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Haivision Systems Inc.

Second Quarter 2021 Earnings Call

June 9, 2021

CORPORATE PARTICIPANTS

Miroslav Wicha, *President, CEO and Chairman*

Dan Rabinowitz, *Chief Financial Officer and EVP Operations*

CONFERENCE CALL PARTICIPANTS

Robert Young, *Canaccord Genuity*

Kevin Krishnaratne, *Desjardin*

PRESENTATION

Miroslav Wicha

All right. Good afternoon, everyone, and welcome to Haivision's Second Quarter 2021 Results.

I'm really thrilled to be back today for the not only second quarter, but our first six months result, results which ended April 30, and as demonstrated by our press release about an hour ago, demand for Haivision's innovative technologies remains very strong, and our investments in both R&D and sales the past three years really capitalize on the future growth opportunities, are really continuing the payoff, so that's a great sign.

Highlight really is both our first half and our Q2 results exceeded our expectations by delivering a record revenue of $44.8 million, and $21.9 million in revenue, respectively. Now, using our functional currency, as we mentioned in the press release, is really the USD, which we sell in USDs, even though we report in Canadian. In our first six months, revenue actually grew an impressive 17% over the same period last year, so all in all a tremendous performance for the first half of the year.

In addition, we delivered and incredible $7.2 million of Adjusted EBITDA during the first six months of the year. Now that's a whopping increase of 60% from the same period in 2020. Again, an impressive operational and financial performance.

Dan will go over all the numbers for you in more detail shortly.

Last quarter I mentioned that we had over $1 million of our Q2 programmatic government revenue that came in early into Q1, thus increasing our Q1 performance, which we're all very happy about, and will therefore potentially soften our Q2 numbers. The good news is that despite this programmatic business shifting from Q2 to Q1, we still managed to deliver a record quarter above our expectations. This really speaks to the strength of our business and thirst for our products in all our markets. We also added many, many key and important (inaudible) or new accounts during last quarter that should prove to bring solid long-term revenue contribution well into the future.

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Some noteworthy names of these new clients, include people like Rogers Media using our Makito encoders and decoders; NEP Singapore, another addition to our strong NEP global relationship; DirecTV in Latin America adopting our SRT Gateways was another great one; the U.S. State Department, actually the passport office this time, using our HMP Solution; Telcomsat in Indonesia using our Makitos, our element management system and our trans-coding technology; and there is also White Box Play (phon) which is using our managed services for all their live concerts, very exciting. Actually my favorite is the Bleacher Report, being a huge fan of fantasy football, this one is awesome. They just love our Makito encode decode solution. These are just a few of the many exciting and new accounts in Q2 adopting Haivision technology worldwide.

Last week we announced the new features on functionality in our Makito X4 platform, which by the way is our 11th generation encoding technology. The MX4 is now even more suited for the highest quality real-time broadcast production contribution. It delivers pristine picture quality, increased timing precision, and if you can actually believe it, even lower latency to address the needs of decentralizing cloud-based live broadcast workflows, and the Makito is definitely the industry workhorse in contribution.

About two weeks ago, the SRT Open Source celebrated four years of industry adoption for low latency video transport and the SRT Alliance welcomed it's 5th—500th member, which was actually Looming Technologies, which is a global CDM provider that delivers industry-leading Vivex managed fiber solutions for multi-point video distribution, and is also a major Fortune 500 telecommunications company. A family you might know them as the old name by CenturyLink. That's a huge, huge, huge added member to our long, long, long growing list of SRT Alliance members. During the past four years, almost every major streaming service, cloud platform, and broadcast solution provider has supported and adopted SRT, so very, very proud of that.

A little bit about strategic partnerships. Also during Q2, we had some very well-attended webinars with thousands of registrations, to hear about our strategic partnerships. A good example, such as the EVS relationship with Haivision to power remote replay operations for live broadcast and live sports broadcasting. EVS is using Haivision's Makito X series of real-time video encoders and decoders to generate low latency encoded IT video streams from its live production service and venues to their remote controllers over any managed network or the public internet, and this new integration essentially enables the extension of video monitors across long distances, even when working at resolutions of up to 4K or UHD.

In fact, a great quote by Nicolas Bourdon, the Chief Marketing Officer at EVS, was, “When the replay operator cannot be on site, the Haivision solution completes the EVS replay environment by providing the best interaction possible for remote operators, even over widely available and cost-effective public internet connections.”

Another amazing relationship last quarter was Abbott. Abbott and Haivision also announced a really, really strong relationship that delivers secure remote IP contribution in live production environments, and the partnership provides clients with the complete solution for live IP video ingest and editing. As far as the partnership, Abbott will resell and integrate Haivision products, including Makito X4 video encoder and the SRT Gateway.

This new capability significantly simplifies remote IP production by streamlining workflows and making remotely generated content delivered via IP quickly available for production. In fact, users can now ingest live content from anywhere with MediaCentral Stream and Haivision’s Makito X4 low-latency video encoder. The Makito X4 streams live UHD HD content over any mobile or fixed IP network using the open-source protocol SRT, originally developed by Haivision for delivering high quality video over IP networks.

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In fact, a great quote by Raul Albos (phon), director of product marketing, media and cloud at Abbott was, “Our partnership with Haivision is enabling tested, verified, and cost-efficient IP contributions into Abbott production environments from anywhere while reducing cost for media companies who can now leverage secure SRT IP contribution using standard internet. Now together we are helping broadcasters simplify their workflow and open up new revenue opportunities.” These are two very strong partnerships that we've been fostering for quite a while now that have really come to fruition during Q2.

Also during Q2, we added another strategic board member, Mr. Sidney Horn. Sid is a highly respected and influential mergers and acquisitions expert from Stikeman Elliott law firm. Adding Sid in Q2, together actually with Julie Tremblay in Q1, we are building more professional, independent and diverse Board with solid board governance expertise. I'm looking forward to adding one additional independent Board member in the coming months to complete this mission.

Let me just give you an update on the Haivision Hub. In case you haven't seen, we actually announced a general availability of the Haivision Hub yesterday, the simplest way to route broadcast video through the cloud. Haivision Hub saves time and eliminates errors with complete end-to-end live IP video routing, combining edge device control, cloud resource provisioning, and stream monitoring, and it also centralizes management of any live contribution workflow, simplifying connectivity, making it ideal for breaking news, sporting, corporate, and cultural events from anywhere to anywhere, regionally or globally.

It has been receiving rave reviews from many of our customers and several key clients have actually been using the Haivision Hub in production for some time. In fact, some of the noteworthy customers using the Haivision Hub in production that we mentioned earlier are Eurovision Sport at the EBU, Microsoft Studios, The Times Network, and the U.S. Department of Veteran Affairs, among others, so very, very pleased with the Haivision Hub being now generally available.

The Haivision Connect, our other SaaS based property, the development is also progressing with great excitement, coming from existing house of worship clients, testing the limited release version. We now have over 30 of our current clients using and testing the platform with rave reviews. We currently actually plan for the general availability for new clients later this year. We're also progressing well with moving all of our current faith clients to the new Haivision Connect platform, expecting to complete the transition by the end of the calendar 2021.

Our continued investment in sales and technical staff in the international regions is really bearing fruit. Our overall international revenue has grown over 70%, that's 7-0 percent, in Q2. If you remember, our international revenue grew by 39% for the entire year in 2020 over 2019, which was impressive by itself, and in our first six months of 2021, our international revenue has again grown an impressive 43% over the same period of last year. This is really truly showing a global expansion and a global need for Haivision technology.

I should also mention that our U.S. business also grew an impressive 10% during the first six months of the year. All in all, a very strong overall performance as we maintain Haivision's leadership in the global IP video market.

Our M&A discussions are progressing extremely well. I feel very confident and optimistic for being able to announce a meaningful and impactful acquisition soon. Last quarter, I did mention that the added COVID difficulty in M&A transactions due to the inability to travel, right, has impacted some of these processes, but we do expect the return of travel before the end of the summer and we are already seeing business travel picking up significantly in the U.S. I also expect that we will see increased business travel during our Q4 and are already planning to increase our trade show presence for our Fiscal 2022.

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Finally, I just once again want to thank our investors and shareholders worldwide and all the people online today for their continued support of Haivision and look forward to speaking to many of you soon, but in the meantime, I will pass the microphone to Dan, our CFO, to go through the numbers in detail. Dan?

Dan Rabinowitz

Thank you, Mirko. Happy to talk about our financial performance and our progress in driving operational efficiency. To reiterate some of the things that Mirko already touched on, revenue for the second quarter of Fiscal 2021 was $21.9 million, representing an increase of about $600,000 from the same period in the prior year. The Company generated record revenue of $44.8 million for the six months ended April 30, exceeding the prior year by $4.2 million or just over 10%.

We have a long operating history in Canada and a large Canadian workforce and have chosen to report in Canadian dollar terms, however we sell our products and services in USD worldwide. In fact, technically the Company's functional currency is the USD. Thus, it is important to note that on a functional currency basis revenue for the six months ended April 30 represented an increase of 17% when compared to the prior year. That's probably a better measure of the overall demand for our products and services.

According to research, Nestor, the global video streaming infrastructure market is expected to grow at a 15% compound annual growth rate from 2019 to 2028, thus we are growing organically faster than the overall industry average.

Our book of recurring revenue from maintenance and support contracts, our managed services offerings and from our other SaaS based products is still robust. Recurring revenue was consistent across all periods at 26% of revenue, and as Mirko noted, we just announced general availability of Haivision Hub, our SaaS cloud-based service for low latency media routing, which we believe will accelerate our growth of recurring revenue.

For this second quarter, gross margins were 78.1%, an approximate 70 basis point improvement when compared to our performance for the same period in Fiscal 2020. Our gross margins on a year-to-date basis are 77.2%, a 40 basis point improvement when compared to the same period in the prior year. Just when we thought we reached our limit of efficiency in our production processes, our internal supply chain experts seem to continue to find a way to reduce our products cost and our other cost of sales, a particularly impressive accomplishment, given the global demand for chip sets and the resulting increases in certain componentry.

In addition, we continue to leverage our production department costs across higher levels of revenue. On an aside, we just added additional space to our Montreal production facility, which may provide additional opportunities to improve our production workflows. Although we remain optimistic, we continue to believe that there may not be as much upside potential and gross margins from these levels. (Inaudible) we continue to monitor the supply of electronic componentry and believe we have de-risked our exposure to any global components (inaudible) for the foreseeable future.

As presented, total expenses for the second quarter were $14.6 million, an increase of $1.6 million when compared to the same period in the prior year. Research and development expenses for the quarter actually decreased as we migrated away from third party consultants to internal native cloud development, a primary benefit of the Light Flow Media Technologies and the Teltoo acquisitions done within the last 18 months.

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On the other hand, general and administrative expenses for the quarter were higher than in the prior year period but was largely related to the stronger Canadian dollars impact on USD denominated assets and liabilities and increases in professional fees and insurance costs related to the cost of being a public issuer.

Share based payments of $700,000 incurred in the second quarter relate to compensation expense for grants of stock options, restricted share units, and deferred share units, issued at the time of the initial public offering. These instruments were used as a basis to retain our employment base.

Sales and marketing expenses and operations and support expenses operated at consistent levels with the prior year and likely benefited from reduced travel related to the COVID-19 pandemic.

Total expenses for the six months ended April 30 were $43.5 million, however, it included $15.2 million in share based payments that was not part of our cost structure in Fiscal 2020. That $15.2 million share based payment can be divided into two components; $14.1 million was the result of a one-time non-recurring non-cash expense resulting from the exercise of options related to our Legacy employee stock option plan. Thus, it was the culmination of a 14-year program and truly an extraordinary below-the-line expense; $1.1 million related to compensation expense for grants of stock options, restricted share units, and deferred share units issued at the time of the initial public offering. There were no such expenses recognized in Fiscal 2020.

Normalized for these share based compensation expenses, total expenses for the six months ended April 30 are $28.3 million compared to $27.6 million in the prior year period, a modest year-over-year increase of only $700,000.

With respect to research and development expenses. After several years of significant investments in R&D, including the two recent technology tuck in acquisitions, we have successfully replaced the more costly expense of third-party development consultants and effectively created capacity for additional internal development efforts. On the other hand, our reimbursements for scientific research and experimental development credits are at a lower rate this fiscal year than before becoming public. Nevertheless, total research and development spending fell from 25.6% of revenue in the first half of 2020 to 20.6% in the first half of Fiscal 2021.

For the first half of this fiscal year, general and administrative expenses were $6.6 million, an increase of $2 million when compared to the same period in the prior year. More than half of that difference in G&A expenses were impacted by realized and unrealized foreign exchange translation expenses. The remaining difference, again, is largely related to professional fees and insurance costs associated with being a public issuer. General and administrative expenses increased to 14.8% of revenue from 11.4% of revenue for the same period in the prior year, but we do expect to derive additional efficiencies with increasing levels of revenue.

Interestingly, our sales and marketing expenses, and for that matter, our operations and support expenses, for the six months ended April 30 were relatively flat, despite the more than 10% increase in revenues year-over-year. The COVID-19 pandemic has reduced the level of travel and we have shifted marketing spending from the traditional trade shows to more digital marketing.

Normalized for share based compensation, total expenses for the six-month period as a percent of revenue fell to 63.1% compared to 67.9% for the same period last year.

Adjusted EBITDA for the three months ended April 30 was $3.6 million, a modest decrease of $300,000 compared to the same period in the prior year. Of particular note, this quarter now represents our 28th consecutive quarter of positive Adjusted EBITDA, but more interestingly, for the six months that just

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ended, Adjusted EBITDA was $7.2 million, an increase of $2.7 million or 60% when compared to the same period in the prior year.

For the six months ended April 30, our Adjusted EBITDA margin was 16% compared to only 11% for the same period in the prior year. As discussed in our last earnings call, operational efficiency, defined as Adjusted EBITDA as a percent of revenue, continues to be a significant focus for us and our performance to date has certainly exceeded our expectations To put this in perspective, our Adjusted EBITDA margin for Fiscal Year 2020 was only 11.9%.

Net income for the three months ended April 30 was $1.2 million compared to net income of $2.4 million for the same period in the prior year. As described earlier, share based payments, the stronger Canadian dollars' impact on U.S. dollar denominated assets and liabilities, and the additional cost of being a public issuer are key contributors to this quarter's difference.

Net loss for the six months ended April 30 was $10.8 million compared to net income of $2.3 million for the same period in the prior year. Again, share based payments of $15.2 million, the stronger Canadian dollar, and the additional cost of being a public issuer were the key contributors to that year-to-date net income difference, year-over-year.

On an aside, I just want to remind the group that the weighted average number of common shares outstanding reflects the additional 5.7 million shares issued on December 16 related to our recent IPO, but that was halfway through our first quarter, so we do expect the calculation for weighted average number of shares outstanding to increase as we go forward.

With respect to our current balance sheet, we ended the quarter with $47.6 million in cash, an increase of $31.9 million from Fiscal 2020 year end, but also an increase of $1.8 million from the prior quarter end. As we noted last quarter, proceeds from the offering net of issuance costs were about $30 million, and we also benefited from $4.9 million in proceeds from the exercise of options related to that Legacy ESOP plan.

The Company has a secured line of credit which provides for advances up to $10 million dollars in U.S. terms or $12.3 million in Canadian dollar terms, all of which is still available, and we have an additional US$3.5 million available through a term facility. Between cash on hand, capacity on a revolving line of credit, and availability on existing term facilities, we ended the quarter with liquidity of $64.2 million.

Total assets at quarter end were $94.7 million and total liabilities at quarter end were $26.7 million. In terms of financial liabilities, we have $3.6 million outstanding divided between a term facility outstanding with Silicon Valley Bank and proceeds from a forgivable loan related to the Paycheck Protection Program or Section 1102 of the Cares Act which is sometimes referred to as PPP. We did recently receive word from the Small Business Administration that they have confirmed the original PPP loan amount and they are in agreement with our forgiveness calculations. We hope to hear even more positive news in the near future.

As was the case last quarter, 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. Based on the strong performance in our first six months, our guidance for full year maintains—remains between $93 million and $94 million.

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

Operator

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Your first question will come from Robert Young with Canaccord. Your line is open.

Robert Young

Hi. Maybe I'll start at the guidance that you just finished off with there, Dan. The guidance range, $93 million to $94 million, you're not changing, but the FX headwind, are you saying that maybe the business is performing a little bit better than you expected but that's offset by the FX so far this year, or are you saying that you're basically—you have the same view that you would have at the beginning of the year and FX might be a bigger headwind than originally thought?

Dan Rabinowitz

Well, I think your first comment is on point here. Yes, we have the headwind of FX, but we've been able to overcome it in the first two quarters. We believe we're going to maybe be able to overcome it for the next two quarters as well, so our guidance is not changed.

Robert Young

Okay. Great, and then the strong gross margins, you already talked a bit about that. Despite the headwind from FX, still very strong gross margins, so now that you're adding in Hub, which, my perception would be that that might be a higher margin product, correct me if I'm wrong there, but I think you said that there's no further upside likely. Should we be thinking of gross margin coming down despite the fact that Hub is coming into the business?

Dan Rabinowitz

Well, that's an interesting question. We're doing our planning. We are surprised by the level of gross margins that we've been able to experience over the last, let's say, six quarters. In our internal planning, we never plan gross margins at this level. Again, I think our supply chain professionals have been outstanding as of late. Certainly migrating the sources of supply during this shortage, this global shortage, and despite price increases that we've been seeing in certain componentry, we've been able to increase our margins. If Hub is a home run gangbusters, there is a potential for it to change our overall gross margin, but we believe at this juncture that the gross margin is going to be relatively stable from here out.

Robert Young

Okay, and when you say stable, somewhere maybe at this level 76, 78? I think that would be a little bit higher than the beginning of the year. I'm thinking 75, 76 like at the beginning.

Dan Rabinowitz

I would not go to the 78 level. I'm actually surprised at the 77 level, but the 76 level might be more appropriate for us.

Robert Young

Okay. Great.

Miroslav Wicha

Robert, I would also just add some more color, again, from the Hub. Again, just general availability just started, right? We've got some good clients using it, but it's not really going to make a major impact on

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our business until later in 2022, right? Basically we're right now halfway through Q3, so it's really going to be a 2022/2023 effect from a revenue perspective.

Robert Young

Okay, so maybe last question and I'll pass the line, is just maybe we can talk about the sales funnel on Hub. If meaningful revenue is—it looks like it's a few quarters out, maybe talk about the interest you're seeing, maybe what the pipeline looks like, and I'll pass the line.

Miroslav Wicha

Well, at the moment, the thing is we've been doing a lot of trials in the field globally which has gone very well, and we've had people actually exercising the product for quite a while and we feel very strongly that it's not only ready for prime-time, but it's actually ready to really go gangbusters. I would expect that that sales funnel will start growing later this quarter into Q4, but I really don't have any good quality numbers to be able to give you at this time, and that's why I'm thinking that it's really going to be—this is really going to be a planning session for us in the next three to five months. It's really going to be a 2022 type of a plan, but I—probably the next release, our next earnings release, we might be able to talk more about it.

Robert Young

Okay. That's fair, and did you share any information on the pricing model for Hub?

Dan Rabinowitz

Yes. No, we definitely—we announced the pricing for that and I know you're going to ask me what it is and I'm going to say I don't know, but yes, we did an ounce all the pricing and into the market. We did all of our internal training, external training, partner training, so that's all out there. It's on the web.

Robert Young

Okay. Great. I'll look into that. Thanks. I'll pass the line.

Operator

Your next question will come from Kevin Krishnaratne with Desjardins. Your line is open.

Kevin Krishnaratne

Hey there, good afternoon, gentlemen. Congrats on a good quarter, on the top line coming in a little bit better than you expected, as you as you mentioned. In the MD&A, you point to an increase in overall economic activity, but you do mention there some of that may be related to COVID-19. I'm wondering if you could dig into that. Are you are you seeing different use cases? How have you been seeing COVID-19 impacting business? I just wanted to ask the question since it's called out in the MD&A.

Dan Rabinowitz

Well, if we go back, at the beginning of the pandemic, obviously there was a tremendous amount of uncertainty amongst broadcasters out there and we do have specific examples of solutions that we were able to offer up to help some of these broadcasters during the pandemic. Great example of that is one of our long-standing clients, the NFL, who we've done business in the past, including the remote officiating system that they're using on the field these days, but they had a different channel challenge during the

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pandemic. They were trying to put on a virtual draft and they didn't have the resources or the technology to be able to do that, so they came back to their old partner, Haivision, and we were able to assist them in that.

We've seen similar workflows generated by other sports companies, other broadcasters out there, and so it would be unfair for us to say that we were not the beneficiary of some additional economic activity as a result of the pandemic.

Now we're still seeing a very robust market, particularly in the broadcast vertical, for us. Is that related to the pandemic this today versus where it was about a year ago? It's hard to say, but it's still—we still see strong demand. As Mirko pointed out, we're seeing 17% increase in revenue year-over-year in the first six months.

Kevin Krishnaratne

When you think about that overall 17% growth rate, is there—do you see any broad big differences between the three different verticals, government, media, and enterprise?

Dan Rabinowitz

Mirko, you want to take that one?

Miroslav Wicha

Yes. No. Actually, it's the—the enterprise is actually starting to pick up a little bit. We're seeing some movement there. That has been lower in the last year for us, just because of the pandemic, but we're still seeing our broadcast markets globally are very, very bullish and that hasn't stopped. It was very strong before the pandemic, it's very strong during pandemic, and is still strong today. I don't think that's going to stop. I think our broadcast—the products that we deliver in the broadcast area is going to continue for quite some time, so that's actually been very good for us.

On the defense side, we see it's been a massive growth in our international more so than the U.S. I find the U.S. market is a little bit more mature. We started that long time ago, it's still doing well, but if you saw our international numbers growing over the last three, four years, one of the main reasons is our ISR defence has really gone well, so that's still on a roll. That's not stopping anytime soon, and if I look at internationally, we also see a pretty robust broadcast together with that. That's why international has been growing faster. But overall, nothing has really—we haven't seen anything even change.

From before, during, or right now in our business, it's growing. I think we're gaining market share. I think people are attracted to our solutions even more so because people now want even more remote anything, whether it's remote production, whether it's a remote cloud production, doesn't matter. People just want that type of technology.

I would say what's happening lately that's also playing into our wheelhouse is the security vulnerability, cyber-security, all that kind of stuff, where people are looking more for secure streaming and looking at certified certifications based systems that can help them control their security, and I think that's something that we're not only very well-versed in, but we've been playing in that for many, many years, so I think that's going to play very well for us for the next few years.

Kevin Krishnaratne

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Okay, that's amazing color, Mirko. Thanks a lot for that. I have a question on sales, a two-part question. When I look at the sales and marketing expense item, Q over Q, it was down. I'm sure there was some element of FX there if you're thinking about the sales tax they might have in the U.S. I'm just wondering if you can comment on the tick down quarter-over-quarter?

Then just more broadly, thinking about the sales strategy. I thought it was interesting. You made the commentary on some of the partnerships that you've struck with Abbott and EVS, so can you talk about the partner strategy? I know typically you talk about partner strategy distributors that you use, but thought it was interesting that, in a way, if you go together with other tech vendors, you're leveraging their sales force as well to get a sale done. Just broad thoughts there, number one, just on what happened in the quarter on the sales and marketing line, and going forward, how do we think about the partner strategy for your sales?

Miroslav Wicha

Let me tackle the partnerships and then Dan can maybe talk a little bit about the Opex shifting. We've seen partnerships being very strategic to Haivision from our inception, right? The only way we could see ourselves scale is through partners, right? Whether it's a channel partner, it's an integrator or it's an OEM or whatever. We have probably over the last five years got more and more involved from a direct touch sale working with our partners or the end users to make sure that Haivision is the technology of choice, but we tend to fulfill through partners, so partners' always been important.

Now, we've taken a real big next step in that the technology partnerships that I mentioned, again, these are very new, but these are going to be, in my opinion, very, very strategic for the next couple of years, and you look at people like Abbott who have a massive sales infrastructure in cloud editing and remote editing, they need massive ingest points into their media central systems and guess what? Them choosing Haivision is huge, right? Yes, you're right. That expands our reach on selling a ton of potential edge devices, and it's just taking off, so that's important. We want to leverage those type of partnerships, and the same thing with EVS. These guys are in real time replay review systems and they also need these ingest contribution points, so that's exactly what we're focusing on, is these partnerships where they need what we do and we're actually using the SRT as the glue for that.

The beauty of the SRT initiative has actually put us in this position, right, over 500 companies now embracing SRT. Well, we know how to do SRT very well throughout all of our products, and that, again, gives us a little bit of a leverage in working with all of these partners, but we do what we do best and we let the partners do what they do best and the combination is amazing, and that is how we're going to scale, and there's a few other partnerships that we're working on, but that's what's going to help us scale much, much faster than just being ourselves organically, if you know what I mean.

Kevin Krishnaratne

Yes. Got you.

Miroslav Wicha

Dan, do you want to do the …

Dan Rabinowitz

I think that my—the comment that we were making before is that the sales and marketing expenses, and for that matter, the support and operations have remained relatively flat. Interestingly enough, if you were to tear apart the details of these things, we did actually see salaries go up in those two areas as we

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continue to invest in our sales expansion and what have you, but where we're seeing some offsets is in travel, significantly in travel, and a shift in the way that we're marketing. Typically, in the first six months of this year, we're going to—we would be participating in some of the bigger trade shows. Without that happening last year, or for that matter this year as well, we've had to change or shift our focus to more of a digital marketing focus that has ultimately provided us equal levels of leads, or even higher levels of leads, without the same level of expense. We didn't really see sales and marketing going down. If anything, it stayed steady, increased salaries offset by decreases in travel and marketing.

Miroslav Wicha

(Inaudible) Kevin, but just a point. When we were planning our budgets, right, and remember, we planned that a while ago for 2021. We also expected that we would be starting traveling sooner than we are, right? This was back in last fall, so we really did anticipate that by this time or even our Q2, that we would have already been showing some level of business travel. That's not happened, so we've definitely been saving money there, but we are seeing it now, it's going to be changing, so we're going to be back on and for sure in Q4, and we're going to see some of it already in our Q3 where we're going to be more to our budget originally.

Kevin Krishnaratne

Okay. Okay, understood. Maybe just the last question for me. It's leading off on part on the second question that I asked there, on the new logos that you mentioned. There's a lot of new logos that you mentioned there. I'm wondering, you talked about—how do we think about the exposure that those new logos are coming from a partner? You talked about how part—you're relying more and more on partners, and that definitely is a big strategy of yours, so are many of those logo wins as a result of a partner? Are you able to break down, 75% of the growth came from partners, the other 25% came directly from us? Do you have any metrics on that?

Miroslav Wicha

Well, I don't have the exact metrics for all of the new logos because there's actually quite a bit. I only picked seven but out of those I can tell you right now it's a very significant high percentage are through and with partners. I think there's one I know for a fact that is a direct because it's a managed services, but all the others are with partners, so it's us working very closely and fulfilling through the partners.

Kevin Krishnaratne

Yes, awesome, and then just on that, it was really, really nice to see the breadth of products, product wins that you mentioned with those logos. How do we think about where those wins are coming from? There's so many of them, but I'm just wondering your broad thoughts on competitor displacements, are these greenfield, if they're competitive, what's enabling you to win those deals? Because it was quite impressive.

Miroslav Wicha

You're asking me if we're competitive—how we were competitive?

Kevin Krishnaratne

Yes, how are you—the new logos you're winning. Were they competitor displacements, i.e., were—was the logo using a competing encoder decoder system that you went in and were able to replace or is it brand new use cases? How do we think about how you're getting these wins?

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Miroslav Wicha

Now, that's a great question. Honestly, I don't have the sensitivity to each deal. Honestly, I can easily get that. At the moment, if I look at—most of our deals that we do in the field tend to be very competitive anyways, but I can't really give you the data whether these are new installs only versus replacements, so I don't have that data for you. Sorry.

Kevin Krishnaratne

Okay. No worries. Thanks again for taking the questions, I'll pass line.

Operator

Excuse me, Speakers. I'm showing no further questions at this time. You may proceed.

Miroslav Wicha

Perfect. Well, look, thank you, everybody. Really appreciate your time and effort to dial in. Really excited that this is actually our third earnings release since going public, so we're very happy to be keep knocking and knocking it out of the park, and looking forward to the next one, and look forward to seeing you in—I guess this will be probably in September after our Q3 call. Thank you, everybody. See you then. Bye.

Operator

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

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