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Harmonic, Inc. (HLIT)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Second Quarter 2025 Harmonic Earnings Conference Call. My name is Victor and I'll be your operator for today's call. At this time, all participants are in listen-only mode. After the speakers' presentation we'll open up for questions. [Operator Instructions] Please note that this conference is being recorded. I want to turn the call over to David Hanover, Investor Relations. David, you may begin.

David Hanover
Investor Relations, Harmonic, Inc.

Thank you, operator. Hello, everyone, and thank you for joining us today for Harmonic's second quarter 2025 financial results conference call. With me today, Nimrod Ben-Natan, President and CEO 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 a future financial performance of the company. Such statements are only current expectations, and actual events or results may differ materially. We refer to the 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 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 of 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

President, Chief Executive Officer & Director, Harmonic, Inc.

Thanks, David, and welcome, everyone to our second quarter 2025 earnings call. Today, we're sharing strong results that exceeded our guidance in both Broadband and Video, reflecting our continued focus on execution and long-term value creation. Revenue was $138 million, driven by a record quarter in fiber, significant sequential and year-over-year growth in Broadband rest of world, and robust performance across both appliances and SaaS streaming. We also continue to drive innovation and customer expansion in Broadband, further enhancing our competitive position.

In addition to our results, during the quarter, we returned capital to our shareholders by repurchasing an additional $14 million of our outstanding common shares, bringing total repurchases under the current program to $50.1 million. We closed the quarter with backlog and deferred revenue of $504.5 million, underscoring consistent customer demand for our products and services, even as the industry transitions to Unified DOCSIS 4.0, as we have discussed previously.

While tariffs had minimal impact this quarter, the global trade environment remains uncertain. Looking ahead, we continue to expect revenue growth to resume in 2026, supported by Unified DOCSIS 4.0 adoption, recent wins, and accelerated customer ramps.

Turning to slide 5, our Broadband vision continues to gain momentum. We are accelerating the adoption of next generation virtualized broadband networks designed for speed, reliability and simplicity. Spanning DOCSIS and fiber, this transformation is well underway and we are helping customers modernize their networks and prepare for the future. We expect that the recently passed OBBBA, which provides bonus depreciation, cash tax benefits to those building and modernizing broadband networks in the US will help to incentivize those investments over the next several years.

Turning to slide 6, building on our Broadband growth strategy, the revenue in this segment was $86.9 million for the quarter and gross margin was 46.5%, reflecting a lower mix of cOS software in the quarter. We ended the quarter with 136 cOS deployments in production, managing 35.3 million connected modems, demonstrating the scalability and maturity of our virtualized access platform, capabilities not yet evident elsewhere in the market.

Our customer base continues to expand. This quarter we, added four new logos, including a large regional Tier 2 North American broadband operator undertaking a major DOCSIS and fiber network transformation. Rest of world revenue grew significantly year-over-year, and we expect this momentum to continue, driving further expansion of our global installed base.

Additionally, projects announced last quarter, such as Astound and a Tier 1 Latin American fiber project are progressing well with deployments ramping and customers coming online. Industry momentum is building as operators modernize networks for higher speeds, greater reliability and lower cost. We believe our Unified 4.0 architecture and converged DOCSIS and fiber design, backed by proven deployments and ongoing innovation, will continue to enable faster rollouts and confident scaling for our customers.

Let's now turn to fiber, which is at the heart of our Broadband strategy and a top priority, as our customers increasingly leverage the fiber optionality built into our solution to deploy fiber-to-the-home for MDUs, edge-outs and greenfield builds. In the second quarter, we delivered record fiber revenue while building a strong pipeline for the future, driven by both existing customers and new customer wins. This quarter, we introduced SeaStar, our new optical node, purpose-built for multi-dwelling units, MDUs. SeaStar enables cable and telco operators to quickly and very cost effectively deliver fiber class broadband to low-density buildings using existing infrastructure. It simplifies deployments, lower costs and accelerates time to market, giving operator a powerful and cost-effective way to compete in this MDU segment.

We also partnered with Vodafone on their Fiber Island showcase at the ANGA COM show in Germany. The demonstration highlighted how our solution enable operators to extend fiber-to-the-home connectivity more efficiently, leveraging existing HFC and fiber investments to accelerate fiber broadband availability. Overall, we made great progress this quarter in fiber with record revenue, the launch of the new SeaStar product, and the high-profile Vodafone showcase, which underscore the powerful momentum and leadership we are building in fiber.

Looking at Unified DOCSIS 4.0, our solution is rapidly moving to a real-world deployment. We are shipping Unified RPDs in volume and advancing the new Unified RF front-end tray, which is entering customer labs this quarter for testing and early field trials. We also formally announced Mediacom as a Unified DOCSIS 4.0 customer, and they have since shared their deployment strategy and the magnitude of their plans, reinforcing the reality, and opportunity of DOCSIS 4.0 rollouts powered by our Unified platform.

We recently demonstrated a 14 gigabit per second throughput milestone on a live Unified DOCSIS 4.0 system at CableLabs Interop exceeding today's 10-gig fiber-to-the-home speeds and setting a new industry record. These advancements show how our technology is redefining broadband performance and why operators are turning to Harmonic to lead their DOCSIS 4.0 evolution. On the topic of innovation, this continues to be the cornerstone of our leading industry position. And this quarter we're excited to share two notable updates. First, Vectra, a leading operator in Poland, selected Harmonic for its broadband transformation, citing our patented PTP-less timing solution as a key differentiator. That solution is now live in full commercial production simplifying network timing, lowering cost, and enhancing reliability, another step forward in delivering smarter, more efficient broadband infrastructure.

Second, we collaborated with CUJO AI on a live demonstration of ultra-low latency broadband powered by our virtual CMPS, and advanced traffic management. This joint showcase highlighted how operators can dramatically reduce latency for applications such as cloud gaming and advanced real-time collaboration delivering a step change in broadband quality of experience.

To summarize, Broadband business continues to focus, adding new logos, expanding in fiber and delivering advanced innovations with the world's largest base of live virtual CMPS networks, leadership in Unified DOCSIS 4.0, and a converged DOCSIS and fiber platform, we enable operators to deliver faster speeds, greater reliability and lower operating costs. Record fiber business and rest of world revenue, along with the accelerated product innovation pipeline, give us confidence in the long-term growth of this business, as Unified and fiber deployment scale through 2026 and beyond.

Turning to slide number 7, the video market continues to evolve rapidly as broadcast grade reliability is no longer optional in premium streaming but rather a necessity. Customers depend on Harmonic to deliver flawless performance for their most valuable content, specifically high stakes, live sports events where even a brief interruption can translate into the potential loss of millions of dollars. To meet these rising demands, we are seeing a strong momentum across appliances, SaaS streaming, and increasingly hybrid deployments that combine on-premise capacity with agnostic cloud flexibility.

Our SaaS streaming platform is delivering at scale with high reliability across all major cloud providers. A clear example is our partner ViewLift, a live sports focused platform that illustrates how our customers' growth fuels our SaaS streaming momentum. ViewLift is expanding its customer base and leveraging our cloud agnostic SSAI advertising solution to achieve top tier reliability and greater business flexibility.

In the second quarter, our Video segment delivered $51.1 million in revenue reflecting strong overall performance. Our appliance business contributed solid profitability to our results driven by primary distribution and competitive take out deals. While our SaaS streaming business posted a record $15.4 million in quarterly revenue, again, fueled by the expansion of live sports streaming and a growing pipeline of Tier 1 operators preparing to scale deployments.

Additionally, our Akamai partnership positions us for expanded opportunities in premium streaming delivery in the second half of 2025. Together, we believe our appliance strengths, accelerating SaaS streaming growth, and differentiated hybrid approach with agnostic cloud support provide our video business with a solid foundation for sustained and profitable growth in 2025 and beyond.

Now, I will turn to Walter for a deeper review of our financials.

Walter F. Jankovic

Chief Financial Officer, Harmonic, Inc.

Thanks, Nimrod and thank you all for joining us today. Before I discuss our quarterly results and outlook, I'd like to remind everyone the financial results I'll be referring to on this call are provided on a non-GAAP basis. As David mentioned earlier, our Q2 press release and earnings presentation include reconciliations of the non-GAAP financial measures to GAAP, both of these are available on our website.

Our second quarter highlights are here on slide 10. As you can see, revenue and profitability in both our Video and Broadband businesses exceeded the high end of our guidance as we continue to successfully execute our plans and navigate the previously discussed industry-wide headwinds in Broadband. On a total company basis, revenue was $138 million, while EPS rose from $0.08 to $0.09 per share year-over-year. Free cash flow during the quarter was minus $15.5 million, and our cash balance at quarter-end was $123.9 million, a notable increase of $78 million versus the same quarter a year ago. The large increase in cash from a year ago is net of $50 million of stock repurchases and is primarily a correlation to the strong revenue we delivered in the second half of 2024, and demonstrates the operating leverage in our business. As we expect our Broadband revenue growth to resume in 2026, this gives us confidence in our ability to drive significant future cash flow.

Looking more closely at our businesses. Second quarter Broadband revenue and adjusted EBITDA were $86.9 million and $10.8 million respectively. These year-over-year results were expected owing to the industry headwinds we have previously discussed. It's important to note that in Q2 our rest of world revenue was at a record level and helped to mitigate the lower revenue from our largest customers on a year-over-year basis, demonstrating our improving diversification trend.

In our Video business, we are continuing to see greater momentum as Video revenue is $51.1 million, up 11.6% year-over-year, while adjusted EBITDA in this business was $6.2 million. This reflects consistently strong appliance and SaaS revenue as well as the ongoing efficiency improvements we've implemented. We've also continued to expand the Video SaaS part of our business as this revenue line grew 10.1% year-over-year to reach a record $15.4 million.

Moving to slide 11. As we stated previously, we currently have three main capital allocation priorities. These include; one, making targeted investments in our business to drive our organic growth; two, returning capital to our shareholders; and three, identifying and evaluating inorganic growth opportunities or M&A to complement and leverage our growing Broadband installed base.

Aligned with our first key priority, we will continue to invest further in our inventory over the next several quarters to support our expected growth in broadband, which includes our rest of world customers where we're making substantial progress.

In terms of returning capital to our shareholders, we will continue to engage in opportunistic stock repurchases under our share repurchase program, which authorizes up to $200 million of repurchases and doubled our previous program. Year-to-date, we have repurchased $50.1 million of our common shares under this program, including repurchasing shares totaling $14 million in the second quarter. As we've said in the past, we expect to fund these purchases with expected strong free cash flow generation over the next three years.

Our balance sheet remains strong with ample sources of liquidity. As of June 27, we had $123.9 million in cash and $82 million available under our credit facility. We believe this is more than sufficient to support our capital allocation priorities. In addition, given the considerable research and development we do in the US and with the passage of the OBBBA, we expect this to result in a meaningful cash tax benefit to the company over the next several years, which will enhance our capital allocation plan.

Now let's take a more detailed look at our second quarter 2025 financial results on slide 12. As I mentioned earlier, second quarter total company revenue was $138 million. In the quarter, we had one customer representing greater than 10% of total revenue, with Comcast representing 39% of total revenue. Total company Q2 gross margin was 54.1%, surpassing the high end of our guidance range and up 100 basis points year-over-year.

Broadband Q2 gross margin was 46.5%, down 110 basis points year-over-year, mainly due to tariff costs, which ended up being substantially less than what we had anticipated when we guided last quarter. I'll discuss tariffs in greater detail shortly. Video gross margin in Q2 was 67%, up 260 basis points year-over-year, reflecting both revenue strength from larger appliance deals and SaaS expansion and our cost optimization efforts.

Moving down the income statement on slide 13, Q2 total company operating expenses were $60.7 million, down 1.3% year-over-year as a result of our previously discussed restructuring initiatives in Video and other cost management initiatives. Our profitability metrics remained steady as second quarter 2025 Broadband EBITDA was $10.8 million, and Video EBITDA was $6.2 million. Total company EPS was $0.09.

Our order book was strong with Q2 bookings at $158.4 million. The book-to-bill ratio for this quarter was 1.1 compared to 0.9 in Q1 2025 and 0.5 in Q2 2024. Digging a little deeper, Broadband book-to-bill was significantly higher than the company average of 1.1, as we saw a strong level of bookings across multiple customers. This is a positive indicator for future revenue growth. 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, especially as we see growth in Broadband due to Unified DOCSIS 4.0 and other customer ramps accelerate.

Turning to the balance sheet on slide 14. As I've noted earlier, we ended Q2 with cash and cash equivalents of $123.9 million. The quarter-over-quarter change in cash was mainly attributed to the aforementioned share repurchases and increases in inventory to support our growth and to provide a cushion for any potential near-term tariff impacts. Days sales outstanding at the end of Q2 was 79 compared to 67 in Q1 2025 and 78 in Q2 2024. The sequential increase was due to timing of sales in the quarter and reflects our typical DSO level.

Inventory increased $9.1 million in the quarter and our days inventory on hand fell to 101 days from 103 days last quarter. At the end of Q2, total backlog and deferred revenue was $504.5 million, around 51% of our backlog and deferred revenue have customer request dates for shipments of products and for providing services within the next 12 months.

Turning to guidance, we anticipate a moderate pace of Broadband upgrade activity in the near-term. However, we continue to believe this is mostly a timing change and we are already beginning to see positive tailwinds for 2026 as customer ramp readiness improves Unified 4.0 technology progresses, and our new rest of world customers ramp up as Nimrod highlighted earlier. These positive developments we expect will support the return of growth in 2026.

Now, I'd like to provide an update on the tariff situation. On our last call in late April, we stated that we believe the increased tariff proposals at the time would have any material impact on our Video business and an estimated $3 million impact on our Broadband business for Q2. However, the actual impact in Q2 was much less than our initial forecast. For Q2, the tariff impact was less than $1 million and it was all related to broadband. This better than expected performance was due to trade reprieves as well as operational and supply chain adjustments that we had implemented to address these potential effects which proved quite successful. While we are pleased with the success of these efforts to date, the tariff situation remains fluid and unpredictable. As such, we continue to explore options to offset tariff sensitivity including further optimizing our supply chain, additional cost management measures, and taking price actions where appropriate.

Now, let's review our non-GAAP guidance for Q3 2025 beginning on slide 15. Similar to last quarter, we're taking a prudent approach to our current quarter guidance given the industry and macroeconomic factors I discussed. Additionally like last quarter we'll not provide updated full year 2025 guidance at this time due to the current situation with tariffs and the potential impact on economic conditions and our customers' behavior. To date, we have not seen any changes in our customers' behavior. For Q3, we expect Broadband to deliver revenue between $75 million to $85 million, gross margins, between 45% to 46% due to product mix, and adjusted EBITDA between $5 million to $9 million. The Broadband guidance includes an estimated tariff impact of less than $1 million in the Q3 margins based on the current announced tariff rates and exemptions.

For our Video segment in Q3, we expect revenue in the range of $45 million to $50 million as normal seasonal weakness in appliances is offset by our strong backlog and pipeline. Gross margin in the range of 65% to 67% and adjusted EBITDA to range from $2 million to $5 million. On this slide, we have also provided total company guidance for Q3. In the interest of time, I'll let you read through the details. Please also note that our non-GAAP tax rate has changed slightly to 21%. I would like to highlight the total company EPS for the third quarter is expected to be in the range of $0.02 to $0.07.

In closing, we want to reiterate that our Broadband solutions are critical for our customers as they upgrade their networks to address current competitive pressures and minimize subscriber churn. Harmonic has a history of successfully navigating industry transitions like the one we are in now. And our operating leverage and market leadership puts us in an enviable position when growth resumes in 2026.

We thank everyone for their 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

President, Chief Executive Officer & Director, Harmonic, Inc.

Thanks, Walter. In summary, we delivered strong second quarter results as revenue and profitability in both our Video and Broadband businesses were above the high end of expectations. In addition to our financial results, we continue to make progress across all aspects of our business, including cOS deployments, Unified DOCSIS 4.0, fiber, and video appliances, and SaaS streaming. While we expect Broadband upgrades to progress at the moderate pace in 2025, we continue to see developments that will ultimately benefit our business in 2026 and beyond.

Walter and I are now happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question will come from line of Simon Leopold from Raymond James. Your line is open.

Simon Leopold

Analyst, Raymond James & Associates, Inc.

Q

Thank you very much for taking the question. I did – I'm interested in your description of the strength from what we refer to as others, and rest of world customers. So, I guess, in your first quarter of the year, if we exclude the business with Comcast and Charter that was about 54% of your revenue. And I'm just wondering if you could characterize or quantify actually what the ex-Comcast, Charter percent in dollar value was this quarter to help us quantify that strength in rest of world?

Walter F. Jankovic

Chief Financial Officer, Harmonic, Inc.

A

Well, specifically Simon, it's Walter here. We basically provided our concentration with regards to Comcast during the prepared remarks. And obviously, in terms of rest of world, and the make up of rest of world for the company, it is definitely much stronger than 50%, and that's on a total company basis. So that includes both broadband and video, and you probably noticed that one of the customers that we have been calling out as a greater than 10% customer, I think five of the last seven quarters was not listed today.

Simon Leopold

Analyst, Raymond James & Associates, Inc.

Q

Okay. And then, the other fact I wanted to follow up is, you certainly sound, I think, a little bit more optimistic about 2026 than you did on the prior conference call. And when I'm looking at the forecast from the third party researchers that you typically cite, it looks like for your served market, they're expecting good growth in 2026 as well, roughly 40% growth in the year. Could you give us your thoughts, even if you're not prepared yet, for a formal forecast of how you're thinking about that trajectory for 2026? Thank you.

Nimrod Ben-Natan

President, Chief Executive Officer & Director, Harmonic, Inc.

A

Yeah. So it's still too early for us to give the exact 2026, but we certainly see some of the headwinds that we talked about turning into tailwinds. Clearly, the Unified 4.0 will be ready for the entire 2026. We did talk about a couple of wins that are scheduled to deploy the Unified. We did talk about Mediacom and few others that are in the pipeline. So we certainly see that. We also see kind of rest of the market, as we call it strength as you ask in your first question. So overall, we certainly see that we cannot at this point comment on the exact 40% that you highlighted.

Walter F. Jankovic
Chief Financial Officer, Harmonic, Inc.
A

But definitely, we're seeing momentums in...

Simon Leopold
Analyst, Raymond James & Associates, Inc.
Q

Thank you for taking my questions.

Walter F. Jankovic
Chief Financial Officer, Harmonic, Inc.
A

Yeah. And definitely, Simon, we're seeing momentum in terms of our rest of world customers, momentum around customer ramp readiness. And so, to your point about feeling more bullish in terms of 2026, definitely we're seeing those positive indicators, those tailwinds as we had expected when we had talked earlier in the year with regards to what the expectations are around 2026. And I think that third party market research corroborates that turnaround in 2026.

Nimrod Ben-Natan
President, Chief Executive Officer & Director, Harmonic, Inc.
A

Yeah. And maybe one more thing, I think the competitive environment for our customers is getting very challenging. And clearly, they all recognize the importance and the value of what they call the network evolution or upgrading the network to kind of deliver the best of what you can get out of these networks, which is more in the symmetric speeds, at least 1 gigabit on the upstream. So they all definitely see the importance of that. And we believe that they will do anything they can to push that forward. I think the other thing, Walter, and you touched on the OBBBA, which again, it's kind of new, we heard from other telco operators that this will help them to accelerate CapEx investment. We have not yet seen the kind of impact of that, as this is fairly new, but this is kind of yet another factor to add.

Simon Leopold
Analyst, Raymond James & Associates, Inc.
Q

Thank you.

Walter F. Jankovic
Chief Financial Officer, Harmonic, Inc.
A

Thanks, Simon.

Operator: Thank you. One moment for our next question. Our next question comes from the line of Ryan Koontz from Needham. Your line is open.

Ryan Koontz
Analyst, Needham & Co. LLC

Q

Great. Thanks. Hoping you could talk a little bit more detail about DOCSIS 4.0 Unified in light of your soft Broadband guide commentary, you're making early RPD shipments there. We've seen some recovery here in your 2Q sales to Comcast. Where is the industry now today, end of July on DOCSIS 4.0 Unified readiness. And then, what kind of progress have you specifically made on your product platform? Thank you.

Nimrod Ben-Natan
President, Chief Executive Officer & Director, Harmonic, Inc.

A

Yeah. So, specifically I think Comcast, the case of Full Duplex we talked about that, and we talked about the dependency early in the year on amplifiers. That's a non-issue, that's progressing well. That's one component of what we generically define as the Unified 4.0. For the rest of the market, above and beyond Comcast, the progress that we're making is fairly good. As I mentioned, we do have dependency on the so-called RF front-end, which is required. This technology must be deployed both an RPD in conjunction with an RF front-end, which is Unified compatible. And I did mention that we're entering into customer labs in the third quarter and starting field trials with the plan to early shipments in the fourth quarter.

On top of that, you could follow the progress that we're making from an interop point of view at CableLabs, including this 14-gigabit milestone, which is, I agree, is more of a marketing milestone, but nevertheless important. There is an ongoing interop activity with the CPEs. So overall, the ecosystem is moving forward and we are encouraged by that.

Ryan Koontz
Analyst, Needham & Co. LLC

Q

That's really helpful, Nimrod. Thank you. And with respect to Charter, who you mentioned fell off the 10%, we saw them cut CapEx few days ago on the year. How should investors think about that opportunity for you? Do you see this really as just a pushout generally – in their program or is there – are there any competitive changes?

Nimrod Ben-Natan
President, Chief Executive Officer & Director, Harmonic, Inc.

A

Well – yeah. So they did say that they will be short about $500 million that will be moved to next year. They also said a couple of times how important the network evolution is for the services that they deliver; the 2x1, the 5x1 as a converged network. And they specifically called out what they call Step 2 of the program, which is underway. So, I think they signaled that this is moving forward.

Ryan Koontz
Analyst, Needham & Co. LLC

Q

Yeah. I think we've heard about them deploying amplifiers, I think, as part of their Phase 2, but perhaps doing that in phases with other products.

Nimrod Ben-Natan
President, Chief Executive Officer & Director, Harmonic, Inc.

A

Well, so, I cannot break it down beyond what they said. But I think the point for them is to deliver services. Just by deploying amplifiers, you cannot deliver the kind of enhanced service, whether it's the 2x1 or eventually the 5x1.

Ryan Koontz
Analyst, Needham & Co. LLC

Q

Great. And just a quick question for Walter on the strong bookings in the quarter. Walter, any change in the mix there of bookings? Is this more longer term, for 2026? How should we think about that step-up?

Walter F. Jankovic
Chief Financial Officer, Harmonic, Inc.

A

Yeah. It's a mix of bookings across the time period. And as I pointed out in the prepared remarks, it came across in Broadband across a number of customers, including our rest of world customers.

Ryan Koontz
Analyst, Needham & Co. LLC

Q

Got it. Thanks very much.

Walter F. Jankovic
Chief Financial Officer, Harmonic, Inc.

A

Okay. Thanks, Ryan.

Operator: Thank you. One moment for our next question. Our next question comes from the line of Steven Frankel from Rosenblatt Securities. Your line is open.

Steven Frankel
Analyst, Rosenblatt Securities, Inc.

Q

Hey. Afternoon. I just want to try to square the strong order book, the cautious guidance, and the third element, which is a nice pickup in modems served in the quarter. So, deployment seems to be getting back to a better pace. Do we read from this that one of the dynamics that we're seeing in Q3 is deployments from inventories of nodes and RPDs that your customers have had, and now we're ready to start to draw down?

Nimrod Ben-Natan
President, Chief Executive Officer & Director, Harmonic, Inc.

A

We always talked about the lag between shipments and when do we see modems specifically. We also talked about impact of deployments in what's called fiber deep environment, where you deploy a lot of nodes, but you don't pick up a lot of subscribers. So, it did, and I think I did highlight last quarter, because the number was lower that we have in the pipeline a good number of customers that will turn up the service in the second quarter, and we can see the results in the modem pickup, and we expect to see that increasing going forward.

Steven Frankel
Analyst, Rosenblatt Securities, Inc.

Q

Okay. And then on the Video side, we haven't talked about new customer wins in a while, kind of, what's the pipeline like? Are there large potential customers that are in the process of deploying that will flow into revenue in the next few quarters?

Nimrod Ben-Natan
President, Chief Executive Officer & Director, Harmonic, Inc.

A

So, maybe two things. And I did highlight on the prepared remarks, a partner we work with that provide a platform for more of regional sports, and they actually bring on the platform a lot of customers. We don't count them as customers. It's effectively an existing customer that get expanded as they bring on more customers. We also did talk about Akamai, which we kind of count as one customer, but under the hood they actually transition and expand into more customers. So these are two examples where we expand and grow with existing customers, but we don't necessarily provide the details of these customers.

Steven Frankel
Analyst, Rosenblatt Securities, Inc.

Q

Okay. And you did talk about Akamai contributing to growth in the back half, but that doesn't appear to be in the guide for Q3. So was that more of a Q4 phenomenon?

Walter F. Jankovic
Chief Financial Officer, Harmonic, Inc.

A

Yeah. We're just – in Q2 we started successfully onboarding a number of customers, and starting to see the revenue. But by the time the ramp up occurs of the customers, it takes a little while before you're going to see that into the growth. But we are highlighting that in the second half a good part of our growth coming out of the SaaS business will be a result of that partnership.

Steven Frankel
Analyst, Rosenblatt Securities, Inc.

Q

All right. Thank you.

Walter F. Jankovic
Chief Financial Officer, Harmonic, Inc.

A

Thanks, Steve.

Operator: Thank you. One moment for our next question. The next question will come from the line of George Notter from Wolfe Research. Your line is open.

George C. Notter
Analyst, Wolfe Research LLC

Q

Hi, guys. Thanks very much. I was just curious about anything more you can tell us on the plan around tariffs. I think you guys make quite a bit of your nodes in Malaysia. It feels like the tariffs are going to be reasonably substantial in Malaysia if that gets negotiated. And I guess I'm just curious about, what kind of offsets would you have? Could you move manufacturing? Is there some kind of flexibility you can kind of walk us through that would help your situation on nodes and margins there? And if you do have, say, a 20% or 25% tariff in Malaysia, what kind of impact might you expect through the P&L? Thanks.

Walter F. Jankovic
Chief Financial Officer, Harmonic, Inc.

A

Sure. Hey, George, it's Walter. So, first of all, our assumptions that we built into our guidance for Q3 take into consideration the current rates that have been disclosed in terms of, for example, Malaysia, August 1st, going up to 25%. And so the impact is already baked in to our quarterly guidance. And as you heard earlier, the whole impact for Q3, for the Broadband business, we expect it to be less than $1 million based on the rates and the exemptions.

So we have products that are exempt. We have products that are not exempt, and we also have some various options in terms of optionality around our product base there. So in total, right now, based on the rules that exist today, the impact is less than $1 million in the Broadband business.

Now, if the rules change, let it be the rates, the exemptions. We continue to look at other options from a long-term standpoint in terms of looking at nearshoring and potentially taking advantage of other options of that nature. But until the both the rates and this whole thing is cleared up, it's not like there's something that we're going to execute on. I think we're proactively looking at the different options available to us. And right now, it's not having that much of a significant impact on our overall business. If you consider $1 million about 1% on the overall margin line.

George C. Notter
Analyst, Wolfe Research LLC

Q

I assume that's a high percentage of your nodes are exempt. That's what's going on here, I presume is that correct?

Walter F. Jankovic
Chief Financial Officer, Harmonic, Inc.

A

There's elements there's parts of our portfolio.

George C. Notter
Analyst, Wolfe Research LLC

Q

Okay. Thank you.

Walter F. Jankovic
Chief Financial Officer, Harmonic, Inc.

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You're welcome.

Operator: Thank you. Our next question come from the line of Tim Savageaux from Northland Capital Markets. Your line is open.

Tim Savageaux
Analyst, Northland Capital Markets

Q

Hey, good afternoon. Couple of questions. First, I think you mentioned some positive indications for 2026 and I think above trend growth. So that would beg a question about off what baseline. I know you're not guiding for the year. Your commentary sounds flattish throughout the second half, but you usually do see some degree of upward seasonality in Q4. And I know they've been all over the place of late, but I wonder if you have any commentary there. Should we take, should we assume Q4 looks like a lot like Q3 or could we have some seasonality in thinking about the baseline for that above trend growth in 2026?

Walter F. Jankovic
Chief Financial Officer, Harmonic, Inc.

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Hi, Tim. So, what I would say about Q4 is that we do expect some sequential growth in Q3 to Q4. Right now, we're not going to guide Q4 because of the commentary I provided earlier in regards to the uncertainty around customers' behavior on spend because of tariffs. I would also indicate that we've got a lot of puts and takes as we look at Q4. And so therefore, that's a key reason why we are not guiding for Q4. But if you think about Q3 to Q4, we do still expect some sequential growth in the quarter. And our commentary all really focused around the positive tailwinds that we're now seeing, some of the progress that's been made across the board in terms of customer ramp readiness, in terms of the Unified 4.0 that Nimrod spoke about earlier, as well as onboarding of rest of world customers. And that really we see as the key elements for our 2026 growth.

Tim Savageaux
Analyst, Northland Capital Markets

Q

Okay. And we need take it from there in terms of 2026. And obviously, we've been – I think we're – looking at the beginning of this year, we're going to get declines of a similar magnitude. But for 2026, I assume you'd like to hit as an initial goal, a new high watermark for revenue in the business, kind of, the nearly $500 million you achieved in 2024. Is that safe to say?

Walter F. Jankovic
Chief Financial Officer, Harmonic, Inc.

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Too early to guide at this point, Tim. I think we've got to make assessment across the board. Look at all of the various customers, all of the things we have talked about today in terms of the progress that's been made. And it's just too early to comment around any specific number or watermark for next year other than to say, we're very well positioned in terms of our portfolio, our market share. We've talked about the positive tailwinds that we're now seeing, and the progress that we are seeing right now with the customer base. So I think those all point in the right direction, but we're not going to give any type of directional statement at this point.

Tim Savageaux
Analyst, Northland Capital Markets

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Yeah. Fair enough. Last question for me, I guess, and you mentioned Charter not on the 10% customer list, and is there any way to assess inventory over there? Yes, they pushed some CapEx, but it's still more this year than last year, and more in the second half than the first. And so I know that's not a quarter-to-quarter relationship. So, the second half of last year, you shipped in maybe $80 million worth of gear. First half of this year, I don't know, $25 million, maybe $10 million in the quarter. So is there a way for you to assess what's going on there in terms of what they've deployed, what inventory they might have, and how that might relate to their kind of run rate deployment schedule?

Walter F. Jankovic
Chief Financial Officer, Harmonic, Inc.

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Yeah. Tim we can't comment around any specific customer's ramp schedule, et cetera. What we can say in general is that many of our customers acquire product from us, they acquire licenses from us, they acquire nodes from us. And obviously, as they ramp and the speed of their ramp will dictate exactly when they're going to need more equipment and therefore, the onset of orders and product to a customer and that goes across the board for all customers.

Tim Savageaux
Analyst, Northland Capital Markets

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Okay. Thanks.

Walter F. Jankovic
Chief Financial Officer, Harmonic, Inc.

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Thanks, Tim.

Operator: Thank you. Now, I'm not showing any further questions in the queue. I would now like to turn it back over to management for any closing remarks.

Nimrod Ben-Natan

President, Chief Executive Officer & Director, Harmonic, Inc.

We appreciate your continued interest in Harmonic and look forward to updating you on our progress in the future. Thank you all for joining the call. Have a good day.

Operator: Thank you for your participation in today's conference. This does conclude the program. You may now disconnect. Everyone, have a great day.