedized and a low-power consumption appliance for streaming live mission-critical video from anywhere. This includes potential wearable applications, further expanding Haivision's reach within the streaming market.

Now, the second priority detail, as a result of our continued investment in additional sales and technical staff in the international regions of Latin America, Europe, and Asia Pacific regions, our overall international revenue has grown an impressive 39% during 2020. Now, business outside of the US now represents 20% of our overall revenue. Specifically, our international ISR defense businesses continue to show very strong growth in 2020 as we continue to benefit from our long-term successes with the U.S. Department of Defense and our reputation as being the gold standard for mission-critical low latency ISR solutions for the U.S. DOD has been helping our allies and partner nations adopt similar technologies over the past several years. We expect this trend to continue as Haivision really maintains leadership in the mission-critical real-time video streaming globally. And we also believe that having a strong international presence is important to maintain Haivision's leadership in the overall global IP video market.

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Let's focus on the third part. Really, during our roadshow we discussed the focus on operational efficiencies going forward. We continue to benefit from our decision to reallocate our marketing resources away from the expensive trade shows in 2020 and will do so in 2021 and focus more on digital marketing prowess. We also don't foresee the huge increases in R&D spending as we've made between 2017 and 2020. Together, with our continued reduced travel and work-from-home directives, we expect to be driving bottom line efficiencies throughout the year.

We do, however, expect to return to a higher level of travel during the second half of the year as we are already seeing some light at the end of the tunnel. At this point, we're very cautiously optimistic that we can begin planning a sense of normalcy closer to the end of the year.

Finally, I would like to add that we are in full swing on evaluating potential acquisitions as part of our discussed M&A strategy during the roadshow. I mean, it's only been about six weeks since we began trading on the TSX, but I feel we're making very good progress on assessing the currently available options to Haivision. Nothing meaningful to report as of yet, but we are making sure that that all opportunities in a timely and a prudent manner. We are, however, very excited at the opportunities ahead of us.

And just before I pass it to Dan, our CFO, for more detailed analysis of our fourth quarter and year-end results, I just want to reiterate that I could not be prouder of the Haivision team and what we have accomplished this past year in particular. And I look forward to our continued success in leading Haivision to the next chapter in our revolution as we focus on our aggressive M&A plan for accelerated growth and profitability.

And finally, I would like to thank our investors and analysts on the line today for their continued support of Haivision and look forward to speaking with many of you soon. So that's it for me for now. And Dan, I'll turn it over to you, please.

Dan Rabinowitz

Chief Financial Officer & Executive Vice President-Operations, Haivision Systems, Inc.

Thank you, Mirko. For the full year, revenue was CAD 83.1 million, representing an increase of 12.2% from the year ago. For the fourth quarter and the fiscal year ended October 31, revenue for the quarter was CAD 22.1 million, up 8.1% from their prior year quarter. Now, historically, our fourth quarter tended to be our largest quarter, generally representing about 30% of overall revenue as it was also in concert with the US Government year-end.

However, we've been seeing client purchases including purchases in the defense vertical just from [indiscernible] (09:30) ratably throughout the year. Just on the side, our first quarter tended to be our smallest quarter, generally representing about 20% of overall revenue. We continue to have a significant book of recurring revenue from our maintenance and support contracts, from our managed services offerings, and from our other SaaS-based products. This recurring revenue is contracted revenue and represents about 27% of total revenue for fiscal 2020.

Equally compelling is that we have visibility to programmatic business. This is business that's not necessarily contracted but includes multiyear deployments. Between our recurring revenue and our programmatic business, we tend to have visibility into over 60% of our fiscal year revenue.

For the full year, gross margins were 76.7% compared to 75.1% in the prior year. Much of the improvement in gross margins resulted from the efficiency and direct product costs including the increasing percentage of software being sold on a standalone basis or as a virtual machine rather than as an appliance.

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However, gross margins also improved as higher sales volumes was able to leverage the fixed nature of our production department cost and certain other fixed costs, such as technology licenses, reserve for obsolescence and the like. Gross margin for the quarter was still strong at 76.4% of revenue although down slightly from 77.6% a year ago. We are quite proud of how compelling our products are and expect gross margins can remain constant or revert back to historical averages over the next couple of quarters.

Expenses for the full year were CAD 55.6 million compared to CAD 15.5 million in the prior year. Expenses as a percent of revenue fell to 66.9% compared to 68.1% to the prior year. However, I don't believe that metric tells the entire story.

In fiscal 2020, in addition to base salaries, executive bonus plans included quarterly revenue bonuses based on revenue performance compared to budget, it included an annual EBITDA bonus based on EBITDA performance compared to budget, both of which may vary from year to year. But this year's bonus included an annual EBITDA overage bonus based on EBITDA in excess of budget. Thus, total fiscal year expenses was impacted by CAD 2.5 million in these EBITDA overage bonuses paid and none of these bonuses paid in fiscal year 2018. If total expenses were normalized for the overage bonuses, total expenses in fiscal 2020 would have been about CAD 53 million or only 63.8% of revenue.

Now, expenses for the three months ended October 31 were CAD 15.5 million, and that compares to last year at CAD 12.9 million in the same period. But again, fourth quarter expenses were impacted by the CAD 2.5 million in bonuses paid based on the EBITDA profitability in excess of budget. These overage bonuses have been discontinued going forward and were replaced by a restricted share unit program, but some of it is that adjusted EBITDA for the full year was CAD 9.9 million, representing an adjusted EBITDA margin of 11.9%. This compares favorably to the adjusted EBITDA of CAD 6.3 million, representing an adjusted EBITDA margin of 8.5% in the prior fiscal year.

As Mirko had noted, this is our 14th consecutive year of adjusted EBITDA – positive adjusted EBITDA and our 26th consecutive quarter of positive adjusted EBITDA. EBITDA margin improvement can be attributed to the improvements in gross margins and operational efficiency. Adjusted EBITDA has grown at an impressive compound annual growth rate of 48% since fiscal year 2017 faster than our revenue growth rate.

And had adjusted EBITDA been normalized for the EBITDA overage bonus referenced earlier, the EBITDA margins would have been an impressive 15% for the year. For the three months ended October 31, EBITDA was CAD 1.9 million compared to CAD 2.5 million in the same period in the prior year.

The net income story is equally compelling. Net income for the full year was CAD 5.8 million compared to CAD 3.7 million in the prior year. And net income has also grown at a compound annual growth rate of 35% since fiscal 2017. Again, faster than revenue growth.

Now, let me turn some attention to our near-term and mid-term opportunities. As I hope you can tell from this conference call, we are laser focused on improving the operational efficiency of our business.

Again, operational efficiency defined as adjusted EBITDA as a percent of revenue has improved from 5.5% in fiscal 2017 to 11.9% in the fiscal year just ended. Total expenses for fiscal year 2020 were 66.9%, a 120 basis point improvement from the prior year.

We have invested significantly in our R&D area of the business. Mirko noted that our investments in this [ph] functional area (15:55) nearly doubled from our fiscal 2017 levels as we focused on our next generation of

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encoders and accelerated our development of Haivision Hub and Haivision Connect which with much of that accelerated development behind us, we don't anticipate R&D costs to grow commensurate with sales growth.

The same is true of our general and administrative expenses, which are largely fixed in nature and our operations and support functions which include our internal IT department, our technical support people, and our professional services staff. Thus, we continue to focus on the investments we already made to grow our EBITDA faster than revenue. And again, the EBITDA overage bonus that impacted fourth quarter and full year results has been discontinued.

We also view Haivision Hub and Haivision Connect, our native cloud and SaaS-based products, as important growth drivers for our business. Haivision Hub is our SaaS, cloud-based service for live, low latency media routing across the Microsoft Azure network. It provides secure and reliable and global transport for contribution, production, and syndication workflows. The platform offers on-demand video routing with massive scalability. By spinning up regional cloud resources and identifying the best path through the Internet, it removes all the complexity of current offerings. Haivision Hub is currently available on a limited basis to certain beta customers and should be generally available early this summer.

Haivision Connect is our next-generation of SaaS platforms designed to appeal to our customers in the enterprise market. Focusing on live streaming, video-on-demand and multicampus workflows, Haivision Connect enables organizations to create an online experience that matches their audience's on-site experience. The platform connects and essentially manages video streaming edge devices through scalable cloud infrastructure and can be accessed and operated from mobile devices. Also in the final stages of development, it is currently available to our beta customers on a limited basis and also should be available sometime this summer.

Both Haivision Hub and Haivision Connect are expected to increase the amount of recurring revenue next year and into 2023. As Mirko had also mentioned, the primary use of proceeds from the initial public offering is for acquisitions. We have a proven track record of acquiring, integrating and leverage complementary targets to increase revenues, geographic breadth, breadth of our products, and technology capability.

Haivision acquired 6 businesses over the last 12 years including 2 since last October. We intend to continue to be a platform for industry consolidation. We have vetted approximately 1,000 companies that claim some tangential involvement in the video infrastructure market and have narrowed that list down to well over 50 targets that meet our investment focus and are digestible. This list has been prioritized and we are actively engaging. Although, we haven't entered into any letters of intent with any prospective targets, we have begun having conversations with several of these targets to assess their overall strategic fit. This initiative has a high-priority ranking within the ranks of the executive management team.

So now let me add something about our near-term financial outlook. But first a quick note about currency. Our 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. For the first quarter ending in January, we expect revenues to be CAD 20.5 million and [ph] CAD 20 million (20:24) in total revenue. Although, we are beginning to see a smoothing of our revenue across borders, typically, our first quarter revenues are below the fourth quarter revenue that precedes it. We saw that in fiscal 2020 and in fiscal 2029 (sic) [2019] (20:39) as well. And for the full year ending October 2021, we expect our revenue to continue to remain consistent with recent performance, organic growth is expected to be in the low teens.

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Lastly, I want to mention that our Investor Relations website is now live and accessible through our main site. That's www.haivision.com. It will include information relevant to investors and you can also subscribe for investor e-mail alert.

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

Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

Yeah. Dan, it's Mirko. I just want to make – I think there's a little mistake there. I know you mentioned about the guidance for Q1. It's actually CAD 20.5 million to CAD 21 million. You mentioned CAD 20 million, so I just want to correct that. I think it was just...

Dan Rabinowitz
Chief Financial Officer & Executive Vice President-Operations, Haivision Systems, Inc.

Oh.

Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

...a slip of the tongue. That's okay. Just a little minor detail. Yes. Let's open up the questions, please, Chris.

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] Our first question is from Robert Young with Canaccord. Your line is open.

Robert Young
Analyst, Canaccord Genuity Corp.

Q

Hi. Congratulations on your first public earnings call. First question, maybe I'll clarify the other dimension of the guidance first. You said fiscal year total revenue growth would be mid-teens percent growth, is that correct?

Dan Rabinowitz
Chief Financial Officer & Executive Vice President-Operations, Haivision Systems, Inc.

A

I said low teens.

Robert Young
Analyst, Canaccord Genuity Corp.

Q

Low teens. Okay. Thanks. Okay. And then I wanted to ask couple of questions about the Q4 EBITDA figure, CAD 1.8 million that you provided. You provided a normalized number for the full year. Does that CAD 1.8 million in Q4, does that include the CAD 2.5 million bonus payment? What would that be without that payment?

Dan Rabinowitz
Chief Financial Officer & Executive Vice President-Operations, Haivision Systems, Inc.

A

It would be approximately CAD 4.3 million.

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Robert Young
Analyst, Canaccord Genuity Corp.

Q

Okay. And so that's roughly – that's closer somewhere between 19% and 20% EBITDA margin. And so, as you look forward into 2021, what type of EBITDA margin performance you think you can maintain from that – given that level that you're reporting here in Q4?

Dan Rabinowitz
Chief Financial Officer & Executive Vice President-Operations, Haivision Systems, Inc.

A

Well, we still believe that within a reasonable amount of time, within two to three years, we can reach a 20% EBITDA margin at scale. We believe that scale number is around CAD 130 million to CAD 150 million to get there to give you a sense as to where we're targeting.

Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

A

And I would just also add to that is remember last year – I mean, this year now coming up in 2021, there's also the added cost structure on our OpEx for being a public company as well, right, which we never had before. And we're also anticipating the second half of the year to be definitely a higher spend on our normal T&E that we had almost very little in 2019. So, it's a bit combination of both, right?

Robert Young
Analyst, Canaccord Genuity Corp.

Q

Okay. Yes. Understood. And so also in Q4, the product revenue of CAD 70 million, a little bit ahead of where I was expecting. And so, I thought maybe you could give a little color on what was the driver there, anything around end markets, or geos, or anything – any color would be helpful.

Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

A

Sure. Well, I think we're actually seeing – and this is something that we've been – we're seeing for – throughout the 2020, but we're actually seeing it continuing into 2021. But globally, this is not just a specific region. But internationally, overall, is showing great, great growth just because of the investments we put in. We put more people in, more resources in. It's usually a direct relationship, right, that technically business should go up. So, we're seeing that obviously. But we are seeing, within the ISR community, the defense ISR community, the early responders and all that, that is going very, very well all across the world. So, we're seeing massive growth there because we do lead kind of the industry in that area. But we're also seeing the new broadcast, the IP video workflow broadcast, really expanding and accelerating throughout the globe where people are really looking at the live events, the esport-type of stuff and where our technology fits very, very well on the contribution side as well.

So that is actually being consistent all across all of our regions and including obviously the US which is the biggest market. So those we kind of – I think are doing much better than we anticipated, and we're not seeing any slowing down yet. So...

Robert Young
Analyst, Canaccord Genuity Corp.

Q

Okay. And then I think you've indicated that the cloud element of your revenue, the recurring element of your revenue, you expect to see the benefit I think for the summer going forward on the new products. Maybe you

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could just give us a sense like how – what are your expectations around the increase in the recurring revenue, maybe the gross margin profile from those cloud products? Anything that you think we should be thinking about for the second half of the year after that rolls out?

Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

A

Yeah. I wouldn't be thinking too much revenue side because any SaaS-based bookings or sales really don't translate into revenue until over the lifetime of the contracts, right? So, usually, what you'll see is – and we haven't planned honestly for a revenue increase. It's going to be more. We're going to start selling the products in the summer timeframe. So effectively, our year ends October 31, right? So, from a revenue perspective, very little impact on 2021 which is kind of consistent to what we've been saying. It's really – the revenue will start picking up in 2022 and really cranking in 2023, and that's just kind of how it typically builds. Very similar to all of our other type of SaaS or revenue business that we've had in previous years, right? It's kind of goes exponential over two-, three-year period. But the good news is that we're going to be aggressively selling the technology midway through this year which is something we've been waiting for and I'm very excited about.

Robert Young
Analyst, Canaccord Genuity Corp.

Q

Great. And like you highlighted, the business model there is subscription. So, let's say...

Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

A

Yeah. It's usually one-year or two-year contracts, never less than a year, right? And totally renewable contracts each year. And Dan, do you want to speak to the margins on that? I know there's a question about gross margins on what we would expect.

Dan Rabinowitz
Chief Financial Officer & Executive Vice President-Operations, Haivision Systems, Inc.

A

Well, the gross margins are going to be comparable to what we've been seeing in our other businesses per se. We have a fairly tight range around the average between our products – hardware products, our software products and our services products. So, generally, our hardware products are above the average. Our software products are at the average. And our services are below the average. But we're talking about give or take, 5 points from the average to distinguish it. And I think the way that we're pricing these two products per se, it's going to give us the same kind of return.

Robert Young
Analyst, Canaccord Genuity Corp.

Q

Okay. Okay. And then you gave quite a bit of information on your – the M&A element of your strategy. Maybe one question I would ask is I think you said it's a high priority like would you think that, that's something that you could execute on the next 12 months or is it something you hope to go faster? Like is there any kind of timeline that you'd be willing to share?

Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

A

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Yeah. Absolutely. When we did our pre-IPO roadshow, we did mention that once we do go public, we would expect that within the six to nine-month timeframe into the process, we should be in the position to hopefully do an acquisition. I mean we didn't really specifically pinpoint a specific date, but are definitely within the first year.

Robert Young
Analyst, Canaccord Genuity Corp.

Q

Okay. And then I think Dan said that you have 50 targets that you're diligent seeing now. Any – like is there a wide range of size there? Like is there a particular bite-sized that you're focused on?

Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

A

Yeah. It's a very, very good question. It's incredible that the breadth of size that's out there. So, yeah, there is. There are some very, very small ones. Some of them have very little revenue. And of course, there's some very large – larger ones that are really, I would say, needle movers.

One of the things that we're really focusing on – we just completed two, I would say, tuck-in acquisitions in the last 13, 14 months, which are really technology-based, the two acquisitions in Spain. We are reading – the next one is really going to be looking something that has some revenue, something that probably would be in the range of CAD 10 million to CAD 20 million in revenue kind of a focus or higher, of course, but not less, and something that's actually going to be a meaningful addition to be able to add to our platform to basically get the operational efficiencies and grow much faster organically, of course, on the top line but really focus on the bottom line.

So, we're seeing a tremendous range of opportunities out there, but we're going to try to zero in on something that's digestible, something that can make a difference, and then continue to the – well, to additional months later on.

Robert Young
Analyst, Canaccord Genuity Corp.

Q

All right. And then if you're targeting acquisition at the larger size, are these the type of acquisitions that could be additive to the recurring side of the business or towards higher margin, things like – what sort of end markets or types of business models would you be targeting with acquisitions of that size?

Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

A

Excellent question. In fact, one of our top priorities actually is to consider SaaS recurring revenue business. So yes, a lot of the targets that we're looking at do have recurring revenue component. That's very important. It's not a must, but it's absolutely on the top of the priority list.

Robert Young
Analyst, Canaccord Genuity Corp.

Q

All right. And I think maybe one last question then I'll pass the line. The R&D product cycle that you could be – come to the end of a fairly significant one, I think you said you expect R&D expense to come down a little bit this year. How should we think about the product roadmap maybe looking now 12 months? Should we expect that you'll begin to ramp that up again or do you think you'll be able to maintain the R&D spend kind of where it is today? Then I'll pass the line.

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Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

A

Sure. Well, I mean, our R&D spend is going up year-over-year. It's just not going to be up dramatically like it has been in the last three years. I mean, we've literally – I mean, we've doubled from 2017 to 2020 which is a pretty huge ramp-up. So, it is going up. We are investing additional money in R&D. And with these products, I mean, these are continuous developed products. So, especially when you're in the SaaS cloud business, so I don't see that stopping anytime soon. But I think the heavy, heavy lifting and the real research and the pure development, the pre-revenue type of stuff, I think we're past that stage on those two products.

But there's still a tremendous amount of technology that we're focusing on, especially on our Makito X platform specifically. I mean, we launched the Makito X4 last year – actually almost two years ago now, the encoder, the decoder last year. And there's a lot of add-ons that we're still working on for that's a lot of AI work, machine learning work. And we're doing a lot of advancements in analytics. So, there's a tremendous amount of development that we're focusing going forward just on our encoding platform, our transcoding platforms.

So, it's not all just the SaaS stuff, but I would think that our head of engineering would probably say we can ever get enough engineering resources. But the idea is to actually not be increasing the spend nearly as much as we did in the last three years.

Robert Young
Analyst, Canaccord Genuity Corp.

Q

Okay. And should we think about maybe growing R&D but not at the pace that you're growing the top line? Is that a better way to think of it?

Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

A

Correct.

Robert Young
Analyst, Canaccord Genuity Corp.

Q

Okay. Okay. Thanks for all the – taking all the questions and congrats again.

Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

A

All right. Thanks, Robert.

Operator: And our next question is from [ph] Mubashar Tahir (33:46), retail investor. Your line is open

Q

Oh, hi. It was mentioned that [ph] timely proposal (33:54) of going public was to – for the future acquisition. So, on the same note, is it – any future plan to be listed on Nasdaq to gain more attraction from institutional and retail investor from the US?

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Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

A

Dan?

Dan Rabinowitz
Chief Financial Officer & Executive Vice President-Operations, Haivision Systems, Inc.

A

If the question is if there's a current plan to do so? No. I think it's still too early in our evolution to start thinking about listing on Nasdaq. But it is something that we discuss on a regular basis. If the demand for our stock is good and there is a good float for our stock, the TSX is a natural beginning place and also migrate on to the Nasdaq. So, it's not something that we're ruling out at all, but it's not something that we are planning for in the [ph] immediate future (34:49).

Q

Okay. Thank you.

Operator: And our next question is from [ph] Wojtek Morzycki with Haivision (34:59). Your line is open.

A

Hi, Mirko. Hi, Dan. Congratulations for a wonderful as expected results from last year and you guys leading us into IPO. I have a quick question. Sometimes strength of the company is measured by the – how much cash the company sits on and has handy. Can you answer this question for me, please? Thank you.

Dan Rabinowitz
Chief Financial Officer & Executive Vice President-Operations, Haivision Systems, Inc.

A

Well, interesting question. We had approximately CAD 12-ish million on the balance sheet in the year just prior to the IPO, and the IPO netted another CAD 32 million thereabout. So, we have approximately CAD 45 million of cash available to us. We also have a line of credit that has nothing extended against it for another CAD 13 million. And we also have a term facility of CAD 5 million of which only $1.5 million [indiscernible] (36:03) that. So I would say our capacity is what the [indiscernible] (36:07) juncture.

Q

Thank you. Thank you very much.

Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

A

Good to hear from you [ph] Wojtek (36:13).

Q

Thank you.

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Operator: [Operator Instructions] Our next question is from [ph] Dickson Lamb (36:22), personal investor. Your line is open.

Q

Hello. Hi. I have a couple of questions I'd like to ask about the product. And I'm wondering does the SaaS solution going to cannibalize the clients solution in terms of revenue? That's my first question. My second question is whether or not there is going – like, I guess, my question is does the company benefit from the work-from-home situation like MS Teams, Zoom video conferencing solution and the like? I'm wondering is there any – if it does, I'm wondering which – whether or not you will benefit from the fact that your company's solution operates at the infrastructure layer or if there's any plan to sort of help improve the quality of video over those type of applications. Thank you.

Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

A

Okay. Well, thank you for the questions. Let me try to tackle a couple of them or both of them, I guess. I mean, the – whether the SaaS – our SaaS properties will cannibalize our appliance business. I mean the answer is absolutely not. What our properties are really for distribution or delivery or routing video, right? And our appliance businesses are the edge devices, right? So – like the Makito. So they're placed on the edge of the networks end-to-end. And our SaaS properties are really to connect these end-to-end devices or where our devices contribute. And then, we distribute the video through our SaaS properties to our other devices.

So, absolutely, it's a complete synergistic mode. They work very well together. And it's in fact, the idea is these SaaS properties or especially the Haivision Hub, as an example, once you start using it and see how easy and innovative it is to point and click and basically turn on a route anywhere from to anywhere in the world so easily, people are going not only addicted to it, but they're just never going to be able to use anything else. And guess what, but they need devices on each end, in the contribution and also on the delivery side, which would be a perfect mate for Haivision products.

So, I think and I believe that it's actually going to help us sell even more edge devices. And it's going to actually make our other devices more compelling as a total end-to-end solution. So, total complementary, absolutely perfect fit. From the – to your point about working-from-home, I mean, it's – one of the main factors why our products are used, this is well before COVID is where – whether it's news networks, sports, broadcasters, ISR folks, is everything to do with live video and remote whether it's production, remote contribution, remote live interviews, that is what our products have always been used for, right?

Now, with COVID, it actually accelerated a lot of companies' investments ahead of schedule. Even though they were already planning to do so, they knew that this was coming, from doing productions remotely or doing real-time video remotely. I think the pandemic has just accelerated that.

So, are we benefiting? I think a lot of vendors that are in this space would say they probably benefited. But this is something that we've been doing all along. And I think it's just helped accelerate some of these other customers' buying decisions. So, we definitely seen a pick up on some projects that maybe would have been slated later on had been brought up or new projects had popped up because some of the – some of our customers or potential new customers didn't have any solutions.

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So, I would say, yes, absolutely, that we have seen that. But it's something that we – honestly, it's not new to us, right? I mean, we've been in this type of IP video workflow from the beginning.

Q

Great. Thank you so much.

Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

A

[ph] You bet (40:38).

Operator: And then our next question is from [ph] Gene Lazard (40:42), investor. Your line is open.

Q

Hi. I'm just curious [indiscernible] (40:48) for the year – next year MX1. Curious if this is worth as the [indiscernible] (40:54) they all support IP channel. And [indiscernible] (41:00) embedded into the device login.

Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

A

Yeah. I'm really sorry because that was really muffled. I could not understand – yes.

Dan Rabinowitz
Chief Financial Officer & Executive Vice President-Operations, Haivision Systems, Inc.

A

Was there a question – the question was along the lines of is there any plan for the MX1, that platform to be embedded into video cameras.

Q

Yes.

Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

A

Okay. And I think I heard IP video cameras, right? Your point – yeah.

Q

You have IP cameras embedded into the equivalent of Makito X1, and have a [ph] install base (41:34) integrated into a small device and the [indiscernible] (41:37).

Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

A

Okay. Well, good question. I mean, again, the MX1 was really our first product to actually kind of venture into the small form factor. I mean people have always wanted us to do that. We've always resisted. And so, this is a big

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move for us. Now, we took the approach where we kind of went into the – more in the military side first, into the ISR side, which is something that we're very, very familiar with, of course.

But if you look at the size of it, I mean if you want to build the technology, the technology is definitely capable for us to embed into third-party systems. In fact, we do have several relationships that we're working with right now. But they all depends on how small you want to get to, right? And I think one thing what we don't want to be doing is really honestly getting into the IP video camera business as per say. And I don't think that the MX1 architecture would make sense from an OEM perspective into the IP video camera business, if I want to put it correctly.

Is there an opportunity for us to come up with technology and the value technology that we could go lower and smaller? Absolutely. Is it something that we are looking at? But there's nothing really, I would say, in the short term that I would want to talk about.

Q

Great. Thank you to answering my questions.

Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

A

Yes. Okay.

Operator: [Operator Instructions] We do have a question from Eli Sionov with Dynasty Auto Selection. Your line is open.

Eli Sionov
Director-Finance, Dynasty Auto Selection Inc.

Q

Hi, Mirko and Dan. Thank you very much for all the information that you've provided to us. One of the main things that I wanted to ask is what's the rate of new members adopting the SRT protocol that you guys came up with from 2017? I see – and I'm reading a lot about it and I definitely am very excited with the movements that you guys are putting in from replacing the traditional RTMP protocol into the SRT. What can you tell us about that?

Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

A

It's great, great point, Eli. I mean, look we're very, obviously, extremely excited when I think of what – since 2017 when we decided to open source SRT. I think we're up to – I think it's over 470 members now. Honestly, the rate has grown dramatically. I think we have a very strong support from the industry. We're seeing that specifically that the broadcast industry in specific has really been just dying for some kind of a ubiquitous standard, right, where people can have Internet connectivity. So I think that kind of spurred everybody on. But pretty much, a lot of – most, if not all, of the large vendors out there are already supporting it. I mean, it is one protocol, right? There's many others. But SRT will just seem to have taken a life on its own.

And what I like about it is that we see a tremendous support from the open source community. And the contributors to the open source has been amazing. We have actually quite a few dedicated engineers just specifically to the SRT protocol for the actual open source protocol and working with all the partners and contributors. So we have some tremendous numbers there. And it's actually helping not just the industry but actually helping evolve the SRT protocol in itself while we can also add other stuff on top of that. So, as far as the

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adoption rate, I mean, I don't – we haven't categorized the numbers. But going from 2017 when we launched it boom to 470 partners is pretty astounding.

But usually what's more important is how it follows on and how many people get involved, how many people actually contribute. And those numbers are actually pretty high. So, we're very, very encouraged from the technology community – the technical committee. And I think they actually are respecting Haivision a lot because it takes a lot of effort and a lot of resources to actually support a very effective open source community but also a program. And we're actually totally, totally committed to that.

Eli Sionov
Director-Finance, Dynasty Auto Selection Inc.

Q

Thank you very much.

Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

A

Yes.

Operator: [Operator Instructions] And there are no more questions at this time. I'll now turn the call back over to Mirko for any closing remarks.

Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

A

Oh. There's one more just popped in. Do you want to take in that one, Chris, since we have [ph] it here (46:27).

Operator: Absolutely. We do have another question from [ph] Dickson Lamb (46:29). Your line is open.

Q

All right. Thank you for taking my question. Just a follow-up question to the SRT protocol. I'm wondering is there any plan to sort of accelerate the adoption of it in the future to go beyond sort of the current applications especially in the broadcast space into more of just, I guess, is it possible one day YouTube is going to be using that protocol, for example?

Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

A

Well that's – that would probably be a little bit above by my [ph] grade (47:01) here. But basically, from a protocol perspective, I mean SRT, the way it works is at lower protocol is it's not specifically based on video, if you know what I mean. It's a protocol that can actually be used to pass data, file, and basically anything, right? So, how people want to use the SRT, it's a transport protocol, right? And I would expect that anybody that requires the capability, the complete -the security and using constrained bandwidth, constrained networks, and the unpredictable type of network traffic, if they're using that, then they would absolutely want to be utilizing the SRT protocol, right?

Q

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I see. Sounds good. Thank you.

Operator: [Operator Instructions]

Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

A

Okay. Looks like we're done. No more questions?

Operator: No more questions. Back to you, Mirko.

Miroslav Wicha
Chairman, President & Chief Executive Officer, Haivision Systems, Inc.

Okay. Thanks, Chris. All right. Well, look, I just want to thank everybody. Appreciate your time. And I'm glad about our results and I'm looking forward to 2021 and look forward to talking to most of you as we move forward. So, appreciate your time. Thanks, everybody.

Operator: Ladies and gentlemen, this concludes today's call. You may now disconnect.

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