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Q4 2023 Harmonic Inc Earnings Call

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CORPORATE PARTICIPANTS

David Hanover *Harmonic Inc - Investor Relation*
Patrick Harshman *Harmonic Inc - President & CEO*
Walter Jankovic *Harmonic Inc - CFO*

CONFERENCE CALL PARTICIPANTS

Simon Leopold *Raymond James & Associates, Inc. - Analyst*
Ryan Koontz *Needham & Company LLC - Senior Analyst*
Steven Frankel *Rosenblatt Securities Inc. - Analyst*
George Notter *Jefferies LLC - Analyst*
Tim Savageaux *Northland Securities, Inc. - Analyst*

PRESENTATION

Operator

Welcome to the fourth-quarter and full-year 2023 Harmonic earnings conference call. My name is Litzy, and I will be your operator for today's call. (Operator Instructions) Please note that this conference is being recorded. (Operator Instructions) I will now turn the call over to David Hanover, Investor Relations. David, you may begin.

David Hanover ***Harmonic Inc - Investor Relation***

Thank you, operator. Hello, everyone, and thank you for joining us today for Harmonic's fourth quarter and full year 2023 financial results conference call. With me today are Patrick Harshman, President and Chief Executive Officer, and Walter Jankovic, Chief Financial Officer. Before we begin, I'd like to point out that in addition to the audio portion of the webcast, we've also provided slides for this webcast, which you may view by going to our webcast on our Investor Relations website.

Now turning to Slide 2. During this call, we will provide projections and other forward-looking statements regarding future events or future financial performance of the company. Such statements are only current expectations and actual events or results may differ materially. We refer you to documents Harmonic filed with the SEC, including our most recent 10-Q and 10-K reports and the forward-looking statements section of today's preliminary results press release.

These documents identify important risk factors which can cause actual results to differ materially from those contained in our projections or forward-looking statements. And please note that unless otherwise indicated, the financial metrics we provide you on this call are determined on a non-GAAP basis. These metrics, together with corresponding GAAP numbers and a reconciliation to GAAP are contained in today's press release, which we have posted on our website and filed with the SEC on Form 8-K.

We will also discuss historical, financial, and other statistical information regarding our business and operation, and some of this information is included in the press release. The remainder of this information will be available on a recorded version of this call or on our website. And now I'll turn the call over to our CEO, Patrick Harshman. Patrick.

Patrick Harshman ***Harmonic Inc - President & CEO***

Well, thanks, David, and welcome, everyone, to our fourth quarter call. For today, we reported our fourth quarter and full-year results, wrapping up 2023 with another quarter of solid performance, including record total company revenue, driven by continuing strong demand for our market-leading broadband and video streaming solutions.

Key highlights for the quarter included record broadband revenue; demonstrating our broadband business remains firmly on track for sustained multiyear growth; record video SaaS revenue exceeding $50 million for the year, powered by growing sports streaming success; and execution of a new $160-million credit facility, enhancing our financial flexibility. We also delivered strong new bookings during the quarter, with a book-to-bill of 1.2, ending 2023 with over $653 million of backlog and deferred revenue and positioning us well for 2024 in the coming years.

So moving now to our broadband segment, we delivered segment revenue of $115.2 million, up 52% sequentially and 20%

year-over-year. The number of global customers supplying our solution reached 108 of 19% year-over-year, with corresponding 26.3 million DOCSIS cable modems now served worldwide, approximately 15% of cable modems deployed globally; again, highlighting the substantial DOCSIS growth opportunity still in front of us.

We had several new customer wins during the fourth quarter, including a new top 10 North American operator for whom we made initial shipments. Our pipeline of new customers remained strong, bolstered by the expanding breadth and depth of our competitive advantages. An important area of expanding competitive differentiation for Harmonic is DOCSIS 4.0. Our software core has seamlessly accommodated to the new standard, as have our remote [five] edge device designs. We're successfully powering several early DOCSIS 4.0 deployments launched late in the year, and we are uniquely positioned as the go-to partner for any operator planning a DOCSIS 4.0 or skill deployment in 2024 for 2025.

As a reminder, our DOCSIS 4.0 nodes are fully backward-compatible with DOCSIS 3.1, so that availability of DOCSIS 4.0 RF amplifiers is not a requirement for any operator who chooses to go forward and deploy Harmonic 4.0 capable nodes in 2024. And we expect at least one key customer to make a big move to DOCSIS 4.0-enabled edge devices during 2024, leading to a slower pace of deployment early in the year as 4.0 node-deployment expertise scales up, followed by a heavier deployment pace in the second half.

Another important aspect of our broadband business is that we had greater revenue diversification during the fourth quarter, with both Comcast and Charter contributing greater than 10% of our revenue. [from different places in their respective DA architecture deployment journeys], we're grateful to be working with both of these industry leaders and are incredibly focused on supporting the respective strategic initiatives.

Augmenting our growing multi-year pipeline of DOCSIS opportunities, we also continue to make solid progress during the fourth quarter on building a synergistic fiber-to-the-home business. In the fourth quarter, we secured several new fiber customer wins, spanning existing cable and non-cable fiber-first operators. We also announced a couple of compelling new fiber products that significantly expand our addressed market and our ability to compete with incumbent fiber-to-the-home competitors.

Early customer response to these new products has been very encouraging. We're ramping up our fiber specialist sales team, and we remain very much on track to make fiber a strong, strategic, and financial contributor to our business.

So in summary on broadband, our broadband business continues to be well positioned with unique and powerful technology advantages, solid customer relationships, strong backlog, and a rich array of new business opportunities that give us confidence in our multiyear growth outlook. We finished 2023 with solid execution and considering our customers' positive feedback, we're confident in our ability to carry this strong execution forward through 2024 and beyond.

So turning now to our video segment, the highlight of the quarter was again SaaS revenue, $13.2 million, up 26% year over year. Total segment revenue was $51.9 million, down from $68.3 million a year ago, while gross margin was a record 64.6%. These results reflect our continued intentional SaaS transformation and some macroeconomic headwinds overseas impacting our clients' business.

As mentioned previously, SaaS revenue for the year topped $50 million, up about 47% year over year, mainly driven by streaming sports, live sports. During the fourth quarter, we continued to see existing customers expand usage and new customers adopt and begin to launch services with our SaaS solution.

This positive momentum has carried into 2024. Earlier this month, our SaaS powered the largest live streaming event ever in the US, a testament to our exceptional technology and service capabilities. The market visibility of this extremely successful event has already translated into an additional boost to our SaaS sales pipeline.

A targeted ad monetization is key to the rationale for moving live content, especially live sports, to streaming, and it's an important adjacent growth opportunity for us. As you may recall, we rolled out a new ad insertion SaaS earlier in 2023, and it was great to see several initial wins with this new service during the fourth quarter.

On the appliance side of the business, which, as a reminder, is more capital-intensive for our customers, we saw revenue stabilize despite several continuing instances of project delays associated with financing and other macroeconomic headwinds, particularly internationally. While domestic video appliance business remain solid, as does our overall pipeline and competitive position.

Finally, regarding video, our strategic review process is ongoing and continues to be a very high priority for us. Walter will speak more about this shortly. So in conclusion, we ended 2023 on a solid note and with a robust backlog. This highlights the continued demand we're seeing from our customers and the strong footing we have for further growth in 2024 and beyond. With that, let me turn it over to Walter for a deeper discussion of our results and outlook.

Walter Jankovic ***Harmonic Inc - CFO***

Thanks, Patrick, and thank you all for joining us today. Before I discuss our quarterly results as well as our outlook, I'd like to remind everyone that the financial results I'll be referring to are provided on a non-GAAP basis. As David mentioned earlier, our Q4 press release and earnings presentation includes reconciliations of the non-GAAP financial measures to GAAP that are discussed on this call. Both of these are available on our website.

Our fourth quarter results were consistent with our expectations and above the midpoint of our guidance range on the top as well as the bottom line. Additionally, we exceeded the midpoint of revenue guidance in both broadband and video.

Before reviewing our Q4 2023 financials in detail, I'll call out some highlights here on slide 7. For the quarter, we reported revenue of $167.1 million, which was an all-time company record and included record broadband revenue of $115.2 million. We also reported EPS of $0.13, bookings of $196.5 million, a strong book-to-bill of 1.2, and near-record backlog and deferred revenue of $653.2 million.

In a few moments, I will provide detailed Q1 and full-year 2024 guidance. Prior to that, I'd like to highlight a few key points regarding our guidance. For our broadband business, we expect full-year 2024 revenue to increase 24% year over year at the midpoint of our guidance. [Based on the momentum, we expect to see in the second half of 2024, we anticipate 2025 broadband revenue growth to accelerate on a year-over-year basis. As Patrick mentioned earlier, we are well positioned with our leading technologies, strong backlog, and our customer success to drive continued multiyear growth. enter. With regards to video, we are guiding conservatively for FY24 due to the ongoing strategic review.]

Turning to slide 8, total Q4 revenue was up nearly 2% year over year and 31.4% on a sequential basis. This quarter-over-quarter increase was due to growth in our broadband segment.

Looking more closely at broadband, Q4 revenue was a record $115.2 million, an increase of 20% year over year. As anticipated, during the fourth quarter, we benefited from the initial shipments of another large Tier 1 customer.

In video, Q4 revenue was $51.9 million. While video appliance sales were lower due to the factors I noted on our last earnings call, video revenue included SaaS revenue of $13.2 million or 25.4% of segment revenue for the quarter, up 26% from the prior year.

Video SaaS revenue growth continues to be driven by live sports streaming expansions and new customer wins. We continue to focus on growing our SaaS business and video while maximizing our profitability in appliances despite current macroeconomic headwinds.

In our last earnings call, we announced the initiation of a formal strategic review process for our video business due in part to indications of interest we had received from a number of parties. We are continuing the strategic review process and it remains a top priority for us.

Having said that, as previously noted, no specific timetable has been established for the completion of the review. We are not providing any further details on this process unless and until a definitive agreement has been reached and our Board approves that transaction or decides to conclude the review.

Turning back to our fourth quarter results, we had two customers representing greater than 10% of total revenue during the quarter, with Comcast representing 41% of total revenue and Charter representing 15% of total revenue. The total company gross margin was 49.3%

for Q4 '23, reflecting decreased gross margin in the broadband business segment sequentially.

Broadband gross margin was 42.4% for Q4 '23, down 520 basis points year over year due to product mix. To offer additional clarity, during Q4, we shipped out an extremely high mix of edge products that possesses relatively lower margins compared to other products in our portfolio.

Video gross margin was 64.6% in Q4 '23, an all-time record for the business segment, even taking into consideration today's macroeconomic headwinds and project delays that we've discussed previously. This margin improvement occurred across both SaaS and appliances.

Moving down the income statement on slide 9, Q4 '23 operating expenses were $63.4 million, up slightly, both on a sequential and year-over-year basis. Adjusted EBITDA for Q4 '23 was $21.7 million, comprised of $21.9 million from broadband and negative $0.2 million from video.

Adjusted EBITDA for broadband was in line with our expectations, while video beat our expectations due in part to the gross margin strength previously discussed. This all translated into Q4 '23 EPS of $0.13 per share, in line with our prior guidance and compared with $0.00 in Q3 '23 and $0.17 per share for Q4 '22.

We ended the fourth quarter of 2023 with a calculated diluted weighted average share count of $115.7 million compared to $116.7 million in Q3 '23 and $117.3 million in Q4 '22. The sequential decrease is primarily due to the decreased convertible debt dilution of 1.1 million shares.

Turning to the order book, Q4 bookings were $196.5 million. The book-to-bill ratio was strong at 1.2 for the quarter. For both Q3 '23 and Q4 '22, our book-to-bill ratios were 0.8. As we stated previously, over time, we expect this ratio to normalize and approach the historical benchmark of greater than one. For Q4, we were above one after being below one last quarter.

Turning to the balance sheet on slide 10, we ended Q4 '23 with cash of $84.3 million. The net $2.3 million sequential increase in cash and short-term investments was due to a few factors. Cash from operations provided $6.3 million due predominantly to a decrease in inventory and inventory-related deposits, offset by an increase in accounts receivable. We also used $2.7 million in the purchase of fixed assets.

Turning to accounts receivables and days sales outstanding at the end of Q4 '23, DSO was 76 compared to 78 in Q3 '23 and 59 in the prior year period. The prior year period was lower due to a large customer taking an early payment discount.

Days inventory on hand was 89 days at the end of Q4 '23 compared to 145 at the end of Q3 '23 and 140 at the end of Q4 '22. The inventory decline in the quarter was a result of strong sales in Q4 and lower in-feed as we continue to tighten our supply chain.

Turning to capital allocation, our top priority remains driving our future growth. When appropriate, we will strategically invest in building inventory as we've done in the past to meet strong demand. In line with this strategy, in December, we closed a five-year $160 million credit facility that included a $120-million revolving credit line and a $40-million delayed draw term loan. This new credit facility allows us to repay our 2024 convertible notes outstanding while providing us with ample liquidity and flexibility to support our multiyear growth plans. As of today, we have not borrowed on this facility.

Tomorrow, Tuesday, January 30, we will issue a notice to holders to redeem the entire $115.5 million aggregate principal amount of our outstanding 2024 convertible notes. As a result, holders of the convertible notes will have the right to convert their notes to shares of Harmonic common stock under the terms of the indenture.

We elected to settle any such conversions by paying cash equal to the principal amount and delivering common stock for any conversion value over par. We expect to use our credit facility and cash on-hand to fund the cash portion of the redemption and complete the redemption in Q2 of this year.

Additionally, with our enhanced liquidity position, we intend to step up our stock buybacks available under our current authorization of $100 million, of which $5 million has been used to date. With that in mind, we plan to prudently manage our balance sheet by maintaining overall net leverage of around two times or less and available liquidity of no less than $100 million going forward. In summary, due to the actions we've taken to strengthen our balance sheet, we believe we have sufficient available liquidity to continue funding our growth plans while returning capital to our shareholders through increased stock repurchases.

As we said previously, the timing and amount of any stock repurchases will depend on a variety of factors, including the price of Harmonic's common stock, market conditions, corporate needs, and regulatory requirements. At the end of Q4, total backlog and deferred revenue was $653.2 million. Our strong backlog reflects continued demand from our large broadband customers and growing video SaaS commitments. Just over 50% of our backlog and deferred revenue have customer request dates for shipments of products and for providing services within the next 12 months. Lastly, we generated $3.5 million in free cash flow during the quarter.

Before reviewing the guidance, I would like to mention that given the ongoing strategic review process, we've decided to hold off on setting a date for the next analyst day. We expect to revisit this in the future.

Let's now review our non-GAAP guidance for the first quarter beginning on slide 11. We expect broadband to deliver revenue between $70 million to $80 million, reflecting a technology transition at one of our largest customers; gross margins between 46% to 47% due to product mix; gross profit between $32 million to $38 million; and adjusted EBITDA between $4 million to $8 million.

For the full year, we expect revenue between $460 million to $500 million, gross margins between 46.5% to 48.5%, gross profit between $214 million to $243 million, and adjusted EBITDA between $95 million to $119 million. For broadband, we expect to see a return to top line growth in the second half of the year and the potential to hit record quarterly revenue during that timeframe.

Today's guidance and wider range also reflects anticipated shifts in the timing of certain project deployments related to customers that are transitioning to new technologies. In 2025, we expect our growth rate to accelerate from 2024 levels as our larger customers ramp up their spend levels in the second half of 2024, which should build greater momentum as we enter 2025.

For our video segment in Q1 on slide 12, we expect revenue in the range of $40 million to $50 million, gross margin in the range of 60% to 61%, gross profit in the range of $24 million to $31 million, and adjusted EBITDA to range from negative $8 million to negative $2 million. For the full year, we expect revenue between $195 million to $210 million, gross margins between 60% to 62%, gross profit between $117 million to $130 million, and adjusted EBITDA to range from negative $7 million to positive $2 million. For video, we continue to be conservative, reflecting the ongoing strategic review and other macro economic factors I mentioned earlier.

Turning to slide 13, for the first quarter of 2024, we expect total company revenue in the range of $110 million to $130 million, gross margin in the range of 51.1% to 52.4%, gross profit to range from $56 million to $69 million, adjusted EBITDA to range from negative $4 million to positive $6 million, a weighted average diluted share count of 111.7 million to 115.2 million, and EPS to range from a loss of $0.06 to a profit of $0.02. And for the full year, we expect revenue between $655 million to $710 million, gross margins between 50.5% to 52.5%, gross profit between $331 million to $373 million, adjusted EBITDA between $88 million to $121 million, a weighted average diluted share count of 114.6 million, and EPS to range from $0.49 to $0.72.

In summary, we reported solid fourth quarter results, including record total company and broadband segment revenue. We believe our broadband segment continues to be well positioned for future growth. In addition, our video segment continued its strategic transformation and shift to SaaS during the fourth quarter. Thank you, everyone, for your attention today, and now I'll turn it back to Patrick for final remarks before we open up the call for questions.

Patrick Harshman ***Harmonic Inc - President & CEO***

Thanks, Walter. In summary, as Walter just said, Harmonic delivered another strong quarter, capping a year of solid financial and operational execution despite industry-wide challenges. The company continues to be exceptionally well positioned for sustained growth and to create greater value for our shareholders. We remain focused and confident in our ability to execute, and we appreciate your confidence in us. With that, let's now open up the call for some questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Simon Leopold, Raymond James.

Simon Leopold ***Raymond James & Associates, Inc. - Analyst***

Great, thank you very much for taking the question. I'm just trying to figure out a little bit more of what's going on within this broadband segment in that when I couple your first quarter revenue guidance with the full year, it would appear that the second quarter back half of the year really expand dramatically from this first quarter. And I'm trying to get an understanding of what you're assuming for that to happen.

And I'll be explicit, you may not be in your answer, but we recall last earnings period, Charter talked about delaying some of its upgrades by perhaps six months, and we know Comcast has started deploying DOCSIS 4.0 but some of your language in the prepared remarks sounded like you were making references to some slower aspects of the 4.0. So I'm just trying to discern what the real driver is and what the pattern might be through the year. Thank you.

Walter Jankovic ***Harmonic Inc - CFO***

Hi, Simon, I'll start that, and then ask Patrick to jump in as well. Let me first start by identifying how our guidance is set up and address those two points that you've brought up. Definitely from a Q1 standpoint, you see where our guidance is. The expectation is we return to growth, year on year growth, in the second half, so Q3, Q4.

What is giving us confidence in terms of providing that full year guidance is predicated on two things. One is based on our backlog and contracts that we have with our customers, but more importantly, with regards to the recent conversations that we've been having with key customers in terms of their deployment plans in 2024. And so the guidance reflects the information, the latest information that we have by working with our customers to identify the technology transitions, when they expect to ramp, and that's reflected in the guidance.

In regards to some of the two technologies specifically, definitely there's a customer's ramping up and moving over to 4.0, and that's going to take some deployment time, as Patrick mentioned earlier. And with regards to our other customer that's ramping up, I mentioned the alignment with regards to the plans and the deployment plans that that customer has. Patrick, would you like to add?

Patrick Harshman ***Harmonic Inc - President & CEO***

No, I think you've covered it, but I'll ask you, Simon, if that's clear or if you have any more specific follow-up.

Simon Leopold ***Raymond James & Associates, Inc. - Analyst***

Actually, I've got a different follow-up, and this is just much more of the broader topic in that you highlighted the 15% coverage today. We know Comcast has been working at its own initiative for about four years. That's backwards-looking. If you were to take a look at the what's in front of you and your pipeline, can you give us your thinking of how many years this cycle should last for you?

Patrick Harshman ***Harmonic Inc - President & CEO***

Well, I think it is a tough question, Simon, but I mean a top-level answer is certainly another four to five years. You've kind of got some crosscurrents. On one hand, we, our customers, the market have learned a lot. So the deployment pace today can and should be much faster than it was when this whole initiative started four years ago.

On the other hand, as we all have seen, some customers are just inclined for a variety of reasons to move more slowly, particularly with regards to getting the programs up and running. So you've got both of those things ongoing, somewhat offsetting themselves. So in summary, I expect the pace going forward to be slightly faster than the pace that we've seen to date, but not dramatically, and I think that that sets us up for four, five, six plus strong years of investment and opportunity in this area.

Simon Leopold ***Raymond James & Associates, Inc. - Analyst***

Great. Thank you for taking the questions.

Walter Jankovic ***Harmonic Inc - CFO***

Thanks, Simon.

Operator

Ryan Koontz, Needham & Company.

Ryan Koontz ***Needham & Company LLC - Senior Analyst***

Thanks for the question. I wonder if we could just step back also and talk about your North America Tier 1s. Obviously, we're familiar with Comcast and your win at Charter, but without naming names, can you refresh us on where we are with the North America Tier 1s that you have wins with, maybe without naming names, but talking about them in generality?

Patrick Harshman ***Harmonic Inc - President & CEO***

Sure, Ryan. We've -- I think we previously stated that actually out of the top five, we've received some kind of order or some level of business with the top three. And as I mentioned in the prepared remarks, we won another top 10 just this past quarter. So our coverage is not 100%, but it's now over 50%. And each of those customers is moving forward with different set of priorities, different paces. To date, frankly, out of the the two biggest names, I think the pace has been a little bit slower than we would have expected if you roll the clock back a year or two ago, but we see growing signs of that improving.

One of the things that's kept some folks on the sideline, as you know, has been a question about DOCSIS 4.0 and different variants of that technology. And the success that we're seeing rolling that out, I think, is being very well received by the market. Both existing customers were trying to figure out exactly how to move forward, as well as prospective customers who are kind of waiting for the right stepping off point.

So the momentum is strong, the position is strong. There are a couple of additional accounts to win, and there's a lot of really good work ahead of us and plans actively being worked with customers who have yet to really start scaling in earnest.

Ryan Koontz ***Needham & Company LLC - Senior Analyst***

Okay, that's super helpful, Patrick. Thank you. And maybe double-clicking on your comment there around [DOCSIS] 4, and I know in your prepared remarks you mentioned the amplifier supply and these sort of things. Can you unpack that a little bit for us there in terms of your assumptions to go into your DOCSIS 4.0 migration in terms of dependence on other things that you can't control, be they Broadcom chips, whatever, (multiple speakers) programs?

Patrick Harshman ***Harmonic Inc - President & CEO***

Yeah, so, right. So I appreciate the question, and we were trying to illuminate that a little bit more. Indeed, for a customer to turn on an end-to-end DOCSIS 4.0 system, all the things need to be in place: the DOCSIS 4.0 modem -- in most architectures, some kind of DOCSIS 4.0 amplifier, et cetera. However, the important thing to understand is that our new DOCSIS 4.0 technology can be run in a DOCSIS 3.1 mode. So if you're a customer and you've got to deploy -- I'll make it up -- Akron, Ohio, you may not be ready with the modem and the RF amplifiers, but you may nonetheless choose to buy DOCSIS 4.0-capable nodes now rather than quote unquote, regrettable spend DOCSIS 3.1 limited nodes, if that makes sense.

So we're seeing some rethinking by customers, and we're definitely not seeing in all cases purchasing or in planning and deployment of our DOCSIS 4.0-capable technology being in any way limited by the broader ecosystem. And so that kind of brings us full circle to one large customer who has decided to really pivot almost fully what they're deploying with us to the DOCSIS 4.0 version. I think that's great. It takes advantage of our new technology and really further strengthens our position.

In the short term, as you can see from our guidance, as we just discussed with Simon, this does mean we've kind of got a little bit funny shape to the curve, a slower first half followed by what we think is going to be a very aggressive second half. But net-net, it doesn't diminish the total opportunity and it certainly does not put us on the sidelines waiting for any other third party or product or element of the solution. Is that clear? Is that helpful?

Ryan Koontz ***Needham & Company LLC - Senior Analyst***

Yeah, that's perfect, Patrick. Thank you. And with regards to your DOCSIS 4.0, is any of the second-half load -- is it more dependent on your customers' demand or your own supply chain holding things up there in terms of the second half weight on broadband?

Patrick Harshman ***Harmonic Inc - President & CEO***

Specifically regarding DOCSIS 4.0, it's more about our customers. I mean that being said, it's a good question. I mean, the fact is, we could not ship DOCSIS4.0 in infinite quantities today even if we wanted to. So frankly, we're all in a kind of a ramp-up of the supply chain of the deployment experience, the maturation, et cetera.

So everything is converging, but I think if you have to point to something that could be a limiting factor, it's more on the demand side. We feel quite good about where we are with the technology and that we're going to be in good shape to supply quite heavy demand in the second half. In fact, as you've heard from Walter, that is our plan.

Ryan Koontz ***Needham & Company LLC - Senior Analyst***

Right. Thank you so much.

Operator

Steven Frankel, Rosenblatt.

Steven Frankel ***Rosenblatt Securities Inc. - Analyst***

Good afternoon. Patrick, let's talk about the other set of customers. There were a large number of customers and they're entering SCTE. They hadn't really figured out their deployment plans. Where are we with those and how big a percentage of that group is likely in the 4.0 camp and so they're going to be back-half weighted as well?

Patrick Harshman ***Harmonic Inc - President & CEO***

Yeah, that's right, Steve. It's an excellent question and an excellent point. Look, there is not -- certainly domestically, there is not a significant cable operator who is not contemplating on DOCSIS4.0 for at least part of their strategy. And so, it is part of the dialogue with everyone, and it is part of the dynamic, for better or worse. And again, what we're talking about here is not the scale of the opportunity. In fact, not just FARO expands the opportunity from our perspective, but it does have certain implications on the timing for all the reasons we've just discussed.

And indeed, while I'd say the typical, let's say midsize operator is still probably has three, one more central to their near-term plans. Our understanding and figuring out their FARO strategy, particularly for their most competitive areas, is some is mission critical for them and it's very much core to the planning and discussions with us and to the anticipated scaling indeed, as you said, pushing things a little bit more back half this year.

Steven Frankel ***Rosenblatt Securities Inc. - Analyst***

Okay. And then on the fiber business, maybe a little more color on the progress you're making with > and new opportunities in the pure fiber area.

Patrick Harshman ***Harmonic Inc - President & CEO***

Well, I mean, for us, it's all new opportunity. Steve, I mean, as I mentioned, we've won quite a bit of business with some significant existing cable accounts, but actually very often within those accounts, it's a different team. This could be a team dealing with business services, services to MDUs, as well as the groups who are expanding the footprint, the so-called Edge-Out activity, acquiring new homes passed. And so we're making good progress there. We've had a couple of very significant design wins. Last year was actually quite a good year from a particularly new order input point of view.

One of the things we discovered, particularly internationally though, was that there was a couple of holes in the product line. For instance, we focused on 10G initially. And there's a number of accounts that are really also looking for complementary one gig solution still, legacy solution. So we've added some capabilities around that really, um, I think bullet proofing our offering and giving us a more complete end-to-end solution and for domestic and international operators. And this is looking at both cable as well as new, let's say, traditional telecom or fiber first operators.

And we're also excited about the progress we're making there with those new non-cable accounts against several good wins late last year and a pretty strong pipeline and actually it's going after those accounts. That's one of the key areas of focus for us in terms of scaling up our go-to-market capability.

Steven Frankel ***Rosenblatt Securities Inc. - Analyst***

Would you remind us how many fiber-first customers you have today?

Patrick Harshman ***Harmonic Inc - President & CEO***

I don't think we've quoted that and I think that's not a metric we want to get into, but it's more than just several. about that. []

Steven Frankel ***Rosenblatt Securities Inc. - Analyst***

Okay, thanks.

Operator

George Notter, Jefferies.

George Notter ***Jefferies LLC - Analyst***

Hi, guys. Thanks very much. Pete, if I go back to last quarter, I think there was a conversation about the customers carrying excess inventory. I guess I was thinking about it more in the context of Comcast, but could you give us a sense for what that looks like? Did that inventory get burned off here in Q4 or is that still something that's kind of lingering going forward.

Walter Jankovic ***Harmonic Inc - CFO***

Now in terms of what we talked about last year, George, in terms of orders that got pushed out, those orders were fulfilled in Q4. That was part of the impact you would see there on inventory, for example, the reduction in inventory. So we were holding inventory that was ready to go a couple of quarters ago. And we've now flush that out in in Q4.

George Notter ***Jefferies LLC - Analyst***

Got it. Okay, and then also what about inventory that is in possession of your customers? Is there a comment on that as well?

Walter Jankovic ***Harmonic Inc - CFO***

No specific comment, George, in terms of having direct access to see exactly what's in their pipeline in terms of lead at the three, 3.1 nodes or or four, 4.0 is just getting started on. So there's very little inventory in the pipeline because that's just the getting started now.

George Notter ***Jefferies LLC - Analyst***

Got it. Okay.

So is that is that part of the narrative here that as you see customers transition from three one to 4 row from your business trends are softer now because they're adjusting inventories or is in fact that it's a different skew them that they're buying as they deploy for O.? Or how do I think about how the customer is approaching their own inventories of your product as they go through this transition?

Walter Jankovic ***Harmonic Inc - CFO***

Yes, certainly, George, as well as Patrick mentioned earlier, with regards to deployment around for Dato notes and their backward compatibility in terms of ability to put those notes in place in the network and not to regret putting the three one and having to go back in short order and upgraded to a four point of note so I think we're seeing a level of planning around that as customers look at how they are going to leverage our for Dato notes that have that backward compatibility. So I think that's a big driver in terms of the technology transition specifically to for Dato.

Got it up for you. Is that a different skew that you're selling into a customer like a like a Comcast of certainly a forte for Dato is a different skews and then three.one.

Patrick Harshman ***Harmonic Inc - President & CEO***

Yes, George, it's a different hardware design. It's a different court trip. It's a different RF design to support the some of the deductions for capability. So for the edge devices, it is a different hardware design and it's also additional some incremental love a capability and functionality on the software, the core software piece.

Got it, right.

Simon Leopold ***Raymond James & Associates, Inc. - Analyst***

And I guess the question I'm asking is and is that a source of the softness that you see here in the first part of the year on your customers depleting any remaining inventory of three one nodes in advance of cutting over to four.

Patrick Harshman ***Harmonic Inc - President & CEO***

So it's part of the story I don't think it's the whole story, but for one customer in particular, George, it's a big part of the story.

Yes, if you if you're gearing up for for oh, you're not only just rightsizing your inventory, you're actually bleeding your legacy inventory down a hard, right.

And we have another significant customer that for their own reasons is is just the natural curve of their ramp up is is still, I'd say, ramping up moderately through the first half and kind of hitting the knee of the curve sometime in Q2 and really getting to a much heavier pace of deployment in Q 3 and Q4. That's a customer who's relatively newer to deployment, and that's consistent with what we've seen in the past with other customers who are in their, let's say, 1st year of major rollouts. So we've kind of got two separate things working at the same time and coincidentally, both following the same kind of lighter first half stronger second half curve kind of multiplying the effect.

That makes sense. That helps.

Walter Jankovic ***Harmonic Inc - CFO***

Thank you guys very much. Thank you, Richard.

David Hanover ***Harmonic Inc - Investor Relation***

Thank you.

Operator

(Operator Instructions) Tim Savageaux, Northland.

Tim Savageaux ***Northland Securities, Inc. - Analyst***

Thanks, and good afternoon. A question is on kind of the nature of your initial ramp with Charter, I guess and what you might expect going forward? And I guess I want to come at that from a couple of directions. First, you saw weaker gross margins in Q4. Go. Do we infer that that's a hardware, heavy initial mix or some kind of stocking or there is a relationship there at all on remembering that you had a big upfront software license with Comcast that initial deployment and then relative to And assuming that most of the charter revenue is vast majority is broadband and really wasn't much in any of anything last quarter. How would you relate that ramp to what you saw historically with Comcast. And then I can remember times when you were at similar levels and on up to doing $50 million to $60 million a quarter, probably on the broadband side. So when you talk about that second half ramp, should we think about have those types of metrics to China and you define what you mean? We'll start with Charter in particular.

Walter Jankovic ***Harmonic Inc - CFO***

Again, that's Walter. So we're not going to specifically talk about any particular customers ramp, but I think there's a couple of things there that that you've asked that we'll address. First of all in regards to the margins for for Q4 in broadband specifically. So as we highlighted in our opening remarks, we had a significant high or mix of nodes go out in the Q4 time period more than we had anticipated going into the quarter. Part of that was other customers who came in with orders that they wanted fulfilled in the quarter. And so we prioritize that. And so when we look at our mix of business, our heavy mix of nodes in Q4 and that drove down the broadband margin compared to what we've seen historically.

Second point that I will highlight here in terms of how to think about the margin profile as we move forward across the customer base, as we look at customers come in in terms of moving forward, our customers acquire the nodes, they acquire licenses, software licenses to enable those nodes. Once those get the put put into the network. And so as we've highlighted before and quarter to quarter, the margins will fluctuate depending on the mix over a longer period of time, such as a year, you average those puts and takes, and you'll see more of a normalized mix of the COS., coupled with with the nodes that are going out in in broadband.

So I addressed a couple of your questions.

George Notter ***Jefferies LLC - Analyst***

Tim, is there maybe there's something I missed from from the ones that you listed out here?

Walter Jankovic ***Harmonic Inc - CFO***

Yes, some of it.

Tim Savageaux ***Northland Securities, Inc. - Analyst***

Yes, I think so as a follow-up question. You mentioned the prospects for an accelerating growth rate in 25 as new customers kind of get ramped up. Can you offer any kind of commentary you mentioned over a year for gross margins or normalized, you're guiding into the high 40s, let's say, 47, something like that, um, as as the business scales, if we're looking at 25 is 50% on the table from a gross margin perspective or do you expect the hardware mix to be heavy enough for that?

This range is a reasonable range to expect where we are currently today.

Walter Jankovic ***Harmonic Inc - CFO***

A good question, Tim.

George Notter ***Jefferies LLC - Analyst***

The way I would look at FY24, it's a transitional year with regards to a lot of nodes that are going out into into the networks as we look forward beyond on 2024, I would say that the mix will likely be slightly improved in terms of the mix of our COS. as compared to to our hardware. But there, as you can imagine, there are many factors and some of the ones that Patrick highlighted earlier with regards to our our focus around fiber as well. That has an impact in terms of the the overall margins for the business.

Steven Frankel ***Rosenblatt Securities Inc. - Analyst***

Okay.

Walter Jankovic ***Harmonic Inc - CFO***

Thanks very much.

Steven Frankel ***Rosenblatt Securities Inc. - Analyst***

Okay.

Walter Jankovic ***Harmonic Inc - CFO***

Thanks, Tim.

Patrick Harshman ***Harmonic Inc - President & CEO***

Thank you.

Operator

I would now like to turn the conference back over to Patrick Harshman for closing remarks.

Patrick Harshman ***Harmonic Inc - President & CEO***

Well, thank you again for joining us today, and we're pleased with our strong quarter and we're excited about the opportunities ahead of us, and we're determined to execute in 2024, 2025 and beyond.

Ryan Koontz ***Needham & Company LLC - Senior Analyst***

We appreciate your support.

Patrick Harshman ***Harmonic Inc - President & CEO***

We're confident in our ability to execute, and we look forward to continuing to be in close dialogue with you as we go forward. Thanks again, everyone, have a good day.

Operator

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