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Presentation

Operator

Hello, everyone. Thank you for joining us, and welcome to Haivision's 3Q 2026 Earnings Call. [Operator Instructions] I will now hand the conference over to Mirko Wicha, President, CEO and Chairman. Please go ahead.

Miroslav Wicha
Chairman, President & CEO

Thank you, Tracy. Good morning, everyone, and thank you for joining us today. I'd like to begin by putting our third quarter results in the broader context of where Haivision is today, where we believe our markets are heading and why we remain confident in the long-term opportunity ahead of us. For the third quarter, we reported revenue of $34.5 million, and adjusted EBITDA of $1.5 million, representing about 4.3%. Now while our quarterly performance reflects some of the timing variability we have discussed previously, particularly around larger customer deployments and procurement cycles, we continue to see healthy customer engagement and a solid pipeline of opportunities across our business.

More importantly, when we look beyond any individual quarter, we believe the fundamentals of Haivision are strong. We operate in markets where secure, reliable real-time video is increasingly mission-critical. We serve customers in broadcast and defense, public safety, government, enterprise environments where video is not simply content, it is operational information that needs to reach the right people securely and reliably and in real time. That distinction is important. We are not trying to compete in commodity video markets. Our focus is on demanding mission-critical applications where reliability, security, ultra-low latency and quality matter. These are environments where failure is simply not an option.

And we believe the importance of these applications is only increasing. Around the world, organizations are dealing with more information, more video sources, more distributed operations and a greater need for real-time situational awareness, whether it's a broadcaster covering a major global event, a defense organization supporting a mission, public safety agency coordinating an emergency response or an enterprise operating command center, customers increasingly need to capture, transport, manage and distribute high-quality video securely and in real time. That is the market Haivision has been building for.

Over many years, we have developed a portfolio of technologies and solutions that address these requirements across the video workflow from contribution of video transport to management, visualization and decision-making. And we continue to believe that the combination of technology, our installed base, our customer relationships and our expertise in these highly demanding environments gives Haivision a strong competitive position.

At the same time, we are operating in an extraordinary global technology environment. Supply chain conditions across the technology industry continue to be extremely challenging. We are seeing constraints and volatility across a number of critical components, including memory, CPU, GPUs and other semiconductor technologies. Now these are not Haivision-specific issues. They are affecting technology companies and manufacturers around the world. The tariffs and changing global trade policies are adding another layer of complexity. Component availability, lead times, pricing and sourcing can change quickly, making supply chain planning considerably more difficult than it was historically.

In fact, it's been flip-flopping since February 2022 with no certainty where it may end up. These conditions create challenges not only in sourcing components, but also in forecasting production schedules, managing inventory and determine -- determining the timing of customer deliveries. I want to be clear, we are not immune to these pressures, but we believe Haivision is well positioned to navigate them. Our team has been working aggressively to manage our supply chain, quality alternative components where appropriate, work closely with suppliers, manage inventory strategically and make the engineering changes necessary to protect our ability to deliver products to customers.

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One of Haivision's strengths has always been our ability to adapt. We have built this company through multiple technology cycles, economic cycles and periods of disruption. We understand how to operate with discipline, and we have an experienced management team that knows our customers, our technologies and our markets extremely well. But that experience matters in an environment like this. We are also fortunate to operate from a position of financial discipline. Haivision is a technology company that believes strongly in innovation and growth, but we also believe in building a sustainable and profitable business. Over our history, we have been EBITDA positive 21 of our 22 years.

I think that says something important about the culture of this company. We invest in innovation, we invest in our products, we invest in our people. We pursue acquisitions when we believe they can strengthen our strategic position, but we have consistently done those things with a focus on disciplined execution and profitability. Now that discipline gives us flexibility. It allows us to continue investing through challenging periods. It allows us to make decisions with a long-term perspective. And importantly, it means that we do not have to sacrifice our strategy simply because the external environment becomes more difficult. Our objective is not simply to maximize the next quarter. Our objective is to build a stronger Haivision.

And when we look at our opportunity today, there are several reasons we remain optimistic. First, we believe we are positioned in attractive markets with strong long-term demand drivers. Broadcast continues to evolve towards increasingly distributed and cloud-connected workflows where high-quality, low latency and transport is essential. Defense and government organizations are increasing their focus on real-time intelligence, situational awareness and secure communications. Public safety organizations increasingly rely on video and visualization to coordinate operations and make faster decisions.

And enterprise customers continue to invest in command centers and operational centers that bring together increasingly large amounts of video and data. I mean these markets are different, but they share a common requirement, mission-critical visual information delivered securely and in real time. And this is exactly where Haivision is focused.

Second, we believe the breadth of our portfolio creates opportunities to expand our relationships with customers. We have technologies for video encoding and contribution, secure video networking, video management intelligence visualization. As customers increasingly look for integrated solutions rather than individual products, we believe our ability to address more of the workflow becomes strategically valuable.

Third, we continue to invest in innovation. Innovation has been fundamental to Haivision since the company was founded, and remains central to our strategy today. Our customers operate in some of the most demanding environments in the world. Their requirements continue to evolve, and our job is to stay ahead of those requirements. That means continuing to invest in our core technologies while also expanding the intelligence, the interoperability, security and capabilities of our platforms.

And finally, we believe there is significant opportunity ahead of us to scale the company. And we have built a global organization, a strong portfolio of technologies, deep domain expertise and relationships with sophisticated customers around the world. We believe those assets provide a foundation from which we can continue to grow organically while also remaining open to strategic opportunities that can expand our technology, our customer base or our geographic reach. None of this means that every quarter will move in a straight line.

We sell sophisticated solutions to sophisticated customers. Large projects can move between quarters. Government and defense procurement processes can be lengthy. Broadcasters plan around major events and capital cycles. And in the current environment, supply chain constraints can affect the timing of both production and deliveries. That can create variability in quarterly revenue recognition, but we believe it is important to distinguish between timing and demand. Our focus is on the underlying level of customer activity, the quality of our pipeline, our competitive position and the long-term demand for the solutions we provide. And based on what we see today, we remain confident in those fundamentals.

As we move forward, our priorities are straightforward. We will continue to serve our customers exceptionally well. We will continue investing in innovation and strengthening our product portfolio. We will continue managing supply chain and tariff challenges proactively. We'll maintain financial discipline. We

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will continue pursuing opportunities that we believe can create sustainable, profitable growth and long-term shareholder value. There will undoubtedly be more volatility in the global technology environment.

Supply chains will continue to evolve. Semiconductor availability remain dynamic. Trade policies and tariffs may continue to change. Customer procurement cycles will not always align perfectly with our fiscal quarters. But Haivision has been operating successfully for more than 2 decades because we have consistently adapted to change. We have an experienced executive team. We have talented employees around the world. We have technologies that solve difficult and increasingly important problems. We serve customers for whom technologies are mission-critical. And we have demonstrated over many years that we know how to operate a technology company profitably and responsibly.

So while we are realistic about the challenge in the current environment, we are equally enthusiastic about the opportunity ahead. We believe Haivision is in the right markets with the right technologies serving the right mission-critical applications at a time when secure, reliable, real-time visual information is becoming more important than ever. We intend to navigate the near-term turbulence while continuing to build the company for the long term, and we remain confident in Haivision's strategy, our market opportunity and our ability to create sustainable value for our customers, our employees and our shareholders. Thank you.

Now with that, I'll turn the call over to Dan, our CFO, to discuss our third quarter financial results in greater detail.

Dan Rabinowitz
CFO, Secretary & EVP

Thank you, Mirko. Let's get into it then. Revenue for the third quarter of fiscal 2026 was $34.5 million. That represents a modest decrease of $500,000 or 1.4% compared with the prior year period. For the 9 months of fiscal 2026, revenue was $102.3 million. That's an increase of $4.8 million or 5% compared with the same period last year. Revenue performance in the quarter reflected the timing of customer purchasing and deployment cycles, particularly within our Broadcast segment. Across the broadcast technology market, customers continue to invest, but purchasing decisions have become more disciplined. Buyers are emphasizing demonstratable returns, operating efficiencies and careful project sequencing.

Within the enterprise market, interest in secure, high-quality video remains healthy. Projects tied to mission-critical communications and operating efficiencies continue to move forward. Within the defense market, revenue is relatively stable. The pressure we are experiencing also related -- relates to procurement timing. Defense spending is being directed towards urgent readiness priorities like air defense, counter-drone capabilities and replenishments. Overall, customer engagement remains healthy, and our pipeline continues to include several large strategic projects. Extended procurement cycles and project timing can shift revenue recognition between quarters even when the underlying opportunity remains intact.

Gross margins for the third quarter were 69.4% compared with 72% in the prior year period. That's a decline of about 260 basis points. On a year-to-date basis, gross margins were 69.6%. That compares with 72.3% in the prior year period, a decline -- a similar decline of 270 basis points. Gross margin pressure in the quarter was driven by supply chain conditions. The principal challenges we have witnessed include market-driven increases in component prices as demand for AI infrastructure continues to tighten the supply of memory and other compute-related components. We also experienced sole source component exposure, extended lead times, suppliers decommitting from planned delivery dates, higher expedite costs and again, market-driven increases in component prices. These input costs are increasing faster than customer price adjustments are taking effect, resulting in continued near-term margin compression.

Unfortunately, tariffs are adding another layer of cost and planning complexity. This is not a new threat, and we have thoroughly researched our short-, medium- and long-term alternatives. In this newest action, the 50% tariff applies to a significant subset of our products. As a result, we were able to pull an established response from our playbook and implement it in the short term and continue to refine our response as the tariff discussions continue. As a reminder, tariffs are assessed on the value of goods as they cross the border. For intercompany shipments, that customs value is informed by our transfer pricing

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policies. While our approach meaningfully limits the incremental cost to the business, we are unable to eliminate the entire exposure. Accordingly, we expect tariffs to pressure gross margins in the short and medium term.

Even over the longer term, this subset of products might carry a modest higher cost of goods if manufactured in the United States. The cost of transformation in the United States is currently higher than in other regions of the world, partly because of higher labor costs and partly because the United States continues to impose tariffs on certain components manufactured in Asia. Overall, we believe our approach appropriately balances cost mitigation, supply continuity and our ability to meet customer commitments. Because our products are used in mission-critical applications, product availability is a key competitive advantage. We have, therefore, made incremental inventory investments to protect our ability to supply customers. Recent changes in tariffs have complicated these issues. However, we continue to take pricing, sourcing, fulfillment and design actions to address these pressures.

Total expenses for the quarter were $25.7 million, a modest increase of $800,000 from the prior year period. To put the quarterly expense level in context, total expenses have averaged approximately $25.3 million over the last 5 quarters, and this quarter's performance remains consistent with our view that expenses have largely stabilized around these levels. For the first 9 months of fiscal 2026, total expenses were $76.3 million, an increase of $700,000 compared with the prior year period. Now that prior year period does include a $1.7 million expense for legal settlement and related fees that did not recur this year. So excluding that prior year item, the increase in operating expenses was approximately $2.4 million.

The change was concentrated in general and administrative expenses and research and development expenses and share-based payments. Now some of these increases were partially offset by lower sales and marketing and operations and support expenses as a result of organizational changes. The incremental investments in research and development support our heavy product realization calendar. And share-based compensation varies based on the timing, the magnitude and the nature of long-term incentive grants. As highlighted last quarter, August marked the 5-year anniversary of the Haivision MCS acquisition. The technology acquired as part of that acquisition is now fully amortized, which is expected to reduce amortization expense by approximately $600,000 per quarter beginning in our fourth quarter.

Further, in April 2027, we will have experienced the 5-year anniversary of the Haivision France acquisition, formerly known as AVIWEST. Technology acquired as part of that acquisition will become fully amortized, reducing quarterly amortization expense by yet another $350,000. These reductions provide additional operating leverage as the business scales. Now they will not affect adjusted EBITDA as amortization is already excluded from that measure.

The operating loss for the quarter was $1.7 million compared with an operating income of $300,000 in the prior year period. The modest revenue decline and lower gross margins reduced quarterly gross profit by $1.2 million over the year, while total expenses increased by $800,000 year-over-year, resulting in a balance of the approximate $2 million year-over-year change in operating results.

On a year-to-date basis, the operating loss was $5 million, essentially unchanged from the prior year period. In this case, the $4.8 million increase in revenue more than offset the lower gross margin and produced a $700,000 increase in gross profit, but that increase in gross profit was subsequently offset by the $700,000 increase in total expenses.

The net loss for the quarter was $2.1 million. That compares with the net income of $200,000 last year, largely the result of the change in quarterly operating loss. And for the 9 months, the net loss was $4.1 million compared with $3.3 million in the prior year period. Where the year-to-date operating results were essentially flat, the income tax benefit was $900,000 lower than in the prior year period, which accounts for the change in year-to-year -- year-to-date net loss.

Our focus continues to be adjusted EBITDA because we believe it provides a clearer view of operating performance by excluding noncash accounting items such as depreciation, amortization and share-based payments. For the third quarter, adjusted EBITDA was $1.5 million. Now that compares with $3.5 million in the prior year period. Adjusted EBITDA margin was 4.3% compared with 10.1% last year. And for the

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9 months, adjusted EBITDA was $4.4 million compared with $5.8 million in the prior year. And again, adjusted EBITDA margins were 4.3% compared with 5.9%.

We ended the quarter with $19.7 million in cash. That is an increase of $2.5 million from the end of fiscal 2025 and approximately $1.6 million from the end of the last quarter. However, the amount outstanding on the line of credit was $13.9 million at quarter end. The higher borrowing level reflects both working capital requirements, including the inventory investments made to secure product availability and shares purchased for cancellation. Through July 31, we have repurchased approximately 850,000 shares for $4.2 million. For all of fiscal year 2026, we repurchased approximately 990,000 shares for $4.4 million. We are well on our way to exceed last year's purchasing levels.

Our $35 million credit facility remains in place, leaving approximately $21.1 million undrawn at quarter end, and the facility remains committed through August 2028. And as previously disclosed, it is expandable to as much as $65 million if we identify an acquisition opportunity. Total assets at quarter end were $149.5 million. That's an increase of $4.5 million from the end of fiscal 2025. Inventory was $19.5 million. That is an increase of $6.2 million from the end of fiscal 2025 and approximately $4.4 million increase from the end of the prior quarter. This increase reflects deliberate purchases to manage extended lead times, supplier decommitments, constrained component availability and the pace of new product introductions. This investment has a near-term working capital cost, but it supports supply continuity and our ability to meet mission-critical customer requirements.

Total liabilities at quarter end were $57.6 million. That is an increase of $10.1 million from the end of fiscal 2025. The increase, again, was driven primarily by the higher balance on the line of credit. With that said, lease liabilities did decline by approximately $1.1 million and term loans declined by approximately $0.5 million from the end of fiscal 2025 as we continue to make scheduled payments. We continue to expect the term loans associated with the Haivision France acquisition to be largely repaid by the middle of fiscal 2027.

So to give you a closing perspective, the fundamentals of the business remain sound. Customer engagement is healthy, and we have a robust pipeline of opportunities across our markets, including several larger strategic projects. Broadcast customers remain focused on demonstratable returns and operating efficiencies. Enterprise demand for secure, high-quality video remains healthy and defense customers purchases are stable, but there's a noticeable delay in procurement timing as defense spending is directed towards readiness priorities. Supply chain constraints and the lag between input cost increases and our customer price adjustments are expected to continue pressuring gross margins in the near term.

The current tariff posture is likely to put additional pressure on gross margins in the near term, but changes in fulfillment practices are being put in practice to largely offset these additional costs. Our priorities remain converting the pipeline, protecting product availability, executing pricing and design actions and maintaining our expense discipline. While procurement cycles continue and project timing can shift revenue recognition between quarters, we remain confident in the strength of customer demand and our ability to convert the pipeline into sustainable long-term growth.

That concludes my prepared remarks. So I'm passing the microphone back to you, Mirko, and then we will open the floor to questions.

Miroslav Wicha
Chairman, President & CEO
Thank you, Dan. Yes, Tracy, I guess we can open up to questions now.

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Question and Answer

Operator

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

Robert Young
Canaccord Genuity Corp., Research Division

The first question for me would be just about trying to quantify some of the impact that you see from the tariff risk. If you could give us a sense of what the significant subset of revenue is that you highlighted and that would be helpful. And if not, is it possible to give a sense of the expected gross margin impact? And then I guess to round it out, just to talk about some of the steps that you're taking to mitigate. I understand some of it would be moving production to the U.S., but maybe just broaden that out a little bit to better understand what you're doing.

Dan Rabinowitz
CFO, Secretary & EVP

Okay. So specifically, we haven't yet made the decision to move production to the United States as of yet. It has its own encumbrances, and we want to make sure this tariff environment remains intact over the long term before we make such a dramatic decision here. But we are moving our fulfillment operations from Montreal to the United States. And so product is being moved at inventory levels as opposed to at retail levels.

And so the tariffs are going to be assessed at the inventory level. So to put it another way here, the tariffs are covering a subset of our products. Specifically, it's covering our Makito line of products. It's not covering other products like our transmitters or our platforms like HMP and what have you. So approximately 30% of our sales are related to the Makito line of products coming into the United States. If I were to give you sort of an estimate of how this is going to affect our overall consolidated gross margin, I would suggest it's going to be about 3% in the near term here until we have this refined and we know what the long-term tariff view is going to be.

Robert Young
Canaccord Genuity Corp., Research Division

Okay. That's very helpful. The second question, I'd like to -- if you could parse out the impact of some of the purchase and deployment cycle timing delays. You gave a bit of context around that already. But if you could split it out between the 3 segments of the business. It sounds like broadcast is the one that is the most worrisome. And if you could talk about that specifically and whether you're seeing cancellations or if it's really just delays.

Dan Rabinowitz
CFO, Secretary & EVP

Mirko, you want to...

Miroslav Wicha
Chairman, President & CEO

Yes, I was going to jump on that. Yes, actually, well, the good news is that we're actually not seeing any cancellations. In fact, we have not gotten any indications of cancellation of projects, both in the government, enterprise and/or broadcast. We have seen in the government, the uncertainty, obviously, with the midterms, but also with the continuing resolution, the spending in the defense uncertainty right now is causing disruption. And by the way, this changes on a weekly basis right now. So there, we've seen things move to left in some instance and stuff to the right. So that's been a bit unpredictable right now in the government sector and also the -- what we would call the more the enterprise government sector.

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The broadcast, what we're seeing right now is that people are delaying through some cycles, some of their procurements, but no one's actually canceled or canceling stuff. So that's kind of -- it's a bit of a mixed bag right now. There's no one size fits all. The most important thing for us is that I've been monitoring is that our pipeline and forecast is actually -- it continues to grow. So that's really, really solid news. That's -- I hope that helps.

Robert Young
Canaccord Genuity Corp., Research Division

That's helpful. And that's a good segue for my last question. In the release, you talked about some large strategic opportunities in the pipeline. Maybe put a bit of context around that. Is that just stuff that was already in the pipeline that's moving to the right timing lines? Or is it new? Can you give us a sense of what's going on in the pipe and I'll pass on.

Miroslav Wicha
Chairman, President & CEO

Yes. Sure. Look, it's a bit of both, but we are seeing some very well-sized large opportunities for 2027 based on the new products that we've been announcing and are about to announce. So that's really good news. In fact, we're going to be showing some of the technologies at the IBC show, which starts tomorrow. So that's seeing a nice pickup, especially with the Makito ONE technology and the Falkon X4, and the Falkon X2, set in the broadcast side. This is a broadcast show. We're also seeing the forecast and pipeline growing nicely with the Kraken KX1 that we launched earlier in the year. And we just launched the Kobra product. So it's still very, very early, but there's already a very decent demand for that, that people want to get their hands on it, test it and put in the workflow.

So overall, there's -- we're seeing larger opportunities grow as a result of these new products, which is good. Now these obviously takes time and they take a little longer. So these are more at play later in the year, '27. And with the U.S. Navy, as we've talked about before, I mean, things have been moved a little bit to the right, just given a situation, what's happening there. But overall, we haven't seen any large procurement projects being canceled.

Operator

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

Daniel Rosenberg
Paradigm Capital Inc., Research Division

I had a quick follow-up on what you mentioned around moving the fulfillment process to the U.S. I was curious on how much flexibility you have around that. Obviously, involves some work upfront, but I'm wondering if things change, is it easy to turn that around? Just curious about the levers you have in terms of managing that gross margin line and the tariff impacts.

Dan Rabinowitz
CFO, Secretary & EVP

Good question, Daniel. So first of all, obviously, we've been thinking about tariffs for well over a year now since the threat originally emerged in February of last year. And we pulled down the plan, the playbook for moving this fulfillment, which we could implement in very short order. And the reason we could do it in very short order is that we do have production capability in the United States already. And so by moving inventory to this new production facility, we could start fulfilling from that production facility fairly readily.

In fact, we have begun testing this well before the tariffs were put in place, and we've been doing this in coordination with our customs broker who is dealing with a number of Canadian companies dealing with these tariff issues of sorts. This can be reversed pretty readily. Now we've been able to accomplish this in the fairly short term. In the medium term, I'd say, 3 to 6 months, we may have to make this more of a permanent construct where we're hiring people on a permanent basis and what have you. But if this turns around, if the tariffs go back to normal, we can reverse out of it in very, very short order.

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Daniel Rosenberg
Paradigm Capital Inc., Research Division

Okay. I appreciate that. And then just on the component costs, I mean, out of your hands, but you mentioned it last quarter, obviously continuing this quarter. Is there anything to say directionally? Are things kind of consistent with the pressures you're seeing there? Or has it gotten worse? Any commentary there, please?

Dan Rabinowitz
CFO, Secretary & EVP

Well, I would tell you that the challenges that we're seeing each day, each week, each month are changing, right? Whereas before, we did -- we had no availability, delays in component were significant. Some of our suppliers were talking about supplying a year from now and what have you. So we've seen a normalization or it's not back to what I'd call normal, but we've seen that revert back to at least manageable levels. We're not talking about delays that go out a year or what have you. But there are still components that are short of supply. There are still allocations on certain components and what have you.

Our supply chain has done a really good job and having components available for our customers' needs in the very short term and the midterm. We have very little that we haven't been able to supply because of the supply chain. But that has also been at the expense of investments in inventory to secure that inventory. In some cases, we've had to increase the amount that we buy so that the suppliers will take us seriously and we can get sources of supply. In other cases, we've had to pay a premium for those components. We've also had to use alternative sources of supply for certain components for us to be able to continue that supply chain.

I don't see the cost of that supply chain increasing or decreasing in the near term. I do think it's becoming a little bit easier for us to manage, but it's not back to normal periods. Now I want to remind everyone that we went through a similar experience in '22, worldwide component shortage, and we were able to manage our way through that quite a bit. And you might recall that our inventory levels were up in the $23 million, $24 million time frame to do that.

I don't think we're ever going to get back to that level of inventory. And in fact, I think we're -- with some exception, we're probably getting to the peak of where our inventory needs to be to be able to secure source of supply. And as we did after the '22 worldwide component shortage was overcome, we'll overcome this as well, and we'll revert back to normal levels shortly thereafter.

Daniel Rosenberg
Paradigm Capital Inc., Research Division

Okay. And then just turning to the Navy contract. I know you mentioned some revenue pushed out but not lost. I'm curious when it comes back online, do you see that as a gradual coming back online? Or is there kind of a catch-up type thing, if it's even possible to predict? Any context there would be helpful.

Dan Rabinowitz
CFO, Secretary & EVP

First, I would suggest that it's impossible to predict. It's changing pretty quickly on a weekly, monthly basis. I would say that we're seeing some consistency in the Navy transaction. We're not seeing a catch-up in any form or fashion. Ships are still deployed, but it's not condensing.

Daniel Rosenberg
Paradigm Capital Inc., Research Division

Last one for me. A number of new products seem to be in the pipeline and coming to market. Maybe could you help us understand kind of the demand you're expecting? What gives you confidence in the end customer seeking out newer solutions or differentiation in those products that are coming to market? And then I'll pass the line.

Miroslav Wicha

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Chairman, President & CEO

I'll take that one. Yes, Daniel, I think the 2 different or 3 different markets, we're seeing the enthusiasm really towards the new Makito ONE that we announced, which is a kind of a platform, but it's the -- this will be the first time that Haivision will play in the -- what I believe to be a very strong JPEG XS uncompressed high-quality market where we've never played before, right? It's always been in the H.264, H.265 land. And so this is a big first for us that we will have a single board platform and to my knowledge, the only company that will have that, that can do JPEG XS, H.264, H.265 encoding and decoding on the same blade.

So the versatility, the flexibility and the actual ecosystem that this plugs into is very, very exciting for our customers. And we're seeing a tremendous enthusiasm to get that product out and get people to test it. So we're just -- it's still not even out of the oven yet. And actually, we're showing it this week, part of the technology we're showing at IBC. And I think you're going to see between now and NAB more and more progress announcements with that platform. So that not only is something fundamentally different, but it's a new market also for us. So that's where I see a renewed optimism.

As an example -- on the mission side, the whole, I would say, U.S. defense military spending has been shifting, right? And it's getting -- there's a lot more stuff on the ISR now, more on drone stuff, more remote, but that all plays very well with us. And we've built our new technologies to align with that, right? So when you look at Kraken, the transcoding systems that have way more intelligence, more performance, AI-enabled is getting a traction. So we're seeing the pipeline of potential projects that are being budgeted growing, and that's very positive.

We just announced the Kobra, which is what we call it the visual or tactical visual processor -- video processor technology, but it's at a much smaller scale. Again, it's exact same size, almost the Kraken KX1, but it's packed with a tremendous amount of performance with some advanced software technologies and linked to our mobile app, the Play ISR. So the whole ecosystem really lends itself to where the defense industry wants to go.

So I think we're in the forefront of all that, which I think will be a beneficiary in '27, '28 and '29. So that's when I say I'm excited about the longer term. I see where the requirements are, and we're announcing technologies for that market now, which is very cool.

Operator

[Operator Instructions] Your next question comes from the line of Donangelo Volpe from Beacon Securities.

Donangelo Volpe
Beacon Securities Limited, Research Division

You guys might have addressed this in one of the earlier questions, but I just want to look at how you guys are looking at the capital allocation strategy and how we should be looking at the balance between securing more inventory. I guess, there's a little bit of a delta from the 2022 levels. Wondering if you're looking at ramping up a little bit more there or if you guys are going to be prioritizing reducing debt or a continuation of the NCIB. Any color there would be helpful.

Dan Rabinowitz
CFO, Secretary & EVP

Well, with respect to inventory, yes, we have been investing in inventory, and we'll probably continue to be investing in inventory, but I don't think it's going to get to the levels that we saw in 2022. And so we're probably -- I can't give you a number as to what it will increase to. But I do think that we still have some challenges. We still have some components that we need to make sure we have secure supply for. And so we may see that number go up. But we're not prioritizing the payment of debt. In fact, if you look at the business, we're really very debt-free. We do have $19 million in the bank.

We do have 6 entities in the organization and we have cash located in these entities. We could pay down that line of credit pretty readily if we centralize the cash in the near term here. And that is something that

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we're looking at. But there's no real need for us to pay down debt. Our term debt is de minimis. It's just about flexibility.

Now in terms of the NCIB, we've made some significant investments in the NCIB. It's something we'll continue to be making investments in. The magnitude of that between now and the end of the year is yet to be known. Part of it is based on what the share price is going to settle at and what the opportunities might be with respect to trading.

Donangelo Volpe
Beacon Securities Limited, Research Division

Okay. And then I guess just pivoting over to some of the new products. I'm just -- I'm wondering if Mirko, maybe you could provide some commentary on where you're seeing some of the strongest early customer engagement. I know you talked about the Makito ONE, but maybe about the Kobra, Falkon X4 and Play ISR Premium.

Miroslav Wicha
Chairman, President & CEO

Yes. So you're asking -- sorry, you're asking for the actual specific customers or regionally?

Donangelo Volpe
Beacon Securities Limited, Research Division

I would say regionally and just how overall engagement has been.

Dan Rabinowitz
CFO, Secretary & EVP

I think he is asking, which -- where are we seeing the most activity with respect to these newly announced products.

Miroslav Wicha
Chairman, President & CEO

Okay. Sorry, sorry. Well, we're actually seeing a tremendous feedback within the U.S. on the -- from a broadcast perspective on the Makito ONE. And that's really picking up with some interesting even enterprise clients. From the defense side, we're actually seeing a very strong response internationally. So we're actually going to have a very, very good quarter internationally for our mission team that's coming actually from -- in Asia as well, not just Europe. So that's all positive. We're seeing the typical Q4 demand in the U.S., of course, but what we're seeing in the U.S. is that there's -- the government year-end spending is a little bit different this year, just given the midterms and the budgeting process and the continuing resolution.

But there's a huge interest in the Kobra and the KX1 because those are really, really truly next-generational technologies that will give us a real competitive advantage. So we're seeing that all across the mission -- global mission area because they all share the same need, and they all talk, right? That's one positive thing there.

From the Falkon X4, we're actually showing the X4, which truly is the next level of high-performance, multi-antenna, multichannel technology. So we'll be actually showing that at IBC this week. So that's pretty exciting. And we're also giving a glimpse of the technology demo of our -- our first JPEG XS implementation. So not available yet. It won't be a product yet, but we're showing it actually working as a technology to give people confidence that the Makito ONE JPEG XS will be a pretty serious technology in the competitive market space. And that's what we're going after. Again, a very, very different market, a new market for us after some key competitors.

Donangelo Volpe
Beacon Securities Limited, Research Division

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Okay. And then final one for me. I just want to make sure is guidance is being maintained at $140 million to $142 million for this fiscal year?

Dan Rabinowitz
CFO, Secretary & EVP

I'd say the -- we're probably closer to the lower end of the range than we are at the higher end of the range, given what we're seeing in the fourth quarter. But like we kind of suggested, timing is everything, supply chain is everything, and we could be pleasantly surprised.

Operator

Your next question comes from the line of Robert Young with Canaccord Genuity. [Operator Instructions] Your next question comes from Nick Corcoran with Acumen Capital Partners.

Nick Corcoran
Acumen Capital Finance Partners Limited, Research Division

I think most of my questions have already been answered, but just one follow-up question. You indicated that tariffs might have a 3% impact in the near term. How should we think about margins in the gross margin in the fourth quarter?

Dan Rabinowitz
CFO, Secretary & EVP

Well, I think I gave the estimate. If we look at what current levels are, which is a reflection of supply chain pricing issues and then you subtract 3 points because the fourth quarter will be fully -- the tariffs started at the beginning of August, that should give you some direction on this.

Operator

We have now reached the end of the Q&A session. I would like to turn the call back to Mirko for closing remarks.

Miroslav Wicha
Chairman, President & CEO

Thank you, Tracy. So I guess in closing, I would like to just reiterate that we are committed to maximizing the long-term value of all our shareholders, and we're confident in our ability to execute on our strategic growth plan. I just want to thank all our shareholders and analysts on the line today for their continued support of Haivision and really look forward to speaking with you in mid-January when we'll discuss our Q4 and full fiscal year 2026 performance and results. Thank you, everybody.

Operator
This concludes today's call. Thank you for attending. You may now disconnect.

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