Haivision Systems Inc.

TSX:HAI

Earnings Call

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Call Participants

EXECUTIVES

Dan Rabinowitz
CFO, Secretary & EVP of Operations

Miroslav Wicha
Chairman, President & CEO

ANALYSTS

Daniel Rosenberg
Paradigm Capital Inc., Research Division

Nick Corcoran
Acumen Capital Finance Partners Limited, Research Division

Robert Young
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Presentation

Operator

Hello, and welcome to the Haivision Fourth Quarter and Fiscal Year 2023 Earnings Call. [Operator Instructions]

I will now turn the conference over to Mirko Wicha, Chairman, CEO and President. Please go ahead.

Miroslav Wicha
Chairman, President & CEO

Thank you, [Zong Lee], and good afternoon, everyone. I'd like to thank everybody for joining us today to discuss our fourth quarter results and the full fiscal year 2023 results, which ended back in October 31 of last year.

As demonstrated by the results we announced earlier today, demand for our products continues to be strong, and our business fundamentals have never been better. We achieved a strong Q4 revenue of $35.7 million as we continue to deliver top line growth. Now this, let's not forget, is inclusive of the revenue reduction we took because of exiting the house of worship vertical. And as a reminder, from our previous quarter earnings call, we pulled in at $2.5 million U.S. government programmatic deal from Q4 into Q3. Now, given those 2 events, delivering $35.7 million in Q4 was a pretty good performance.

Now, our gross margins for Q4 were also extremely strong at 74.4%, and Dan will talk more about that from last year's Q4 level of 68%. And it's also the first quarter showing our operational performance potential since the last 2 acquisitions.

We delivered an adjusted EBITDA of $5.7 million for Q4, which represents a 15.9% operating margin, which is important, and this is compared to last year's Q4 adjusted EBITDA of $4.9 million or 13% operating margins.

Now, on an annualized basis, I'm happy to report we achieved a record annual revenue of approximately $140 million, which represents an 11.3% growth over the previous year. And again, this is inclusive of the revenue reduction of the house of worship vertical that we have now completely exited from. Now, if we normalize for the reduction of the house of worship revenue, our growth was actually 16.1% year-over-year, so pretty, pretty good. As a result, our adjusted EBITDA margins for the full year grew to 10.6% from 6.4% in the previous year. And it should be noted that we still had several quarters in 2023 that included costs in our P&L that will not appear in 2024. It really shows that we have turned the corner of our acquisition strategies and are demonstrating our true earnings potential as promised.

I'd like to finally say for the full year 2023, our adjusted EBITDA was $14.8 million, representing an increase of 83% from last year's performance. But, again, demonstrating what we have been saying all along, that we will show a much higher increase in our profitability going forward, and we expect this trend to continue for 2024.

As we have been saying over and over and over, we are moving quickly toward achieving our goal of delivering 20% EBITDA performance. Now, we think that given our previous Q3, now our Q4 performance, everyone should have more comfort that this is going to happen sooner than later.

Now, in 2023, we have also seen a more balanced and consistent quality performance. In fact, remember, Q1 we did $34 million, Q2 we did $35 million, Q3 we did $35 million, and Q4 we delivered $35.7 million. Pretty consistent. I expect this to continue into 2024, as we are actually finding that our 3 main verticals: our defense, broadcast, and enterprise, balance each other out globally and give us better business predictability. And we have also seen the U.S. government slowly moving to the multi-quarter purchasing cycle, and not only depending on their year-end September-October timeframes, which always falls in our Q4. Now, the only unknown is, of course, the U.S. budget approval, the continuing resolution process, all bundled in for the unpredictable election year. But we'll be monitoring these very closely, although an election year has typically always been very positive for business.

Now, we have also been very successful in our SRT partnership and seen an increase in industry standardization around the SRT verticals we open-sourced almost 7 years ago. And a great example was when Haivision hosted the annual SRT InterOp Plugfest, with a new entrant, YouTube, who executed 2,257 individual device-to-device compatibility tests, really proving widespread industry adoption. So, something to be very, very proud of. Now, we continue to see strong demands for our global security operational centers within the global financial and banking industry, cybersecurity, police centers, federal installations, public safety, and all defense sectors. Now, the need to have real-time mission-critical and secure access to all the video sources and assets for real-time analysis or situational awareness is becoming even more paramount. And we are clearly the leading vendor delivering the entire contribution, distribution, and visualization ecosystem in these critical areas.

We believe that our company has a bright future ahead, and we are committed to maximizing long-term value for all [Technical Difficulty]. We are confident in our ability to execute our strategic plan and deliver continued growth and operational performance.

And finally, I'd like to say we're also excited to announce that TSX approval our NCIB, the normal course issuer bid. And we clearly believe our common share is undervalued, even with the recent 30% run-up. Our decision to initiate NCIB demonstrates confidence in our strategic plan and future direction of Haivision, and Dan will discuss this in more detail shortly.

I would like to say in closing that despite the economic headwinds and continued supply chain challenges we keep hearing about from other companies, I believe that Haivision has weathered the storm better than most. We expect our 2024 to be strong and consistent with our strategic plan, expecting to demonstrate good revenue growth with even a higher level of profitability than in 2023. And Dan will share our '24 projections and guidance during his remarks.

With this, I'll pass it on to Dan. Please go on.

Dan Rabinowitz
CFO, Secretary & EVP of Operations

Thank you, Mirko. Let's get into the numbers. As Mirko said, revenue for this fourth quarter just completed was $35.7 million, a modest decrease of the $2.2 million from the prior year, but there is more to the story. You might recall that the prior year's fourth quarter, that's our fiscal 2022 fourth quarter, revenue was $37.9 million, which in turn was a 40% increase from the prior year, our fourth quarter in fiscal 2021. We never anticipated to see tremendous growth over last year's performance. But last time we met, we also discussed that we brought in a $2.5 million programmatic opportunity that was staged for our fourth quarter into our third quarter.

Of course, that transaction would be at the expense of this fourth quarter. And as Mirko kind of alluded to, we did exit the house of worship market in April 2023. Last year, we had realized $2.2 million in cloud revenues versus only $200,000 in this fourth quarter. Revenues from maintenance and support, the nature of which is recurring revenue, continues to be a shining spot, having grown almost 30% in the quarter. All in all, we are very pleased with the level of revenue in this latest quarter.

Revenue for the full year just ended was $139.9 million, an increase of $14.2 million, or 11.3% from the prior year. Note that fiscal year 2023 results included AVIWEST performance for the entire year, whereas in the prior year, AVIWEST was only included for 7 months. On the other hand, fiscal year 2023 performance was also impacted by our decision to exit from the house of worship market in April of 2023. Said another way, cloud solution revenues declined by $4.7 million when compared to the prior year. The point that I'm trying to make is that, we saw organic growth from all our properties in fiscal 2023.

Recurring revenue, which we define as our cloud solutions and maintenance and support, was $6.7 million, or 19% of total revenue in this recent fourth quarter, and was $28 million, or 20% of total fiscal 2023 revenue. We anticipated that our recurring revenue would decrease once we exited the house of worship vertical. After successive quarters of decline, we are beginning to see our recurring revenue, as a percentage of total revenue, increasing again. And as I kind of mentioned, our maintenance and support revenue grew almost 30% for the year, faster than our overall revenue.

For this recent fourth quarter, gross margins were 74.4%, compared to 68% in the prior year comparative period. That represents a 640 basis point improvement from the prior year comparable period. Also note that this quarter's gross margins were yet another improvement from the 71.9% realized just last quarter, that was our third quarter of this fiscal year. And that same third quarter of this fiscal year represented an increase from the 68.9% realized in our second quarter of this fiscal year. Just to complete the thought, that same second quarter gross margin represented an increase from the 66.6% realized the quarter before that, our first quarter of this fiscal year. We have discussed gross margin expansion in previous calls, but to put an exclamation point on the matter, margin expansion resulted from firstly, our exit from the house of worship business, as the vertical was a below the average performer in terms of gross margins. We believe that initiative in it of itself resulted in approximately a 200 basis point improvement in margins each quarter since our exit in April 2023.

Secondly, our supply chains are reverting to more typical delivery schedules and more typical pricing. In this quarter that's just ended, as an example, the additional costs for these difficult to procure components was rather de minimis, well under $100,000. And on a year-to-date basis, the additional costs for this component was approximately $950,000, or representing about 100 basis points in our cost of goods sold. The good news is that, the extra costs incurred in fiscal 2023 were approximately half of the costs that we incurred in fiscal year 2022, a year in which the gross margins were being impacted by almost 200 basis points. We do expect these extra expenses to continue to dissipate with the impact to this fiscal year's results being approximately half of the expense incurred in fiscal 2023.

Lastly, we have completed our migrations of ERP systems at both MCS and AVIWEST. So our supply chain folks have more visibility to inventory levels, manufacturing forecasts, and purchasing methodologies at both MCS and AVIWEST. This represents a bit of a greenfield opportunity for further improvements. With that said, and as has been suggested on past calls, our fourth quarters are commensurate with the U.S. government year-end, and we are typically the beneficiary of higher defense spending. This quarter, just completed, is no exception.

Thus, the quarter's mix of revenues included a higher percentage of legacy products, which historically operate at a higher overall product margin. Although we do have opportunities for additional improvements in gross margins, particularly related to the amount of difficult-to-obscure inventory consumed in fiscal 2024, and added visibility and control of supply chains, it's the mix of revenues in the next few quarters that may change our gross margin composure. The result of it is that, we may see gross margins in the near-term and/or midterm reflect the fact that a higher proportion of our revenues are coming from AVIWEST products and MCS products than we had just incurred in our fourth quarter. These gross margin improvements are real, and we should realize the benefits in fiscal year 2024 and beyond. Any variances are likely going to be related more to mix.

Total expenses for this third quarter -- this fourth quarter, excuse me, were $22.9 million, $22.9 million. That's a decrease of $3.2 million when compared to the prior year comparative period. Even more noteworthy is that, the quarter just ended included certain performance-based compensation expenses that were not incurred in the prior fiscal year and may not happen in 2024. Much of the decrease in total expenses is related to the restructuring costs of $2.3 million that were incurred in the fourth quarter of our prior year. However, we have essentially completed the restructuring exercise that was initiated in that fourth quarter of fiscal 2022 and completed in the third quarter of fiscal 2023. At the end of this last quarter, we had 359 employees compared to 393 employees at the same time the prior year. Also note that year-end headcount was down from the 374 employees at the end of our previous quarter. That's our third quarter.

What is really exciting about our fourth quarter performance is that, most of the noise related to restructurings and acquisitions is behind us. And this recent fourth quarter provides a sense of the earning potential of the business. And there may be opportunities for additional OpEx savings in the first quarter of 2024.

For the fiscal year, total expenses were $97.4 million. That's an increase of $5.8 million when compared to the prior year. Again, year-over-year comparisons are still impacted by the timing of the AVIWEST transaction. The AVIWEST transaction was consummated in April of 2022, which implies that AVIWEST's cost structure was only represented for 7 months in fiscal '22 versus 12 months in the year just ended. But if we were to focus on the $5.8 million increase year-over-year, compensation-related expenses added approximately $3.8 million, much of which can be attributed to the 5 additional months of compensation paid based on the timing of the AVIWEST acquisition.

Remember, the acquisition added approximately 80 people to our organization in April 2022. Depreciation and amortization expenses increased by $1.4 million, again, largely the result of the timing of the AVIWEST acquisition. Travel expenses added an incremental $1.5 million, partly related to the timing of the AVIWEST acquisition, but more related to the growth in MCS that we are seeing. And then, of course, the Canadian dollar exchange rate impact on the U.S. dollar-denominated assets and liabilities added an incremental $1.5 million to total expenses when comparing this year to last year.

On the other hand, we did successfully reduce our use of independent contractors for our R&D initiatives by about $1.5 million, which was really part of our restructuring initiatives. And restructuring costs in fiscal 2023 were $800,000 less than the fiscal year just completed. I'm sorry, $800,000 less in this fiscal year just completed when we compare it to the prior fiscal year.

The results of the better gross margins and a decrease in OpEx was an adjusted EBITDA for the quarter of $5.7 million. That's an increase of $800,000 or 15% when compared to the prior year comparative period. By now, I think we can all agree that we've been conveying our perspective that third quarter would be a turning point for Haivision. And the adjusted EBITDA margin for the quarter just completed was 15.9%. This adjusted EBITDA margin compares quite positively to the 12.4% in the prior quarter. That's our third quarter of fiscal 2023. And compares positively to the 7.5% in the quarter prior to that, our second quarter of fiscal 2023. We have made slow and steady progress to reach our goal of 20% adjusted EBITDA margin. And I believe now you are beginning to see the full benefits of the restructuring plan.

We still have additional the opportunity to increase adjusted EBITDA margins. We may continue to see modest increases in gross margins as we absorb the remaining higher cost componentry and we apply our supply chain tools to AVIWEST and MCS since they are now on a common platform. We should also see additional decreases in compensation expense in the near term as we will likely not have the same outsized obligations related to performance-based compensation that we had in 2023. Although our fourth quarter has been traditionally our largest quarter and as such, our most profitable quarter, that seasonality pattern is less true as the Department of Defense and the U.S. government is tending to buy our gear more ratably throughout the year. Further, MCS and AVIWEST seasonality seems to mitigate the fourth quarter seasonality of our legacy business. But despite all of that, we still believe that our fourth quarter performance is a true indicator of the earning potential of the business.

Adjusted EBITDA for the full year was $14.8 million, an increase of $6.7 million, or 83% when compared to the prior year. Adjusted EBITDA margin for this full year was 10.6% compared to only 6.4% for the prior year comparable period.

I should mention that we also saw significant improvement in the net income for the quarter. The net income this quarter was $2.5 million compared to a net loss of $1.1 million for the same time last year. That represents a $3.6 million improvement. So quickly, the improved gross margins were more than able to offset the modest revenue differences year-over-year, generating incremental gross profit of $800,000. And that incremental gross profit was further benefited by $3.2 million decrease in total expenses. On the other hand, income tax costs an incremental 500,000.

For the full fiscal 2023, our net loss was only $500,000 compared to a net loss of $6.3 million for the prior year. This $5.8 million improvement is largely related to the $14.2 million incremental revenues and improved gross margins that resulted in an incremental gross profit of $10.3 million. Now, this incremental gross profit was offset by increases in expenses of $5.8 million and increases in income tax by $900,000. Overall, pretty good performance.

With respect to the balance sheet, we ended the quarter with a cash balance of $8.3 million, a modest increase of $800,000 from the prior quarter end. However, we also ended the quarter with only $4.7 million outstanding on the credit facility. That's also a reduction of $900,000 from the prior quarter end, but it's a $6.5 million reduction from the beginning of this fiscal year. Total assets at year-end were $144.1

million. That's a decrease of $4.5 million from the prior year-end. But this decrease in assets can be attributed to a $4.2 million reduction in intangible assets.

Now, just on the side, we amortized $6.8 million in intangible during the year, but the impact of the amortization was offset by exchange rate impacts on those same assets. We also decreased inventory levels by $2.1 million. Again, that was an initiative that we spoke about in the past and has been a focus much of the year. We reduced right-of-use assets by $1.5 million, and there was a modest reduction in trade and other receivables. Now, these decreases were offset by the $2.5 million increase in our cash balance this fiscal year and $1.5 million or $1.6 million increase in tax credits receivable.

The story on the liability side is even more compelling. Total liabilities at quarter end were $49.9 million. That's a decrease of $8.4 million from the end of fiscal 2022. This decrease in liabilities during the year include $6.5 million decrease in the line of credits, $1.8 million decrease in the purchase price payable related to the AVIWEST transaction, $1.4 million decrease in restructuring costs payable, $1.4 million decrease in lease liabilities, and $900,000 decrease in term loans. These 5 items themselves represent a reduction of liabilities by $12 million. Now, these decreases were offset by $3.3 million increase in deferred revenue. This 30% increase in total deferred revenues is commensurate with the approximate 30% growth in our maintenance and support revenues that we spoke about before.

So, with respect to the remaining integration plans for AVIWEST, we have completed the move of AVIWEST to a common accounting system. We completed AVIWEST's move to a common ERP system. And with this enhanced visibility AVIWEST inventory, we hope to increase the flexibility of AVIWEST's supply chain and reduce product costs to increase gross margins. Our focus in the near term is to sell more AVIWEST products in North America, and we're well on our way.

At Haivision MCS, progress has accelerated. We have fully integrated development teams. We have fully integrated production capabilities, and we have migrated MCS ERP system and accounting system to common platforms. Our focus in the near term is to sell more MCS products internationally.

In terms of expectations for fiscal 2024, first of all, our revenue guidance for the full year factors in our exits from the house of worship vertical in April 2023. We are projecting revenues for this fiscal year to be between $145 million and $150 million. We also expect to see continued expansion of our adjusted EBITDA margin as we take advantage of the recent restructuring and the synergistic opportunities. Thus, we anticipate adjusted EBITDA margins in the mid-teens, and we still anticipate seeing 1/4 of this -- in this fiscal year knocking on the door of our long-term adjusted EBITDA margin of 20%.

Since we believe this fourth quarter just completed represents a bit of a watershed event, we wanted to manage first quarter fiscal 2024 expectations as well. Typically, we see first quarter revenues being down from the prior fourth quarter, which was the case in most -- in this most recent first quarter, first quarter 2023. We will likely see something similar this year, again, mitigated for the seasonality that we expect to see from MCS and AVIWEST. The revenue mix will likely be more slanted towards our MCS and AVIWEST products, as MCS' and AVIWEST' revenue tend to be strongest at calendar year end. The result is that, we will likely see lower gross margins due to mix. However, the revenue difference and the gross margin difference will likely be overcome by additional reductions in total expenses.

So that really concludes my prepared remarks. I'm going to pass the microphone back to Mirko, and then we will open the floor to questions.

Miroslav Wicha
Chairman, President & CEO
Thanks, Dan. Actually, I think we'll just open up for questions, and I'll close up after that. So who's going to line up the questions?

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Nick Corcoran of Acumen Capital Partners.

Nick Corcoran
Acumen Capital Finance Partners Limited, Research Division

Congrats on the strong quarter and end of the year. Maybe just thinking about your guidance for fiscal '24, can you maybe talk about how we should think about the growth by end market?

Dan Rabinowitz
CFO, Secretary & EVP of Operations

I'm not sure I have that much visibility. Mirko, is this something that you can speak to, or...

Miroslav Wicha
Chairman, President & CEO

Yes, it's a tough one. We don't really -- I don't think we're ready to say exactly per market. I mean, at this point, I would say, if I was going to take a stab at it, honestly, I think our biggest growth for next year is going to be probably in the Command 360 and the enterprise and defense space. And I think broadcast is also showing some good because it is an Olympic year. But we don't...

Dan Rabinowitz
CFO, Secretary & EVP of Operations

And an election year.

Miroslav Wicha
Chairman, President & CEO

Well, and an election year, but that's the unknown right now. But I haven't seen an election that hasn't been positive for business ever. So I don't expect it to be a negative. But the only thing that I'm concerned about is this whole continued evolution and the whole budget nonsense that keeps kicking down the can down the road. I don't see -- I don't think they're going to freeze the budget, but you just never know. And that could affect every company that deals with the government, right? So at this point, I'd rather not break it down by market. I think overall, we feel very confident because of these 3 markets and how it actually spins out at the end. It's probably too early to tell.

Nick Corcoran
Acumen Capital Finance Partners Limited, Research Division

That's fair and great color. And you spoke about cross-selling MCS and AVIWEST products into other geographies. How successful have you been to date? And what should we see in fiscal '24?

Miroslav Wicha
Chairman, President & CEO

Yes, no, good question. Actually, I'm very pleased on the progress that we've done in the international expansion and business development investments for the Command 360 space. It is a long-term cycle. Let's not forget that. So we're really building for '25, '26, and '27 and beyond. But we've hired people, we've got people in place. We've actually closed several really good deals last year in international. We've got a great pipeline. So I'm very pleased on how that's progressing.

I'd say on the other side, on the broadcast side, from the AVIWEST side, we are actually really jump-starting this year. We're working on the rental program we've launched. We're looking at a long-term leasing program. So probably a little slower than I wanted to, but I think there's some good progress that we're doing this year. So I expect both of those to really show some fruit in 2024.

Operator

Your next question comes from Daniel Rosenberg of Paradigm Capital.

Daniel Rosenberg
Paradigm Capital Inc., Research Division

Congrats on a strong quarter. My first question was just around the trend of recurring revenue. I was just wondering how much visibility do you have on recurring versus the more transactional revenue? How far can you see into the year?

Miroslav Wicha
Chairman, President & CEO

Dan, do you want to take that?

Dan Rabinowitz
CFO, Secretary & EVP of Operations

Well, I can -- yes, I can kind of speak to parts of it, right? So recurring revenue, maintenance and support, that gives us some visibility, and I believe we did around $25 million last year in such maintenance and support. And that tends to be a bit of a machine these days. And we get the benefit of the renewal. So we're happy to see that the growth in that area is exceeding that of the growth of our product sales specifically, because it demonstrates that we're not losing people who are maintenance and support contracts. So we're seeing 20%. That's a firm answer.

The house of worship business or the cloud business is a little bit -- it's a smaller business right now since we got rid of the house of worship vertical. And so, I don't have a tremendous amount of information about it. But I think there's another element of this that we need to discuss, and that's this programmatic business. These are long -- these are larger sales with multiple installations that span years. And so, we get the benefit of knowing that this is going to come in next year, this is going to come in the following year, this is going to come in the year after that. And there has been 2 examples that we keep up and pointing to demonstrate this. One is, with the Navy, where we've been retrofitting all of the ships as they come into dry dock every few years for upgrades and updates. That's a program where we've replaced ourselves a couple of times, and that has been the gift that keeps on giving. And we hope to be able to even get into the next version of revamp on that as well.

The other example is the State Department. We're replacing every State Department's video infrastructure system with our technologies, and we are deploying that 20, 30 at a time per year. So that gives us some visibility as to what's going on. This is also a true dynamic of our MCS business. Once we get into some of these financial services organizations or these larger companies, they have multiple control rooms across the world, and they want to settle on a single vendor. And once we get in there, it's a land and expand, and that generates incremental revenues for the foreseeable future. We probably need to spend a little bit more time assessing what it is, but historically, we had visibility to do as much as 60% of our revenue. Maybe it's about 50% now when we don't have house of worship to look at, but it's a significant piece of our business is known at any given point in time.

Daniel Rosenberg
Paradigm Capital Inc., Research Division

Okay. I appreciate that context. It was great to see the balance sheet really strengthen significantly in the quarter. And I saw the NCIB mentioned in your statement. So I was just wondering how aggressive do you intend to be with the NCIB, given where shares are, or other uses of capital for that matter, just your comments on that.

Dan Rabinowitz
CFO, Secretary & EVP of Operations

Well, I mean, I think our design -- the reason for the NCIB is to provide support for a thinly traded stock. We have seen some movement in the stock. I think people are finally listening to the Haivision story, even though we've sort of been pounding our chest for the last 3 quarters, that this is a real story that's got legs and that you ought to hang on if you want outsized returns. This run-up has happened in the last 3 or 4 days. So I really -- we have to sort of rethink about what our strategy is going to be, but it is there for us to provide support. It is there for us to demonstrate that we believe the shares are undervalued. And we're looking forward to being able to sort of bring some value to all of our shareholders as a result.

Daniel Rosenberg
Paradigm Capital Inc., Research Division

Okay. And just last one for me, a bit of housekeeping. I just didn't quite hear clearly the guidance. I heard the top end was $150 million, but I didn't hear the bottom end.

Dan Rabinowitz
CFO, Secretary & EVP of Operations

What I said is that, we expect for the full year, our adjusted EBITDA margin to be in the mid-teens. Usually, when I say mid-teens, that's just over 15% mid-teens. But there's some variability to that. And I still believe that we are going to be knocking on the door of 20% in at least one of the quarters coming up.

Daniel Rosenberg
Paradigm Capital Inc., Research Division

And then on the top line on revenue?

Dan Rabinowitz
CFO, Secretary & EVP of Operations

The range that we're giving is $145 million to $150 million.

Operator

[Operator Instructions] Your next question comes from the line of Robert Young of Canaccord Genuity.

Robert Young
Canaccord Genuity Corp., Research Division

Maybe just first question on EBITDA margins quarter-over-quarter. I think you said that EBITDA margin expansion, I think that's a full year comment. But you said gross margins should be weaker in Q1, offset partly by OpEx. I'm just trying to understand the cadence of gross margin expansion through the quarter, maybe how that affects Q1 EBITDA for modeling purposes?

Dan Rabinowitz
CFO, Secretary & EVP of Operations

Well, look, so we've seen over 600 basis points improvement in gross margins from a year ago to where we are today. And most of that is specifically related to things that you can clearly see. Again, the high-priced components that we had to purchase and the exit of the house of worship business. Those are known, those were forecasted. We kind of gave everyone an expectation of what -- how that was going to impact gross margins. The third, having more control and visibility to supply chains at AVIWEST and MCS is a little less specific, clearly opportunity. We got some of the best people in our organization working on these things here. And so, there is possibility for opportunity.

What I wanted to try and convey is that, first of all, I'm not -- I don't expect to see tremendous gross margin expansions from what we saw in the fourth quarter. That's number one. That's a big number that we have there. Can it happen? It sure can happen, but I don't want that to be the expectation that we're going to be seeing 1 to 2 point improvements for the remainder of the year. In fact, I'm kind of suggesting to you, given mix, we'll likely see a decline in gross margins for no other reason than mix. So I don't want anyone to get alarmed that the margins are going to be, give or take, from the levels we are today, but it's all based on mix.

What I'm trying to suggest is that, our cost structure for our fourth quarter is pretty sound. We spent a lot of time making sure that our fourth was as clean as could be so that we could demonstrate to everyone that the business does generate 20% EBITDA margins at scale. I think we've done that. I think that you'll see in our first quarter that our expenses will be somewhat less than our fourth quarter demonstrated for compensation reasons and so on and so forth. So any shortfall from fourth quarter revenue or any shortfall in the gross margin that might happen due to mix likely will be overcome through additional savings in OpEx. That's the message I'm trying to convey.

Robert Young
Canaccord Genuity Corp., Research Division

Okay. I mean, if I parse all that, I guess, it still sounds like you think that there's chance for EBITDA margins to expand quarter-over-quarter in Q1. I think I just -- sorry to ask that question again, I just want to make sure I understand it correctly.

Dan Rabinowitz
CFO, Secretary & EVP of Operations

Well, if you're asking me whether our first quarter 2024 is going to be better than our first quarter 2023? Absolutely. I mean, we only generated EBITDA of $2-plus million, whereas we just finished $5.7 million, right? So I'm sorry first quarter 2023 with $2.1 million, we're certainly going to be doing better than that. We're probably going to be looking and feeling more like fourth quarter than any other quarter.

Robert Young
Canaccord Genuity Corp., Research Division

Okay. Okay, that's helpful. And then a little bit of commentary on the election activity typically driving positive opportunities for [indiscernible]. I'm trying to understand that, is that related to the broadcast business? Or like does it create opportunities in the government military business? Maybe you could just give it a little -- maybe a little more insight into that. My sense might be that it might cause some government spending. And so, maybe you can correct me my understanding there.

Miroslav Wicha
Chairman, President & CEO

Yes, very good question because there's multiple markets being involved here. I was more referring to government spending rather than what broadcasters think because it's election year they're going to sell a few systems. That's to me much smaller piece, where most of our broadcast business is all about live sports, right? And some live news, but that's -- I was more referring to the election year, but also referring to potential non-passage of budgets to run the government and the government shuts down, right? And we've seen what happens with that previously. So that's my only concern. I don't believe that's going to happen during the election year but then, you know what, given what's going on in the U.S. at this point, who knows what's going to happen. So that was my only comment is the government spending, remember we're doing a lot of government business, government enterprise business, government defense business. And that's a big piece of the business, right? So should that take the wrong turn? That's the only thing I'm really worried about for next year.

The good news is, it's an election year. And I don't think we've ever witnessed a negative hope that -- I don't think I've ever said negative consumer business year in an election year ever. So -- but I have to say it anyways.

Robert Young
Canaccord Genuity Corp., Research Division

Okay. And maybe last question, another high-level one for you. Last quarter you had highlighted a lot of activity around cybersecurity. And I think you're tying it to government spend like local emergency, fire, police, et cetera. And I was -- can you maybe put a little bit of meat around that? Like are you still seeing that sort of demand around cybersecurity and maybe give us a sense of how you plug into that opportunity? And then I'll pass the line.

Miroslav Wicha
Chairman, President & CEO

Yes, absolutely. In fact, it's going gangbusters activity or not, everybody that we talk to guides a requirement, everybody is concerned about security. They have been for a while. We've been involved in this for a long time but we're seeing it exponentially in the enterprise space, not just government, not just defense, of course, but in the enterprise space whether it's banking, pharmaceuticals, oil and gas, everybody is concerned about security, cybersecurity and secure networks. And that's what we're all about. So the good news is that, that's the hot button. We're right at the top of that.

I mean, again, I appreciate these are long-term sales opportunities, right? So we're preparing, we're building, we're doing a lot of [business]. We're working with integrators, partners, shell partners, especially internationally to build that infrastructure out and possibly will take advantage of what I believe is going to be a huge market expansion in the next 5 years. So that's really the positioning of the [extensive] to the massive business but we're definitely -- that's not going to stop. And as we look at it from the defense side, unfortunately, or just way too many wars going on. I don't see that's going to change anytime soon. I think that's going to continue and that's actually getting more interest within the defense sector where they do need a mission-critical awareness, a decision-making capability and that plays right into our whole end-to-end piece.

Dan Rabinowitz
CFO, Secretary & EVP of Operations

If I could just fill in a spot here. I mean, I think everyone can get their head around what MCS' business are. You see a lot of TV programs where you see controls, lots of screens and lots of visualization and so on and so forth. Now, all of a sudden, there are enterprises who have control rooms focused on the cybersecurity threats. Let's take banks as an example. They are monitoring e-mails and they're monitoring networks and they're monitoring intrusions and they're monitoring everything. They're using our visualization systems as the means to capture and display all of that information in a single location to be on top of it at any given point in time. So I hate to say it, but cyber problems are part of the wind in our sails.

Operator

There no further questions at this time. I will now turn the call back to Mirko Wicha for some closing remarks.

Miroslav Wicha
Chairman, President & CEO

Okay. Well, thank you, [Zong Lee]. And I just want to thank all of our shareholders and, of course, analysts on the line today for their continued support of Haivision. And I really look forward to speaking with you in mid-March when we will be discussing our first quarter of 2024 results. So thank you, everybody. Thank you for listening, and we'll speak later. Bye.

Operator
This concludes today's conference call. You may now disconnect.