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Q1 2025 HARMONIC INC EARNINGS CALL

EVENT DATE/TIME: April 28, 2025 / 9:00PM UTC

An LSEG Business

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- **Operator**
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- **Ryan Koontz** *Needham & Company, LLC - Analyst*
- **Victor Chu** *Raymond James Financial, Inc. - Analyst*
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PRESENTATION

Operator

Welcome to the first-quarter 2025 Harmonic earnings conference call.

My name is Lisa. I will be your operator for today's conference call.

(Operator Instructions) Please be advised that today's conference is also being recorded.

I would now like to turn the conference over to David Hanover, Investor Relations. David, you may begin.

David Hanover *Harmonic Inc - Investor Relation*

Thank you, Lisa. Hello, everyone.

Thank you for joining us, today, for Harmonic's first quarter of 2025 financial results conference call.

With me, today, are 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 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 Statement 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.

Please note that unless otherwise indicated, the financial metrics we'll provide you on this call are determined on a non-GAAP basis. These metrics, together with the 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. 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.

Now, I'll turn the call over to our CEO, Nimrod Ben-Natan. Nimrod?

Nimrod Ben-Natan *Harmonic Inc - President, Chief Executive Officer*

Thanks, David. Welcome, everyone, to our first-quarter 2025 earnings call.

Before we get into the specifics in each of our businesses, I would like to provide a high-level update on how we're executing on our long-term growth plans and navigating tariffs and the current macroeconomics environment.

Today, we delivered another strong quarter, advancing our long-term growth strategy. Revenue reached $133 million, as we exceeded our Video revenue expectations. We also generated adjusted EBA of $21 million; again, ahead of our previous outlook.

Complementing this, strong operating cash flow lifted our cash balance to $149 million at quarter end. That's even after the $36 million we returned to shareholders through share repurchases. We closed the quarter with backlog and deferred revenue at $485 million, underscoring the durability of our business model.

In 2025, we're continuing to navigate the current industry shift to unified DOCSIS 4.0. As we noted on our last earnings call, we expect 2025 will be a below-trend revenue year for Broadband, due to Unified 4.0 timing and its effect on customer deployments.

Now, potential tariff exposure has contributed to this outlook. Having said that, with our technology and market share leadership position on Unified 4.0, our progress here, today, has been in line with our expectations. Therefore, we continue to expect resumed revenue growth in 2026, with Unified 4.0; and existing customer ramps, as recently reflected on the Dell'Oro analyst report, which supports this future long-term growth outlook.

Turning to slide number 5. Our Broadband vision is becoming a reality. We are seeing rapid adoption of next-generation virtualized platforms, across both DOCSIS and Fiber networks. I will highlight some of that for us, today.

Turning to slide number 6. As we continue to execute on our broad-and growth-strategy, the revenue in this segment was $84.9 million for the quarter, representing 7.6% growth year over year; and gross margin expanded to 55.5%, reflecting a favorable product mix.

We ended the quarter with 129 COS deployments in production, managing 33.9 million connected modems, and approximately a 250 million remote PHY devices, a testament to the scalability and maturity of our virtualized access platform.

Based on our progress to date, we expect to bring at least nine new customers. One in prior quarters into production during the second quarter, further expanding the reach of our COS platform.

Our customer diversification keeps accelerating. This quarter, we added seven new logos, Astound; and a second top 5 North 1American MSO, upgrading to Unified 4.0; and a tier-1 Latin American operator launching a major fiber upgrade.

Rest of world bookings were also strong. And we expect that momentum to continue, further expanding our global installed base.

Industry trends are amplifying this progress. As cable operators pursue broadened subscriber growth, they are shifting to virtualized access platforms that deliver higher speeds and reliability, while lowering operating cost.

Harmonic's proven deployment record, field-tested Unified 4.O capabilities, and converged DOCSIS and fiber architecture help operators compete, deploy faster, and scale with confidence.

Fiber is the major pillar of our broadband strategy. And the momentum we are seeing, here, is unmistakable. We booked a record quarter, lending three new pure fiber wins and completing eight expansion projects with existing customers.

First: a Tier 1 Latin American operator selected Harmonic for a nationwide upgrade, based on the density and performance of our remote [OLT] solution and our industry-leading power efficiency.

Second: one of our largest North American customers have expanded its deployment, with our virtual BNG and remote [OLT] solution on the very same distributed access network it already runs for virtual CMTS and DAA, another proof point of the power of convergence on cOS.

And, third: our Open ONU strategy is proving its value in the field. Earlier this quarter, an operator seamlessly migrated from [DZ] to Harmonic with cOS [OLTs] managing the legacy DZS ONUs already in subscriber homes. We expect this success story to resonate with other operators looking to replace their DZS network equipment, following that company's Chapter 7 bankruptcy.

These wins show the Harmonic's open and converged platform lets operators match the right access solution to every market use case, accelerating fiber roll-outs with precision and confidence.

Turning to Unified 4.0.. We continue to gain further traction here. In Q1, we started volume shipments of Unified RPDs and are on track to introduce the Unified out-of-front end in the second half of the year.

Since the architecture was open to the broader market, our team has been working closely with more than a dozen operators and ecosystem partners to validate the technology and craft deployment roadmaps.

That engagement is already translating into wins. As mentioned earlier, Astound chose Harmonic for a network upgrade that adds advanced DOCSIS and fiber capabilities. And we also secured a second top 5 North American MSO that will deploy Unified DOCSIS 4.0 in the second half of the year.

On the innovation front, we recently demonstrated 13 gigabits per second downstream throughput on a live unified system, which is faster than today's 10 gig fiber-to-the-home speeds. This is an industry first that showcases the bandwidth performance built into the standard.

We will keep highlighting this breakthrough at industry interoperability events and directly to customers throughout the second quarter and beyond. Achievements like these underscore the maturity of the Unified ecosystem and reinforce why operators continue to choose Harmonic as their partner of choice for DOCSIS 4.O..

Innovation remains the foundation of our industry-leading position. This quarter, I'm pleased to highlight three major advancements.

First: we placed our patented PTP-less timing solution into live commercial service. This technology lowers overall DAA cost while enhancing reliability; and represents another important proof point in our continued drive for smarter and simplified broadband infrastructure.

Second: our Beacon Speed Maximizer, a real-time automated network optimization service leveraging our cOS edge compute capabilities, is now live with eight customers. This service gives operators a powerful new way to ensure consistent subscribers' experience and proactively managed network performance.

And, third: we are excited to see one of our top customers launch the nation's first ultra-low latency internet service, powered by our virtual CMTS technology. This milestone enables an entirely new class of latency-sensitive applications from cloud gaming to immersive real-time collaboration, helping broadband operators to deliver a differentiated experience with increased quality of service.

To summarize, our Broadband business continues to expand, adding new logos and delivering breakthrough innovation.

With the world's largest base of live virtual CMTS networks, first-mover scaling Unified 4.0 and converged platform that spans both DOCSIS and fiber, Harmonic is uniquely positioned to help operators deliver faster speeds with greater reliability, while lowering operating costs.

Record Fiber bookings, rising rest-of-world demand, and robust innovation pipeline give us confidence in this business' long-term top-line growth, as Unified and fiber deployments scale through 2026 and beyond, while we prudently navigate near-term tariffs and macro uncertainties.

Now, let's turn to slide number 7 to discuss current market trends in our Video business and to provide an update.

As the video market evolves, the bar for broadcast-grade quality and reliability keeps rising. Being a provider of leading video appliances, our customers still depend on Harmonic appliances to keep their flagship channels flawless.

And, now, they expect the same no-glitch experience for streaming, especially when premium sports rights can mean millions of dollars per minute.

To meet these rising stakes, we are finding that customer demands spends across appliances, SaaS streaming, as well as an accelerating shift toward hybrid deployments that blends on-prem capacity with cloud elasticity.

That theme of multiple and often hybrid solutions was front and center at the NAB show in Las Vegas, where we unveiled AI-powered advances and industries-first end-to-end playout-to-delivery workflow or the live at Weigel Broadcasting.

Turning to slide 8. This momentum was visible in our first-quarter results.

Our Appliance business, sharpened by renewed focus and disciplined execution, delivered excellent margins on a higher volume of larger refreshed deals and a series of competitive take-outs, including notable wins in the Service Provider segment. It remains a solidly profitable engine for us, with strong pipeline of opportunities.

Meanwhile, our SaaS Streaming business posted Q1 revenue of $14.8 million and continues to build a robust pipeline that supports growth in 2025 and beyond.

The drivers are clear. First: expansion of live sports streaming with existing customers, where we deliver some of the world's most prestigious events with unmatched reliability. Second: a pipeline of Tier 1 operators poised to scale on our platform. And, third: strong demand for AI-based monetization tools that we previewed at the NAB show and we'll move from proof-of-concept into full production next year.

Taken together, the strengths of our Appliance offering, the rapid expansion of SaaS Streaming, our differentiated hybrid solution, and our strong operating leverage all position our Video segment for sustained and profitable growth in 2025 and beyond.

Now, I will turn it to Walter for a deeper review of our financials and to elaborate on our expectations for and response to potential tariff impacts on our business.

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Thanks, Nimrod. Thank you, all, for joining us today.

Before I discuss our quarterly results and outlook, I'd like to remind everyone: the financials I'll be referring to on this call are provided on a non-GAAP basis. As David mentioned earlier, our Q1 press release and earnings presentation include reconciliations of the non-GAAP financial measures to GAAP. Both of these are available on our website.

Looking at some of our first-quarter highlights here on slide 10, our results reflect strong execution as we exceeded expectations for our Video revenue, as well as gross margin and adjusted EBITDA on both of our businesses.

Total company revenue increased 9% year over year to $133.1 million. EPS rose from $0 to $0.11, driven by higher-than-anticipated profitability in both of our businesses.

We also had strong positive free cash flow during the quarter, which helped raise our cash balance to $148.7 million at quarter end, a substantial increase of $47.3 million sequentially, even with repurchasing $36.1 million of shares during the quarter under our repurchase program.

Looking more closely at our businesses, first-quarter Broadband revenue and adjusted EBITDA was $84.9 million and $15.9 million, respectively; with both metrics showing growth year over year.

Video revenue was $48.3 million, up 11.8% year over year, while adjusted EBITDA in this business was $5.3 million, reflecting strong revenue momentum and ongoing efficiency improvements.

Video SaaS revenue in the quarter was $14.8 million, up 15% year over year, as we continue to expand this portion of our business.

Moving to slide 11. I will now briefly review our capital allocation priorities and mention some updates on our progress.

One of our priorities is continuing to make targeted investments in order to drive our organic growth. This includes investments to support Broadband rest-of-world growth, new service offerings, and funding anticipated working capital needs.

As mentioned earlier, we had seven new broadband customer wins during the quarter, including three fiber wins. So these investments have been paying off.

Another priority is returning capital to our shareholders through stock repurchases. In our February earnings call, we announced a new three-year share repurchase program of up to $200 million, which doubled our previous program.

In the first quarter, we repurchased $36.1 million of shares under this new program.

As we mentioned on our last call, we expected to fund these purchases with strong free cash flow generation over the next three years, supported by our strong liquidity position. At quarter end, this liquidity position consisted of $148.7 million in cash and $82 million in undrawn credit facility.

Therefore, we have ample liquidity to support our capital allocation priorities and to manage through the current economic uncertainties.

We intend to continue to opportunistically repurchase shares. As we've 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, macroeconomic conditions, corporate needs, and regulatory requirements.

And, finally, we intend to explore inorganic expansion opportunities. Our approach will be disciplined and targeted, with a focus on opportunities that complement our current capabilities and leverage our growing footprint in Broadband.

Turning back to a more detailed look at our first-quarter 2025 financial results on slide 12.

As I mentioned earlier, first-quarter total company revenue was $133.1 million. In the quarter, we had two customers representing greater-than-10% of total revenue, with Comcast representing 34% of total revenue and Charter representing 12%.

Total company Q1 gross margin was 59.4%, above the high end of our guidance range and significantly up both sequentially and year over year.

Broadband Q1 gross margin was 55.5%, up 280 basis points sequentially and 800 basis points year over year, due predominantly to a higher mix of cOS licenses.

Video gross margin in Q1 was 66.4%, up 480 basis points year over year. The increase is mainly due to the revenue strength related to larger refreshed Appliance deals and our cost optimization efforts.

Moving down the income statement on slide 13. Q1 '25 total company operating expenses were $60.5 million, down 3.6% year over year, as a result of prior restructuring actions in Video.

And to briefly reiterate: first-quarter 2025 Broadband EBITDA was $15.9 million and Video EBITDA was $5.3 million. Total company EPS was $0.11.

Turning to the order book, Q1 bookings were $113.7 million. The book-to-bill ratio for the quarter was 0.9 compared to 0.7 in Q4 '24 and 1.2 in Q1 '24. As we stated previously, over time, we expect our book-to-bill ratio to normalize and approach the historical benchmark of greater-than-1; especially as Unified DOCSIS 4.0, in Broadband, ramps.

Turning to the balance sheet on slide 14. We ended Q1 with cash and cash equivalents of $148.7 million. The quarter-over-quarter change was mainly attributable to strong positive free cash flow of $81.7 million, resulting from improved DSO and slightly lower inventory levels.

Day sales outstanding at the end of Q1 '25 was 67 compared to 72 in Q4 '24 and 78 in Q1 '24. The sequential decrease was due to strong end-quarter collections.

Inventory decreased 1.9 million in the quarter. And our day's inventory, on hand, was 103 days.

At the end of Q1, total backlog and deferred revenue was $485.1 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. As we mentioned on our last earnings call, due to market developments around Unified DOCSIS 4.0, some customers have pushed out their deployment timing plans for 2025.

We continue to believe this is mainly a timing change and expect these 2025 deployment shifts to create a positive tailwind for us in 2026, as schedules are refined and Unified Ford Auto technology deployments accelerate.

I'd like to take a couple of minutes to discuss the current tariffs situation, its impact on our business, and how we are managing through it.

In our Video business, we anticipate the tariffs, both current and potential, will have an immaterial impact on our business.

First of all, our Video business revenue is geographically diversified and our US sales are well below 50% of the revenue. Secondly, we have a flexible supply chain with multiple location options, which we believe will allow us to minimize the tariff impact on the equipment element of our solutions, which is predominantly made up of off-the-shelf servers.

In our Broadband business, we do anticipate more significant impacts as a result of current and potential tariffs. As noted in our filings, one of our primary third-party manufacturing sites is in Malaysia. This is where we have the vast majority of our broadband node products manufactured. Additionally, a large majority of our broadband sales are to US-based customers.

With the current 90-day pause in reciprocal tariffs, we have a certain level of clarity for at least Q2. And today's guidance reflects our current expectations.

It's important to note that, to date, we have not seen any change in our customers' behavior due to the tariffs. This continues to be a fluid situation, as we work through options on mitigating the short-term impact, as well as we look at longer-term supply chain options, pending a final outcome on what the tariffs will be across different countries.

We are actively exploring options to offset tariff sensitivity, including optimizing our supply chain, cost management, and taking price actions where appropriate.

Our Broadband solutions are critical for our customers, as they upgrade their networks to address competitive pressures and to avoid subscriber churn. And we are confident that these current tariff uncertainties will not impact our business over the long term.

Now, let's review our non-GAAP guidance for 2025, beginning on slide 15. We're taking a prudent approach to Q2 guidance, given the general macroeconomic factors I just mentioned.

For the full-year 2025, we will not be providing updated annual guidance, today, due to lack of visibility on the future tariffs and the impact it may have on economic conditions and our customers' behavior for the second half of 2025.

Continually shifting tariff policies have made it difficult to forecast and guide with confidence for the full year.

For Q2, we expect Broadband to deliver revenue between $75 million to 85 million, gross margins between 44% to 45% due to product mix, and adjusted EBITDA between $2 million to $6 million.

In our guidance, we expect to see continued revenue growth in our rest-of-world customers, based on the progress Nimrod mentioned earlier, offset by expected timing shifts by our larger customers.

This guidance includes an estimated tariff impact of approximately $3 million in the Q2 margins, almost all of which is related to Broadband. We continue to assess and seek to mitigate the tariff impacts, both in the short term and over the long term.

For our Video segment, in Q2, we expect revenue in the range of $45 million to $50 million, gross margin in the range of 63% to 64%, and adjusted EBITDA to range from $2 million to $4 million.

On this slide, we've also provided total company guidance for Q2. In the interest of time, I will let you read through the details. Please also note that our non-GAAP tax rate is 20%.

I would like to highlight that total company EPS for the second quarter of 2025 is expected to be in the range of $0 to $0.04.

We thank everyone for their attention, today. Now, I'll turn it back to Nimrod for final remarks, before we open up the call for questions.

Nimrod Ben-Natan *Harmonic Inc - President, Chief Executive Officer*

Thanks, Walter.

In summary, we had a strong Q1, with gross margin and adjusted EBITDA exceeding our expectations in both of our businesses and Video revenue that was also higher than we had anticipated.

Although the transition to Unified 4.0 in Broadband and the current tariff situation is creating some short-term headwinds, as you can tell from our (inaudible) update today, we continue to be confident in the long-term growth for our business and in the expected growth rebound for Broadband in 2026.

With our innovation and technology leadership positions, our strong operating model, and proven business execution, our growing roster of customer wins and sizable backlog, we are extremely well positioned for the future.

Walter and I are now happy to take your questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Steve Frankel, Rosenblatt Securities.

Steve Frankel *Rosenblatt Securities Inc. - Analyst*

Good afternoon. Thanks for the opportunity.

Last quarter, there was some discussion of this Unified DOCSIS delay having to do with the amplifier piece. Obviously, you don't supply those but it's critical to the network.

Any update in terms of where you think the industry is and getting those Unified amplifiers in and tested and tuned?

Nimrod Ben-Natan *Harmonic Inc - President, Chief Executive Officer*

I would say, according to our original plan, there is no change, relative to what we expected at the beginning of the year.

Steve Frankel *Rosenblatt Securities Inc. - Analyst*

And then, in terms of dealing with the tariffs, given the cash flow and the balance sheet in Q1, does it make any sense to go out and try to buy products, ahead of delivery, to work around the tariffs? Or you're comfortable that whatever tariffs we end up with, your customers are likely to really share the burden and so, you don't need to be aggressive about bringing in [WIP]?

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Hey, Steve. It's Walter.

With regards, specifically, to looking at options to bring inventory forward, especially as we have or currently have a 90-day pause, we definitely are looking at those options.

As you noted, we have ample liquidity to bring in product sooner, if we think it's advantageous for us and our customers, in terms of the potential for additional tariffs, post the 90-day pause.

Steve Frankel *Rosenblatt Securities Inc. - Analyst*

Okay. And then, last quick one.

In terms of Fiber, where you seem to make some real progress in terms of bookings, when does that Fiber business begin to become a material part of revenue, in terms of deployments?

Nimrod Ben-Natan *Harmonic Inc - President, Chief Executive Officer*

We did not provide the breakdown. But this is becoming, I would say, sizable, in terms of the revenue.

I don't know, Walter, what level of details we can provide on that. But this is certainly sizable.

In this quarter, we expanded the number of customers. And some of them were pretty big, in terms of the booking and, even, initial revenue volume.

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Yeah. One thing I would add, Steve, to Nimrod's comments here is that we have cable customers that are purchasing both DOCSIS and fiber. And we've talked about that before, in terms of penetrating our cable customers with our fiber products as well.

So when we sell those products, together, they're not necessarily segregated out.

I think with regards to Fiber sales to pure-play telcos, that is an area that we continue to gain momentum on and will become more substantial, as we move forward.

Nimrod Ben-Natan *Harmonic Inc - President, Chief Executive Officer*

Yeah. I think that the easiest comment that we made is a pure telco. The international opportunity we mentioned in Latin America is a cable but a pure telco project, from our point of view.

And the other example that we provided is a sizable expansion with the existing customer.

Steve Frankel *Rosenblatt Securities Inc. - Analyst*

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

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Thanks, Steve.

Operator

Thank you.

Ryan Koontz, Needham & Company.

Ryan Koontz *Needham & Company, LLC - Analyst*

Great. Thanks.

Just trying to double-click here on your second-half uncertainty and trying to understand exactly the source of that. How much of that uncertainty is coming from tariff situation? And how much is coming from technology readiness, whether it's your customers adopting new technology at a different pace or just the DOCSIS for Unified ecosystem not really being ready yet?

Can you can help us parse that current visibility? That current view of second half?

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Sure, Ryan. It's Walter.

I'll kick it off, specifically with regards to not providing a full-year guide this time. This is strictly due to the macroeconomic uncertainty associated with the tariffs and the continuing changes in the tariff rates and potential tariff rates.

That's impacted us, in terms of having the right level of visibility, as we look through the rest of the year.

As of today, we don't have all of the revenue for the year committed in backlog, as you would imagine. And therefore, as we look at the tariff uncertainty and all of the tariff fluctuations -- and remember, this is 26-days old, that we've been involved in this situation and things have continued to change over that period of time.

It puts us in a position where depending on what happens next and the handling of these tariffs, we could see customers potentially delay orders or have some timing shift in orders, especially if the tariffs are significant and we'll need to sit down with customers and discuss pricing, going forward, associated with products.

So this is the uncertainty that's been put in in front of us. It's all related to that. And we just don't feel comfortable that we can provide a confident guide for the full year, based on what we see ahead of us and where we are, right now -- 26 days into the situation -- with regards to tariffs.

In my prepared remarks today, we talked about our business and provided some color around how a large majority of our Broadband business does go to the US. It comes from Asia.

So those are the key facts, in terms of what we're dealing with, as we go through this. And it's everybody in the industry that is going through it.

Obviously, out of our control. But we're managing it effectively, in terms of what we can do in the short term to address the tariffs that are in place, right now, as well as looking longer term. But, really, we need to see what those final rules are before we start making any decisions with regards to supply chains for the longer term.

I think the other thing to really note here is that -- and I mentioned it in the prepared remarks -- the fundamentals are strong. You heard it today from Nimrod, in terms of our wins, our progress with regards to our long-term strategy.

None of that has changed. Our customers, in terms of their situation around competitive pressure and needing to upgrade the network or face subscriber loss -- that hasn't changed.

So we feel very good about our business in the long term -- in the business. I think we, all, are facing some short-term headwinds and uncertainty, all associated with regards to the macroeconomic uncertainty and the situation around tariffs.

Ryan Koontz *Needham & Company, LLC - Analyst*

That's really helpful, Walter. Thank you.

Just a clarification on your comment about the nodes and sourcing that technology: obviously, the RPDs are coming from a traditional PCB shop, [OD], contract manufacturer.

But how about the balance of the nodes, in terms of the power and mechanicals that are so heavy? Are those also sourced from Malaysia or are they coming from -- ?

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Yeah. As per the prepared remarks, the vast majority of our product is manufactured out of Malaysia, for the Broadband business.

Ryan Koontz *Needham & Company, LLC - Analyst*

Got it. All right. Thanks so much.

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Thanks Ryan.

Operator

Thank you. (Operator Instructions)

Victor Chu, Raymond James.

Victor Chu *Raymond James Financial, Inc. - Analyst*

Hi, guys. This is Victor Chu, on for Simon Leopold.

Just to follow-up on the tariff commentary a bit. Can you tell us what potential options you're looking at, in terms of possibly diversifying your manufacturing footprint like you mentioned, earlier, for the Broadband business?

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Hey, Victor. It's Walter.

Yeah. Without getting into a lot of specific details, obviously, there are other options. And I'm sure you've heard it from, perhaps, other companies out there, in terms of looking beyond Asia; looking to near-shore our supply chain potential for doing work in Mexico, under the USMCA rules.

But this is all preliminary. We really need to understand what is going to be the permanent tariff environment. And then, that'll allow us to do the appropriate assessment to determine if there are other options that would be beneficial to us and our customers.

Victor Chu *Raymond James Financial, Inc. - Analyst*

Okay. That's helpful.

And then, just excluding the potential impact from tariffs, has there been any change around the visibility of the spending trajectory, from your two largest MSO customers, at this point in the year, versus when you cautioned us against the slower spending, last year?

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Yeah. I would say, Victor, without getting into any specific customers -- we mentioned it on the call and I think we also mentioned in our quote today -- we haven't seen any change in our customers behavior, to date.

Victor Chu *Raymond James Financial, Inc. - Analyst*

Okay.

And then, just one last one -- quick. I'm sorry, what was the mixed dynamic in the Broadband segment between 1Q and 2Q that's causing the big drop in the margins?

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Certainly. Let me just bridge the margins for the Q2 guide.

In the Q2 guide, we highlighted that we had put in $3 million, approximately, for the tariff impact. That's a worst-case scenario. We're working through that, right now.

So if you bridge that -- predominantly, almost all of it is to the Broadband business -- the delta between Q1 and Q2 would be the mix of cOS licenses in the quarter.

Q2 is a below-average type of quarter, in terms of the mix of the cOS compared to all the other products. That's the bridge between Q1 and Q2.

And you would have seen, in our Q4 results, the margin levels we were at in Broadband. So in Q2, when you normalize for that, that's what's causing it to dip down.

Victor Chu *Raymond James Financial, Inc. - Analyst*

Okay. Thank you.

Nimrod Ben-Natan *Harmonic Inc - President, Chief Executive Officer*

Okay. Thanks, Victor.

Operator

(Operator Instructions)

Alyssa Shreves, Barclays.

Alyssa Shreves *Barclays Capital Inc. - Analyst*

Hi. This is Alyssa Shreves, on for Tim Long, from Barclays.

I was just looking at the SaaS piece in the Video business. It looks like it was down a little bit quarter to quarter.

Can you talk a little bit about the customer dynamics you're seeing within this piece of the business, in terms of overall customer fiscal health?

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Yeah. Hi, Alyssa. It's Walter.

With regards to SaaS: yeah, from Q4 to Q1, we were down, slightly. There's always a level of seasonality, with regards to, especially, live events in sports. And so, there is no major shift, in terms of customers or the portfolio of customers that we have.

And when we look at year-over-year growth, as I mentioned during the prepared remarks, it's 15% up year over year.

One other thing to just comment or provide a little bit more color on: we do expect the SaaS business to grow in 2025. We mentioned that on our last earnings call. And a good part of that growth will come from our partnership with Akamai that we had announced during the last quarterly call.

Nimrod Ben-Natan *Harmonic Inc - President, Chief Executive Officer*

And we had not any contribution from that in the second -- in the first quarter.

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

That's right. We expect that to be starting to contribute midyear and going forward.

Alyssa Shreves *Barclays Capital Inc. - Analyst*

Okay. That's really helpful.

And then, you talked about some of the traditional Appliance refresh winds you're seeing. How should we think about where we are, in terms of [inning], with this traditional appliance refresh cycle? Are we still -- are we in the middle? How should we think about timing there?

Thanks.

Nimrod Ben-Natan *Harmonic Inc - President, Chief Executive Officer*

Yeah. We think it's going to continue. That was the level of confidence that we shared in the prepared remarks.

It's not, like, a major industry trend like we see on SaaS streaming. But, at the same time, we see a good list of reasons for customers to upgrade and refresh.

For higher density: refreshing the compute infrastructure, new features and capabilities, improved video quality. So there is a good list of reasons for that.

I think one of the other things that is helping us is the fairly big installed base that we have. So we don't need the entire installed base to go through a refresh at once.

So in aggregate, we see that continuing.

Alyssa Shreves *Barclays Capital Inc. - Analyst*

Great. Thank you so much.

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Thanks, Alyssa.

Operator

Tim Savageaux, Northland Capital Markets.

Tim Savageaux *Northland Capital Markets - Analyst*

Hey. Good afternoon.

Couple of questions here. But I'll start on this one first: Last quarter, you talked about amplifier availability or smart amplifier availability, I think, as, maybe, a gating factor or one factor that could be slowing down deployments; talked about a technology collaboration aimed to address that.

I wonder if we can get an update on the status of that situation, from your perspective.

Nimrod Ben-Natan *Harmonic Inc - President, Chief Executive Officer*

Yeah. I think when we presented that issue, we basically said that we count on availability of these not smart but brilliant amplifiers. And we've got dependency on them.

We also mentioned that we collaborate with Sercomm to bring more choice for the market and help speed up the deployment.

What I said earlier is that, right now, it's progressing according to what we anticipated, when we provided the outlook for the entire year. So it's going according to the plan.

Tim Savageaux *Northland Capital Markets - Analyst*

Okay.

And just to -- well, I mean, I guess the original plan, from a guidance perspective, was a pretty decent ramp in Broadband or pretty sharp ramp in Broadband throughout the year. It sounds like you would still expect that to be the case, at least on -- barring any other issues.

With regard to some of the rest of the business, it looks like, based on spending targets, that your other big US customers are planning a pretty aggressive ramp and spending throughout the year. Is that something you see, from your perspective? And, again, leaving aside product availability, has anything change there, from your standpoint?

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Hey, Tim. It's Walter. Maybe I'll take the that question.

Obviously, we can't guide specifically to any one particular customer. Obviously, we've also read all of the public information associated with our largest customers. So no specific comment, with regards to that piece of it.

Obviously, we had a certain expectation. As we entered the year, we've provided our guide, now, for Q2, which is a prudent, guide, considering the macroeconomic environment that we're in, right now.

We're just not guiding second half for all of the reasons that I mentioned earlier in the Q&A and in the prepared remarks.

Tim Savageaux *Northland Capital Markets - Analyst*

Got it. Well, maybe let's wrap up, then, with just the Q2 guide in Broadband.

You've mentioned having seen no changes in customer behavior. And I guess you'd call that a potential tariff impact. But is there anything, in particular, driving that guidance to be flat to down, given those comments about no changes in customer behavior?

Nimrod Ben-Natan *Harmonic Inc - President, Chief Executive Officer*

I would say two things, relative to -- if you compare that to Q1 or Q2 of last year.

It's really a timing issue, with some of our larger projects, related to transitions. We did talk in the past on Unified 4.0 that were dependent or limited to the pace of that; and, also, a couple of, I would call, it a scale-up of projects.

The second thing -- maybe, Walter, you can comment on how we got prudent around what book-and-burn ahead of us.

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Yeah. With the uncertainty, we definitely have a bias to rely a little bit less on what we call book-and-burn. These are opportunities that haven't yet booked; that we expect will book and turn a revenue in the quarter.

So just because of the uncertainty potential that some of those orders could be delayed, we've biased ourselves a little bit more to relying more on the backlog and a little bit less on the book-and-burn elements.

So we think that's the prudent thing to do, considering the environment we're in, right now, that continues to shift, by the day.

Nimrod Ben-Natan *Harmonic Inc - President, Chief Executive Officer*

I'll just add on my earlier comment: this was really expected. This is not something that was discovered for the second quarter.

We knew what we're walking into. I think the book-and-burn conservatism is really something we decided on the last couple of weeks.

Tim Savageaux *Northland Capital Markets - Analyst*

Got it. Thanks very much.

Walter Jankovic *Harmonic Inc - Chief Financial Officer*

Okay. Great. Thanks, Tim.

Operator

Thank you.

That does conclude today's Q&A session.

I would like to go ahead and turn the call back over to Nimrod Ben-Natan, CEO. Please go ahead for closing remarks.

Nimrod Ben-Natan *Harmonic Inc - President, Chief Executive Officer*

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

This concludes today's conference call.

You may all disconnect.
