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Presentation

Operator

Ladies and gentlemen, thank you for standing by. My name is Abby, and I will be your conference operator today. At this time, I would like to welcome everyone to the Haivision Second Quarter 2025 Earnings Call. [Operator Instructions] Thank you, and I would now like to turn the conference over to Mirko Wicha, President and CEO. You may begin.

Miroslav Wicha
Chairman, President & CEO

Thank you, Abby, and thank you, everyone, on the call for joining us today to discuss our second quarter of our fiscal year 2025, which ended in -- on April 30. As mentioned on our last earnings call back in January, we are now well into our 2-year strategic plan, which will complete our overall business transformation and return Haivision to the double-digit revenue growth we have seen in the past. It will also return us to our long-term CAGR growth rate of between 15% and 20% per year. Now we have completed our operational efficiency model and have a solid handle on the cost structure, gross margins, EBITDA and cash generation.

Now the focus now is all about building high revenue growth. As mentioned back in January as well, we have seen the bottom of the revenue curve back in Q1. Our key fundamental business model for the controller market, which was the move away from being an integrator to manufacturer is complete. We are seeing a solid increase in our long-term sales pipeline. Our business forecast is compelling, and we are seeing strong orders and revenue increase in the overall global controller market, not just in the U.S. This is what we've been working hard on for the past 18 to 24 months, and it's really great to see.

Now let me share a few thoughts on what to expect from us during the remainder of this fiscal year to prepare for this higher revenue growth in '26 and '27. And we've been investing in many new product development initiatives and introductions throughout this year, some of which we discussed earlier, but here are some of the highlights for both the mission and broadcast parts of our business. Remember that 6 months ago, we structured the company into 2 focused business areas, mission and broadcast. We are already seeing the results of our actions and our goal of focus is really paying off. Now within our mission business, we focus on strategic developments in AI.

Last year, we announced that Haivision is partnering with Shield AI, right, which is a leading defense technology company whose mission is to protect service members and civilians with intelligent systems. And with this partnership, Shield AI Kestrel is now fully integrated with Haivision's real-time transcoding Kraken software system and can be easily deployed across a wide range of air, land and sea-based platforms and is designed for intelligence, surveillance and reconnaissance and situational awareness applications and Kraken encodes, transcodes and transports high-quality video metadata in real time, even in environments where network bandwidth is unpredictable or limited.

The latest update to Kraken features the availability of a new option, Shield AI's Tracker, the AI-powered software for superior object detection. And Tracker uses AI and 2 decades of computer vision research and development to detect moving objects in full motion video, turning raw data into actionable intelligence with speed and efficiency. It can detect moving and stationary objects on land, such as vehicles and people and in maritime settings such as boats, vessels, individuals and life jackets, very, very cool stuff. Now in May, as promised, during the Defense Military Show at SOF Week in Tampa, we launched an exciting next-generation AI-based hardware, what we're calling tactical edge processor for the defense and ISR markets called the Kraken X1, which is also called the KX1.

It was extremely well received as it delivers incredible performance of AI-enabled encoding in real time. The KX1 is a ruggedized and AI-capable video processing appliance engineered for demanding ISR deployments, combining real-time encoding, transcoding, metadata processing and NVIDIA-powered AI capabilities in a fanless and compact design. The KX1 brings battle-tested Haivision technology to remote and tactical edge environments. Haivision is absolutely the standard low-latency edge transcoding

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delivery platform in the defense market and a market leader in providing a unified approach to tactical edge computing. And we expect our Kraken AI technology to drive many long-term defense projects and increase our footprint within the global defense market.

This is an area that is expected to have great growth potential for the next 5 to 10 years, and we expect to be the leader. Now equally as exciting within our broadcast business, we launched our next-generation 5G transmitter platform. We successfully showcased this new generation of transmitter platform called the Falkon X2 in Vegas at the NAB Show in April. This will be the basis for the next 2 years of transitioning our entire line of transmitters to advanced 5G private networking. We've incorporated some revolutionary technologies and created a lower cost structure, which will result in better price performance and competitive product offerings for the future.

This is very exciting as we also venture into an adjacent lower-cost market with a small lightweight 2 antenna private 5G solution that we can now go more aggressively after our key competitors, LiveView and TVU. Thus, a new revenue stream for Haivision, we will be announcing more systems within this platform throughout the next several quarters. Now in addition, we will launch our next-generation Makito later this fall, internally dubbed as the NGX, targeted specifically for the broadcast sports market that will open additional revenue streams for Haivision.

We will deliver full Genlock synchronization capability, including high-bandwidth 2110 JPEG XS technologies, and our Makito clients have been asking for these for a long time, and we will deliver with our signature capabilities of high quality, reliability, low latency and security. This will enable all of our largest broadcast clients to now use Haivision for their full end-to-end workflow for both wired and wireless transmission, something no other vendor can do. Now all of these developments and strategic investments are key during '25 and will affect revenue starting in our second half of fiscal 2026 and really kick in during 2027 and beyond, another reason why we are so excited about the future of Haivision.

The last piece is pretty huge. I would like to end by sharing with you one specific and extremely exciting transformational competitive win we closed at the end of Q2 that establishes Haivision as industry leader in cellular bonded and wireless 5G private networking. We have won several large and important deals in the 5G wireless space recently and took customers away from TVU, LiveView and Djerro, there are really 3 competitors in this market, to the names like the PGA, Eurosport, Big Fish, just to name a few. But now we flipped a huge Tier 1 customer that has been using LiveView for over 18 years for all their wireless needs. Warner Bros. Discovery has chosen Haivision to replace their entire CNN fleet of LiveView equipment for their electronic news gathering, ENG, and multi-camera coverage of live events across all their offices and bureaus worldwide.

This is a massive win for Haivision in many respects. It was also a very nice $5.5 million order for over 300 units comprising of our Pro Series 300 and 400 transmitters, Air 300 units, Rack 400 systems, many Makitos, many MoJoPro mobile player licenses and many live guest licenses, and of course, many of our StreamHub control system licenses. In addition, the entire ecosystem will be connected with our HUB 360 cloud-based platform. The global rollout has already begun and is being installed during the next several months.

And I can say that CNN has decided to Gold Haivision for our flexibility, our quality, our performance, our support and most of all, trust as a vendor to deliver the best technology for their needs. As you can imagine, this is a huge win for the company and it's only the beginning as we embark on our success in the wireless market. The next-generation Falkon series of transmitters will make our solution even a stronger proposition for other customers. So in summary, I couldn't be happier with our performance as we maintain a strong focus and attention on revenue growth.

So I will now pass it to Dan to continue with the detailed financials.

Dan Rabinowitz
CFO, Secretary & EVP of Operations

Thank you, Mirko. Good evening, everyone, and thank you for joining us. I'm pleased to walk you through our performance this quarter, which I'm classifying as the end of a transition and the beginning of strategic

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momentum. Let's start with the top line. Q2 fiscal 2025 revenue came in at $34.3 million, up modestly by $100,000 over year-over-year. Year-to-date revenue for the first 6 months was $62.5 million, down $6.3 million or 9.2% from the prior year. Importantly, though, Q2 revenue grew 22% over Q1, showing sequential strength and renewed sales energy.

Some of this quarter's revenue growth, about $2.1 million, came from favorable FX tailwinds due to Canadian dollar volatility, but there's more to the story. We have been navigating a shift in U.S. government buying behavior and a move away from the integrator model in the control room space towards being a manufacturer and supplier of proprietary products. This transition is now largely complete, and the results are beginning to show. Our sales have overtaken past sales levels that included those third-party lower-margin components. Our pipeline of opportunities is stronger than ever, and we have seen a notable rise in large-scale opportunities.

We believe we have reached an inflection point, and it bodes well for the second half of this year. Our recurring revenue from maintenance support and cloud services continues to show sound growth. Recurring revenue was $7.2 million this quarter, up 11% year-over-year, and it was $14.2 million year-to-date, a 10% increase. Recurring revenue now makes up 21.2% of Q2 total revenue, and that's up 2 points from last year. This marks our second consecutive quarter of double-digit recurring revenue growth, a strong indicator of customer loyalty and a key contributor to future stability.

Gross margins have stabilized after a softer Q1. Gross margins improved to 73%, up from 71.7% a year ago. That's a 130 basis point improvement. On a year-to-date basis, margins are steady at 72.5%, near our long-term expected average. With that said, we may continue to see quarterly variations of gross margins related to the timing of U.S. Navy deliveries, which is more closely aligned with MCS' legacy integrator model. The seasonality of certain product families may impact quarterly margins, although recently announced product introductions have dissipated margin differences between product families and the increase in sales of software-only options or virtual machine deployments, which have a higher gross margin than our typical software sales when pre-installed on servers and sold as a complete appliance.

Now total Q2 expenses rose to $28.2 million. That's up $5.5 million year-over-year, but context really matters here. $1.5 million relates to settlement and legal fees that were incurred, $1.8 million stems from currency-related impacts, largely from the weaker Canadian dollar compared to the euro or U.S. dollar. And we also made strategic investments in R&D and incurred higher sales and marketing expenses related to higher levels of revenue. So let's dive into each one of these 3 factors that impacted quarterly expenses. A nonrecurring expense of $1.5 million was recorded regarding a dispute filed back in 2017. The judge largely ruled in our favor, but the plaintiff has since appealed the decision. A final decision won't be known for 12 to 18 months.

A second major factor affecting total expenses was recent trade actions between the U.S. and other countries, which created uncertainties in the market and ultimately cost Haivision $1.8 million in additional expenses. Approximately 80% of our total expenses are denominated in the euro or U.S. dollar. And we witnessed the Canadian dollar slump when tariffs were imminent and then rally when the U.S. administration announced a reprieve. The weaker Canadian dollar impacted total expenses by as much as $1 million in the quarter. And additionally, the weaker Canadian dollar had an impact of an additional $800,000 related to the value of assets and liabilities on the balance sheet, which was recorded as a foreign exchange loss within total expenses and specifically within general and administrative expenses.

Lastly, some expense growth had always been planned and some was circumstantial, but all of it ties to long-term positioning and second half revenue growth. We had always planned on incremental investments in research and development and for that matter, operations and support to support the large number of new product introductions and growing business initiatives. We also incurred some incremental selling expenses like commissions and bonuses that were paid on buoyant sales that were incurred in the second quarter. Our sales teams are compensated on sales rather than on revenue. In terms of some seasonal spending, one of our largest trade shows is the National Association of Broadcasters, commonly referred to as an NAB. It is the first of our 2 largest trade shows that we exhibit at.

Thus, total expenses will tend to be higher in the second quarter, and we should see a similar result in our fourth quarter when we will be exhibiting at the International Broadcaster Convention, commonly

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referred to as IBC in Amsterdam. At April 30, we did end the quarter with 380 employees compared to 365 employees last year to illustrate the incremental investments we've made. The result of the flattish year-over-year revenues, albeit with slightly enhanced margins and the $5.5 million increase in total expenses is that we did have an operating loss for the quarter of $3.2 million compared to operating income of $1.8 million in the same period last year.

The $500,000 in additional gross margin was only partially able to offset the $5.5 million increase in total expenses. And again, as a reminder, total expenses were impacted by $1.5 million in nonrecurring expenses and $1.8 million in additional expenses related to the weaker Canadian dollar. Turning to adjusted EBITDA. Adjusted EBITDA for the quarter was $1.7 million compared to $5.1 million in the same period last year, a decline of $3.4 million. As I mentioned, improving gross margins resulted in $0.5 million in incremental gross profit. However, if we normalize total expenses for share-based payments, depreciation and amortization, the nonrecurring impact of legal and then operating expenses were $23.3 million or $3.9 million higher than the same period last year.

The adjusted EBITDA comparison for the 6-month period isn't dramatically different than what we experienced in the second quarter, but was further encumbered by the year-over-year revenue decline in our first quarter. For the 6 months, adjusted EBITDA is $2.2 million compared to $10.2 million in the prior year. That's a decrease of $8 million. So in addition to the $3.9 million increase in operating expenses cited earlier, year-to-date revenues fell short of prior year by $6.3 million, resulting in a $4.4 million shortfall in gross profit when compared to that prior year. With respect to the balance sheet, we ended the quarter with cash balances of $11.8 million. That represents a decrease of $4.8 million from the end of last quarter.

A primary driver to the decline in cash is the $2.3 million decline in deferred revenues related to maintenance and support contracts, which have been invoiced for which revenue has yet to be realized. But also in January, we announced TSX's approval of our normal course issuer bid renewal, or NCIB. In this second quarter, we purchased over 400,000 shares for cancellation through the NCIB totaling $1.9 million, and that is $2.8 million on a year-to-date basis. We've had some payments on term loans and lease liabilities, which amounted to another $600,000 during the quarter, and we also had capital expenditures during the quarter amounting to another $400,000.

As a point of information to the group, between last year's NCIB and this year's renewal, Haivision has purchased over 1.4 million shares for approximately $6 million, and we still believe that the stock is undervalued at today's prices. We still maintain the $35 million credit facility with the opportunities to expand the size of the line of credit if strategic opportunities arise, and there's only about $7.3 million outstanding on that line of credit. So let's turn our attention towards tariffs. Last earnings call, we suggested that things are fluid. Unfortunately, not sure we're seeing much more clarity today, but as things stand today, we are a Canadian company and the majority of our production of proprietary technology is done in Canada.

Fortunately, our proprietary products are governed by the United States, Mexico, Canada agreement, USMCA, which replaced NAFTA back in 2020. Thus, there are no tariffs for our proprietary products manufactured in Canada when sold into the United States. In fact, we may be in an advantageous position. Many of our competitors are overseas and may not have the benefit of the USMCA with respect to tariffs. And Canada isn't currently imposing tariffs on countries that provide critical technology components, whereas the U.S. might take a different position. Now the same isn't true of our products that are currently manufactured in France, namely our transmitter products.

In April, the U.S. administration announced broad tariffs on imports, which includes a 10% base tariff on all imports into the United States. However, the impact of these tariffs haven't been significant. Yes, Mirko did allude to the significant success we are having with the transmitters in the United States. However, it's still a relatively early initiative for us. We also have means to lower the overall impact of tariffs. Tariffs are paid on the value of goods when they cross the border and our corporate structure and transfer pricing methodologies enable us to mitigate some of the impact. Mirko also mentioned recent product introductions like the Falkon X2.

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A new product introduction is a great time to relook at our manufacturing strategy and where best to manufacture such products. Of course, any tariff impact is really predicated on whether we can transfer the tariff burden to our customers, and we've had conversations with customers, and thus far, they've been largely receptive. I should also mention that we have a handful of tactics that are being considered for each of those -- for each of these tariff areas that we can accelerate or delay depending on the day-to-day actions of the U.S. administration. With that said, we believe our current course of action should provide us a cost-effective solution with little risk.

So for the time being, we intend to stay the course at least until there is some future clarity. And hopefully, individuals with deep expertise on tariff macroeconomics are addressing the various issues and that thoughtful level-headed decisions will be made. So to summarize, this quarter was a mix of transition, stabilization and building momentum. We've crossed key milestones in our business and the model shifts and our recurring revenue is growing steadily, and the pipeline has never looked more promising.

So with that said, I'm going to hand the mic back to Mirko for Q&A. Thanks, everyone, for attending.

Miroslav Wicha
Chairman, President & CEO
Thank you. Abby, let's take some questions, please.

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Question and Answer

Operator

[Operator Instructions] And our first question comes from the line of Robert Young with Canaccord Genuity.

Robert Young
Canaccord Genuity Corp., Research Division

First question, just on the gross margins, the expansion you noted this quarter. Is that all driven by the business model changes, the shift from integrator to manufacturer? Or is there some raw material benefit? I think you highlighted maybe some advantageous situation there. Maybe what are the drivers there behind the gross margins?

Dan Rabinowitz
CFO, Secretary & EVP of Operations

Well, I would suggest that the transition from an integrator to manufacturer is having a positive impact on the business. We are not selling nearly as much of those third-party low-margin components as part of the solutions in the control room space. But I would also suggest to you the opposite is true as to what happened in Q1. In Q1, the fixed cost of production was being amortized over a lower revenue level. Now that we've reverted back to our typical revenue levels here, it's being amortized over a broader amount of revenue, and thus, we've been able to see margins improve.

Robert Young
Canaccord Genuity Corp., Research Division

Okay. Okay. That's great. Helpful. You said that there was a solid increase in pipeline. Was that a general comment? Or is that focused on the control room market? I think it was general. But maybe just back up like what are the areas of excitement? Can the AVIWEST business, the contribution business, does that continue to sign these large deals like this $5.5 million win? Is there more of that in the pipeline? And maybe just a broader commentary on the pipeline.

Dan Rabinowitz
CFO, Secretary & EVP of Operations

The comment was a general comment on our overall pipeline, but it's certainly true of the control room space as well. We've seen robust sales efforts in both areas across our entire company, and it's giving us a lot of confidence in the second half of the year.

Miroslav Wicha
Chairman, President & CEO

Yes. One thing maybe I'll add, Robert, is one of the things I didn't kind of mention in my talk, but since you bring it up, out of 21 years of Haivision, honestly, I have never seen such a long list of multimillion dollar opportunities that we're involved in. So -- which only leads me to believe that we're getting involved in much larger opportunities. That's for sure. But at the levels and the amounts of them, I think you can expect that there's going to be some significant announcements over the next 2 to 3 years. So the pipeline is very, very strong.

Robert Young
Canaccord Genuity Corp., Research Division

That's great to hear. And is that mostly around the wireless contribution space?

Miroslav Wicha
Chairman, President & CEO

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No, no, no. I think it's -- the control room market is massive. Right now, our mission is about 2/3 of our business. Our broadcast live events and sports is about 1/3. But it's actually -- we're seeing some very large opportunities in both of those. It's all across the board.

Robert Young
Canaccord Genuity Corp., Research Division

Okay. And then more specifically on that win with CNN, can you dig into the drivers there, if you could? Was it on the basis of superior product or superior road map? Is it pricing? Like what was it that encouraged CNN to replace your competitor in favor of you?

Miroslav Wicha
Chairman, President & CEO

Well, the fact I'm not even allowed to say CNN, I'm going to get in trouble, but I erred on a different level because I think it's a significant opportunity. But it's really with Warner Bros., which owns CNN and a million other properties. So it's the entire umbrella, which is very cool. So we now have a master agreement signed with Warner Bros., which means we don't have to negotiate separately in any of their properties, right? And they own a tremendous amount. In fact, some of them are our customers using Makitos, right? So this is a huge, huge deal. Now the main reason that they wanted to get out of LiveView is, number one, technology.

They saw that our technology together with the HUB 360 opportunity that ties everything together, really gives them a compelling new way to do their work. Also, the transparency in our business model and especially the data rate and the charging that they were just getting frustrated with not getting explanation and to why they're being built tremendous amounts of money for data rates where our solution is very clear and detailed oriented and the fact that they got accustomed to our support and attentiveness and our reliability and our professionalism and our support.

So it goes beyond just the technology, the products, it's the people, the company, and they just wanted to go to Haivision. This is a big step. This is 18-year relationship. This is not a simple decision, but it's going to crack the dam, in my opinion, where people are now going to look at all the Tier 1 broadcasters are going to be -- already are opening up their eyes as to all of our transmitter strategy. This is not -- we're not even talking about our road map or new technology, by the way. This is our current Pro 3 and Pro 4 series. We're not -- this deal doesn't include anything to do with our Falkon. This just gets better with our Falkon technology.

Robert Young
Canaccord Genuity Corp., Research Division

That's great to hear. Maybe last question, I'll pass the line. I think last quarter, you're a little bit cautious on some of the risk around the U.S. spending, I know you covered a little bit -- already covered that a little bit. But just as it relates to DOGE and some of the tight spending, maybe if you could just talk about that and the impact on near term, and I'll pass the line.

Miroslav Wicha
Chairman, President & CEO

Sure. I mean, look, remember, we've always said that if you look back last year, we had a very strong Q1 and strong Q2 and crappy Q3 and Q4, right? Because remember with our revenue decline of our business model. And we said for '25, it's going to be exactly the opposite, right? Bad Q1 and bad Q2 and good Q3 and Q4. The fact that we had a really strong Q2, we're ahead of the curve. So that's good news, right? We feel very confident in Q3, and we feel very confident in Q4. So the good thing is we're ahead of the curve. Now we got slaps upside down with the tariff -- not the tariff, the foreign exchange nonsense and some of that stuff hurt us. it is what it is. But the fact that Q2 is stronger, significantly stronger than we expected, that's good news.

But also, we've seen the defense spending and government, U.S. spending a little bit ahead of the curve. And I think a lot of people were just afraid. I think they're seeing -- they don't know where DOGE is

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going next, right? Are they going to hit the military defense or not? And I think that also helped fuel the pipe. Now it seems that the defense is going to get more spending and they're not going to be cut and [indiscernible], but we don't know. So I think we've seen a little bit of that. But right now, we have not seen any of our programs move. We haven't seen anything canceled. Nothing has been pushed out. In fact, we're seeing some stuff pushing in. So we're cautiously optimistic. We feel that the government defense sector if anything, across the world is increasing their budgets.

So we're seeing it in all other countries, not just the U.S., where we're getting opportunities where people are increasing, especially in Europe, are increasing their defense budgets, police budgets, security budgets, emergency response budgets, which is all good for us, which involves Makitos, Krakens, all of our ISR properties, including the control room systems, exploitation system. So it's all going in the right direction for us from a pipeline build, and we're very, very optimistic for the next 5 years.

Operator

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

Daniel Rosenberg
Paradigm Capital Inc., Research Division

My first one comes around just the strength of the pipeline and kind of visibility you have for the -- towards the end of the year. I was just curious how far -- just curious around the conversion from pipeline to concrete revenue and then kind of how that lines up for when you think about Q3 and Q4 and the confidence you have in getting back to double-digit growth?

Miroslav Wicha
Chairman, President & CEO

Very good question. Given our 2 business focuses, right, we got the broadcast, we got the mission. And obviously, the mission piece is a much longer transition, a lot, much longer sales cycles, which we usually see at least a 3 to 4, if not higher, quarter conversion rate, even from sales, even if we get the order to revenue could take up to 2, 3, 4 quarters just because of commissioning these complex rooms. So that's -- it's a very difficult one. Every customer is different, right? Whereas in the broadcast, it's usually much sooner, right? Broadcast, you can get the order, get the sale, we ship right away as revenue. So usually, it's within the 1 or 2 quarters. Although here, we're talking about CNN, and that's going to be multiple quarters.

So those exceptions. But I'd say what gives me comfort is that we've been talking about pipeline first, right? And then you look at order rates, right -- sorry, forecast because pipeline is one thing. That's a long term. But then you got the forecast where you're really forecasting within the first 1 or 2 quarters, you think you might get the order. And then once you do get the order, then you got to look at when is it going to be revenue probably 2 quarters. So we expect, like we said before, is we should see the second half kind of pick up from a revenue perspective. And we really expect '26, where we said double-digit growth, '26, we're going to maintain ramping that through '26.

And then '27 is really where the U.S. Navy contract starts kicking in on top of that, right? So nothing's changed from what we've been saying. Second half is going to be better than the first half. We said that from day 1. We just have a very good Q2, which is great. We just got to see how big Q4 could be and has some of those defense or government orders pushed earlier that should have been in Q4. We don't know yet. But overall for the year, we're on track to say what we said. We're going to be very similar to last year. We're going to have higher OpEx, which is clear. We're investing more in R&D. We've got more people than we did last year. And it's all preparation for '26, '27, '28.

Daniel Rosenberg
Paradigm Capital Inc., Research Division

Okay. I appreciate the color. My next question was just around the Navy contract. I was wondering if you could speak to how that ramps up and just the impacts on the margin mix for the overall business. I know

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a lot of things are changing, but just trying to get a better handle on how that margin plays out with the ramp of the Navy contract.

Miroslav Wicha
Chairman, President & CEO

Dan, do you want to take that one?

Dan Rabinowitz
CFO, Secretary & EVP of Operations

Sure. I think that we kind of mentioned that the Navy contract could have an impact of 60 basis points to our overall gross margin. But we've been supplying the Navy over the last 2 quarters, even longer than that. And so that's already sort of reflected in our financials. So the long-term average that I spoke of before is likely to be the long-term average. Now we may have a little bit of volatility if the Navy deliverables represent a disproportionate amount of business in any given quarter, but we're not seeing that kind of a schedule being rolled out as of now. So I would tell you that the impact is fairly negligible at this point, but it probably was about 60 basis points for the overall business.

Daniel Rosenberg
Paradigm Capital Inc., Research Division

Okay. And then just in terms of workflow that you're doing there, are there any kind of key dates or shifts in schedules that are going to occur in the coming quarters? Or is it a steady cadence? How do we think about that?

Dan Rabinowitz
CFO, Secretary & EVP of Operations

In terms of the Navy transaction?

Daniel Rosenberg
Paradigm Capital Inc., Research Division

Yes.

Dan Rabinowitz
CFO, Secretary & EVP of Operations

Well, there are deliveries planned throughout the summer and towards the tail end of our fiscal year, and we're very keenly focused on meeting those deliverables. Remember, this is the Navy, and they have to be put on ships and those ships come into talk at a certain point in time, and we have to be ready for that. So most of our attention is making sure that our fulfillment processes are sound and that we can deliver timely. And thus far, it hasn't been an issue for us.

Daniel Rosenberg
Paradigm Capital Inc., Research Division

Okay. Great to hear. And maybe last one for me. Just thinking about the history of your company, you used M&A in the past to assemble leading technologies. I'm just curious if you could give an update on kind of the M&A landscape as you see it. Any thoughts around things you'd be interested in having? Just a general commentary around the strategy there.

Dan Rabinowitz
CFO, Secretary & EVP of Operations

Well, I don't think anything has fundamentally changed regarding our M&A strategy. We're still talking to all sorts of companies on a regular basis, looking for fit, looking for strategic benefit and what have you. We are a bit compromised in that our share price is undervalued and thus, we don't have the shares, the stock to be used as a currency. So we're kind of limited to nondilutive means of being able to acquire companies. So it's limiting us a little bit here. But nothing has fundamentally changed. We're just trying to

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be quite rational in that we're going through this evolution, going through this transition. We're focused on that. And as we continue to go through that effort, if the opportunity arises, we do have means to be able to execute it, provided the target isn't so large that we -- it outstrips our capability of being able to digest it.

Operator

And our next question comes from the line of Jesse Pytlak with Cormark Securities.

Jesse Pytlak
Cormark Securities Inc., Research Division

Just coming back to Daniel's question on the Navy systems contract. I believe in the past, you might have alluded to seeing expectations for a more meaningful kind of volume ramp towards fiscal fourth quarter this year. Is that still the expectation? Or has that maybe moved around a little bit now?

Dan Rabinowitz
CFO, Secretary & EVP of Operations

Well, the fourth quarter, we do have a significant -- we have significant deliveries that we're going -- it is ramping up as we speak right now. And I think what Mirko was kind of alluding to is that we're going to start seeing the benefit of the production contract towards the tail end of the year. But that production contract also has a ramp to it. And as we see it, we expect that ramp to have some significance in 2026, but even more significance in 2027 and beyond. Now that's also subject to change, right? We have also seen that the Navy has been trying to accelerate some of the deliveries, but we're really sort of in the negotiation stage with respect to this first option year, and we have yet to see what the final outcome will be of that.

Miroslav Wicha
Chairman, President & CEO

Yes. I would just add to that, Jesse, I would say, because I know we did say originally at the beginning of the year, we're planning most of the delivery in Q4, to your point. I think what we're going to see now that they've been trying to move it up. We might see that smooth over between Q3, which we're in now and Q4. So it might not be a spike. It might be actually more level, which will be actually a good thing. For the option Dan was talking, that's really for next year, right, which is really the second half, will be second half of 2026. But I think we might see more of a smoother rollout in Q3 and Q4 for the remaining of this year.

Jesse Pytlak
Cormark Securities Inc., Research Division

Okay. That's helpful. And then maybe just moving over to the Warner Discovery win. Congratulations on that. In terms of the $5.5 million, is that going to be kind of pretty much a smooth recognition? Or will there be any lumpiness in that? And then can you maybe just speak to timing around other potential wins with other properties within the Warner Discovery family?

Miroslav Wicha
Chairman, President & CEO

I wish I could. But hopefully, there'll be many. I mean, one of the large pieces of that, again, the deal because, again, the CNN specifically for this one is a large data component, which obviously will be recognized starting probably in about 3 months when they really start fully exercising systems, which will go on for the next year. So that will be recognized later. So that will be part of the deferred revenue. Most of the equipment -- not most, but majority of the equipment was shipped at the end of April, and the rest is being shipped as we speak. So from a revenue recognition, the hardware, software, all that stuff will be done this quarter.

And it's just a data piece, support piece of significant support and installation, commissioning and all of that. So as you can appreciate, this is a very complex global rollout from 17 different operations and countries. So the coordination is -- I mean, for us, this is a pretty significant deal in the wireless space

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that we've never really played at large scale. So we're learning as we go, and we're working very, very closely with CNN.

So the next 3 to 6 months is going to be critical. And I'd like to say that we are already talking to every broadcast Tier 1 company because they're all using Makitos. They all know Haivision, but they don't use our transmitters. And guess what, everybody is extremely anxious to see why CNN picked us and why this happened, and they're all evaluating our technology. So I think you're going to see over the next 18 to 24 months, a very good healthy growth in our transmitter business because this is the big one. For CNN to go, that's huge, very huge.

Jesse Pytlak
Cormark Securities Inc., Research Division

Okay. Maybe just then on one final question then just with respect to the control room business and building out that international channel partnerships. Can you just maybe just give an update on how that's been progressing, if you're seeing any particular progress in any international -- specific international jurisdictions and just maybe expectations on when you could start to see more meaningful revenue contributions start to roll in?

Miroslav Wicha
Chairman, President & CEO

Yes. No, no, it's progressing very well. We had been postponing some of our training for international, but that's now -- is about to start. We wanted to start that earlier in the year. So we're actually winning deals. We're actually seeing our forecast and our pipeline grow dramatically in international. Interesting -- we've made quite a few installations. Unfortunately, a lot of them we cannot name, but it's progressing very well. We've hired people. We're growing the team. The training was about to start international. We've already had our several training sessions in the U.S., specifically for the U.S. partners. So that's progressed very well. So I expect that to really kick in the gear in the second half of this year, where I see '26 is going to be for us a very healthy growth in the international space.

Operator

[Operator Instructions] And our next question comes from the line of Nick Corcoran with Acumen Capital.

Nick Corcoran
Acumen Capital Finance Partners Limited, Research Division

Most of my questions have been answered, but maybe the first one, Canada has recently announced increased military spending. I'm just wondering how you're positioned to benefit from that going forward.

Miroslav Wicha
Chairman, President & CEO

Good question. I mean I speak to my field guys, and we're definitely talking to different levels in the Canadian defense industry. So we're all over it. Unfortunately, if I look at it, the Canadians world has been very close to the Americans. And so it's a bit of an awkward situation at the moment. So we're -- I think as a Canadian company, we're positioned very, very well. And I think we're going to take advantage of it. So it's going to take a little extra work right now. Canadian military already uses our stuff, but we just need to work a little harder right now to try to take that Canadian position because we've always kind of used the fact that, hey, the U.S. is using us. We're the gold standard. It's a nonissue. But I think right now, we've kind of got to revert a little bit and kind of put up the Canadian flag, if you know what I mean. So that is happening as we speak, right?

Nick Corcoran
Acumen Capital Finance Partners Limited, Research Division

Great. That's good color. And then maybe last question for me. I know you mentioned that large win with the 5G products. In the past, you spoke about leasing those products. How is that going?

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Miroslav Wicha
Chairman, President & CEO

Well, the rental program and the long-term leasing program is still ongoing. I mean we're doing much better in Europe because they've been running that for many, many years, even as part of AVIWEST, right, when we bought them. So it's a machine more in the U.S. We're doing okay. Do I think we're doing great? No, I think we can do better. So we've got a huge focus on our rental and long-term lease programs in the U.S. where we're going to be investing in inventory, in partnerships. So we're still working it. It's still a very, very small piece for us. It's not a needle mover at all. But interestingly enough, if you look at the deal we just won, they were actually leasing for millions of dollars from LiveView per year. Now -- and they went with us and they bought everything. So it's kind of interesting. So I'm not sure if the dynamics are changing in that industry or not. But we're still committed to the long-term lease and for the rental.

Operator

And we have no further questions. So I will now turn the conference back over to Mr. Mirko Wicha for closing remarks.

Miroslav Wicha
Chairman, President & CEO

Super. Thanks, Abby. And well, in closing, again, just reiterate, we're committed to maximizing our long-term value for all of our shareholders, and we are very confident in our ability to execute our strategic revenue growth plan and deliver solid growth for the future as promised. So I just want to thank all our shareholders and analysts on the line today for their continued support of Haivision. And I look forward to speaking with all of you in mid-September when we discuss our third quarter results. Thank you, everybody.

Operator
And ladies and gentlemen, this concludes today's call, and we thank you for your participation. You may now disconnect.

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