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Haivision Systems Inc.

TSX:HAI

Earnings Call

Thursday, March 14, 2024 9:15 PM GMT

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Call Participants

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Presentation

Operator

Thanks for standing by, and welcome to the Haivision First Quarter 2024 Earnings Call.

I would now like to welcome Mirko, President and CEO, to begin the call. Mirko, over to you.

Miroslav Wicha
Chairman, President & CEO

Great. Thank you, Mandeep, and good afternoon, everyone. Thank you for joining me and us, and Dan to discuss our most anticipated Q1 results of our fiscal year 2024, which ended on January 31. As demonstrated by the results we announced on the web earlier today, demand for our products continues to be strong and our business fundamentals just keep getting stronger, and we continue to deliver top line growth when normalized for our exit of the House of Worship business last year, our comparable Q1 revenue grew 6.5% over the previous first quarter, which is very encouraging when you look at the industry and see many companies struggling to show any growth.

Our Q1 gross margins were significantly higher than last year's Q1, going from 66% to 72.9%. We've been saying all along that we would deliver increased operational performance, and once again we did what we said we would do. We also delivered an adjusted EBITDA of $5.2 million, which represents, and I have to say a massive 145% improvement from our previous Q1. The impressive 14.9% operating margin was also the first time we've seen such an overall performance for our first quarter in any fiscal year. As a result, delivering such a high operating margin in Q1 is a significant milestone for the company.

And we delivered another positive earnings quarter of $1.3 million net income, a noteworthy increase over last year's Q1. Our overall results should help validate not only our business strategy, but echoes what we have been saying all along. In fact, we've exceeded what we've been saying for quite a while now, again demonstrating what we have been saying all along, that we will show much higher increase in our profitability and generate higher levels of cash going forward. And we expect this trend to continue throughout 2024. And as we've been saying over and over, we are moving quickly towards achieving our goal of delivering 20% EBITDA performance. And I think with our Q1 performance, it should give us more comfort that this is going to happen sooner than later.

Now, back in January last quarter, I commented on last year's almost even quarters throughout the whole year. However, it appears that 2024, being an election year in the U.S. could slightly change some of the government purchasing dynamics that we witnessed in the past 2 to 3 years, and we're actually already seeing some programmatic multiyear businesses moving -- the deals, moving between quarters, and will most likely this year make up our September U.S. government year-end, which is actually our Q4, the highest quarter in our fiscal year, once again, something we've been enjoying for many, many years. But in the last 3, 4 years that has been changing. Looks like we're going to get it again this year. So I'm sure given the hotly contested anticipated U.S. elections, everybody is going to want to make sure they spend all their money before the end of September, which is great for us, our year finishes October 31 as you all know.

We continue to see strong demand for our global security operations centers within the global financial banking industry, the cybersecurity, police centers, federal installations, public safety and all defense sectors; and the need for our customers to have real-time, mission-critical and secure access to all their video sources and assets for real-time analysis or situational awareness is becoming ever more paramount. Our investments in additional international sales and focused business development worldwide with strategic partners will set us up for solid growth in 2025 and beyond.

Now, Dan will go through all the financials in details, but let me reiterate our annual guidance we gave back in January. Revenue for the year to be between $145 million to $150 million and delivering an adjusted EBITDA in the mid-teens. Now, with our guidance, I would like to point out that this represents over a 50%-plus growth rate in our adjusted EBITDA over last year. And I will remind you that our

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adjusted EBITDA in '23 grew over 80% over fiscal 2022. Now, this overall performance will complete a dramatic 2-year adjusted EBITDA growth that few companies can match. And this is exactly what we've been saying and promising we would do over a year ago. I think we're on a good track.

Now finally, we believe that Haivision has a bright future ahead. This is only the beginning. We are committed to maximizing long term value for all of our shareholders. We are confident in our ability to execute, on our strategic plan and deliver continued growth and even higher operational performance.

So with that, I'll pass it on to Dan to do the detailed financials.

Dan Rabinowitz
CFO, Secretary & EVP of Operations

Thank you, Mirko. So let's get into the numbers. Revenue for this first quarter of fiscal 2024 was $34.6 million. That's an increase of $500,000, or 1.5% from the same period in the prior year. However, that's only part of the story. As we've discussed on previous calls, we fully exited the managed services business focused on House of Worship customers in April of 2023. Thus, first quarter 2023 revenues included $2 million in Cloud solution revenue versus only $200,000 in this first quarter of 2024. That's a $1.8 million reduction year-over-year. But if we normalize the results for the Cloud solution revenue, year-over-year revenues increased by 6.5%, consistent with what we suggested the near term growth in this space would be, and that compares quite favorably to what we are seeing amongst comparable public companies these days.

Recurring revenue, which we define as our maintenance and support revenues and our Cloud service revenues was $6.4 million. Unfortunately, recurring revenue in this first quarter trailed last year by $1.2 million. We expected to see Cloud solution revenue fall as part of our restructuring exercise when we discontinued our focus on the House of Worship market. Recurring revenue represented about 19% of total revenue, compared to about 22% of total revenue in the prior year comparative period. The good news is that we continue to see good growth in our maintenance and support revenues, which grew almost 12% year-over-year. And you might recall we witnessed exceptional growth of maintenance and support revenues last quarter as well.

Cost of sales for the 3 months ended January 31 was $9.4 million, that's a decrease of $2 million from the prior year comparative period, a decrease largely attributed to our decision to exit that managed service business, which operated at lower gross margins. The result was a gross margin in the quarter of 72.9%, a significant improvement from the 66.6% realized in the prior year. That 630 basis point improvement is largely the result of having completed our restructuring efforts, having digested the majority of difficult-to-procure components that we paid a premium for, and we've completed our migration of ERP systems at both MCS and Aviwest.

Now, in the last call, we did anticipate that margins were going to slip a bit from the 74.4% gross margins we enjoyed in the previous quarter, that's our fourth quarter of fiscal 2023. Again, our fourth quarter is commensurate with the U.S. government year-end and typically includes a higher proportion of higher margined hardware into our defense vertical. At the last call, I mentioned that we might be seeing a modest decline in gross margins due to mix. Well, our direct product costs were pretty consistent in both quarters. There was a $500,000 increase in other costs of goods sold related to some RMA activities, inventory provisioning, shipping and depreciation. But only half of those costs are going to be incurred going forward. The other half are really nonrecurring.

Total expenses for this quarter were $22.9 million, a decrease of $800,000 when compared to the same period in the prior year, and it was flat when compared to our last quarter. This year-over-year decrease is largely related to compensation-related expenses that were $900,000 less than in the prior year's quarter. We ended the year -- we ended the quarter with 359 employees compared to 401 employees at the same time last year. Depreciation and amortization expenses also declined by about $200,000 when compared to last year. We did see a modest increase in travel, professional fees and other miscellaneous expenses, but I should point out that some of those expenses are just based on timing. Much of those expenses were in our Sales and Marketing function and in our Research and Development function, both a result of those recent restructurings we mentioned.

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On an aside, total expenses for this first quarter were largely flat when compared to last sequential quarter, our fourth quarter of fiscal 2023. That's a clear indication that we have reached our steady state for spending. I do expect to see some incremental marketing spend in our second and fourth quarter, which is generally commensurate with the timing of our larger trade shows. When normalized for the share-based payments, depreciation of fixed assets, the amortization of intangibles, total operating expenses were $20 million, a decrease of $600,000 from the prior year. These operational efficiencies are real.

The result of the higher revenue, the higher gross margins and the lower operating expenses was an adjusted EBITDA for the quarter of $5.2 million. That represents a $3.1 million improvement from the prior year comparable period, or an increase of 146%. On an aside, this adjusted EBITDA performance for this first quarter was the second best quarterly performance in Haivision's 20-year history. The only quarter to have surpassed this recent quarter's adjusted EBITDA performance was last quarter's performance, our fourth quarter of fiscal 2023. And remember that fourth quarter EBITDA performance was based on $1.1 million in higher revenues.

As was the case last quarter, this quarter's adjusted EBITDA performance demonstrates the real earning potential of the company on a go forward basis. The adjusted EBITDA margin for this quarter was 14.9% compared to only 6.2% in the prior year. What is particularly exciting about our first quarter performance is that most of the noise related to the timing of acquisitions and recent restructuring events is behind us. The only exception we could point to is that $1.8 million year-over-year decline in revenue related to the exit from the House of Worship market, all other financial comparisons are sound.

Operating income for the quarter was $2.3 million, that compares to an operating loss of $1 million for the same period in the prior year, a $3.3 million improvement and net income for the quarter was $1.3 million, compared to a net loss of $1.4 million for the same period in the prior year. That's a $2.7 million improvement. As was the case with adjusted EBITDA, this quarter's improvement in net income was the result of a year-over-year increase in revenue and a significant year-over-year improvements in gross margin. A year-over-year decrease in total expenses, decreases in financial expense and the only offsetting expense was income taxes. We invested $900,000 more in income taxes this year.

With respect to the balance sheet, not only did we experience good operating results, but our cash generation during the quarter was also very strong. We ended the quarter with a cash balance of $13 million, an increase of $4.8 million from the prior quarter. Further, the amount extended on the line of credit was $3.7 million. That's a decrease of $1 million from the prior quarter. Thus, the next -- net increase in cash generated in the quarter was $5.8 million.

Now, total assets at quarter-end were $135.4 million, that is a decrease of $8.7 million from the end of fiscal year 2023. The primary drivers to the decrease in total assets include solid collections during the past quarter as evidenced by the $8.2 million decrease in trade and other receivables. A focus on cost of goods sold and inventories resulted in a $2.3 million reduction in inventory since the end of last year. And on an aside, I should also mention that inventory levels are down $4.7 million since peaking at the end of the second quarter of 2023. Intangible assets and goodwill declined by $3.3 million, the result of ongoing amortization expenses and the impact of exchange rates on intangibles at quarter-end. And obviously, these reductions in assets were offset by the net increase in cash.

Total liabilities at quarter-end were $43.7 million, that's a decrease of $6.2 million from the end of fiscal 2023. Payable payments resulting in a $5.5 million decrease in trade and other payables, and we often see significant reductions in payables after the year-end as commissions and bonuses related to fourth quarter performance are paid, bonuses based on total year performance are paid and invoices for inventory purchase to support fourth quarter revenue are paid. We also saw reductions in our lease liabilities and our term loans.

In terms of expectations for fiscal 2024, let me just reiterate that our revenue guidance for the full year does factor in our exit from the House of Worship vertical in April of 2023. We are projecting revenues for this fiscal year to be between $145 million and $150 million. We also anticipate adjusted EBITDA margins in the mid-teens. We still anticipate seeing 1 quarter of this fiscal year knocking on the door of our long-term adjusted EBITDA margin goal of 20%.

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So that really concludes my prepared remarks. So let's open the floor to questions.

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Question and Answer

Operator

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

Nick Corcoran
Acumen Capital Finance Partners Limited, Research Division

Congrats on the solid quarter. I'm just trying to understand the dynamic, given there's an election year and just the pull forward of demand, would it be fair to say you're potentially tracking the high end of your guidance range right now? And what might be the risk to that be?

Miroslav Wicha
Chairman, President & CEO

Nick, thanks for asking that question. I still believe it's a bit too early, honestly, for that. I think what we're seeing is a shift in the last 2, 3 years, we've had government purchases in 2 periods, which usually falls in our Q2 and Q4. Traditionally, it's always been Q4. I think this year, we're seeing that there's a lot of I guess people are excited to get their money spent before September. I think things are kind of moving everything -- seems to be Q4 is going to be one of -- again, a large quarter for us. Just not sure how Q2 and Q3 are going to play out. So I'm not ready yet to say we're going to be at the high-end of the range until after Q2 because it's just too early at the moment. And we're comfortable with the $145 million to $150 million. But I think I will -- I want to reserve until the end of Q2 to make that decision.

Nick Corcoran
Acumen Capital Finance Partners Limited, Research Division

That's fair. And maybe -- that's fair. And maybe just a related question. How the demand by each end market between government, broadcast and enterprises game?

Miroslav Wicha
Chairman, President & CEO

Well, the broadcast is getting a lot of activity. But again, remember, we're -- it's only about 1/3 of our business, right? I mean 1/3 is enterprise and 1/3 is defense. So the Olympics get everybody excited. Yes, we're doing great. We got a lot of good projects. So that's kind of, I think, keeping our broadcast people very, very busy. That's -- it's all kind of flowing into Q2 and actually probably almost into Q3, right, for the summer. So we're getting activity there. So I think that's going to be -- that's going to continue to be pretty good throughout the year. But we're seeing good activity in defense. We're seeing actually in all our verticals. And in international, we're really, really building the infrastructure for our Command 360 business, which I think is really going to take off in 2025. I mean this is a long-term lead cycles. So we'll see some probably near the end of '24. It's really more '25, '26, where I see a lot of the revenue pickup.

Operator

Our next question comes from the line of Max Ingram with Canaccord.

Max Ingram
Canaccord Genuity Corp., Research Division

I'm on for Rob Young. My first question is about how you're thinking about NCIB activity given where the stock is? And maybe any other uses of capital? Any color there would be helpful.

Dan Rabinowitz
CFO, Secretary & EVP of Operations

Well, good question, interesting question. I think about that quite frequently. When we were proposing the NCIB, the stock was trading at a different level than it is these days here. And we wanted to put the NCIB in place because we saw a lot of volatility in the stock price. We saw a stock price didn't have a

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tremendous amount of support, and we thought that this was a means for us to shore that up. Obviously, we believe that the stock is undervalued and that this represents a good return for us to do it.

Now that we're going to be sort of in a non-blackout period. We have a different question to ask, and we have to decide what -- if there's an opportunity for us to continue to be purchasing in the open market this day. But we haven't made a determination as of yet. You might remember that our -- one of our strategic initiatives is to continue our M&A track. And although we don't have anything specific to speak of in that regard, it is one of the reasons we have the capital is to be able to pull the trigger when we find the right strategic fit.

Max Ingram
Canaccord Genuity Corp., Research Division

Okay. That's helpful. And then my follow up question would be on Aviwest. Can you touch on any remaining integration plans there?

Daniel Rosenberg
Paradigm Capital Inc., Research Division

Well, I would say that the big, heavy lift is behind us, and we're beginning to see a lot of good coordination between the various entities. I don't have a specific tactic that we're working on at this point. It's really sort of continued to refine processes, it's continued to use consistent methodologies and so on and so forth. But the real heavy lift is definitely behind us.

Max Ingram
Canaccord Genuity Corp., Research Division

Okay. And just to confirm, there is now -- between Aviwest and MCS, are they both on a common ERP system?

Daniel Rosenberg
Paradigm Capital Inc., Research Division

All entities are on the same ERP platform, yes.

Max Ingram
Canaccord Genuity Corp., Research Division

Okay, I will pass the line.

Operator

Our next question comes from the line of Daniel Rosenberg with Paradigm Capital.

Daniel Rosenberg
Paradigm Capital Inc., Research Division

Mirko and Dan, congrats on a good quarter. My first question was just around margins, the supply chain normalization. A lot of the moves you've made are certainly starting to come through here. Are there -- and you mentioned the idea of sustainability of it. Just curious what other levers you may be looking at, if there are any? Or have you largely completed that lift around pushing margins at the gross profit line?

Dan Rabinowitz
CFO, Secretary & EVP of Operations

I would say that we've squeezed much of the synergies out of our cost of goods sold line that we can. There is still a modicum of high price componentry that we have to get through, but it's going to be at half the rate as it was in 2023. And again, 2023 was at half the rate it was in 2024. As we continue to sort of get our hands dirty in all of our operations, there may be additional opportunities for us, but I'm not baking them into any of the forecasts that I use.

Miroslav Wicha

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Chairman, President & CEO

Daniel, maybe I could add a little bit other pieces that could help us with the gross margin stuff rather than just the COGS. We're also transforming some parts of our business over the next 12, 18 months from the Command 360, the old CineMassive integration model business, into like a manufacturer business where we don't want to be a systems integrator, right? For us to be able to scale globally, we have to work a lot more with partners, which we love, which means we have to train them. But we want the partners to do the integration, which means we don't want to be dealing with third-party, low margin peripherals, right, like the screens and keyboards, et cetera, et cetera.

So, we are diligently working through that within the U.S., which is obviously the key market, but also international, is going to be all partners. So we will see over time -- and again, it's really difficult to measure how, when, which quarter, but over time we expect our margins to go up. That's going to be another addition to increased margins as we sell less and less third-party stuff, right? And more of our own stuff, which is higher margin. Now that's at the expense of a revenue drop. So we're managing that. We don't know how quickly that's going to happen or how slowly that's going to happen, but in the long term, it's a very positive trend to a higher margin business for the Command 360.

Daniel Rosenberg
Paradigm Capital Inc., Research Division

I appreciate that. Good to hear that other opportunities for you guys. Separately I wanted to ask on the working capital. So inventory and receivables moved kind of in your favor this quarter. When we think about that quarter-to-quarter, this is lumpy. Is it going to kind of revert back to 2023 median levels, let's say? Or how should we be thinking about our modeling?

Dan Rabinowitz
CFO, Secretary & EVP of Operations

It's an interesting question. So if we talk about receivables for a second here, there was a point in time where we had a heavy degree of seasonality. Within any given quarter, 60%-plus of our revenue would come in the last month of the quarter, and dare I say, in the last couple of weeks of that last month of the quarter. And we would see receivables sort of balloon in that last quarter, and then we would spend the next quarter collecting all those receipts.

We've seen that revenues are coming more ratably, particularly as we have different entities with different sort of seasonality patterns arranged with them. So I don't know, it's kind of dependent on how our sales team is able to bring in these sales. I don't think we're going to be seeing that much a big increase outside of the ordinary. Inventory is a little bit more of a tricky question, right? When we -- before we started down the path of acquiring these 2 companies, we had a very low level of inventory. We invested in inventory because of long lead time items, particularly the screens for the MCS opportunities out there. And our inventory got to as much as $22 million. But we have said on various calls that our focus is to bring our inventories levels down as we get our hands dirty with those supply chain opportunities.

We see the -- we have obviously made some significant progress there and we hope to be able to make additional progress, going forward. What is the normal rate? I don't have a good answer for you right now. We're still sort of trying to understand how we could minimize inventory. But as Mirko [kind of] said, if we do get out of the third-party resale and integration, the need for those third-party inventory items goes away as well, and we should be able to see inventory come down even more, so.

Daniel Rosenberg
Paradigm Capital Inc., Research Division

Congrats again on a strong quarter. I'll pass the line.

Operator

This concludes today's question-and-answer session. I would now like to turn the call over to Mirko for closing remarks.

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Miroslav Wicha
Chairman, President & CEO

Great. Thank you. Well, I just want to thank all our shareholders and analysts online today for their continued support of Haivision and really looking forward to speaking with you in mid-June when we will discuss our second quarter of 2024. Thank you.

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

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