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- **Steven Frankel** *Rosenblatt Securities - Analyst*
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PRESENTATION

Operator

Welcome to the second-quarter 2024 Harmonic earnings conference call. My name is Amy, and I will be your operator for today's call. (Operator instructions) Again, please note that this conference is being recorded.

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 second-quarter 2024 financial results conference call. With me today are Nimrod Ben Natan, President and CEO; and Walter Jankovic, CFO.

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 through 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 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, Nimrod Ben Natan. Nimrod?

Nimrod Ben-Natan *Harmonic Inc - Senior Vice President, General Manager - Cable Products*

Thanks, David, and welcome, everyone, to our second quarter earnings call. Now turning to slide 3. Today, we reported second quarter results that were at the high end of our guidance in both our broadband and video segments. These results demonstrate the solid execution of our operating plans.

Before I go into the highlights of each business, I would like to make a few opening remarks. Our year-to-date results, full year 2024 projections and continued market momentum give us confidence that our broadband strategy remains on track for strong multiyear growth. During our June Analyst Day, we outlined our long-term growth plans, and today, I'm going to provide updates on our progress.

Profitability is improving in our video business as our rightsizing actions have taken hold, and we are focused on a growing pipeline of new Tier one SaaS and larger scale appliance opportunities. Many of us watch the exciting opening ceremony of the Olympics through streaming on Peacock.

And it is events like these that highlight our video SaaS capability to provide pristine quality at scale with the highest reliability. In a few minutes, I will provide a status update on the actions we have taken and the opportunities ahead of us. Finally, with our progress to date, we are reaffirming our full year 2024 revenue guidance in both broadband and video, and Walter will provide more details.

Now turning to slide 4, specifically to our broadband business, Harmonic had another solid quarter of execution on our key programs. We reported segment revenue of $92.9 million compared to $97.1 million in the prior year and up 17% sequentially, which was at the high end of our expectations. The number of global customers deploying our COS solutions reached 118, up 20% year-over-year, corresponding with over 30 million DOCSIS cable modems now served worldwide. This represents approximately 18% of the global market.

We are witnessing intensified competition among broadband service providers, prompting them to invest in their networks to deliver higher speeds, achieve greater reliability, enhance customer satisfaction and reduce operating costs. These market dynamics perfectly align with the unique capabilities and value offered by our COS platform, driving the business momentum we are experiencing.

During the second quarter, we shipped a record number of DOCSIS 4.0 outdoor nodes and expect this trend to continue throughout the second half of the year. These DOCSIS 4.0 nodes, along with our COS platform, enable our customers to deliver symmetric multi-gig services over existing HFC networks.

To experience our innovative technology firsthand and witness the excitement of new customers, we invite you to see our demonstration of unified DOCSIS 4.0 at the upcoming SCTE conference in September. This significant market leading development offers full optionality on both DOCSIS 4.0 flavors developed in collaboration with our silicon and operator partners.

We are also assisting our existing customers and new prospects with testing and trialing the boosted the extended capabilities of DOCSIS 3.1, which enabled them to achieve fiber speeds over their existing networks. We expect more customers to adopt this approach as the new class of DOCSIS 3.1 and 4.0 modems become available later this year.

While we are focused on expanding and scaling deployments with our largest existing customers, further diversifying our customer base remains a key priority, demonstrating our progress, today, we announced that Telecentro, a leading telecommunication operator in Latin America has selected our COS broadband platform to modernize its broadband network.

Telecentro is a key player in driving broadband innovation in Latin America and represents another Tier one customer win for Harmonic. Additionally, we're pleased with the progress we've made in growing our pipeline and securing bookings from customers looking to modernize their cable networks to enable greater reliability and higher upstream and downstream speeds.

Another topic I would like to discuss is fiber, which is a major part of our long-term growth strategy. We continued to gain traction in fiber to the home with recent orders and wins. Last week, we announced that Paragould Utilities has selected our COS platform to upgrade their network to 10 GXGS while supporting existing ONUs.

This is an important win in a new market that leverages our peer, a high density low power OLT shelf that began shipping in the second quarter. We also announced a new product called Pearl, which uses the same foundational technology as Pier and is the market's highest density remote OLT. We have initial orders for Pearl from key international accounts and it has successfully passed customer testing and will begin production shipments in the third quarter. Sale enhances our COS portfolio, enabling operators to deploy in any network topology with any ONU while leveraging a single virtualized broadband core platform.

In summary, our broadband business continues to grow and expand revenue. This is largely due to Harmonic's unique market position, differentiated technology advantages, strong customer relationships, favorable industry dynamics and rich array of new products and services that give us confidence in our multiyear growth outlook. We executed the first half of '24 in line with our plan and are confident in our ability to carry this momentum forward through the rest of '24 and beyond.

Now turning to slide number 5. Moving now to our Video segment. Total segment revenue for second quarter was $45.8 million compared to $58.9 million a year ago. Sequentially, segment revenue was up 6% and exceeded the high end of our guidance as we started to see the business stabilize. This included SaaS revenue of $14 million, which was up 3.2% year-over-year.

In Q2, we saw improving margins as we advance towards positive EBITDA. This was due to the mix of business and our rightsizing actions. Our priorities going forward are to continue executing on our business streamlining initiatives to drive to profitability. We are currently ahead of schedule as seen in our second quarter results.

While we have seen modest growth in SaaS to date, we are now seeing more momentum with positive industry trends and an active and growing pipeline of new Tier one customers, primarily driven by live sports. We are excited about the market activity around new live sports agreements as well as the new delivery of 4K immersive formats, which provides much higher bit rates and new level of viewing experiences, which our SaaS platform is perfectly designed for.

The new in-stream targeted ad monetization solution we presented at NAB a few months ago is gaining greater industry interest as it enables new ad placement opportunities for advertisers. While we focus on releasing the service by the end of the year, we are working closely with the advertisement functions of our customers to integrate these new capabilities.

On the appliance side of the business, we are seeing a refresh cycle of playout and compression systems, which are driving increased pipeline and bookings with Tier one customers. During the quarter, we booked a major refresh project with one of our largest international customers.

Finally, I want to highlight the recent enhancement of our Board of Directors with the addition of three new members. Our new directors bring a wealth of knowledge, expertise and experience from the broadband and telecom industries. Their insights and guidance will be invaluable as we execute our strategic initiatives.

In conclusion, Harmonic delivered another robust quarter with revenue at the high end of our guidance range, while profitability in both businesses exceeded our expectations. These results demonstrated strong execution in both our broadband and video business as well as favorable market dynamics that continue to drive demand for our products and services.

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

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Thanks, Nimrod, 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.

Our second quarter results included revenue that was at the high end of our guidance and profitability in both businesses, which exceeded our expectations. At the operations level, we exceeded the midpoint of broadband revenue guidance and exceeded the high end of revenue guidance and video. In terms of profitability, our overall second quarter non-GAAP adjusted EBITDA and EPS beat the high end of our guidance range.

I'll call out some of our second quarter highlights here on slide 7. For the quarter, we reported total revenue of $138.7 million, which rose 14% quarter-over-quarter. EPS of $0.08, bookings of $72.4 million and a book-to-bill of 0.5. At quarter end, our backlog and deferred revenue was $613.1 million, leaving us in a solid position while giving us greater visibility for the balance of the year.

I would also like to note that in Q2, we recorded a GAAP net loss of $12.5 million or negative $0.11 EPS, which included restructuring costs of $11.5 million and $9 million in lease related asset impairments and other charges. The restructuring costs are part of the plan announced during our prior quarter earnings call to reduce head count and streamline our cost structure in the video business. The $9 million in lease related asset impairments and other charges reflect a reduction of our leased office space as we optimize our footprint and cost structure.

Before we review our second quarter financials in more detail and provide detailed Q3 and full year 2024 guidance, I want to mention some important points about our guidance. Regarding broadband, we're reaffirming our prior FY24 revenue guidance range of $460 to $500 million. As we do each quarter, we closely evaluate the latest customer information forecasts and commitments just prior to the earnings call, so this updated guidance is based on our year-to-date results as well as our latest available information.

At the midpoint of our FY24 broadband guidance, we expect revenue to increase 24% year-over-year. Due to the expected mix of business and OpEx savings, we have raised our FY24 broadband EBITDA forecast. Based on expected momentum in the second half of the year, which we've already started to see, we continue to anticipate 2025 broadband revenue growth will accelerate on a year-over-year basis. We continue to be well positioned with our strong backlog, customer wins and technology leadership to drive the expected growth we discussed during our recent Analyst Day.

With regards to video, we have largely completed executing on the restructuring plans that we've previously communicated and are holding our FY24 revenue and EBITDA guidance.

Turning to slide 8. Total Q2 revenue was $138.7 million compared to $156 million last year. This was at the higher end of our of the guidance range we provided on our last earnings call. Looking more closely at broadband, Q2 revenue was $92.9 million, a decrease of 4% year-over-year and consistent with our guidance.

In video, Q2 revenue was $45.8 million, which was above our guidance range. Video revenue included SaaS revenue of $14 million, up 3% year-over-year and representing 30.6% of segment revenue for the quarter. Video SaaS revenue growth continues to be driven by live sports streaming, SaaS expansions and new customer wins.

In the second quarter, we had one customer representing greater than 10% of total revenue, with Comcast representing 48% of total revenue. Total company gross margin was 53.1% for Q2 '24, which was above the high end of our guidance range and reflecting better than expected video segment gross margins.

Broadband gross margin was 47.6% for Q2 '24, up 10 basis points sequentially and down 290 basis points year-over-year due to product mix. Video gross margin was 64.4% in Q2 '24, up 270 basis points year-over- year and 280 basis points sequentially, mainly due to higher SaaS and SLA mix, coupled with cost reductions.

Moving down the income statement on slide 9. Q2 '24 operating expenses were $61.5 million, down 8.5% year-over-year. Adjusted EBITDA for Q2 '24 was $16.1 million, also above our guidance range, comprised of $16.3 million from broadband and negative $0.3 million from video. This all translated into Q2 '24 EPS of $0.08 per share compared with $0 in Q1 '24 and $0.12 per share for Q2 '23.

One housekeeping item, I want to mention is that for Q2 '24 and full year '24, we have adjusted our non-GAAP tax rate to 21% versus the previous 19% rate. This is to reflect the updated US versus foreign income mix. We ended the second quarter of 2024 with a calculated diluted weighted average share count of $116.7 million compared to $118.1 million in Q1 '24 and $119.3 million in Q2 '23. The sequential decrease is primarily due to share buyback activity.

Turning to the order book, Q2 bookings were $72.4 million. As I mentioned earlier, the book-to-bill ratio for the quarter was 0.5 compared to 1.2 in both Q1 '24 and Q2 '23. The second quarter's 0.5 book-to-bill ratio is due to decreasing order lead times in our broadband business. This is because we've been working with our larger customers to secure supply based on committed forecast, resulting in customer orders with shorter lead times.

For example, in July, we received orders for product that will be shipped out in the second half of this year. Of note, these orders in July far exceeded our broadband order bookings for all of Q2. As we've stated previously, over time, we expect our book-to-bill ratio to normalize and approach the historical benchmark of greater than 1.

Turning to the balance sheet on slide 10, we ended Q2 '24 with cash and cash equivalents of $45.9 million. This amount excludes restricted cash of $2.9 million. The quarter-over-quarter change in cash was mainly attributable to negative cash from operations of $22.2 million as a result of a significant reduction in accounts payable based on timing of material receipts this quarter compared to prior quarters, increasing accounts receivable related to our higher revenues in Q2 and $3.5 million in cash restructuring costs in the quarter.

In Q2, we used $8.4 million of cash for share repurchases, which I'll discuss in more detail shortly. The free cash flow during the quarter was negative $24.1 million. We expect our cash balance to increase in Q3 and Q4 based on the projected collections and timing of material receipts.

Turning to accounts receivables and days sales outstanding, at the end of Q2 '24, DSO 78 compared to 78 in Q1 '24 and 69 in the prior period. The prior year period was lower due to a large customer taking an early pay discount. Days inventory on hand was 116 days at the end of Q2 '24 compared to 134 at the end of Q1 '24 and 145 at the end of Q2 '23. Inventory decreased $2.5 million in the quarter as we continued to shorten days of inventory between receipts and customer shipments.

In terms of capital allocation, when appropriate, we will strategically invest in building inventory as we've done in the past to meet strong demand.

Regarding liquidity, in December 2023, 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. Subsequent to the end of the first quarter, on April 18, we redeemed entirely the $115.5 million in convertible notes outstanding, repaying the principal in cash by using our credit facility and the value over par was settled with approximately $4.6 million in shares.

As of today, we have drawn down $115 million on this credit facility. And as I mentioned earlier, during Q2 '24, we bought back $8.4 million or approximately 750,000 shares at an average price of $11.14 under our repurchase program.

To date, we have repurchased $35 million of the $100 million approved under our repurchase program. 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.

Also, as mentioned during our prior earnings call, we plan to manage prudently manage our balance sheet by maintaining overall net leverage of around 2 times or less and available liquidity of no less than $100 million going forward. We believe we have sufficient available liquidity to continue funding our growth plans while returning capital to our shareholders through stock repurchases.

At the end of Q2, total backlog and deferred revenue was $613.1 million. Our strong backlog continues to demonstrate the demand we're seeing from our large broadband customers and growing video SaaS commitments. Around 52% of our backlog and deferred revenue has customer request dates for shipments of products and for providing services within the next 12 months.

As discussed during our last earnings call as part of our go-forward strategy, Harmonic's video business will be centered on driving profitable growth by focusing on scalable market opportunities, streamlining its operations and optimizing its cost structure.

To align with this go-forward strategy, as previously stated, we have been implementing a restructuring program to achieve cost savings in this business. The majority of these initiatives are now completed and we expect the remaining actions to be completed by no later than the end of Q3 this year. We currently expect total restructuring related severance costs to be $15.4 million for the fiscal year, of which $14.5 million has been recorded as of Q2 year-to-date.

As previously stated, we expect to achieve approximately $18 million in savings in FY24 from these and other actions and approximately $28 million in savings on an annualized basis in FY25. We believe these actions are necessary to better align the video business with our go-forward strategy.

With that let's now review our non-GAAP guidance for the third quarter, beginning on slide 11. We expect broadband to deliver revenue between $130 to $140 million, gross margins between 48% to 49% due to product mix. Gross profit between $63 to $69 million and adjusted EBITDA between $34 to $39 million. For the full year, we expect revenue between $460 to $500 million, gross margins between 47% to 49%, which reflects a more conservative margin based on the product mix that we currently expect, gross profit between $216 to $245 million and adjusted EBITDA between $102 to $126 million.

For broadband, we expect to hit record levels of revenue in both Q3 and Q4 due to the expected sales momentum in the second half of the year that I mentioned earlier. For our video segment in Q3, we expect revenue in the range of $45 to $50 million, gross margin in the range of 63% to 64%, gross profit in the range of $28 to $32 million and adjusted EBITDA to range from $0 million to $3 million.

For the full year, we expect revenue between $185 to $195 million, gross margins between 63% to 64%, gross profit between $117 to $125 million and adjusted EBITDA to range from $0 to $5 million.

Turning to slide 12, for the third quarter of '24, we expect total company revenue in the range of $175 to $190 million, gross margin in the range of 51.9% to 52.9%, gross profit to range from $91 to $101 million, adjusted EBITDA to range from $34 to $42 million, a weighted average diluted share count of $117 million and EPS to range from $0.19 to $0.24.

And for the full year, we expect revenue between $645 to $695 million, gross margins between 51.6% to 53.2%, gross profit between $333 to $370 million, adjusted EBITDA between $102 to $131 million, a weighted average diluted share count of $117.3 million and an EPS to range from $0.56 to $0.75.

In summary, our solid second quarter results reflect the progress we've made in executing on our FY24 plan. This included revenue at the upper end of our guidance as well as EBITDA and EPS that exceeded our guidance. We believe our broadband segment continues to be well positioned for future growth. In addition, with the restructuring actions we've taken and the progress that's been made, we believe our video segment will attain profitability starting in Q3.

Thank you, everyone, for your attention today. And now I'll turn it back to Nimrod for final remarks before we open up the call for questions.

Nimrod Ben-Natan *Harmonic Inc - Senior Vice President, General Manager - Cable Products*

Thanks, Walter. In summary, Harmonic delivered another strong quarter, capping solid year-to-date financial and operational execution. Our company continues to be exceptionally well positioned for sustained growth and to create greater value for our shareholders.

Looking forward, we're committed to implementing our 2024 and long-term growth plans. We thank you all for your continued support and look forward to speaking with you again on our next earnings call and updating you on our progress. Let's now open up the call for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator instructions)

Simon Leopold, Raymond James.

Simon Leopold *Raymond James - Analyst*

Great. Thank you for taking the question. I've got two. The first one is actually regarding the SaaS video business. I'd like to see if you could help us understand a little bit better, I guess, structure of your terms and really what I'm getting at is I'm wondering how material the Olympics could be and more generically, how we should think about that business going forward? Basically, do you get paid by how many times events are viewed? Do you get paid by events or agreements that kind of detail would just be helpful for us to think about modeling. Thank you.

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Okay, Simon, it's Walter. I'll take that question in terms of the commercial model of our SaaS video business. So first of all of, the model generally works on minutes streamed and number of events. That's the core tenant of the model. In addition to that, if we provide the content delivery, the CDN part of it, it's going to flex based on the number of viewers in terms of that part of the model.

And when you look at the targeted ad insertion part of the model, this part of the model is based on impressions. So the number of people through the impressions metric, so very much variable in terms of that part of the business.

So really there's three key elements of the business, and it just depends what the customer has signed up to in terms of ad insertion at their targeted ad insertion customer if they're a stream, obviously, a streaming customers based on minutes streamed a number of events and then if we provide the content delivery, that's based on number of viewers and flexes in that manner. Have I helped explain that?

Simon Leopold *Raymond James - Analyst*

Yes, I guess just as a quick one, is the Olympics as an event material enough to move the numbers? Or is it sort of just in the noise relative to the overall streaming activity?

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Yes, it's going to be immaterial. It's not going to be material based on the commercial model.

Simon Leopold *Raymond James - Analyst*

In the overall market, it does seem as if broadband competition is heating up, particularly with the traditional telcos, expanding efforts around fixed wireless and around fiber to the home. It's not clear to us if the cable operators really have adjusted their strategies in response and maybe they would argue that they're already investing adequately. We're just wondering whether or not from your perspective you're noticing any change in the competitive environment for your customers or whether this is sort of a an ongoing evolution? Thank you.

Nimrod Ben-Natan *Harmonic Inc - Senior Vice President, General Manager - Cable Products*

Well, we think that what they predicted a few years back is actually materializing in terms of the competition fiber. I don't think they predicted the fixed wireless, but they predicted that there will be competition and the long-term plan to keep investing in the network to make it more competitive is more important than ever before.

And I think what we hear from them is that what we work on for them is important. Obviously, they have different strategies in terms of what exactly they do and how quickly they do that, but I think the urgency is high and this is what we're hearing from them.

Simon Leopold *Raymond James - Analyst*

Thank you very much.

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Thanks, Simon.

Operator

Ryan Koontz, Needham & Co.

Ryan Koontz *Needham & Co. - Analyst*

Thanks for the question and nice quarter and outlook. I want to ask you about DOCSIS 4.0 and how would you frame your competitive position there, Nimrod relative to hardware? I know you guys have a leading software solution, but relative to this new hardware product, how would you frame the competitive environment there for DOCSIS 4.0?

Nimrod Ben-Natan *Harmonic Inc - Senior Vice President, General Manager - Cable Products*

I think was the move to unified, there is requirement to support the two flavors of DOCSIS 4.0 and I think we've got a unique leadership position as we have been working on the full duplex flavor of 4.0 for quite some time and it's shipping and in production, and the unified is combining that alone with the FDD, the extended spectrum. So in short, I would say, I believe, although we never discount any competition that we've got a significant lead.

Ryan Koontz *Needham & Co. - Analyst*

That's great. I was hoping to hear that. And on your new fiber wins, can you give us any feel for what sorts of customers these are coming from? Is it mainly North America or global or primarily cable still? I know you've talked about a couple of wins in traditional telco, and you can share there on the fiber wins, just kind of broad sense.

Nimrod Ben-Natan *Harmonic Inc - Senior Vice President, General Manager - Cable Products*

Well, Paragould specifically is a pure telco. We talked about that, this is a new win in a with a new product in a new market. The other wins we talk about or that I mentioned this for the other new product, is an international customer that is cable, telco and wireless, so this is more of a converged, but they are cable as well. And well, I think that's pretty much what we announced in terms of wins so far.

Ryan Koontz *Needham & Co. - Analyst*

Okay, that's great. And just a clarification from Walter on the the gross margin beat on video, it was my understanding, I thought that the SaaS business actually had lower gross margin than the appliance business because it lacked scale. Is that no longer true that the SaaS business now margins may be better than appliance?

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Well, when you look at the overall appliance margin, including new product that's shipping out combined with the SLAs, and you look at where we are with SaaS, as mentioned earlier, we have taken some cost reduction actions across the board in video, and some of that is enhancing our margin profile in SaaS as well. And we are getting to a larger scale as demonstrated with now running at $14 million in Q2, so the margins are improving.

Ryan Koontz *Needham & Co. - Analyst*

Got it. That's all I've got. Thanks for that question.

Nimrod Ben-Natan *Harmonic Inc - Senior Vice President, General Manager - Cable Products*

Thanks, Ryan.

Operator

Steven Frankel, Rosenblatt Securities.

Steven Frankel *Rosenblatt Securities - Analyst*

Hi, good afternoon. Thanks for the opportunity to ask questions. I'd like to follow up on this comment of shorter lead times around the broadband business and where do you think the lead times are? And is it materially different between a 4.0 product and your 3.1 or 3.1 Enhanced products at this point?

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Hey, Steve, it's Walter. I'll start on that one. So specifically with regards to lead times, before we had indicated we've got lead times out there of 50 weeks on certain products. Custom products, you're going to have longer lead times. The non-custom products, definitely we're seeing some movement downward in terms of the lead times and then specifically with regards to the earlier remarks that I made in regards to what we're seeing with ordering patterns, I just want to make sure that's clear as well.

Some of our larger customers can put their orders in shorter lead time to us based on giving us a binding forecast. So we can go out there and procure. So I just want to make sure that's clear as well in terms of one of the other fundamental differences there in terms of orders and turning around orders, when we get them.

Steven Frankel *Rosenblatt Securities - Analyst*

And Walter, could you repeat what you said about the magnitude of the orders in July?

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Yes, in July alone, we in broadband, we have booked orders that far exceed what we booked in broadband for all of Q2. And those orders are for product that's going to be shipped out in the second half of this year.

Steven Frankel *Rosenblatt Securities - Analyst*

Perfect. And then maybe Nimrod, just a comment on where we are with DOCSIS 3.1 Enhanced? You had, if I go back to SCTE in September, it looked like a large group of customers that were interested in this and would finally get them going? Is that still to come? Are those products not quite ready for prime time yet? And therefore, those customers haven't gotten deployed yet.

Nimrod Ben-Natan *Harmonic Inc - Senior Vice President, General Manager - Cable Products*

So I want to clarify that everything that, in fact, we ever shipped from Remote PHY point of view is extended 3.1 capable. You've got the hardware to do that. We enabled a software release earlier in the year. So that's available. Really the, what they wait for is availability of modems.

And 4.0 modems are subject to new modem from MaxLinear. And I think there is a camp of others that are so called JDA. And the new class of 3.1 is coming later this year. So it's really a modem dependent issue at the moment, which they are looking to test. And once they feel comfortable they will move forward with that.

Steven Frankel *Rosenblatt Securities - Analyst*

Great. Thank you so much. I'll jump back in the queue.

Operator

George Notter, Jefferies.

George Notter *Jefferies - Analyst*

Hi, guys. Thanks very much. I guess I wanted to ask about the ramp in expectations over the second half of the year. If I do some back-of-the-envelope math here, midpoint, you're doing $182 million in sales in September and then I think nearly $220 million sales in Q4.

So assuming I have my math correct, it's a pretty significant ramp. And I heard certainly what you said about the order rates picking up and that's great. But can you give us a little bit more insight into where that ramp comes from? I assume we're talking about your two largest customers on the broadband side of the business. But any more you can tell us that kind of reinforces your confidence in that ramp over the balance of the year? Thanks.

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Yes, certainly. George. It's Walter. So first of all, it is dependent and it's a based on the top two customers in terms of what we expect for the second half of the year. And so therefore, we do expect a big contribution based on the top two. However, we also have growth in our non-top two, so for the rest of the market in terms of customers in both Q3 and Q4 timeframe.

So we've looked through in terms of our backlog, in terms of the commitments, in terms of all of our expectations to ensure that we could come back and reaffirm what we've told you over the last couple of quarters in terms of our guidance for the full year on broadband. So that's a little more color in terms of where is the growth coming from and what you should expect to see in terms of top two versus the rest of the market.

George Notter *Jefferies - Analyst*

Got it. And then I think also not that long ago, we talked about some excess inventory at some of these larger customers. I assume that's worked off now or is that still part of the narrative? How do you think about it?

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Well, generally, we've got one customer who's just starting to ramp and starting the build-out of their network. And then with another large customer, we've got the transition to FDX and you, as you could see from our results in Q2, that's going to plant in terms of the ramp up associated with that technology transition. So I think you think about it from those two perspectives in terms of each of those customers and what they are doing and where they are with regards to their build-out plans.

George Notter *Jefferies - Analyst*

Okay. Thanks very much. Appreciate it.

Nimrod Ben-Natan *Harmonic Inc - Senior Vice President, General Manager - Cable Products*

Okay. Thanks, George.

Operator

Tim Savageaux, Northland Capital Markets.

Tim Savageaux *Northland Capital Markets - Analyst*

Hi, good afternoon and congrats on the results and the reiterated outlook. And I guess my question was sort of along the same line, maybe trying to get a little more specific in that, clearly, Charter came off your 10% customer list here in the quarter, given the timing of their kind of upgrade, whether it was exactly July 9 or not.

It seems like that order input probably closely aligned with that. So should we assume (inaudible) other top customer in a minute, but there have been some pretty dramatic moves quarter-to-quarter? Should we assume what you're guiding for Q3 is the real, you've seen some charter revenue to date, but the real beginning of the upgrade in earnest?

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Well, I think, Tim, we can't speak specifically about any customers ramp in any detail here. I think what we're going to see is, what I mentioned to the earlier question from George in terms of top two customers contributing significantly to the second half. So I am indicating that part of it just in terms of the concentration where is the growth coming from, and that's probably all I'm going to say about specifically about any of the customers.

I think there's also the non-top two customers where we're seeing traction we mentioned today and Nimrod mentioned this in terms of another Tier one win with Telecentro, so we are gaining traction across the rest of the market and that also factors into our second half projections.

Tim Savageaux *Northland Capital Markets - Analyst*

Okay. Well, maybe if I could follow-up on that a little bit. Well, first, Walter, did you say 50% of the backlog shippable next 12 months? I just want to make sure I got that number right.

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

52%.

Tim Savageaux *Northland Capital Markets - Analyst*

Okay, great. Sorry, you're cutting out a little bit there.

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Yes. We were very specific with it, yes.

Tim Savageaux *Northland Capital Markets - Analyst*

Well, that's refreshing. Well in that context, and I say this, look in Q1 '23 had a real big bump in orders, right?Coincident with your announcement on the Charter relationship and a 2.07 book-to-bill. I think your backlog was up $170 million. I think your orders were up $200 million from Q4. And this kind of figures in with the lead time conversation as well.

I mean, looking at what you've shipped to date, it doesn't seem to come close to that type of number. And you seem to be getting follow-on orders here, which is interesting. And I guess my overall question is, how would you characterize what's in the longer term backlog? Is that a multi-year?

Because you talk about shortening lead times and the run rate of the hardware, what's in the other 48%, as much color as you can give in terms of broadband versus video and just the type of agreements we're talking about? Thanks.

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Yes, I think the way I would characterize the other 48% in terms of anything that's beyond one year. Obviously, when folks are committing to longer term, there's a couple of factors. One factor is it's a commitment to build as part of the commercial commitments. There's also, when you think about hardware versus software, I think I've mentioned this before is that there's certain lead time around hardware.

So some of that backlog is definitely on the COS license basis. And then we've got other things that are longer term commitments around SLAs and things of that nature that go out further than 12 months. So that's how I would characterize the different elements of what is in there beyond one year.

Tim Savageaux *Northland Capital Markets - Analyst*

Great. And last question for me. Has that changed much in the last few quarters? That long-time (multiple speakers)

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

No, not much at all over the last couple of quarters. If you go back to last quarter, it was close to that same level.

Tim Savageaux *Northland Capital Markets - Analyst*

Thanks a lot.

Nimrod Ben-Natan *Harmonic Inc - Senior Vice President, General Manager - Cable Products*

Thanks, Tim.

Operator

George Notter, Jefferies.

George Notter *Jefferies - Analyst*

Hi, thanks for letting me ask a follow-up. Alright, so as I look at your 10% customer information, I've got Comcast at about $65 million this quarter. And, if I look back at some of the biggest quarters from Comcast about a year and a half ago, there was a $79 million quarter or $74 million a quarter. Although I know that there was some inventory build during those periods of time.

So it kind of feels like Comcast's run rate of business in terms of maybe organic installations of your equipment feels like it's around $60, $65 million kind of where you're at right now. So when I look at the ramp in expectations over the second half of the year, I guess, I assume it's just heavily, heavily skewed to Charter.

Implicitly, it feels like you're saying Charter is going to go and become as big or bigger than than Comcast in terms of their sizing for you guys. Do I have the right kind of general view of where the revenue ramp comes from? Is that appropriate or no?

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Okay. George, without getting into because, you know, we can't get into specifics and guiding each customer here. I think you're making certain assumptions around one versus the other and I'm not going to comment are your assumptions correct or not correct.

I think what we said previously in our prior earnings calls, we had been very explicit about the technology transition on FDX and the ramp up of that over the year. And we explained that going back to the beginning of this year and the expectation of what that's going to do to our numbers in terms of first half versus second half.

We were clear about that. Without getting into specifics around any other customers or specific numbers or guidance around the customers, I think there's, these two customers are significant, but highlighted that earlier. And I think it's fair to say that, they're both contributing. But I'm not going to give specific numbers on one versus the other.

George Notter *Jefferies - Analyst*

Okay. Fair enough. Thank you very much. I appreciate it.

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Thanks, George.

Operator

And I'm showing no further questions at this time. I would now like to turn the conference back to Nimrod for closing remarks.

Nimrod Ben-Natan ***Harmonic Inc - Senior Vice President, General Manager - Cable Products***

Thank you all for joining us today for the call. Have a good day.

Operator

And this concludes today's conference call. Thank you for participating. You may now disconnect.

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