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Harmonic, Inc. (HLIT)

Q1 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the First Quarter 2026 Harmonic Earnings Conference Call. My name is Lisa and I will be your operator for today's call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Also, please be advised that today's conference is being recorded.

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

David Hanover
Senior Vice President, KCSA Strategic Communications

Thank you, operator. Hello, everyone, and thank you for joining us today for Harmonic's first quarter 2026 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 statements section of today's preliminary results press release. These documents identify important risk factors which can cause actual results to differ materially from those contained in our projections or forward-looking statements.

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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 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 first quarter 2026 earnings call. Q1 marked a strong start to the year and validated the strategy we outlined last quarter. We executed effectively across the business with continued strength in Rest-of-Market demand, and with our progress to date, we are entering the remainder of the year with improved visibility. Reflecting this momentum, we are raising our full year 2026 Broadband revenue outlook.

In addition to our strong financial results, this quarter also highlights our progress in expanding Harmonic's growth profile. In a world where AI is making broadband capacity and quality of service even more essential, we are building a uniquely focused broadband company with multiple growth drivers, sustained leadership in DOCSIS, accelerating momentum in fiber, increasing global market share and growing intelligence layer that enables new high-value services for our customers.

Turning to slide 4, let's look at some of the highlights for the quarter. Q1 Broadband revenue rose 43% year-over-year to $121.7 million. A large part of this was from Rest-of-Market, which represented 42% of that total, an important indicator of our progress in broadening and diversifying our business. Booking were also strong in the quarter, driving an 87% increase year-over-year in backlog and deferred revenue. Again, this bolsters our visibility, giving us the confidence to raise our full year outlook.

We also continue to returning capital to our shareholders, repurchasing approximately 4.2 million shares for $43 million during the quarter. Finally, I want to mention that the pending sale of our Video business remains on track to close in the second quarter, positioning Harmonic as a more focused broadband company going forward.

A key highlight in the first quarter was the continued acceleration of our Rest-of-Market of market business, with year-over-year revenue growth well above our long-term growth target. Beyond the increased revenue contribution, this performance demonstrates the expanding global adoption of the Harmonic platform across a broader range of industry operators. Our deployed cOS base now includes 150 customers serving 45.7 million CPE devices. We continue to see expansion within our tier-1 accounts alongside new customer wins, reinforcing our leadership position in the market.

We added several new customers in the first quarter, including two recent wins that illustrate the market traction we are experiencing. First, KBRO selected Harmonic's fiber-on-demand solution to drive fiber deeper into its network in Taiwan. Second, Vyve Broadband selected our platform to modernize its network across its US footprint with a clear path for broadband and for DOCSIS and fiber convergence. These wins reflect a broader market trend that plays directly to Harmonic's strengths. Operators are increasingly seeking a platform that can start with a specific use case and expand over time across DOCSIS, fiber and autonomous network intelligence.

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Fiber is becoming an important growth driver for Harmonic. Over the past year, fiber products represented more than 14% of our appliance and integration revenue, and we expect this contribution to continue growing. In the first quarter, we secured multiple new fiber wins, including with international providers, while also expanding deployments with our largest tier-1 fiber customers. We are also seeing traction with SeaStar, our MDU optical node, including a sizable Q1 booking with a leading European broadband operator.

At next week's Fiber Connect conference, we will introduce new outside plant innovations, including the Pearl-XL (sic) [Pearl-1XL] (00:19:05) and Jetty-3, designed to improve deployment efficiency, deliver industry-leading port density, extend network reach, enhance resilience and simplify operations. These solutions enhance our ability to serve rural MDU and lower density fiber opportunities where deployments, cost and operational complexity are critical factors. Together, our growing fiber traction, expanding portfolio and converged cOS architecture position Harmonic to gain share as operators look for more flexible and cost-effective ways to expand fiber broadband.

Our unified DOCSIS 4.0 strategy also continues to gain commercial traction. During the first quarter, we expanded our DOCSIS 4.0 customer base with new wins, while advancing deployments with existing customers. At the same time, we've continued building a solid pipeline for additional opportunities. DOCSIS 4.0 is increasingly about more than extending the network to 1.8 gigahertz or delivering faster downstream speeds. We are seeing operators use DOCSIS 4.0 to increase upstream capacity while they continue densifying their network and optimizing existing infrastructure.

With upstream traffic growing rapidly, including approximately 20% annually at one of our leading North American operators, our unified DOCSIS 4.0 solution gives operators a flexible path to higher multi-gigabit upstream performance, whether through full 1.8 gigahertz upgrades, reclaiming spectrum from legacy QAM video, increasing node density or other capital efficient approaches.

As I mentioned, operators are looking for platforms that let them use DOCSIS and fiber together. A recent Light Reading interview with Optimum provides a compelling illustration of this approach. In their West Virginia deployment, built on Harmonic cOS broadband platform, Optimum is leveraging virtualization to modernize HFC infrastructure and consolidate headend facilities by 50%. As their team noted, the architecture enables them to simultaneously deliver XGS-PON and DOCSIS off of the same node, allowing them to build where demand dictates rather than overbuilding to every location. This is precisely the unique value of Harmonic's converged architecture, one platform, multiple access technologies and more capital efficient choices for operators.

Operators are increasingly focused on business outcomes rather than speed alone, a shift that plays directly to Harmonic's strengths. Harmonic is uniquely positioned here because our virtualized platform sees the network in real-time across the core, the edge and the subscriber experience. Our relatively new Beacon and Pathfinder solutions already help operators maximize network performance while reducing both truck rolls and customer calls. Early deployments are showing tangible value, including a measured reduction of more than 30% in customer calls following Beacon enablement.

The newest addition to our intelligent portfolio is Amply, a multi-vendor amplifier management software solution that extends our network visibility into a part of the network where we have not traditionally played. Built on a unique combination of Harmonic cOS platform intelligence, Beacon Speed Maximizer and orchestration capabilities, Amply helps operators identify and address sources of network interference faster and more effectively. Amply maps the amplifier network, uses AI-driven analysis to pinpoint where issues are coming from and helps direct field technicians with precise, actionable instructions, including the location and likely cause of the problem. It can also apply mitigation techniques to protect the subscriber experience while repairs are underway. We believe this can significantly reduce repair time and field operation cost, creating meaningful

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opportunity for measurable OpEx savings, while improving network reliability and subscriber experience. We will be showcasing Amply at the upcoming ANGA show in Germany.

Our customer momentum is increasingly tied to measurable outcomes. One of our leading customers recently stated publicly that they are improving reliability across the network, are pleased with the results where upgrades have been completed and are seeing measurable progress in NPS. These outcomes are showing up in our customer scores. Our own customer NPS reached 85 in the first quarter, up from 82 at year-end 2025, reflecting the execution, partnership and trust we have built with operators undertaking strategic, multi-year network transformations.

Turning to slide 5, as presented during the last earnings call, the market opportunity ahead of us remains substantial. According to Dell'Oro's recent outlook, the cable serviceable addressable market is expected to grow to more than $1.1 million by 2030. The fiber addressable exceeds $2.6 billion and our share in that market is growing. On top of this, network intelligence and associated autonomous AI-driven operations, uniquely made possible through our virtualized core, represent an incremental addressable opportunity and an important new growth vector for Harmonic. We believe longer-term industry investment in broadband technology will not be defined by one upgrade cycle. Rather, we see ongoing reinforcing phases of modernization. DOCSIS 4.0 and upstream capacity expansion, followed by network densification, AI-powered autonomous operations, targeted fiber expansion and broader migration to fiber as new demand and economic support it.

The multi-year evolution will drive more capacity automation and intelligence at every layer of the network, and more opportunity for providers of the enabling technology. Because Harmonic spends DOCSIS fiber and increasingly intelligent services, we believe we are best positioned to capture market share and create value across multiple investment phases and cycles.

Turning to slide 6, our long-term strategy remains centered on four priorities. First, we are extending our leadership in DOCSIS while accelerating our global fiber position through our converged cOS architecture. This allows operators to modernize with greater flexibility across DOCSIS fiber and future access upgrades. Second, we are increasing customer diversification. The strong Rest-of-Market growth we achieved in the first quarter demonstrates meaningful progress towards broadening our revenue base beyond our largest customers. Third, we are leading with intelligence. Our cloud-native architecture and real-time telemetry give us a unique foundation for proactive operation, automated troubleshooting, improved customer outcomes and new recurring revenue opportunities. Fourth, we are driving operating leverage as we simplify our cost structure and become a pure play broadband business. Together, these priorities are designed to expand our addressable market, diversify our revenue mix and improve our long-term operating margin profile. This is where Harmonic's differentiation becomes clear. We help operators modernize faster with greater flexibility and lower operational complexity.

Turning to slide 7, we are becoming a focused and well-rounded broadband company with leadership in virtualized DOCSIS, growing momentum in fiber, and differentiated intelligence layer that helps operators improve reliability, automate operations and deliver better subscriber experiences. The pending sale of our Video business will further sharpen our strategic focus, simplify our operating model, and provide additional capital to support our growth strategy. We will remain disciplined in capital allocation, investing organically, returning capital where appropriate, and considering selective inorganic opportunities where they accelerate the diversification or advance our platform.

That concludes my opening remarks. With that, I will turn the call over to Walter to walk you through our financials in more detail.

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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 Q1 press release and earnings presentation include reconciliations of our non-GAAP to GAAP financial measures. Both of these are available on our website. As previously announced, we are in the process of selling our Video business to MediaKind. As a result, this segment has been classified as held-for-sale and reported as discontinued operations. Unless otherwise noted, all results discussed today relate to continuing operations. The transaction is progressing as planned and remains on track to close in the second quarter of this year, subject to customary closing conditions.

With that context, I'm pleased to report that we had a strong start to the year with Q1 revenue and earnings that exceeded the high end of our guidance range, including 43% year-over-year growth in Broadband revenue and 78% growth in Rest-of-Market revenue. In addition, we had solid quarterly bookings and ended with record backlog and deferred revenue. This gives us greater visibility and added confidence in our 2026 trajectory, and combined with the unified DOCSIS 4.0 ramps, large customer deployment plans and accelerating rest-of-market adoption, will help drive strong Broadband revenue growth throughout the course of this year. Given our continued momentum, we're raising our full year Broadband revenue guidance to $475 million to $495 million, up from our prior range of $440 million to $480 million. I'll provide a more detailed breakout of our guidance shortly.

Let's move on to slide 9. Here are the financial highlights for the quarter. Continuing operations Broadband revenue was $121.7 million, above our guidance range of $100 million to $105 million. EPS was $0.17, also above our guidance range of $0.11 to $0.12, and operating profit was $26 million, exceeding our guidance of $18 million to $20 million. These results include $2.3 million in stranded costs related to the pending Video business sale. The revenue upside was across multiple customers and accelerated service deployments. In Q1, two customers each accounted for more than 10% of revenue, together representing 58% of total revenue. As a reminder, this metric now reflects our Broadband business only as we've reclassified Video as discontinued operations.

Our Q1 Rest-of-Market revenue showed very strong year-over-year growth of 78%, representing 42% of total revenue, underscoring our progress and expanding our customer diversification. As a reminder, Rest-of-Market revenue describes all revenue that is not from our two largest customers as measured by subscriber count.

Turning to slide 10, you can see our balance sheet and cash flow highlights. Our balance sheet remains strong, with $109 million of cash and cash equivalents as of quarter end. The sequential change in cash was mainly related to share repurchases, partially offset by positive free cash flow generated in the quarter. During the quarter, we generated free cash flow of $30.3 million while we repurchased $43 million in stock.

DSO at the end of Q1 was 62 days compared to 79 days in Q4 2025 and 63 days in Q1 2025. The sequential decrease was due to strong collections and timing of sales in the quarter. We expect DSO to trend back to the mid to high-70s going forward based on our customer mix. Inventory increased $3.4 million in the quarter and our days inventory on hand fell to 80 days from 83 days last quarter. Our overall book-to-bill was 1.0 in Q1, with Rest-of-Market meaningfully above 1.

At the end of Q1, Broadband backlog and deferred revenue reached a record $582.1 million, up 87% year-over-year. Of that, 60% is expected to convert to revenue within the next 12 months. This provides us with increased visibility for the remainder of 2026.

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As shown on slide 11, we believe we have ample liquidity to support our capital allocation priorities, with $109 million in cash and $82 million undrawn credit facility and expected net proceeds from the planned Video sale, an all-cash transaction valued at approximately $145 million before adjustments, taxes and fees. Additionally, we continue to anticipate a meaningful reduction in our cash income taxes in 2026 due to the passage of the old BBBA, as well as the impact of Section 174 R&D adjustments. All of this should substantially enhance our capital allocation flexibility.

Even as we transform to a pure play broadband company, our capital priorities remain unchanged. Invest in organic growth and diversification, return capital to our shareholders, and pursue strategic M&A to further enhance growth and diversification in our Broadband business. Aligned with our first key priority, we expect to increase our inventory over the next several quarters to support our anticipated growth, including advancing memory purchases to secure supply for the remainder of the year. We are also investing in additional organic broadband opportunities in both our services business and fiber portfolio, as Nimrod mentioned in his prepared remarks.

Under our current $200 million share repurchase program, to date, we have already repurchased $122 million of our outstanding shares, including $43 million in Q1 2026. As we stated previously, we expect to fund ongoing repurchases through strong free cash flow generation over the next several years, with a minimum goal of purchasing enough shares each year to offset any dilution from equity compensation awards. In addition, the expected substantial cash infusion from the sale of Video will also position us well to explore additional opportunities, including inorganic options to further diversify and grow our Broadband business.

Turning to guidance on slide 12, we provide our continuing operations non-GAAP financial guidance for Q2 and full year 2026, reflecting our raised full-year 2026 outlook. As a reminder, beginning last quarter, the company began providing guidance on an adjusted operating profit before tax basis rather than on an adjusted EBITDA basis. We continue to take a prudent and measured approach on both revenue and margins, considering factors such as current memory chip and other component pricing and supply dynamics, and the situation in the Middle East. Built into our full year margin guidance is the current market pricing expected for memory.

Now, let me walk you through the guidance. For Q2 2026, we expect Broadband to deliver revenue between $115 million and $125 million, gross margins between 52% and 53% due to product mix, operating profit between $23 million and $28 million, and EPS of between $0.15 and $0.19. As our guidance shows, we expect strong year-over-year Broadband revenue growth in Q2 2026 and a better than expected first half of 2026. Our Broadband gross margin guidance includes an estimated tariff impact of less than $1 million based on the currently announced tariff rates and exemptions. Operating profit includes stranded costs of approximately $2.3 million.

For the full year 2026, we expect Broadband to generate revenue between $475 million and $495 million, up $25 million or 5.4% from the midpoint of our prior guidance; gross margins between 50% and 51.5%, declining from Q1 levels due to elevated memory costs and new product ramps; operating profit between $87 million and $101 million; and EPS between $0.57 and $0.67, up roughly $0.07 or 13.8% from the midpoint of our prior guidance. This full year, Broadband gross margin guidance includes an estimated tariff impact of approximately $2.3 million while operating profit includes stranded costs of approximately $10 million. As mentioned last quarter, we continue to believe roughly 30% of these stranded costs are temporary and will be removed within one year following the closing of the Video sale. Our non-GAAP tax rate for full year 2026 remains at 24.5% and reflects the higher expected US mix of business in our continuing operations.

In summary, in the first quarter, we delivered results that significantly exceeded our expectations, with Broadband revenue growing 43% year-over-year, driven by outstanding Rest-of-Market adoption. Our record Broadband

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backlog and deferred revenue provide us with increased visibility enabling us to raise our guidance for the year. As expected, we are now seeing tailwinds from both our Rest-of-Market customers as they ramp and our top two customers positioning us for strong growth this year.

We're also excited about the pending sale of our Video business. This transformational transaction will streamline our operations, strengthen our balance sheet, and allow us to focus entirely on our fast-growing Broadband business. As a more-focused organization, we'll be well-positioned to accelerate our growth and diversification across broadband, both in DOCSIS and fiber-to-the-home, capitalizing on the growing TAM in these markets.

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

Nimrod Ben-Natan

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

Thanks, Walter. In closing, the first quarter was a strong start to the year. Our results clearly validate the success of our strategy and execution. Our Broadband business is growing, our customer base is diversifying, and our platform is becoming increasingly attractive to operators as they modernize their networks. As we complete the sale of our Video business and becoming a pure play broadband company, we entered the rest of 2026 with strong momentum, growing visibility and confidence in our long-term trajectory.

That concludes our prepared remarks. Walter and I are now happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And the first question that we have today is coming from the line of Ryan Koontz of Needham & Company. Please go ahead.

Ryan Koontz

Analyst, Needham & Co. LLC

Q

Great. Thanks for the question, guys. Congrats on the great results. And I have a particular question around Rest-of-Market. I mean, I think we all understand kind of the trajectory of your two large programs, but really sounds like you've seen some unlocking there of the Rest-of-Market. And maybe can you maybe step back and think about what do you think are the triggers that start to unlock that for you this year for Rest-of-Market? Is it purely just DOCSIS 4.0 or are there kind of other elements here or maybe even beyond what Harmonic provides that have been helpful to get this market moving? Thank you.

Nimrod Ben-Natan

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

A

Yeah. So it's obviously DOCSIS 4.0, fiber and any DOCSIS migration to a virtualized platform. We have started to win more, I would say, in the last 18 months, and it takes time to fully integrate and start ramping, and we clearly see that in the revenue right now. We announced couple of wins last year and prior to that, and you start seeing that showing up in the revenue. So, I think it's across the board and it's really a result of wins that we've seen previously.

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Ryan Koontz
Analyst, Needham & Co. LLC

Q

Yeah, it's exciting, Nimrod. Thank you. And maybe one for Walter here, on the supply chain side, I hear you on memory. Can you quantify what that memory impact is? It sounds like your second half margins will come down a bit. I assume that's on mix, other things like software sales as well that might weigh on that. And then with regards to other supply issues, are you more concerned about getting supply of kind of high-end TSMC-built silicon than you were a few months ago or you feel pretty comfortable there, Walter? Thank you.

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

A

Yeah. Hey, Ryan. So a few things with regards to, first of all, the margin profile and then I'll talk about the supply chain specifically. So correct, in terms of second half impact similar to what we said in the prior earnings call, we see about a net impact of about $6 million related to memory. So, that's the net impact that is impacting the second half. The other factor on more of the second half is with regards to product ramps. We're going through a number of product ramps. And as typical with any new products being introduced, there's a period of time before you get up to your targeted margins with regards to those specific products. So, that explains the bridge in terms of the margin profile as we enter into the second half.

In terms of other commodities from a supply chain perspective, I think you probably heard from others also in the market, CPUs, PCBs, aluminum, they're all things that are coming up on the radar. And that's why we're being prudent with regards to our guidance as we look through the supply chain. Right now, from a memory standpoint, we have most of the memory we need to fulfill the guidance that we've provided today.

With regards to other products, you've probably heard with regards to switches and servers, which we sell as part of the cOS solution to Rest-of-Market customers that purchase those third-party products, some of those are in more of a constrained mode and create some caution in regards to availability of those products. Those are not material to us, but nonetheless, we do sell those through to our Rest-of-Market customers.

And then the final point with regards to key silicon for us, we continue and have pipelined aggressively our key silicon, and therefore, that is not a concern at this point.

Ryan Koontz
Analyst, Needham & Co. LLC

Q

That's great. Appreciate it, guys. Nice job and nice quarter.

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

A

Thanks, Ryan.

Operator: Thank you. One moment for the next question. Our next question will be coming from the line of Simon Leopold of Raymond James. Please go ahead.

Simon Leopold
Analyst, Raymond James & Associates, Inc.

Q

Thank you. Just maybe quick clarification, if we could, could you give us the detailed contribution of the top two customers, the percent for each of those? And then I've got a follow-up.

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

Yeah. So with regards to the top two are 58%, and our 10-Q will provide the breakout. They both contributed very meaningful in the quarter.

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

Okay. And if we look at the guidance here, you've – we obviously know Q1, we have the guidance for Q2. This implies roughly no sequential growth in the remaining quarters. So, roughly $122 million per quarter if we consider what you just delivered, what you're suggesting for June, and obviously, there could be variation, but essentially, there's no seasonality. And I'm trying to figure out whether to think of this as a year with some pull-forward or whether to think of it as conservatism. So if you could help us in terms of understanding the messaging when the outlook looks like it's essentially calling for flat through the year.

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

Yeah. Certainly, Simon. So first of all, as I mentioned in the prepared remarks, we are being prudent conservative in terms of the full-year view of the business. Obviously, there's a lot going on out there in the macroeconomic environment. You've got the situation in the Middle East but you also have constraints that have appeared with regards to the AI supply chain that has impacts across broader organizations, including ourselves. So, a lot has happened over the last 90 days. I presume a lot will happen over the next 90 days. So, we're being careful about making sure that our supply is tied up with – to the revenue that, in fact, we're committing. This has nothing to do with customer demand. Our customer demand, as you heard today, in terms of our Q1 and what we're expecting for the year, continues to be very strong. The momentum in Rest-of-Market, in terms of deployments is all going better than expected when we were here 90 days ago.

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

Walter, do you want to address the pull in Q1, Q2?

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

Q1, Q2, I mean, in terms of the profiling of the business, I'd say that Q1 was strong. We had a number across a number of customers' orders that had dropped in for the quarter, as well on one particular deployment, the deployment was just going faster than anticipated. And therefore, you're getting this kind of profiling where Q2, in terms of our guidance, is sequentially flat. But if you look at it year-over-year, it's still very strong growth to the profile.

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

Great. Thank you.

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

Okay. Thanks, Simon.

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Operator: Okay. Thanks, Simon. Thank you. One moment for the next question. And our next question will be coming from the line of Steven Frankel of Rosenblatt Securities. Please go ahead.

Steven Frankel
Analyst, Rosenblatt Securities, Inc.

Q

Good afternoon. Let me follow-up on that last question and try to get a little more. So this unlocking of customers, is that coming also with kind of a faster ramp than you had been discussing with them further or do we just kind of got everybody off the starting line now and those ramps will vary in how they play out over the next 12 to 18 months?

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

A

So first of all, it varies by customer subject to their ecosystem. It's going according to the plan. It's simply that we're seeing that right now. So, there is no change or no acceleration relative to what we thought previously.

Steven Frankel
Analyst, Rosenblatt Securities, Inc.

Q

Okay. And where should we think of fiber as a percentage of your business kind of exiting this year?

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

A

We're not going to guide specifically on the fiber piece. We provided the metric today to provide some color in terms of fiber over the trailing four quarters in terms of how much of that consists of our business, the 14% metric we provided. I mean, as Nimrod mentioned, we continue to build more – on more customer momentum as we increase our wins in that particular area, and we expect it to continue to grow as a revenue dollar amount. It just all depends on the mix any given quarter. So, it will move and ebb and flow depending on each quarter.

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

A

So, we expect that to grow. The other thing that we stated in the past is that one of the complexities here is how to count what is fiber versus not, is as our converged platform has a lot of shared elements, what we talk about here is the direct fiber element. So, it does not include elements that are shared across the two, like the nodes or even the compute that we put at the edge of the network. But in any case, we expect that to continue growing.

Steven Frankel
Analyst, Rosenblatt Securities, Inc.

Q

Okay. And going back to the earlier comment about server availability, kind of what percent of your business is tied to customers that typically have that kind of pass-through revenue?

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

A

It's only in the Rest-of-Market environment, and out of that part, what would you say, Nimrod, like maybe half of are buying through us?

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

Yeah, yeah.

Steven Frankel
Analyst, Rosenblatt Securities, Inc.
Q

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

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

Okay. Thanks, Steve.

Operator: Thank you. One moment for the next question. Our next question is coming from the line of George Notter of Wolfe Research. Please go ahead.

George Notter
Analyst, Wolfe Research LLC
Q

Hi, guys. Thanks very much. Just on the previous question, I think you said half of the customers [ph] by three years (00:52:18). Could you give a sense for how much revenue that would contribute? Is this 5%, 10% of revenue? What are we talking about, just out of curiosity? And I got a follow-up. Thanks.

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

George, it's not material. So, that would be much, much less than 10%, probably less than 5%.

George Notter
Analyst, Wolfe Research LLC
Q

Okay. Great.

[indiscernible] (00:52:39)

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

By the way, George, I think the challenge, on the one hand, you can look at margin, but availability is also a key factor if customers do not get their servers, then deployment gets delayed. So it's crazy what's going on out there, but we work closely with our customers to make sure that we can help them, if this is something that we provide or we follow carefully their supply situation, but it's clearly a critical element for a deployment.

George Notter
Analyst, Wolfe Research LLC
Q

Got it. Okay. Makes sense [indiscernible] (00:53:17). Okay. And then just shifting gears a bit, yeah, obviously, the Video business is going to close soon. You talked about some potential to do M&A. And could you just go back through like what sorts of opportunities you're looking for, what makes sense for Harmonic? It's going to be interesting because one of your competitors, Vistance, also is narrowing down their business. They've also made

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similar comments. I guess maybe there's a broader question here. And just how do you see the consolidation in the space? Do you see it consolidating? What's the bigger [ph] thought process (00:53:51)?

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

A

I think we talked about that previously. Our priorities are to go through whatever will help our diversification, our growth in fiber and the whole space of what we call intelligence. We feel fairly good in our market position in cable and DOCSIS. But I think beyond that, it's really looking into specific opportunities that will also have high level of synergy with who we are and what we do. It's not just about bundling products or companies. It's really about creating something that will add value to our customers and to the platform that we bring to the market.

George Notter
Analyst, Wolfe Research LLC

Q

Okay. Super. Thanks very much. I appreciate it.

Operator: [Operator Instructions] One moment for the next question. And the next question will be coming from the line of Tim Savageaux of Northland Capital Markets. Please go ahead.

Tim Savageaux
Analyst, Northland Securities, Inc.

Q

Hey. Good afternoon and congrats on the results. I guess the first question, you noted the very strong growth in Rest-of-Market in Q1. And I guess my first question would be, as you look at your revised guidance, what sort of Rest-of-Market growth is implied in there relative to what I think is your kind of 30%-plus baseline? And I have a follow-on?

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

A

Yeah. Hey, Tim, it's Walter. So, what I would say with – we're not going to guide necessarily each category of customer. We're off to a strong start in Q1 for Rest-of-Market. What we communicated last time was that we look at that 30% as kind of a multi-year target for us, and obviously, we've got wind to our back based on where we are today. So, I think some of the guide up is related to that but I'm not going to specify with a specific growth range for Rest-of-Market on its own.

Tim Savageaux
Analyst, Northland Securities, Inc.

Q

Okay. Fair enough. And then, Nimrod, I think somewhere along the line, you talked about a global customer base. However, your business is pretty US-centric or Americas-centric, I guess, at this point. I wonder what sort of opportunities you have there to grow internationally. I imagine your footprints of wins, and I don't know where the global cable number stands right now, but I imagine your footprint of wins is not 87% US in terms of subscriber count, but maybe it is. So, any comment there would be welcome. And just the overall question about growing outside the Americas and what sort of opportunity, where [indiscernible] (00:57:04) that number.

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

A

Yeah. So first of all, the – yeah. The – one of the new customers we announced this quarter, KBRO, is in Taiwan. So even in Asia, we've got some pockets where we think what we provide is attractive. We had couple of wins on

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fiber and DOCSIS in Europe. We tried to get the most of what we can get outside of the US as well as in Latin America. Clearly, the cable is fairly big in North America, and that will remain a big area of focus for us, the top two customers, and the longer tail of other customers as we go through the multiple cycles and stages of upgrading these networks with DOCSIS 4.0 and later on going into densifying these networks, overlaying our intelligence services and going through the fiber optionality, the fiber-on-demand, which is also kind of an area where we see a lot of traction. So, we try to get fair share of what we can see outside of the North America, but North America will certainly stay a big part of our revenue.

Tim Savageaux
Analyst, Northland Securities, Inc.

Q

Okay. Thanks very much.

Operator: Thank you. That concludes today's Q&A session. I would like to go ahead and turn the call over to Nimrod for closing remarks. Please go ahead.

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: This concludes today's program and thank you so much for joining. You may now disconnect.

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