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# EDITED TRANSCRIPT

Q2 2023 Harmonic Inc Earnings Call

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## CORPORATE PARTICIPANTS

**Patrick J. Harshman** *Harmonic Inc. - President, CEO & Director*
**Walter F. Jankovic** *Harmonic Inc. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Alyssa Ann Shreves** *Barclays Bank PLC, Research Division - Research Analyst*
**Blake Mielke** *Jefferies LLC, Research Division - Equity Associate*
**Ryan Boyer Koontz** *Needham & Company, LLC, Research Division - MD & Senior Analyst*
**Simon Matthew Leopold** *Raymond James & Associates, Inc., Research Division - Research Analyst*
**Steven Bruce Frankel** *Rosenblatt Securities Inc., Research Division - Senior Analyst*
**Timothy Paul Savageaux** *Northland Capital Markets, Research Division - MD & Senior Research Analyst*
**David Hanover**

## PRESENTATION

**Operator**

Thank you for standing by. Welcome to the Second Quarter 2023 Harmonic Earnings Conference Call. My name is Jonathan, and I will be your operator for today's call. (Operator Instructions) Please note that this conference is being recorded.

And now I'd like to turn the call over to David Hanover, Investor Relations. David, you may begin.

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**David Hanover**

Thank you, operator. Hello, everyone, and thank you for joining us today for Harmonic's Second Quarter 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 in 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 the 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 the 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?

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**Patrick J. Harshman** ***Harmonic Inc. - President, CEO & Director***

Thanks, David, and welcome, everyone, to our second quarter call. In the second quarter, Harmonic delivered solid Broadband and Video SaaS growth while also encountering short-term headwinds. Revenue was $156 million, EPS was $0.12 and adjusted EBITDA margin was 13.5%.

Our Broadband segment revenue grew 20% year-over-year, our Video SaaS revenue was up 58% and book-to-bill was over 1.2, leading to record backlog and deferred revenue of over $663 million. Hardware deliveries on both our Broadband and Video sides of the business were softer than anticipated, and we expect this softness to persist through the third quarter before rebounding in Q4.

Our competitive position continues to be strong, evidenced by several important new customer wins during the quarter. The combination of record backlog and deferred revenue, active and healthy existing customers and new customer relationships that have yet to scale



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continues to position us well for sustained long-term growth.

Taking a closer look first at our Broadband segment. We delivered another quarter of solid growth with segment revenue of $97.1 million, up 20% year-over-year. Customers deploying our solution reached 98, up 24% year-over-year, with corresponding 21 million cable modems now served worldwide, still only approximately 12% of the addressable global market, highlighting our significant expansion opportunity, expanding existing and new accounts.

Now we did expect Q2 growth -- excuse me, we did expect Q2 growth to be higher. And during the quarter, we ran into unexpected reductions in hardware deliveries. Reductions, we now expect to persist -- we expect to persist through the third quarter. I want to emphasize we see no loss business, nor do we see any change in our mid- to long-term growth opportunity. Indeed, our customers remain on offense with regard to new gigabit services. Our new broadband bookings were strong, enabling record backlog and deferred revenue and our competitive position has never been stronger.

Contributing to these bookings were initial multimillion dollar orders from 2 new Tier 1 accounts, one in North America and one international. Neither of these accounts have yet begun deployment or contributing revenue.

Further highlighting our still strengthening market position, market intelligence firm, Dell'Oro Group recently and for the first time recognized Harmonic is the cable broadband equipment market share leader.

Another highlight of the quarter was the extension of our software license relationship with a key customer. Our cloud-native core software continues to be unrivaled in the market, valued by our customers and key to our unique and powerful market proposition. Illustrating the flexibility and competitive advantage of our software core, we're leading in enabling new DOCSIS 4.0 -- the new DOCSIS 4.0 standard, which opens the door to compelling new multi-gigabit services for our customers and new growth opportunities for our business. Complementing our extended software core is a new family of backward-compatible DOCSIS 4.0 RPDs and optical nodes. The technology development and trial progress in this area has been truly remarkable, and we're now gearing up to support initial deployments in the coming months.

While technology transitions such as this can result in short-term headwinds, as some customers begin to look ahead to the coming standard, the new growth opportunities being created by the associated new wave of symmetrical multi-gigabit services, the DOCSIS 4.0 unlocks are good news for our business.

Also good news for our business is the progress we continue to make in the fiber-to-the-home area. We recently announced Claro Perú has selected our 10G PON solution for their new fiber service. And we also announced the availability of a powerful new hardened switch for XGS and 10G EPON. Worldwide, cable customers are looking to fiber as they edge out their footprints and compete head-to-head with telcos. And our growing fiber sales pipeline reflects this expanding opportunity.

In summary for our Broadband business, we continue to be confident in our technology position, our market position and our opportunities. With record backlog and deferred revenue, we're continuing to execute on high-impact cable and fiber initiatives that are being embraced by a growing number of customers worldwide, positioning us for sustainable long-term growth.

Now turning now to our Video segment. The highlight of the quarter was SaaS revenue, $13.6 million, up 58% year-over-year. Total revenue was $58.9 million, down from $76.2 million a year ago, reflecting our intentional SaaS transformation, some project delays and a continuing transition of historical appliance revenue to software, evident in the second quarter from the 61.7% segment gross margin.

The business delivered a positive EBITDA, demonstrating our commitment to profitability while investing in the transition to SaaS with its inherent revenue timing challenges. Our strong streaming sales growth was again driven primarily by live sports, with both existing and newer customers contributing. As a reminder, we're benefiting from several newer SaaS customers signed in prior periods that are now coming online and ramping usage. The exceptional video quality and low-latency characteristics of our Video SaaS continue to shine in the market.



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For example, we're currently supporting Women's World Cup and consumer feedback on the relative quality of the streaming services we're powering has been excellent. Based on this progress and growing impact of several new capabilities we announced last quarter, we continue to forecast SaaS growth greater than 50% for the full year.

On the appliance side of the business, North America was quite solid while we experienced some project delay headwinds internationally. We have undertaken a thorough review of our sales pipeline and are working closely with key customers worldwide. The net result is a reconfirmed solid sales pipeline for the second half of the year, with a seasonally strong fourth quarter, which is typical for our Video business.

Recapping our Video segment strategy. We remain focused on taking a leading position in the growing streaming SaaS market, particularly for live sports, while also maximizing profit from the traditional video appliance market. Our results for the first half of the year demonstrate continuing excellent progress on SaaS and continued overall profitability, despite some macro international headwinds. We're confident in our second half outlook and in our ability to continue to create value through sustained streaming SaaS growth.

With that, let me turn it over to you now, Walter, for a deeper discussion of our financial results and outlook.

**Walter F. 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 Q2 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. During the second quarter, we delivered double-digit year-over-year Broadband and SaaS revenue growth and generated strong gross margins in total and across our business segments.

Having said that, we also experienced hardware sales delays, which resulted in total revenue below our expectations. Despite this, our SaaS business continued to grow to record levels and our overall mix of the software revenue was up significantly as reflected in our gross margins. Our operating model demonstrated its inherent strength as we continue to deliver solid profitability, resulting in EPS of $0.12, which was within our guidance range. We ended the second quarter with a solid balance sheet as well as record backlog and deferred revenue of $663.8 million, positioning us well for continued long-term growth.

Before reviewing our Q2 2023 financials in more detail, I'll briefly review the key highlights here on Slide 7. For the quarter, we reported revenue of $156 million with EPS of $0.12. Bookings of $194.7 million and record backlog and deferred revenue of $663.8 million. In a few minutes, we will discuss our Q3 2023 and full year '23 guidance, which now take into consideration the impact of recent customer demand pushouts that have occurred following our last earnings call. These demand changes reflect inventory adjustments by our Broadband customers and macroeconomic challenges affecting our Video customers. To offer some additional color, they do not reflect any loss of market share or any changes in the competitive landscape.

Now let's review our second quarter financials in detail. Turning to Slide 8. Again, total Q2 revenue was $156 million, down less than 1% on a year-over-year basis. Looking first at our Broadband segment, Q2 revenue was $97.1 million, down slightly sequentially and up 20% year-over-year. We continue to see current customer ramp-up and newer customer launches during the quarter, including modest contribution from fiber revenue. As mentioned, hardware revenue was lower than expected, reflecting sales delays across several customers.

In our Video segment, we reported Q2 revenue of $58.9 million, up 3% sequentially and down 23% year-over-year. While hardware sales were lower, our Video revenue included SaaS revenue of $13.6 million or 23% of segment revenue in the quarter, up 58% from the prior year. We continue to execute the strategic transformation of our Video business and the continued growth of SaaS while also focusing on maximizing profitability in the appliance business. We had one customer representing greater than 10% of total revenue during the quarter, with Comcast representing 47% of total revenue, which was similar to last quarter.



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Total company gross margins was 54.7% for Q2 '23, up 80 basis points sequentially and 190 basis points year-over-year, reflecting increased gross margins in both of our business segments sequentially. Broadband gross margin was 50.5% for Q2 '23, up 40 basis points sequentially and 750 basis points year-over-year. The sequential increase predominantly reflects favorable software mix as a result of lower hardware sales in Q2.

Video segment gross margin was 61.7% in Q2 '23, up 130 basis points sequentially and down 150 basis points year-over-year. The sequential increase was primarily due to SaaS continuing to scale.

Moving down the income statement on Slide 9. Q2 '23 operating expenses were $67.2 million, up 1.5% sequentially and 9% year-over-year. The sequential increase reflects higher sales commissions due to recent contract wins. Adjusted EBITDA for Q2 '23 was $21.1 million or 13.5% of revenue, down 13.4% versus Q2 '22, comprised of $19.7 million from Broadband, representing 20% -- 20.2% of segment revenue and $1.4 million from Video. This all translated into Q2 '23 EPS of $0.12 per share, consistent with Q1 '23 and compared to $0.16 per share for Q2 '22.

We ended the second quarter of 2023 with a calculated diluted weighted average share count of 119.3 million compared to 117.8 million in Q1 '23, and 109 million in Q2 '22. The sequential increase is primarily due to the increased convertible debt dilution of 1.2 million shares.

Turning now to the order book. We reported bookings of $194.7 million. The book-to-bill ratio was 1.2 for the second quarter. For Q1 '23 and Q2 '22, our book-to-bill ratios were 2.1 and 0.9, respectively. This follows what we've stated previously that over time, as supply chain conditions improve, we expect this ratio to normalize and approach the historical benchmark of greater than 1 as it did in Q2.

There is one item that I would like to draw your attention to from our GAAP to non-GAAP reconciliations for Q2. In Q2, we recorded a nonrecurring expense of $2.1 million that is excluded from our non-GAAP results relating to professional accounting tax and legal fees associated with strategic corporate initiatives. Given their nonrecurring nature, we have excluded these costs from our non-GAAP results to provide investors greater transparency regarding the performance of our core businesses.

Turning to the balance sheet on Slide 10. We ended Q2 '23 with cash of $71 million compared to $90.9 million at the end of Q1 '23. The net $19.9 million sequential decrease was due to a few factors. We used $16.5 million of cash in operations. This was primarily due to an increase in accounts receivable, offset partially by a decrease in inventory in the quarter. I will address these 2 items in a moment. We also used $1.5 million of cash in the purchase of fixed assets.

Turning to accounts receivables and days sales outstanding. At the end of Q2 '23, DSO was 69 compared to 50 in Q1 '23 and 61 in the prior year period. Our second quarter DSO reflected a significantly larger portion of shipments in the final 2 weeks of the quarter that have since been collected. Going forward, one of our larger customers has informed us that they will no longer take an early pay discount so that will now be reflected in our go-forward DSOs and cash forecast.

Days inventory on hand was 145 days at the end of Q2 '23 compared to 163 at the end of Q1 '23 and 100 at the end of Q2 '22. It's important to note that the inventory decline in the quarter was a result of lower-than-expected material in feed as we tighten our supply chain.

Regarding capital allocation, our top priority remains driving our future growth. As such, when appropriate, we will strategically invest in building inventory as we've done in the past to meet strong demand. Having said that, as we've stated previously, we have the flexibility to maintain somewhat lower inventory levels. That is reflected in our ending inventory balances for the second quarter.

At the same time, our capital allocation strategy takes into account our ability to return capital to our shareholders through stock repurchases. Again, as stated previously, the timing and amount of any repurchases will depend on a variety of factors, including the price of Harmonic's common stock, market condition, corporate needs and regulatory requirements. We also consider our 2024 convertible notes in our forward cash planning activities.



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At the end of Q2, total backlog and deferred revenue was $663.8 million compared to $623.5 million at the end of Q1. This record backlog and deferred revenue reflects continued demand from our large Broadband customers and growing Video SaaS commitments. The majority of our backlog and deferred revenue has customer request dates for shipments of products and providing services within the next 12 months. In summary, while our Q2 revenue was below expectations, our SaaS business continued to grow to record levels.

In addition, our overall mix of software revenue was up significantly as reflected in the strength of our gross margins. While we do expect to see continued short-term headwinds in our revenue as customers deal with inventory levels and macroeconomic conditions, we do not see these factors impacting our market share or our long-term expectations for continued growth.

Before reviewing the guidance, I'd like to take a moment to comment on my first 2 months here at Harmonic and my priorities going forward. First of all, as I've met with all the organizations and conducted a deeper review into our technology, capabilities and market opportunity, I'm extremely excited about the opportunities ahead of us and our ability to grow over the long term.

To facilitate our long-term growth plans, I've laid out the following key priorities for my team in collaboration with the broader organization. First, to conduct a thorough review of our long-term market opportunities to drive an updated strategic plan, which we will share with you at our next Analyst Day late this year. Second, to develop a road map on how we scale up the organization cost effectively and with the appropriate tools and processes to facilitate our expected growth. And third, revise our capital allocation plan based on our updated strategic plan.

I look forward to updating you as we progress on these key priorities.

Let's now review our revised non-GAAP guidance for 2023, beginning on Slide 11. Based on the current macroeconomic conditions and the continued demand we're seeing for our products, for the full year 2023, on a total company basis, we expect revenue in the range of $620 million to $660 million, gross margin in the range of 51.9% to 52.9%, operating expenses to range from $262 million to $268 million, adjusted EBITDA to range from $71 million to $93 million, an effective tax rate of 20%, up from 13% from last year as we exhausted our NOLs in the past year, a weighted average diluted share count of approximately 119.2 million. Please note that the convertible debt-related dilution included in our share count uses the Q2 average stock price, which was approximately $16.05. As a reminder, the share count figure utilized in our dilution calculations will change depending on stock price movements. EPS to range from $0.38 to $0.52 per share, subject to the just mentioned dilution calculation, down 24% at the midpoint from previous guidance. And cash at the end of 2023 is expected to come in between $80 million to $95 million.

Our cash guidance reflects one of our larger customers no longer taking an early pay discount option, as I mentioned earlier. This will result in higher DSOs than what we have seen over the past few quarters. We still see cash accretion over the second half of 2023 and into 2024 to give us full optionality on how we handle the repayment of the principal of our 2024 convertible notes.

For total company for the third quarter of 2023 on Slide 12, we expect revenue in the range of $125 million to $140 million, gross margin in the range of 50.0% to 50.8%, operating expenses to range from $65 million to $67 million, adjusted EBITDA to range from 0 to $8 million, an effective tax rate of 20%, a weighted average diluted share count of approximately 112 million to 119.8 million. And EPS to range from a loss of $0.02 to a profit of $0.02, and then cash to range from $80 million to $90 million.

Turning to Slide 13. For the full year 2023 based on the progress to date, we expect Broadband to achieve revenue between $385 million to $410 million, below our prior guidance at the midpoint. Gross margins between 47.0% to 48.0%, reflecting a much greater mix of hardware in the second half of 2023 versus the first half. Operating expenses between $122 million to $125 million and adjusted EBITDA between $65 million to $78 million.

For our Broadband segment in Q3, we expect revenue in the range of $70 million to $80 million, gross margin in the range of 42.5% to 43.5%, operating expenses in the range of $30 million to $31 million, and adjusted EBITDA to range from $1 million to $6 million.

Now on Slide 14, I will review full year '23 Video segment guidance. We expect revenue in the range of $235 million to $250 million, gross margins in the range of 60% to 61%, operating expenses in the range of $140 million to $143 million and adjusted EBITDA in the range of



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$6 million to $15 million. For our Video segment in Q3, we expect revenue in the range of $55 million to $60 million, gross margin in the range of 59.5% to 60.5%, operating expenses in the range of $35 million to $36 million and adjusted EBITDA to range from a loss of $1 million to a profit of $2 million.

This guidance reflects a wider range on revenue and earnings related to short-term headwinds we are seeing with customers. We believe it's somewhat conservative, which we think is appropriate given the current environment. In summary, during the second quarter, we continued to execute on our long-term strategic plans with continued growth in our Broadband segment and further progress with the planned transformation of our Video segment and shift to SaaS. We ended the second quarter with record backlog and deferred revenue, which we believe positions us well for future growth.

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 J. Harshman** ***Harmonic Inc. - President, CEO & Director***

Thanks very much, Walter. I think you've got the summary right. Our products and services, our customer relationships and our team will continue to lead the markets we serve. We remain determined and confident in leveraging this leadership to take full advantage of the expanding market opportunities in front of us. And we appreciate all of you listening on the call today, our shareholders. We appreciate your continued support.

With that, let's now open up the call for questions.

## QUESTIONS AND ANSWERS

**Operator**

And our first question comes from the line of Simon Leopold from Raymond James.

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

So a couple of things I'm trying to digest here, but it really comes down to trying to make sure we understand what's changed in terms of the commentary you offered last quarter to this quarter because it seems to me that this is a combination of factors and not just one.

So I think we had been expecting during the second half of the calendar year, you would be seeing more growth from your other customers besides your largest. And we also felt like your largest customer was sort of running at a pretty steady pace. And given this outlook for the third quarter, it seems as if perhaps your largest customers are sitting on too much inventory and the other customers are maybe not showing up with the strength you thought. And just one clarification to sort of tie this together, if it does seem as if the fourth quarter is you're anticipating very, very strong sequential growth, and I want to make sure I'm sort of plugging that in correctly and sort of what gets us there.

**Patrick J. Harshman** ***Harmonic Inc. - President, CEO & Director***

Okay. Well, thank you, Simon. There's a lot there in the question. As you know, we cannot parse out what's happening with different customers. Maybe going back to the headline, indeed, what transpired during the past quarter in terms of expected demand, we saw a significant change in terms of what was communicated to us. The change was not exclusively from one customer. We don't think, in any way, it reflects changes in long term or even mid-range plans. It does reflect though some absorption of inventory, some contraction. And secondarily, I think some other market factors, transition to FDX being one of them.

I think the outlook for the business, while it's premature to give 2024 guidance, the outlook for the business is really unchanged. And I think recent statements by several of our customers, as they've issued their earnings releases, speaks to their continuing aggressiveness in advancing their deployment plans. We're certainly encouraged by that. And we're -- yes, we're confident in the guide that we've given here for the fourth quarter and confident in our positioning with these customers as they continue to drive their businesses.



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

Thanks for that clarification. And just maybe a quick follow-up, if I might. I wanted to get a little bit more color on how you structure your agreements in the CableOS, whether your customers are getting perpetual licenses, paying by the seat, whether there's a renewal stream. Just if you could unpack the business arrangements around the software aspects on the cable side.

**Patrick J. Harshman** ***Harmonic Inc. - President, CEO & Director***

Okay. I'll take it, and Walter, you can chime in. Simon, the most common model and the truth is there are a couple of different models we've used. But by far and away, the most common model is a perpetual license associated with a fixed amount of provisioned bandwidth around a specific standard. So let's just say, 100 megabits, 5 gigabits, 10 gigabits of DOCSIS 3.1 traffic, a perpetual license for that, that is associated with the underlying compute.

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

So when a customer migrates to 4.0, you'd essentially have a new software agreement?

**Patrick J. Harshman** ***Harmonic Inc. - President, CEO & Director***

That is the most common model. That is correct.

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

And Walter, you were going to say something?

**Walter F. Jankovic** ***Harmonic Inc. - CFO***

Yes, I was just going to add, as Patrick highlighted, just to emphasize the point, there are different models in terms of the CableOS and how we're selling that through to customers and how that will transact going forward. So as we see customers, there's many customers who will be buying on a subscriber basis. So as they increase their network in terms of adding subscribers, that will have an impact in terms of our software revenues.

**Operator**

And our next question comes from the line of Ryan Koontz from Needham & Company.

**Ryan Boyer Koontz** ***Needham & Company, LLC, Research Division - MD & Senior Analyst***

Given your software license model there around bandwidth consumption, I've been hearing there were some recent history reports about declines in broadband traffic demands. And I wonder if you're seeing that have any impact relative to kind of the pace of customer projects and maybe over purchase of inventory. So as you look at kind of these near-term headwinds, and it sounds like you've mentioned it was mostly international. Can you parse out any of those thoughts for me in terms of how you think that might be affecting your near-term demand?

**Walter F. Jankovic** ***Harmonic Inc. - CFO***

Yes, Ryan. It's Walter. Thanks for the question. So first of all, with regards to international demand and comments, so I think those comments reflect across both Broadband and Video. We're seeing certain regions that are being more impacted in terms of delaying their decisions to move forward with certain projects. So I first wanted to clarify that point specifically.

And then secondly, as we had emphasized in our opening remarks, customers are adjusting inventory levels. I think that's something that's happening across the board with many customers out there and doesn't necessarily reflect their plans in terms of deployments moving forward. And I think that's a really important point to take away from the comments here. We expect, as Patrick highlighted earlier, that the fundamentals, the expectation of continued growth and rollouts from our customers is happening and will continue to happen. And from the position of where we stand and the wins that we have and the market share, we've never been stronger. So I just wanted to clarify with those comments.



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**Ryan Boyer Koontz** ***Needham & Company, LLC, Research Division - MD & Senior Analyst***

That's great. And I want to kind of continue that thought forward with a comment around FDX and DOCSIS 4.0. Are you -- it sounds like you feel well prepared to participate in some of these early trials. When do you think you'll see kind of the customers in total really begin to move over to DOCSIS 4.0? Are we still talking '25, do you think?

**Patrick J. Harshman** ***Harmonic Inc. - President, CEO & Director***

It's a fluid picture, Ryan. Actually, the progress -- the technology progress and the early trial progress that we've been involved with has actually moved more quickly than I think many anticipated. We expect not just trials, but we now expect initial true deployment, revenue deployments to be happening beginning in 2024. Now some customers are further along and more aggressive than others. So 2024, I think, will still be more of a DOCSIS 3.1 story. But there's no doubt that because of the pace of progress that we in particular have made, and I believe that we're very much leading here, the door is now open to some customers to start to pivot to that even in 2024.

And I think it's exciting. It's creating -- it's going to enable, I think, a very interesting competitor -- additional competitive platform, excuse me, for cable versus telco and pure fiber competitors. And I think it also speaks, maybe back to the earlier part of your question, to the continuing aggressiveness that many of our customers are still looking -- or still have motivating them as they're looking at competing in this space.

**Operator**

And our next question comes from the line of Steven Frankel from Rosenblatt Securities.

**Steven Bruce Frankel** ***Rosenblatt Securities Inc., Research Division - Senior Analyst***

Patrick, let me just circle back to the second part of Simon's question, which was I think all of us had this assumption that while your largest customer may be going through something, there was a set of other customers, including some Tier 1s that haven't really gotten started yet. They were still in the early deployment phases, and the assumption was they would be ramping up in the back half of this year. Are you telling us that some of those customers are also putting the brakes on at this point? They're not ready to ramp up?

**Walter F. Jankovic** ***Harmonic Inc. - CFO***

Steve, it's Walter. I will first answer that, and then Patrick can add some more color. I think -- and it was mentioned earlier here in the Q&A that when you look at our guidance, we do expect multiple customers to be ramping up in Q4, and you see that in our number based on the full year guide that we've provided. So the quick answer to that is yes, we're seeing customers starting to ramp up. And we're seeing it in our Q4 guidance, and we've built it in. And Patrick, if you...

**Patrick J. Harshman** ***Harmonic Inc. - President, CEO & Director***

No. I think that captures it all.

**Steven Bruce Frankel** ***Rosenblatt Securities Inc., Research Division - Senior Analyst***

But no one's stepping up in Q3 to fill the gap clearly from the guidance. Patrick, maybe some color on the 2 new Tier 1 wins?

**Patrick J. Harshman** ***Harmonic Inc. - President, CEO & Director***

We're excited about them. They are definitely players or, let's say, if I can use them in quotes, household names in the community. So they're premier accounts, and we're excited to have them on board. I think that, as I mentioned in the prepared remarks, initial multimillion dollar orders, so we have a ways to go. But to your question, neither is contributing revenue yet. And likely, only modest revenue before year-end, but it's really part of the layering that's going on of our business and speaking to what we think will be greater diversity of customers, a breadth of customers, a large as well as small, that's building over time here. Yes, Steve, it's not always easy to exactly prognosticate what the pace of the ramp will be. Every customer has got their own thing going on. But having more in the funnel, it's only good news for our business. And so we're thrilled to see continuing progress in North America as well as continuing progress overseas.



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**Steven Bruce Frankel** ***Rosenblatt Securities Inc., Research Division - Senior Analyst***

Okay. And just a clarification on the backlog. I think you've said a couple of times you didn't feel like you were losing any market share or any shifts there. But from a technical point of view, if I was a customer, do I have the ability to cancel that backlog? Or am I locked in to some extent?

**Walter F. Jankovic** ***Harmonic Inc. - CFO***

Generally, customers are locked in with their purchase commitments. What we sometimes see and have obviously experienced is customers will push out the order dates. And so we have to work with our customers with regards to their plans and requirements. And so that is something that does impact us from the perspective of timing as compared to an order being cancelable.

**Operator**

And our next question comes from the line of George Notter from Jefferies.

**Blake Mielke** ***Jefferies LLC, Research Division - Equity Associate***

This is Blake on for George. I'm curious if you can provide any additional detail on the follow-on software contract with the existing large Tier 1? Maybe how that deal is structured, if it's any different and if the economics have improved at all for you?

**Patrick J. Harshman** ***Harmonic Inc. - President, CEO & Director***

I appreciate the question, and I understand where it's coming from. But I ask you to appreciate, it's not something that we can really unpack for you. I think the headline message is the differentiation, the power of the software is enduring. And I think we faced a question of, gee, will some customers stay with you? And I think we're offering it as an example of the durability of the leadership and of the relationships that are built around or built around the software, how the software is a major building block.

What we can't talk about really is the duration, the scope or other aspects of it. And other than to say that in no way is it a one for one with what has been done previously with the customer. But it's an important reflection of our continuing relationship and the continuing leadership that we have in the industry with our software capability.

**Blake Mielke** ***Jefferies LLC, Research Division - Equity Associate***

Understood. And then curious where lead times stand for cable access equipment. I believe they're about 12 months recently for larger quantity node orders. Is that still the case? And maybe how did they change at all out -- they did during the quarter, if so?

**Walter F. Jankovic** ***Harmonic Inc. - CFO***

Blake, it's Walter here. So what I can say is that from our perspective, I mean, we've continued to work with our customers based on our lead time requirements. And from a supply chain perspective, and I made the comments in the opening remarks, we continue to see certain long lead time parts that require 52-week lead times. But there's many parts in the supply chain now that have actually improved, and that's given us more flexibility in terms of our ability to order up and square up inventory.

And I think from a customer standpoint, customers are looking at their buffers and determining what inventory levels they want to hold. And I think that's where it comes back to the comments we made around customers making inventory adjustments, and we see that across many customers that we have today.

**Operator**

And our next question comes from the line of Tim Savageaux from Northland Capital.

**Timothy Paul Savageaux** ***Northland Capital Markets, Research Division - MD & Senior Research Analyst***

I had a couple of questions here. First, following on an earlier discussion about the new Tier 1 wins, and, I guess, we'll throw Charter in there as well. Is there -- to the extent, Patrick, you talked about your growth outlook, though not explicitly stated for '24 being unchanged. Does that imply that the real -- you won't see much in terms of meaningful revenue contribution from any of those 3 wins this year with the -- even though you booked some orders? The meaningful ramp coming next year? And I guess could those, in the aggregate, help to get you pretty close to achieving that growth plan?



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**Patrick J. Harshman** ***Harmonic Inc. - President, CEO & Director***

I appreciate the question, Tim. I think it is premature for us to be talking in any quantitative way about 2024. And as you also, I think, will appreciate, I can't comment specifically about Charter. But look, what we've seen with other Tier 1s -- and going back to the Comcast relationship, it takes a while to get going. It's a powerful but new operational paradigm in addition to technology, et cetera. And so there is an on-ramp, for lack of a better term, that needs to be worked through. And in each of these accounts, we're working through that. I cannot say that there is no contribution in 2023. In fact, that there is modest contribution from some of the newer Tier 1s in 2023. But indeed, the lion's share of the opportunity lies ahead in 2024 and 2025. That's for sure.

And as we look out to 2024 and 2025, that's one of the reasons why we can say with more certainty or more confidence that as we look at customer concentration in our business, et cetera, we think we will be in a different place as more of these Tier 1s come online. Exact timing and exact size, I think we're going to have to hold back being quantitative until we're a little closer to 2024 and we've reviewed with our customers their more detailed 2024 plans.

**Timothy Paul Savageaux** ***Northland Capital Markets, Research Division - MD & Senior Research Analyst***

Got it. And on to a separate topic here, and this might get a little sticky, so please bear with me. And you commented earlier on the call and in the prepared remarks that you didn't feel like well, A, most of your comments about areas of weakness seem to be focused on the outside plan. When you say hardware, at least that's what it means to me. And your order book kind of reflects that. It's a pretty good order book for a weakening demand environment, and you mentioned some of the new Tier 1s there.

So are we seeing some differentiation in how the business is behaving between kind of the virtualized CCAP, the router side of the house versus the node side? And you did mention, you didn't feel like you were losing market share. But to the extent that FDX is ramping pretty quickly and one of your big established competitors is arguably very well positioned there, wouldn't that -- A, would that implicitly imply some market share loss in the hardware side nodes? B, might not that be a good thing for your business model over time, right? Less revenue, higher margins. And C, is that what's behind maybe a rethinking of the '25 Analyst Day targets? On the one hand, Patrick, you said support long-term growth targets. I thought Walter just told me we have new numbers coming. Can you guys clarify that? And I apologize in advance for that, so sorry.

**Patrick J. Harshman** ***Harmonic Inc. - President, CEO & Director***

No, it's okay. But there are several things there. So we'll do our best to kind of track through them, and maybe you can remind us along the way. Why don't we start at the end, Walter?

**Walter F. Jankovic** ***Harmonic Inc. - CFO***

Let me handle that one first, Tim. So in my remarks in terms of our focus every year, we go through a strat planning process. And now I'm coming in new into the organization and working with the team to thoroughly go through that process and build up our long-term strat plan. And so we will be revising that plan. We'll be working together as a team internally and then presenting that at our Analyst Day later this year. So I just wanted to clarify, this is something that will happen each and every year, and as you would expect, in terms of us recasting our long-term plan.

And with regards to the target models that have been provided previously, those were put together in -- a year ago and presented at Analyst Day. And as Patrick pointed out earlier and in some of our remarks, if you look at the long-term opportunity for us in terms of the market itself and our position in the market, we're still very strong in terms of our overall position. So I'll let Patrick handle the next couple of questions here.

**Patrick J. Harshman** ***Harmonic Inc. - President, CEO & Director***

Okay. Thanks, Walter. So Tim, I think there's a couple of interrelated topics, so I'll try to touch briefly and then you can direct a follow-up. So in no particular order, maybe DOCSIS 4.0. We think we're incredibly well positioned there. And the work we've done, we think, is exceptional. And the feedback we're getting from the customer base on the products we've made is exceptional. So in fact, we see DOCSIS 4.0 as an opportunity to capture even more hardware market share. And of course, the quick way we've been able to adapt because of the software basis of the core is a big part of the agility and speed there. So we see 4.0 as a positive in terms of strengthening the competitive position. And frankly, it's -- from a hardware perspective, it's a higher price point. So from multiple perspectives, it's a



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good thing.

Although there may be a little bit of delay in the market as some folks begin to look ahead to DOCSIS 4.0 product. You also touched on maybe related to that the market share more broadly. Look, we do not think that we are losing any market share. In fact, we think -- what we think we -- the politically correct word is we think that we have, by far and away, leadership share in the software core, the only real virtualized solution out there. On the hardware side of things, though, we think we actually continue to exceed our expectations in terms of market share. And in particular, the most recent addition of the Dell'Oro report, I think, calls out for the first time Harmonic as the clear market leader here in all things DAA, NBC, MTS.

And maybe last but not least, we talked about the -- you asked about the software-hardware balance. And indeed, I think what you saw in the second quarter was lighter software for the reasons -- hardware, excuse me, for the reasons we've discussed. But we saw pretty strong software, which is why the mix kind of tilted and the margins were as strong as they are. So no doubt about it. We are -- our strength in software, I would call commanding.

On the hardware front, though, I'll take the opportunity to remind everybody that we have a couple of different models out there. And while some customers are buying our node and our RPD, there are some customers, particularly overseas, where we actually just provide the RPD inside of a third-party node platform. And in fact, we have some North America customers who are looking at that model as well.

And to your -- I guess, your side comment, that's more than fine by us, frankly. The RPD is the highest value, the highest margin part of the hardware solution. And if we can piggyback on third-party enclosures and whatnot, it's good news. Even though it does reflect in maybe a lower headline revenue number from a gross profit perspective, the business is very strong. And in many regards, that's what you saw play out in the second quarter.

So in summary, we're not -- we don't think we're losing any market share in terms of lost opportunity. We are pursuing a couple of different business models that may tilt towards a higher software mix. And we think that the advent of DOCSIS 4.0 is doing nothing but solidifying our position in the market. That was a mouthful, Tim. Forgive me. But does that cover what you were after?

**Timothy Paul Savageaux** ***Northland Capital Markets, Research Division - MD & Senior Research Analyst***

It absolutely did. I really appreciate it.

**Operator**

And our next question comes from the line of Alyssa Shreves from Barclays.

**Alyssa Ann Shreves** ***Barclays Bank PLC, Research Division - Research Analyst***

This is Alyssa Shreves on from Barclays. Just could you talk a little bit about the broadband slowdown? Specifically, when did you kind of see in the quarter customers kind of changing their plans and delaying? And was it all at the same time? Or did you start to see it accelerate? And then also, can you talk a little bit about in which geos you're seeing the weakness in Video?

**Patrick J. Harshman** ***Harmonic Inc. - President, CEO & Director***

Okay. Thanks for the question, Alyssa. The change in request or direction we started receiving for customers on broadband were really back half of the quarter, mid-quarter and onwards. And yes, I don't think there's much information to be further parsed by exact timing, but more on the back end. And as you can see, a modest impact on the second quarter, really, and this is more of a third quarter impact and somewhat movement to fourth quarter as evidenced in our guidance.

On the Video side of the business, the weakness is definitely overseas. And we think it's really macro related. Our SaaS business is strong worldwide. Our Video appliance business was quite robust in North America. But the real weakness that we saw and really manifest as delays, not lost project, but customers kind of saying, oh, well, you know what, we don't -- we're not ready to pull the trigger this quarter as planned. We'd like to do it a little later in the year. That kind of dialogue we saw in several instances internationally.



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**Operator**

This does conclude the question-and-answer session of today's program. I'd like to hand the program back to management for any further remarks.

**Patrick J. Harshman** ***Harmonic Inc. - President, CEO & Director***

Right. Well, thank you all for joining us again today. Through our prepared remarks, and I think this very good Q&A session, I hope it's evident that the fundamental market drivers on which we're focused remain in full force and we believe will for the mid- to long term. There's no doubt about it.

We've laid out our best understanding. And as Walter said, we believe, conservative understanding what the remainder of this year looks like. But make no mistake, we're playing long ball here and we're extremely excited about the future of this business. We're 100% focused on execution, and we look forward to keeping you apprised of our progress. Thank you all again. Good day.

**Operator**

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.

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