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Q4 2022 Harmonic Inc Earnings Call

EVENT DATE/TIME: JANUARY 30, 2023 / 10:00PM GMT

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PRESENTATION

Operator

Welcome to the Q4 and Full Year 2022 Harmonic Earnings Conference Call. My name is Latif, and I will be your operator for today's call. (Operator Instructions) 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

Thank you, operator. Hello, everyone, and thank you for joining us today for Harmonic's Fourth Quarter and Full Year 2022 Financial Results Conference Call. With me today are Patrick Harshman, President and Chief Executive Officer; and Sanjay Kalra, 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 going 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 our 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, Patrick Harshman. Patrick?

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

Well, thanks, David, and welcome, everyone, to our fourth quarter call. In the fourth quarter, Harmonic closed out 2022 with another period of excellent results. Revenue was a record $164 million, EPS was $0.17 and adjusted EBITDA margin was over 16% as both business segments were again solidly profitable. Our broadband segment grew revenue of 38% year-over-year and contributed EBITDA margin of 21%. Video segment transformation continues with fourth quarter SaaS revenue of 51% year-over-year and segment EBITDA margin over 9%.

This impressive fourth quarter and full year results demonstrate the tremendous market success and execution momentum, we're carrying into 2023. We're entering the year with strong demand, unique technology and competitive differentiation and continuing confidence in our ability to deliver on the multiyear growth plan we outlined in our September 2022 Analyst Day.

Now taking a closer look first at our broadband segment. We again delivered excellent financial results that reflect both a healthy broadband market and expanding breadth and depth of our technology leadership position. Segment revenue was $96 million, up 4% sequentially and 38% year-over-year. Segment gross margin was over 47% and adjusted segment EBITDA margin was 21%, demonstrating consistently improving operating leverage.

Sensing the worst of the supply chain disruption risks are behind us, some customers slowed orders as a step towards normalizing advanced purchase lead times. Nonetheless, we again exited the quarter with near record backlog and deferred revenue.

Our sustained broadband growth is a result of both the robust end market and strong go-to-market and project execution. The quarter end modem served grew to $15.2 million, up 218% year-over-year. And we again added several new customers during the quarter, bringing the number deploying our solution to 91, up 25% year-over-year. Among these new wins is our first Asia Pacific Tier 1 operator in an account we expect to begin to scale in 2023.

Looking ahead, we're confident about both our 2023 and multiyear growth prospects. Our global pipeline of new account relationships is excellent, aided by growing industry recognition of our technology and deployment execution leadership. Two areas of rapidly expanding leadership to highlight our DOCSIS 4.0 and Fiber-on-Demand. In the DOCSIS 4.0 area, we've made great strides with both variants of the standard, ESD and FDX, and we're actively supporting our customers in advanced demonstrations and trials of these technologies.

In the fiber area, our converged PON plus DOCSIS solution is unique and gaining increasing recognition from both existing and prospective customers as a powerful competitive advantage. Although we only recorded modest fiber revenue in 2022, we're entering 2023 with several new design wins, good order backlog and a trajectory that is in line with our 2025 fiber growth target.

Regarding 2023, more generally, the full year growth outlook that Sanjay will share momentarily is supported by our year-end backlog, deferred revenue and the existing plans of our current customers with only very modest contribution assumed from new accounts. To be clear, we're confident about winning new accounts in 2023, both large and small. And for now, we're conservatively assuming these new wins will drive significant revenue and growth starting in 2024 and beyond, supporting our multiyear growth targets.

As a reminder, in our mid-September Analyst Day, we laid out an aggressive 3-year growth plan that calls for over $820 million of revenue and 28% EBITDA margin in 2025 as we closed a very successful 2022 and head into 2023. We're pleased with our continued financial execution. We're excited about our increasingly strong technology and leadership position in the market, and we're confident and our ability to continue to execute our overall strategic plan.

Turning now to our video segment. Here also, we delivered an excellent quarter. Fourth quarter segment revenue was $68.3 million, up 7% sequentially, although down 21% year-over-year when compared to an extraordinarily strong fourth quarter in 2021. SaaS transformation execution continues to be the highlight, with record quarterly revenue of $10.5 million, up 51% year-over-year. As a result, quarterly gross margin was 59.9%, also up year-over-year and adjusted segment EBITDA margin was over 9%.

Full year segment gross profit and adjusted EBITDA margin finished ahead of the guidance we provided at the beginning of the year despite the loss of business in Russia and Ukraine, an encouraging result.

As you will recall from our September Analyst Day, our video business strategy has 2 pillars: taking a leading position in the growing streaming SaaS market, particularly for live sports; and maximizing profit from the traditional video appliance market with a financial focus on gross profit and EBITDA. Our full year 2022 results are fully in line with our longer-range projections and support our continued confidence in the execution of this plan.

Our streaming SaaS growth was again driven principally by larger media accounts expanding their consumer footprints and live sports content rights and correspondingly expanded consumption of our server The World Cup was a notable international success in the fourth quarter and SaaS usage exceeded our expectations and feedback on the quality of service we delivered was action. During the quarter, we also again secured several new SaaS contracts, including for Blue Chip North America Sports services that will launch later this year.

We continue to see live sports streaming and the movement of legacy broadcast workflow to the cloud is attractive and growing opportunities. And with our recent successes, our brand and technology leadership in high-quality streaming is strengthened. While SaaS transformation continues to be the headline, our video plant sales pipeline remains solid, including in Europe, where we're pleased to say we're not seeing an impact from macroeconomic headwinds.

Putting it all together, we remain confident that our transformation in video to consumption-driven streaming SaaS is working, and we're on track to achieve the targets we laid out for you in our September Analyst Day. As a reminder, this plan calls for greater than 45% compounded annual sales growth through 2025, consistent profitability and return to mid-teens EBITDA segment margin.

Our full year 2022 video segment results, the high-profile streaming services we're now powering and the new wins we've recently secured and our full year 2023 guidance, all demonstrate we remain on track to achieve these objectives.

And with that, Sanjay, let me turn it over to you for further discussion of our results and our outlook.

Sanjay Kalra ***Harmonic Inc. - Senior VP & CFO***

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

We finished the year delivering another quarter of strong financial results and our strong balance sheet at year-end positions us well for continued growth in 2023.

Before reviewing our quarterly financials in more detail, I'll briefly review the Q4 and full year 2022 key highlights here on Slide 7. For the fourth quarter, we reported record revenue of $164.3 million, with strong gross margins of 52.7%. We also generated strong adjusted EBITDA of 16.2% and EPS of $0.17. Our balance sheet remains solid, ending 2022 with a cash balance of $89.6 million while reducing convertible debt by $37.7 million.

For the full year 2022, our total revenue was a record $625 million, up 23% as broadband revenue increased over 60%, and video SaaS revenue increased 63% year-over-year. Adjusted EBITDA of $86.5 million, increased over 50% year-over-year. Diluted EPS increased 62% to $0.55. We exited the year with near record backlog and deferred revenue of $457.1 million.

Now let's review our fourth quarter financials in detail. Turning to Slide 8. Again, total Q4 revenue was $164.3 million, up 5.5% on both a sequential basis and year-over-year basis. Looking first at our broadband business segment. Q4 revenue was $96 million, up 4.5% sequentially and 37.7% year-over-year, reflecting continued current customer ramp-up and newer customer launches, including modest fiber revenue generated during the quarter.

In our Video segment, we reported Q4 revenue of $68.3 million, up 7% sequentially and down 20.7% year-over-year. With the comp being a very strong Q4 2021. Our video revenue included SaaS revenue of $10.5 million, up 51.3% from prior year, once again ahead of our expectations. We had 1 customer representing greater than 10% of total revenue during the quarter. Total Comcast Corporation contributed 48% of total revenue.

Total company gross margin was 52.7% for Q4 '22, up 180 basis points sequentially and 220 basis points year-over-year, reflecting increased gross margins in both of our business segments. Broadband gross margin was 47.6% for Q4, up 260 basis points sequentially and 730 basis points year-over-year. This improvement was due to several factors, including a favorable products and services mix, which included high margin nonrecurring services, our strategic inventory investments in 2022, modest improvement in freight rates and improved pricing.

Video segment gross margin was 59.9% in Q4 '22, up 60 basis points sequentially and 110 basis points year-over-year. We've seen a strong overall gross margin improvement over the past 2 years as Q4 video gross margins have risen 370 basis points from 2020 and 110 basis points from 2021, respectively, primarily due to SaaS continuing to scale.

Moving down to the income statement on Slide 9. Q4 operating expenses were $63 million, up 3.2% sequentially and 8.5% year-over-year. The increases were primarily due to increased research and development to support the growth of our broadband business and the ongoing strategic transition of video segment to SaaS. Adjusted EBITDA for Q4 '22 was $26.6 million or 16.2% of revenue, up 88 basis points versus Q4 '21. comprised of $20.2 million from broadband, representing 21% of segment revenue and $6.4 million from video, representing 9.3% of segment revenue.

This all translated into Q4 EPS of $0.17 per share compared to $0.13 per share in Q3 '22 and $0.16 per share for Q4 '21. We ended the quarter with calculated diluted weighted average share count of 117.3 million compared to 113.2 million in Q3 and 110.5 million in Q4 '21. The sequential increase is primarily due to the issuance of shares for settlement of the premium for convertible debt conversions upon maturity in December, and an increase in outstanding convertible debt dilution and the dilutive effect of outstanding RSUs and options resulting from the increase in our average stock price during the quarter.

Turning now to the order book. We reported new December bookings of $130.2 million. The book-to-bill ratio was 0.8% for the fourth quarter, which was in line with our expectations. For Q3 '22 and Q4 '21, our book-to-bill ratios were 1.1% and 1.7%, respectively, which is higher than what we have seen historically. That's because in the past few quarters, some customers ordering patterns were affected by the challenging supply chain landscape. As supply chain conditions improved, we expected this ratio to normalize and approach the historical benchmark. Consistent with that, our book-to-bill ratio for the full year was 1.04%.

Turning to the balance sheet on Slide 10. We ended Q4 with cash of $89.6 million compared to $105.3 million at the end of Q3 '22 and $133.4 million in Q4 last year. The net $15.7 million sequential decrease was primarily due to a cash payment of $37.7 million for the principal of maturing convertible debt. You may recall, we mentioned December 22 debt maturities on our last earnings call.

We generated $19.4 million cash from operations, net of investing $19.5 million in inventory. Increased inventory has, by design, enabled us to meet strong demand for our products and to proactively manage our supply chain, enhance product availability and provide us with flexibility to use a higher mix of ocean freight rather than air freight, resulting in improved gross margins.

As noted earlier, these investments helped drive the gross margin expansion we reported for the quarter. We also used $1.9 million of cash in partial fixed assets and saw a favorable foreign exchange rate impact of $4.9 million.

Turning to days sales outstanding. At the end of Q4. DSO was 59 comparable to previous quarter and previous year period. Days inventory on hand was 140 days at the end of Q4, up 20% compared to the end of Q3 and up over 50% compared to end of Q4 '21. The increase reflects our continued proactive investment in inventory as we prepare for strong shipments growth during 2023.

Regarding capital allocation, our top priority is driving our future growth. As such, we will continue to strategically invest in building inventory to meet the strong demand we are seeing. This strategy has proven highly successful to date as demonstrated by our revenue and gross margin results for Q4.

Having said that, should the supply chain situation improve considerably, we have the optionality to manage our working capital differently and generate additional cash by keeping lower inventory levels. Along those lines, our capital allocation strategy also considers returning capital to shareholders through share repurchases. The timing and amount of any repurchases will depend on a variety of factors, including the price of Harmonic's common stock, market conditions, corporate needs and regulatory requirements.

This balanced capital allocation strategy also takes into account anticipated future debt obligations as well as our current debt repayment of $37.7 million in December 2022. At the end of Q4, total backlog and deferred revenue was $457.1 million. This large backlog and deferred revenue reflects strong demand from our large broadband customers and growing video SaaS commitments. Note that approximately 80% of our backlog and deferred revenue has customer request days for shipments of products and providing services within the next 12 months.

As mentioned on previous calls, not included in our backlog is additional contractually agreed CableOS business with 2 of our initial Tier 1 broadband customers. At the end of Q4 '22, this incremental amount was approximately $47 million, down from $60 million last quarter as approximately $13 million went through purchase order process and therefore, moved into bookings.

So in summary, operating cash flow was strong in Q4 '22, consistent with our capital allocation strategy I discussed earlier. Our free cash was invested in inventory to meet demand and support growth as well as for debt repayment.

I'll now review our non-GAAP guidance for 2023, beginning on Slide 11. For the full year 2023 based on our progress to date, we expect broadband to achieve revenue between $445 million to $465 million, a 30% increase at the midpoint, based on the strong demand trends we continue to see. This guidance includes revenue from existing Tier 1 customers and does not include significant revenue from potential Tier 1 customer wins in our pipeline.

Gross margins between 45% to 46%, a 190 basis point improvement over 2022 based on assumed hardware and software mix, that is typical of what we have seen over the past 18 months. Operating expenses between $120 million to $123 million. Adjusted EBITDA between $86 million to $97 million.

For full year '23, Video segment results we expect revenue in the range of $250 million to $270 million. Gross margins range of 58.5% to 60.5%. Operating expenses $140 million to $144 million. Adjusted EBITDA, $12 million to $25 million.

For total company for the full year '23, we expect revenue in the range of $695 million to $735 million; gross margins in the range of 49.8% to 51.3%, operating expenses in the range of $260 million to $267 million, adjusted EBITDA in the range of $98 million to $122 million. An effective tax rate of 20%, up from 13% last year as we have exhausted our NOLs in the past year. A weighted average diluted share count of approximately 118.3 million.

Please note that the convertible debt-related dilution included in our share count uses the average stock price for the last 90 days, which was approximately $14. As a reminder, the share count figure utilized in our dilution calculation will change depending on the stock price movement. For those modeling this, consider as an example that currently, an increase in our stock price by $1 would increase dilution by only approximately 400,000 shares. Inversely, a decrease in our stock price by $1 would decrease dilution by approximately 900,000 shares.

EPS range from $0.56 to $0.72 per share, subject to the just mentioned dilution calculation. Cash at the end of '23 is expected to come between $90 million to $100 million.

Now on Slide 12, I'll review the non-GAAP guidance for the first quarter of 2023. For Broadband segment in Q1, we expect revenue in the range of $97 million to $102 million; gross margins, 45% to 46%; operating expenses, $29 million to $30 million, adjusted EBITDA of $16 million to $18 million.

For our video segment in Q1, we expect revenue in the range of $55 million to $60 million, gross margins, 58% to 59%; operating expenses, $35 million to $36 million; adjusted EBITDA in the range from a loss of $2 million to a profit of $1 million.

For total company for first quarter of '23, we expect revenue in the range of $152 million to $162 million, gross margins, 49.7% to 50.8%; operating expense is $64 million to $66 million; adjusted EBITDA, $14 million to $19 million; effective tax rate of 20%; a weighted average diluted share count of approximately $117.9 million; and EPS to range from $0.07 to $0.10; cash to range from $75 million to $85 million.

In summary, during the fourth quarter, we continued to execute and drive strong growth in our broadband segment while advancing the strategic transformation of our video segment. We ended the fourth quarter with a strong backlog and deferred revenue position. We believe this and the strong demand we continue to see from both our new and existing customers positions us well for 2023 as we continue to execute on our long-term business plan.

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***

Well, thanks, Sanjay. So in summary, we delivered a record of 2022, ahead of our initial targets through continued focused execution of our strategic plan, our technology, our customer relationships and our people are all extraordinary and working extraordinarily well together, pointing to compelling value creation, opportunities we're determined to take full advantage of. We're excited and confident about 2023 and the longer-range future of our business, and we appreciate your continued support.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Simon Leopold of Raymond James.

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

I've got 2, 1 on each segment. I want to start out asking about the 2023 outlook for the video segment, which is a little bit lower than the 2022 sales. And as I recall, the outlook you gave us for 2025 reflected some modest growth. And so I would like to get an understanding of whether or not that long-term 2025 outlook has changed? Or what factors are leading to the 2023 decline versus 2022, specifically to the video segment? And then I've got a follow-up on broadband.

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

Okay. Well, thank you, Simon. I'll take the first one. The outlook for 2025 has absolutely not changed at all. We're seeing somewhat faster transition to SaaS. And in particular, some of the new wins will not materialize as revenue until later this year. I mentioned in the prepared remarks, we had a couple of very significant new sports wins. If it was traditional appliance business, we would have recognized that revenue kind of immediately upon booking and shipping of appliances. But as with the way SaaS works. We'll only start recognizing that revenue as the services themselves or launch the natural consumption happens. .

So in short, the plan is fully on target. In fact, if anything, we see sands moving a little bit ahead of plan. You'll note that the gross margin actually evolution is a little bit ahead of plan. And the slight movement in revenue would actually review favorable as it reflects quicker success around movement to SaaS than we anticipated even 6 months ago.

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

Great. And then I guess, I'm struggling with how to ask about the broadband segment. But I'm trying to understand what's built into your assumptions in terms of incremental contributions from Tier 1 cable operators and how you envision your customer concentration evolving?

I guess I'm sort of struggling with maybe the timing and the extent of what's baked into the numbers versus what you have yet to secure hopefully, you can maybe understand that and drill into that a little bit for us?

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

Yes. Well, it's a little tricky for us as well, as you might imagine. And so in fact, kind of led to our decision at the risk of being too conservative to just kind of cut it black and white. The guidance we've given you excludes new Tier 1s that we're quite optimistic about bringing on board. The issue is until we bring them on board and until we have visibility to the timing and the impact of the initial orders, it's premature for us to put it in the guidance. I think the good news is, therefore, that we've given you guidance that is based almost exclusively on the activity around our existing customer base and put that together with our high confidence and being able to bring on new Tier 1 customers, we feel that really underlines our confidence in our 2024 and 2025 targets.

Now look, if we get in a position where we can confirm additional Tier 1s, and we further confirm that they'll have a meaningful incremental impact for us in 2023. We'll update our 2023 guidance accordingly. But frankly, stepping back and looking at the big picture, that's not nearly as consequential as from our perspective is, number one, winning those accounts; and number two, having them firmly in the pipeline. Indeed, as you kind of allude to, further diversifying the customer base in 2024 and 2025.

Operator

Our next question comes from the line of Steve Frankel of Rosenblatt.

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

Patrick, let me go at the broadband growth in a slightly different way. We're clearly seeing the Comcast acceleration. Can you give us a flavor for when do you expect the other Tier 1s that you already have to kind of accelerate their pace of deployment, which is, I think, something we've been anticipating with at some point kind of, or maybe another way to cut out is it, how many of the current customers are at what you think is steady state versus still early in that ramp?

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

Well, look, a couple of things. We're fortunate for the relationship with Comcast. They're aggressive, they're out in front and they're pushing hard I think anyone, who listened to their conference call last week can test to all of that. And so we're pleased to be and feel fortunate to be right in the middle and able to support them. That being said, I think that they are paving the way for other parts of the industry. And to date, if you've been following us, we've -- I think we've been able to disclose 11 Tier 1s to date.

And of those, about 7, Steve, I would say, are really in the process of rolling. None of them is as far along and has the pace with Comcast to date. And we see them all of those accelerating toward that. And indeed, there's another 4 out of the 11 that are just getting going and haven't really materially impacted things. So with the -- just the currently on Tier 1s, we see the rest of the pack picking up the pace, of course, proportionate to their size, right?

And then going back to our September Analyst Day, there is a big chunk of the market, over 2/3 of the market that is not on board with our platform yet. And that's also very much in our sights. And we expect that the rest of the market is also headed our way from an architecture point of view. We think we're very well positioned to do well in the rest of the market. And over the next couple of years, we see corresponding aggressive deployment. And all that really does speak to the reason why we have been kind of consistent in articulating not only our coming 12-month target about a 36-month outlook for you and the rest of the investment community.

And I hope it comes across loud and clear here not only our growth target for 2023, but our conviction and delivering on the aggressive growth numbers we've laid out for 2025 as well.

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

Great. And given the comment around the booking the supply chain pressures seem to be easing a bit. What do you think now are typical lead times for node? So how should we anticipate those orders and deliveries lining up over the next couple of quarters?

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

Well, to be clear, I think a couple of our customers are -- maybe a little bit ahead of the good news or slowing down anticipating improvement. I mean it's still an environment which is not -- Sanjay indicated, has not returned to what we would consider normal, or prepandemic semiconductor shortage conditions. So the situation has improved. We've made a number of decisions to optimize our execution in the context of continuing challenges.

And I think we have to -- we certainly want to see a couple more quarters before we declare victory or, let's say, a return to normal.

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

Okay. Let me sneak one last quick one in here for Sanjay. How should we think about the strategy for paying off the 2024 convertible given the way you've laid out cash flow projections for year-end 2023?

Sanjay Kalra ***Harmonic Inc. - Senior VP & CFO***

So Steve, as we laid out earlier, our capital allocation policy is for the debt, we would pay the principal in cash. We are committed to do that. We recently did for the $37.7 million debt, and we will do exactly the same for our $115 million net in 2024. As far as it relates to the premium on conversion, we have time to make that decision. But at least for accounting purposes, conservatively presume that the premium will be paid in shares, and that's baked into our diluted share down.

Operator

Our next question comes from the line of Tim Long of Barclays.

Timothy Patrick Long ***Barclays Bank PLC, Research Division - MD and Senior Technology Hardware & Networking Analyst***

Two questions, if I could. First, not to belabor this point here, but I wanted to ask kind of about maybe changing contracts and situations as technology emerges and other players come into place. So I'm just curious when you start talking to some of the newer larger Tier 1s or even in your current customer base. Number one, are you seeing any kind of different rollout timing that are available as the technologies has matured? And number two, are you seeing more of an appetite for multi-vendor types of arrangements within some of these networks? And then I have another follow-up.

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

Well, let's see, on the first part, I think that the -- one of the benefits of us having really pioneered the work in virtualization DAA is that we, as a company, have tremendous deployment expertise. And while any rollout -- any network rollout is inherently complex and particularly with larger operators, they all have different idiosyncrasies factors to consider. I think our ability to bring our expertise and experience to bear is certainly improving the possible pace of rollout relative to what it was a couple of years. That being said, I mean, I think all the customers we talk to still look at and think about multiyear kind of rollout plans. And certainly, multi rollout plan is plans or what is contemplated in our multiyear outlook or targets that we've established. On the question of multi-vendor, specifically around the cable architecture, frankly, we continue not to see any competitor on the horizon with a competitive virtualized software core.

On the other hand, from the beginning, we've acknowledged and talked about competitors in the hardware arena. You may recall, going back 15 months or so ago, our initial multiyear model contemplated us only having about 30% of DAA market share. We raised that somewhat in our more recent September '22 outlook is just reflecting the strong success that we're seeing in the hardware area. But to be clear, we always expected and continue to expect the hardware piece of DAA to be a multi-competitor situation. And really, Tim, that hasn't changed.

That being said, please don't get me wrong. While we think we have a kind of an overwhelming lead in software, I'd say we have a strong lead in hardware. And while I fully expect to split hardware business, we still have a pretty strong competitive advantage in hardware that we're seeing play out. (inaudible).

Timothy Patrick Long ***Barclays Bank PLC, Research Division - MD and Senior Technology Hardware & Networking Analyst***

Okay. Great. Great. And maybe just on to the fiber-to-the-home piece, it sounded like some good wins there. Can you just maybe qualify that a little bit or a little bit more detail on kind of where you're seeing success there, what type of customers? And how that art looks over the next few years?

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

It's been predominantly with our cable customers. A combination of what we'd call fiber on demand that is filling in brownfield opportunities. But together with an increasing exposure to greenfield new footprint. And it's still a smaller piece, but for example, in the U.S., the beam funding is something that we currently worked with several customers on putting in proposals for. So we see a combination of those 2 applications.

Operator

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

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

On the book-to-bill there about 0.8, that's the lowest we've seen little, I'm sure raising some eyebrows out there and your backlog being down, and you talked about normalization in lead times of your ordering patterns from customers. Can you share any color specifics on the composition of the backlog there that? Are you seeing more of the backlog now comprised of next 6 months versus previous prints?

Sanjay Kalra ***Harmonic Inc. - Senior VP & CFO***

Well, Ryan, I'll say that. First of all, we were not surprised by the book and bill in the fourth quarter. That's something which we anticipated as we were entering in the quarter. We knew that the elevated book-to-bill levels we have seen in the past, during the pandemic, they would not persist forever. And we always expected them to come back to the historical levels. And our exit backlog and deferred revenue is still very close to record levels of $457 million. And both segments are looking good in terms of the composition.

One metric we share is that 80% of our backlog and deferred revenue is expected to convert revenue in the next 12 months. And that's consistent. That team persists since last 2 quarters, and that's how both the segments are comprised of. We feel very strong in the position we have for our total backlog and deferred revenue for both the segments.

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

All right. And just to follow if I could. On the Europe number in Q4 look like it was pretty soft. How much would you attribute that to FX? Or is it an impact and may be impacted by the video segment there? I know you talked about some weakness historically coming from the video segment in Europe.

Sanjay Kalra ***Harmonic Inc. - Senior VP & CFO***

The FX impact was not that significant. We do experience some FX impact, but looking at our total revenue, it wasn't as much. I would say, a few millions, maybe around $2 million or so.

Operator

(Operator Instructions) Our next question comes from the line of Tim Savageaux of Northland.

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

I have a question on overly Comcast in particular, quite an uptick there in the quarter. And I guess I want to get your perspectives along several lines on that, which is for that specifically, would you characterize that as sort of a year-end spending thing because you've been kind of stair stepping up here, I guess the overall question I'm getting to is that are we at or near peak Comcast contribution on a quarterly type basis. So how would you describe that? And where would you put them in terms of their overall deployment of the kind of next-gen Remote PHY technology? And I have a follow-up on that.

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

Tim, I appreciate where the question is coming from. It's difficult to answer without really crossing the line and discussing my understanding, our understanding of Comcast's plans and intentions, et cetera, which is somewhere we can't and shouldn't try to go. They've -- I think, then, as explicit as they want to be in their recent public statements about their intentions in this area, I would say that there's always some variability quarter-to-quarter. It was a strong quarter. But we -- look, we said that there -- excuse me, our total business is 15 million modems passed, and that's across what is now 90-plus customers.

So Comcast is certainly the biggest piece of that, but by no means the whole piece of that. So you can do some very rough math looking and saying that even within Comcast, we're -- we still have quite a bit of runway ahead of us, I think, in any scenario in which they go forward. And our approach to the relationship is to be a long-term partner as they continue to evolve and develop the network. Beyond that, there's not much more specifically we can say.

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

Let me try on that one. And I don't get to my follow-up, but just focused on something that you said there. Well, obviously, you did about $240 million with those guys this year. And obviously, the vast majority of that, call it, 200 plus is in cable access. I guess what get to as you look towards your growth expectations for '23, in particular, and not being driven by any new customers, and that's going to be the focus of my follow-up. Do you expect a lot of growth there? Or should we think about more of a steady state at a high level on com from Comcast, which we've seen to beginning these last 2 quarters? Or do you expect Comcast to be a meaningful growth for broadband in '23?

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

Well, again, we cannot forecast expectations around any specific customer. I appreciate where the question is coming from, but we simply can't go there. What I can say is that of 11 announced Tier 1s to date, only 7 are really ramping. Comcast is one of those 7 and by far the furthest along. So we expect others, who we have won, the other 10 to play an increasingly large role. And then if you zoom out on the business, we're increasingly confident and adding to that number over the course of this year and as we look forward beyond 2023 or late 2023, early '24 into '25, we see an ever-growing list of customers, who will be, we think, similarly aggressively engaged in rolling out multi-gigabit services.

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

And that's where my question -- Yes. And that's where my last question was headed. Obviously, there's another Tier 1 about the same size who's sort of publicly committed to at least the type of architecture you're providing. Should we think of that relative to all we've just been over Comcast right there in terms of quarterly contributions and ramps? I think it's been probably like $400 million over the last 3 years. I mean how should we think about that opportunity in particular relative to what you've seen on a Comcast? Can you give us any kind of metrics? I mean the same footprint, should we assume it's the same or maybe a quicker deployment, so maybe bigger?

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

Yes. I'm sorry not to be able to be more explicit. I can't allude to expectations about any other specific customer. What I can tell you again is the 2025 target, which until recently, I think a lot of people thought was over the top. Our $825 million top line, we are confident in delivering on that number. And that number will be comprised of contributions from a number of large and small operators on domestic U.S. and international. And that's the best indication I can give you for what we expect the trajectory of the business to be. And it's based on a, I'd say, a statistical combination of a wide pool of the current customer plans as well as our prospective customers' intentions that we have confidence around the participating.

Sanjay Kalra ***Harmonic Inc. - Senior VP & CFO***

I'll just add that the 2023 guidance we have given is in line with our long-term model, even though Patrick mentioned the guidance is conservative. It captures only the Tier 1s we have and very small piece of new Tier 1s you might get. But it's in line exactly with our long-term model of $825 million in 2025.

Operator

Our next question comes from the line of George Notter of Jefferies.

George Charles Notter ***Jefferies LLC, Research Division - MD & Equity Research Analyst***

I guess I wanted to ask about the video business. Could you tell us how much satellite revenue you generated in 2022 that will not repeat again in 2023? I'm just trying to assess the moving parts on the video side of the business.

Sanjay Kalra ***Harmonic Inc. - Senior VP & CFO***

George, we have not broken out the revenue by opportunity in any quarter or in the year. And we don't plan to break revenues in that fashion as well.

George Charles Notter ***Jefferies LLC, Research Division - MD & Equity Research Analyst***

Got it. Okay. If I go back and look at your 10% customer information by quarter in 2022, I think Intelsat alone accounted for about $37 million, I guess, I assume that, that's not going to repeat in 2023. Is that a fair assumption? .

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

Well, again, a difficult question to answer, George. $37 million to Intelsat, no, I don't expect that exact amount of revenue to that exact customer. Will we do business with that customer, perhaps, we have a historic relationship with Intelsat. Will we do satellite-related business in 2023, yes, we will. So I regret we are unable to be more specific about specific amounts of revenues with specific customers.

But that is something where we can't go.

What I can tell you is that as we've acknowledged before, while the specific C-band reclamation activity in the U.S. is down, and we don't anticipate quite that level from that application. We expect analogous satellite-related reclamation activity to be an ongoing feature of our video funds business. And that expectation is built into our guidance for 2023 as well as the 2025 targets that we've laid out.

George Charles Notter ***Jefferies LLC, Research Division - MD & Equity Research Analyst***

Great. And then one other thing. You guys in the past have talked about the number of total -- I guess I'm referencing the CableOS business now. But in the past, you guys have referenced the total number of modems in aggregate for the collection of customers that are deploying CableOS. I think last quarter in September, you talked about a $63 million number. I think it was maybe was $60 million that was up about 5%. But can you update us on that number? .

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

Well, I can tell you that the number is between 60 and 70 now. And I can also tell you that we've decided that going into this year, we're going to start providing the challenge or appreciate is if we win a significant customer, who's got 7 million subscribers hypothetically, and then we announced that, that number went up by 7 were effectively preannouncing that customer, which is something that we want to avoid doing without more explicit agreement around publicity. If you look at the Denali research coming out of Q3 last year, we're nearly #1 in the market. And I expect, if not in Q4, I expect us to be #1 in CMTS according to a third-party market research.

So from that perspective, actually, the salience figure for us becomes the total available addressable which is about $180 million worldwide. Of that, we're about $15 million deployed, so a little less than 10%. And I think going forward, it's the total addressable market that is going to be the key number to watch. Certainly, that is what we are going after as the current or some to be a market leader, I also think that's the appropriate number to keep our eyes on.

Operator

We have a follow-up question from the line of Ryan Koontz of Needham & Company.

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

Just a quick follow-up on my backlog topic. I think investors are very focused on that, and I'm sure that's much your consternation. But how would you frame up your expectations for backlog to trend in the year ahead in general in terms of setting the expectations correctly for investors as we grow understanding that there'll be quarter-to-quarter kind of lumpiness to backlog orders. How would you frame up your expectations for backlog in '23?

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

Let me take a crack at it, and Sanjay, you can weigh in if there's something that I missed. I think the best way to explain it, Ryan, is that we expect us to kind of gradually return to historic ratios between backlog and revenue. Now that's -- so we're ahead of that right now. I think a number of customers, as we've explained, really got out in the head and tried to secure -- get orders on the books much further in advance than they have historically done. And yes, we expect over the next couple of quarters, that to normalize. We saw the beginning about normalization process in the fourth quarter, and that will continue.

So to be clear, we expect total book-to-bill to be greater than 1 in 2023. And we expect backlog levels to be -- to fully support the revenue forecast that we're giving. And -- but returning to the historic ratio between backlog and revenue implies a somewhat less smaller ratio book-to-bill in the short term.

Operator

Thank you. At this time, I'd like to turn the call back over to Patrick Harshman for closing remarks. Sir?

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

All right. Well, thank you very much again, all for joining us today. Again, we're pleased with the business that we -- the success that we had in '22. We're optimistic and confident going into 2023 as well as looking at our business from a multiyear perspective. We're excited.

We're determined. The customer relationships are strong. We've got tremendous momentum in the market, and we're looking forward to executing a great year. And we're looking forward to keeping you updated. Thank you all, and have a good day.

Operator

Thank you. This concludes today's conference call. Please disconnect your lines at this time.