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PRESENTATION

Operator

Welcome to the Q2 2021 Harmonic Earnings Conference Call. My name is Sarah, and I'll be your operator for today's call. (Operator Instructions) As a reminder, this conference call is being recorded.

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

David Hanover

Thank you, operator. Hello, everyone, and thank you for joining us today for Harmonic's Second Quarter 2021 Financial Results Conference Call. With me today are Patrick Harshman, President and Chief Executive Officer; and Sanjay Kalra, Chief Financial Officer.

Before we begin, I'd like to point out that in addition to our audio portion of the webcast, we've also provided slides to this webcast, which you may see 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.

And please note that unless otherwise indicated, these 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 posted on our website and filed with the SEC on Form 8-K. We will also discuss historical financial and other statistical information regarding our business and operation, and some of this information is included in the press release. The remainder of the information will be available on a recorded version of this call or on our website.

And now I'll turn the call over to our CEO, Patrick Harshman. Patrick?

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

Well, thanks, David, and welcome, everyone, to our second quarter call. Harmonic delivered an excellent quarter with strong year-over-year revenue and earnings growth and book-to-bill of 1.6, resulting in record backlog and deferred revenue. Both our Cable Access and Video segments again contributed materially to these results, each with double-digit revenue growth and positive operating income and with comparable book-to-bill. The Cable Access business delivered 89% top line growth while also making great progress extending our addressed market and global leadership position through multiple new design wins. Our Video business was up 34% year-over-year as demand for both our latest broadcast edge and streaming SaaS solutions grew, with streaming SaaS revenue up an impressive 68% year-over-year.

Two months ago, Harmonic laid out detailed multiyear growth plans for our 2 businesses. The financial and strategic results of this quarter demonstrate that we continue to be firmly on track and well positioned to seize the compelling broadband and streaming video opportunities ahead of us and to deliver on our associated financial objectives.

Taking a closer look now at our Cable Access segment. It was another really strong quarter. Segment revenue was $50.1 million, up 89% from a year ago. And we finished the quarter commercially deployed with 62 cable operators worldwide, up 114% from the second quarter of 2020. These deployments scaled to serve over 3.3 million cable modems, up 94% year-over-year. With these results, we anticipate soon moving into second place in terms of total CMTS market share, as the virtualized CMTS market subset that we lead continues to gain traction globally. As anticipated last quarter, aggregate gross margin is being impacted by temporarily higher costs and, at the same time, accelerating demand for our DAA nodes, a reflection of our expanding market leader position in DAA deployments.

In early June, we laid out our 3-year vision for the strategic evolution and financial growth of this business. We identified a greater than $2 billion addressable market and a path for us to leverage our cloud-native and DAA technology leadership to drive a greater than 40% annual growth rate for the next several years, targeting over $500 million of revenue by 2024. An essential element of this growth plan is adoption of our cloud-native CableOS solution by cable operators here in the U.S. and around the globe, both Tier 1s and smaller operators. During the second quarter, we added 2 new Tier 1s to the list of those who have selected CableOS, bringing the global total number of Tier 1 customers we've disclosed to 8, including 3 out of the top 5 in North America, of course, including Comcast; the largest in Europe, Vodafone; and 2 of the largest in Latin America, Claro/Telmex and Millicom, all blue-chip endorsements. We have a solid pipeline of additional Tier 1 engagements and are confident that we will continue to see new design wins and deployments with leading names in the industry.

And while this momentum has us on a great path to lead the roughly $1 billion addressable cable broadband market, we're also actively engaged in complementary initiatives that, in aggregate, will add another $1 billion of addressable market by 2024. The largest and nearest term of these initiatives is fiber-to-the-home, where our strategy is to provide a software-based cloud-native solution that's fully converged with our virtualized CMTS application.

During the quarter, we had a major product release, significantly grew our sales opportunity pipeline and perhaps most significantly, saw very positive progress with a couple of large hybrid cable and fiber operators. As noted in the recent press release we did with new customer Claro in Latin America, a unique feature of our DAA solution is the flexible on-demand extension from DOCSIS to fiber-to-the-home PON. Every single DAA node that we've deployed can also house our Remote OLT module and receive fiber-to-the-home PON traffic from our unified software headend and, therefore, seamlessly support targeted extension and overlay of a cable network with a fiber-to-the-home network, node-by-node flexibility that is unique in the industry and increasingly resonating with customers worldwide.

And big picture, global broadband market trends remain favorable. Near-term demand is healthy, and our broadband market leadership position and opportunities have never been stronger. And we're doing what we said we'd do, executing on our immediate opportunities while also investing in complementary new initiatives that will expand our addressable markets and create further competitive differentiation. We're pleased to be again raising our full year revenue guidance, comfortably meeting our 40% annual growth rate target in 2021 while also making demonstrable progress on our longer-range broadband growth initiatives.

Turning now to our Video segment. Recent momentum continued with another solid quarter. Second quarter segment revenue was $63.3 million, up 34% year-over-year. And segment gross margin expanded to 59.3%, a near record for this business and clear indication of ongoing successful transformation to a more software and services-centric model. Recurring streaming SaaS revenue grew 68% year-over-year, driven by both scaling existing customer usage and new customer additions.

As with our Cable Access business, 2 months ago, we laid out the strategic growth plan for our Video business. Our Video business plan has 2 core elements: capturing a leading position in the growing $1 billion streaming infrastructure market and maximizing revenue and profit from a still larger but slowly declining broadcast infrastructure market. On the streaming SaaS side of the business, 68% revenue growth was complemented by 55% year-over-year growth in the number of customers, bringing the total number of SaaS customers to 102. Approximately 20 of these signed customers are still in the process of fully launching or migrating through streaming services to our

VOS platform and, therefore, still pre-revenue.

Looking ahead, we remain confident about hitting our SaaS revenue growth targets for several reasons. The streaming market continues to grow. Our technology differentiation, streaming brand awareness and sales pipeline all continue to improve. And we're seeing consistent usage and revenue growth from existing SaaS customers with targeted ad insertion where our revenue scales would add volume, driving the most pronounced expansion.

Now turning to the second element of our video strategic plan. We're pleased to see continued resurgence in broadband project activity worldwide. Our strong second quarter results reflected overall broadcast market resilience and happened with nearly no 5G bandwidth reclamation contribution as Q2 was between 5G-driven projects. With that said, our very strong second quarter video bookings and sales pipeline do reflect additional 5G-driven demand and, more generally, an emerging multiyear opportunity for new video edge processing technology that enables the transition of video transport from satellite to terrestrial IP over fiber networks, an opportunity we believe we're uniquely positioned to capitalize on through our new software-based XOS platform.

Considering our growing streaming SaaS and broadcast infrastructure backlog and opportunity pipeline, we're again raising our full year segment revenue and adjusted EBITDA guidance with resultant revenue guidance reflecting anticipated growth over both 2020 and 2019.

In summary, we delivered another strong Video quarter characterized by solid revenue growth, gross margin expansion, operating profit, new wins and bookings. And the outlook for the remainder of the year is positive. Looking further ahead, we've laid out a compelling multiyear strategy, and we're continuing to make targeted strategic and financial progress for delivering on this plan.

With that, I'll now turn the call over to you, Sanjay, for a closer look at our financial results and outlook.

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

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

Turning to Slide 7. Let's start with an overview of second quarter financial highlights. We delivered solid results which were above our guidance ranges, including revenue of $113.4 million, up 53.2% year-over-year; gross margin of 53.9%, a 230 basis point improvement year-over-year; adjusted EBITDA of $9.5 million or 8.4% of revenue; and EPS of $0.05. We also had record second quarter bookings with a book-to-bill ratio of 1.6. As a result, we ended Q2 with record backlog and deferred revenue of $347.2 million, up 65% year-over-year. Cash was $115.2 million, up 48% year-over-year, positioning us well for the remainder of this year and into 2022. Now let's review our second quarter financials in more detail.

Turning to Slide 8. Total company Q2 revenue was $113.4 million, a 53.2% increase compared to $74 million in Q2 2020. Cable Access revenue was $50.1 million compared to $41.3 million in Q1 '21 and $26.5 million in the year ago period, reflecting our continuing market share gains. In our Video segment, we reported Q2 revenue of $63.3 million compared to $70.3 million in Q1 and $47.5 million in the year ago period. The year-over-year growth reflects improving business in all regions worldwide, aided by both solid broadcast demand and strong SaaS revenue growth. We had one customer representing greater than 10% of total revenue during the quarter. Comcast contributed 31% of total revenue.

As mentioned earlier, gross margin improved quarter-over-quarter to 53.9% in Q2 '21 compared to 50.4% in Q1 '21 and 51.6% in Q2 '20. Cable Access gross margin came in at 47% in Q2 '21 compared to 42.2% in Q1 '21 and 45.7% in Q2 '20, reflecting a higher software mix this period. As a reminder, the higher cable hardware supply chain costs we discussed in the last quarter had a modest impact in first half, as our inventory was partially secured before the recent cost run-up and continued to be expected to have a greater impact in the second half. Video segment gross margin was 59.3% in Q2 '21 compared to 55.1% in Q1 '21 and 54.8% in the year ago period. This reflects both an improved software mix within our appliance category and our expanding SaaS business.

Moving down the income statement on Slide 9. Q2 '21 operating expenses were $54.6 million compared to $51.1 million in Q1 '21 and $43.3 million in Q2 '20. The sequential and year-over-year increase was primarily due to increased Cable Access research and development services and sales and marketing for both segments as we continued to invest in our growth initiatives. Adjusted EBITDA for the second quarter was 8.4% of revenue at $9.5 million, reflecting contributions of $6.1 million from Cable Access and $3.4 million from Video. This compares to an adjusted EBITDA of $9.1 million in Q1 '21 and an adjusted EBITDA loss of $2.8 million in Q2 '20 and translates to Q2 '21 EPS of $0.05 per share compared to $0.04 per share in Q1 and an EPS loss of $0.06 in Q2 last year.

We ended the quarter with a diluted weighted average share count of 103.8 million compared to 103.2 million in Q1 '21 and 96.7 million in Q2 '20. The sequential increase reflects the weighted effect of stock issued to employees. The year-over-year increase is primarily due to the issuance of 4.2 million shares for our employee stock -- restricted stock, ESPP, and performance-based compensation during the year and 1.6 million shares for convertible debt dilution, which was a result of our increased average stock price.

Q2 bookings were $186.9 million, a record second quarter, representing a 94.1% sequential increase compared to $96.3 million in Q1 '21 and a 142.7% increase from $77 million in Q2 '20. During the quarter, we saw double-digit sequential and annual bookings growth in every geographic region we operate in. Following an outstanding Q4 '20 bookings quarter, we are pleased to report another very strong quarter of new bookings, demonstrating robust demand for our differentiated technology solutions.

Turning to Slide 10. We'll now discuss our liquidity position and balance sheet. We ended Q2 with cash of $115.2 million compared to $100.8 million at Q1 '21 and $77.7 million at the end of Q2 2020. The $14.4 million sequential cash increase is comprised of $16.8 million cash generated from operations, primarily attributable to both Cable Access and Video segment profits; net of $4 million cash used in purchase of fixed assets; and $1.6 million received primarily through our employee stock purchase plan and from stock option exercises.

Our days sales outstanding at the end of Q2 was 80 days compared to 69 days at the end of Q1 and 91 days in Q2 '20. The sequential increase reflects the timing difference of certain large receivables, and the year-over-year decrease reflects continued overall collection improvements. Our days inventory on hand was 74 days at the end of Q2 compared to 58 days at the end of Q1 and 81 days at the end of Q2 '20, reflecting increasing inventory at the end of Q2 as we prepare for a heavy second half of the year shipments associated with our backlog.

At the end of Q2, total backlog and deferred revenue was a record $347.2 million compared to $274.3 million at the end of Q1 '21 and $210.2 million at the end of Q2 '20, a 27% sequential increase and a 65% year-over-year growth. This record backlog and deferred revenue reflects increasing commitments from our large cable customers, growing demand for new broadcast edge appliances, including 5G bandwidth reclamation projects and growing video streaming SaaS volume commitments. Note that historically, about 80% to 90% of our backlog and deferred revenue gets converted into revenue within a rolling 1-year period.

As mentioned on previous calls, not included in our backlog is additional contractually agreed CableOS business with 3 of our initial Tier 1 cable customers. At the end of Q2 '21, this incremental amount was approximately $145 million, down from $156 million last quarter as approximately $11 million went through the purchase order process and, therefore, moved into bookings. Taking these CableOS contracts into account, we have total future contracted revenues of approximately $492.2 million, which provides us with a very solid foundation for the remainder of 2021 and into 2022.

Now I'll turn to our non-GAAP guidance for 2021, beginning on Slide 11. While COVID-19-related uncertainty and volatility still exists, our customer activity and pipeline have recovered substantially since the height of the pandemic. Having said that, we are still navigating through an unprecedented global supply chain situation, which creates both cost challenges compared to 2020 and production timing challenges to our cable guidance for 2021.

I will now review guidance for our cable segment for Q3, Q4 and the full year. For Q3, we currently expect Cable Access revenue in the range of $50 million to $55 million, gross margin in the range of 41.5% to 43.5%, operating expenses to range from $18.5 million to $19 million, adjusted EBITDA to range from $4.7 million to $5.2 million. For Q4, we currently expect Cable Access revenue in the range of $50 million to $60 million with the upside limited by the supply chain issues I mentioned earlier, gross margin in the range of 45% to

47%, operating expenses to range from $20 million to $21 million, adjusted EBITDA to range from $4.9 million to $7.6 million.

For the full year 2021, we now expect Cable Access revenue in the range of $192 million to $207 million. At midpoint of our guidance, this reflects a $12 million increase versus our prior guidance. This growth is driven by a strong momentum with our existing Tier 1 cable customers as they accelerate deployments as well as new customer growth and still modest converged fiber-to-the-home revenue. Gross margins in the range of 44% to 45%, flat versus prior guidance at the midpoint. There is no change in the supply chain-related impact to our gross margins compared to what we guided in our prior earnings call in April. We have been working hard to contain the supply chain cost impact at these revenue levels within our guided gross margins.

Operating expenses are expected to be between $73.2 million to $74.7 million, an increase of $1 million versus prior guidance. Most of the increase is due to increased research and development primarily related to fiber-to-the-home initiatives and sales and marketing expenses. Adjusted EBITDA in the range of $18.7 million to $21.9 million, an increase of $4.2 million versus prior guidance at the midpoint.

On Slide 12, I will now discuss guidance for our Video segment for Q3, Q4 and the full year. For Q3, we currently expect Video revenue in the range of $62 million to $67 million, Video gross margin in the range of 55% to 58%, operating expenses to range from $35 million to $36 million, adjusted EBITDA to range from $1.1 million to $4.9 million. For Q4, we expect Video revenue in the range of $82 million to $87 million, Video gross margin in the range of 54% to 56%, operating expenses to range from $35 million to $36 million, adjusted EBITDA to range from $11 million to $15 million.

For the full year 2021, we now expect Video revenue in the range of $278 million to $288 million. At the midpoint of our guidance, this reflects a $13 million increase versus prior guidance, attributable to both rebounding broadcast market demand and growth in streaming SaaS. Gross margins in the range of 55.5% to 57%. At the midpoint of our guidance, this represents a 25 basis point improvement over prior guidance mainly due to improved product mix and expanding SaaS margins. Operating expenses are expected to be between $141 million to $143 million, an increase of $1.5 million versus prior guidance at midpoint. This increase is largely due to sales-related expenses associated with higher revenues. Adjusted EBITDA in the range of $21.7 million to $29.5 million, an increase of $6.3 million compared to prior guidance at the midpoint.

Slide 13 presents the consolidated total company guidance for Q3, Q4 and full year 2021, which is simply the sum of the 2 segment charts we just reviewed. For Q3, we expect revenue in the range of $112 million to $122 million, gross margin in the range of 49.9% to 50.6%, operating expenses to range from $53.5 million to $55 million, adjusted EBITDA to range from $5.8 million to $10.1 million, EPS to range from $0.01 to $0.05 per share, a weighted average diluted share count of approximately 105.8 million. At the end of Q3, cash is expected to range from $115 million to $125 million.

For Q4, we expect revenue in the range of $133 million to $148 million, gross margin in the range of 50.8% to 51.5%, operating expenses to range from $55 million to $57 million, adjusted EBITDA to range from $15.9 million to $22.6 million, EPS to range from $0.09 to $0.15, a weighted average diluted share count of approximately 106.6 million. At the end of Q4, cash is expected to range from $125 million to $145 million.

For the full year, we now expect total company revenue in the range of $470 million to $495 million. Please note, we have raised our expectations at both the low end and high end of the range due to the continued strong demand we saw in the second quarter and our updated growth expectations for both segments.

Gross margin in the range of 51.2% to 51.6%. At the midpoint of our guidance, this represents an increase of 8 basis points versus prior guidance at midpoint. Operating expenses to range from $214.2 million to $217.7 million, an increase of $2.5 million from our previous annual guidance. Adjusted EBITDA to range from $40.4 million to $51.4 million, an increase of 30% versus prior guidance at midpoint. EPS to range from $0.19 to $0.29 per share, a 60% increase compared to the midpoint of prior guidance. An effective tax rate of 10%, a weighted average diluted share count of approximately 104.9 million. And finally, cash at the end of the year is expected to come in between $125 million to $145 million.

In closing, during the second quarter, we continued to execute on our strategic priorities, positioning our Cable Access and video streaming businesses for long-term success. This is in line with the multiyear revenue and operating models we shared with you during our June Video and Cable Access segment investor events.

With that, thank you, everyone. And now I'll turn it back to Patrick for final remarks before we open up the call for questions.

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

Okay. Thanks, Sanjay. Sanjay just mentioned our strategic priorities. So let's wrap it up by reviewing those priorities for the remainder of this year.

For our Cable Access business, our objectives are accelerated volume deployments with a growing list of Tier 1 customers; entering new global operators, particularly additional Tier 1s; and expanding our addressed market for CableOS' new converged DOCSIS and fiber-to-the-premises capabilities. For our Video segment, our objectives are accelerating the growth of our streaming and SaaS customer base and per customer usage, capitalizing on the coming transformations of traditional broadcasting media infrastructure globally, particularly the new edge processing opportunity and delivering consistent margin expansion, recurring revenue growth and profitability. Putting it all together, we continue to aim to deliver industry-leading solutions to enable superior subscriber experiences and to create value for our customers and our shareholders.

Thank you all for your support. And with that, let's now open up the call for questions.

QUESTIONS AND ANSWERS

Operator

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

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

I just first want to start with the gross margin you reported for this second quarter. Both of your reporting segments were better than we expected. And my recollection was, last quarter, it sounded like gross margin was going to get hit pretty hard from supply chain constraints. And it actually was a pretty meaningful improvement. Could you unpack that a bit in terms of what was different from your original expectations?

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

Sure, Simon. So let me start with cable first. I think cable, we saw a good software mix this time. Although when we guided, we were expecting some supply chain impacts, and they did happen. It came in accordance with the guidance, but we saw a good mix of software. So that's the improvement we saw in the cable margins.

In terms of video gross margin, what we guided, we saw a strong mix, as I said in my prepared remarks. We saw improved mix of software and SaaS revenues and good margins there.

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

And in terms of where we stand today with the supply chain constraints, what's sort of being baked into your guidance by segment? And how are you thinking about essentially the supply chain getting worse or staying the same as it was before?

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

So Simon, in terms of our supply chain impacts, whatever we considered in the past guidance, that remains the same. For full year, the gross margins for cable are exactly the same at midpoint. We guided 44.5% previously. We are at 44.5% now. So the supply chain is -- the costs have remained the same for the whole year.

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

And in the past, we've talked about opportunities for you coming from government stimulus programs. Could you give us an update? Have you seen progress? Have you -- any of these new awards, are they related to what we would consider government stimulus-type programs? And what's your assessment of that particular opportunity as you look out longer than just a quarter?

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

There has been no material contribution to our business from projects that have the government stimulus behind them. But that being said, we're certainly pursuing opportunities that may have government stimulus, I think, particularly on the cable fiber-to-the-home side, that's relevant. So it's part of the opportunity pipeline, but it's not part of the revenue or bookings results that we're reporting today.

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

I guess what I'm just trying to confirm, and my impression is that no decisions have been made, and I just want to confirm that, that's correct assumption.

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

Decisions in what regard?

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

Well, in terms of the operators making selections and signing contracts.

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

I think it varies. I think it varies. Frankly, there are some opportunities out there that we think we're too late for. Others, we think that we're in plenty of time for. So we -- I can't give you an over -- a complete blanket statement, Simon. But there are certainly plenty of still available opportunities that we're competing for.

Operator

Next question comes from the line of George Notter from Jefferies.

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

I was very impressed by the bookings number this quarter. I think you said the book-to-bill was similar across both sides of the business. If you could just confirm that, that would be great. And then I guess I was just hoping to go another layer deeper in those bookings on each side of the business. I assumed that C-band reclamation was a big piece of the narrative on Video with the second wave of that activity out in front of us. But maybe you could just confirm that also and just give us any more flavor you can for the nature of the bookings.

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

Well, let me confirm both, George. Yes, both segments had similar book-to-bill, and I confirm the other piece as well.

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

Got it. And then -- so on the Cable Access side, was it broad-based among many different cable operators that you have in your customer base? Or was it more narrow amongst some of your biggest Tier 1s? And anything else you could give us there?

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

It's certainly broad-based on both sides, George. Yes, cable, we benefited from both new orders from existing customers as well as strong order input from newer customers. So I'd say that was -- cable was strong, broad-based. Indeed, some part on the video side, as Sanjay just confirmed, was related to 5G. But as he also mentioned earlier in his remarks, we actually saw strong bookings across geographies. And to date, the 5G activity has been limited still to the U.S. So it would be incorrect to attribute the video strength exclusively to 5G.

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

Got it. Okay. That's helpful. And then I guess just to kind of follow on to the prior question. You guys are doing a lot of development work on the fiber-to-the-prem piece of the solution. Can you talk about kind of where you are in that development, just get us updated versus 3 months ago? And how do you see yourself kind of aligning product-wise with some of the opportunities that are out there on fiber-to-the-prem and all the stimulus that's out there these days?

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

Well, let me take a step back and remind or clarify that our initial strategy and where we're focused is not -- we're not going after Verizon and AT&T or frankly any exclusively historical telco player. Our real, I think, value add is a converged DOCSIS and fiber solution. And we believe that just the subset of operators who will be deploying both DOCSIS and fiber in either the same or in different parts of the network, it's -- that creates a compelling, let's say, initial or Phase 1 opportunity for us. And it's -- those customers who we're making progress with is those customers with whom we have our initial deployments. And it's some of the larger of those customers where we're starting to make some real good progress in their labs and in their testing. And I would say that the value of what we're proposing is coming into greater focus. And at the same time, we're better understanding the different use cases and how these things will be deployed.

I mean, the market is evolving. Just late last week, for example, Virgin Media in the U.K. kind of made a splash by talking about some aggressive new fiber-to-the-home plans there in the U.K. market and that they were further clarified on their earnings call, where they talked about fiber and cable kind of moving forward in coexistence with maybe the fiber serving the higher-end customers or the -- being the premium tier of service. I think that's a picture that for us is becoming a sharper focus, and it's helped us steer the way we position the technology, both technologically and commercially.

So we're making good progress on both fronts, George. We're quite encouraged by the work we're doing with our customers as well as the, I'd say, the strategic thinking of customers large and small in this area. So we're -- obviously, we continue to invest in it, and we'll continue to keep you posted on our progress.

Operator

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

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

First, a clarification, if I could, on your prepared remark about bookings. You commented that 80% to 90% of your typical backlog is shippable in the next year. Were you implying that, that's still the case with this new surge in bookings as well that, that same characteristic would apply?

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

That's right, Ryan. That's our historical trend. That 80% to 90% of deferred revenue and backlog gets converted within the next 12 months, and we expect the same trend to continue.

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

Perfect. And then just looking at your set of Tier 1 wins, obviously, critical and very strategic. Could you maybe characterize well where those customers are now in their path toward volume deployment? How many are in volume deployment today and where the balance kind of sit in that process of operations integration or field trials, that sort of thing?

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

Out of the 8 that we've discussed, we have 4 who I'd say are really in volume deployment today. Within those, I'd say, various maturation. I'd say nobody is probably completely moving at the pace and volume they would ultimately like to. But I think we could safely call 4 on volume, and I'd say the other 4 are in various kind of stages of start-up.

Operator

(Operator Instructions) Next question comes from the line of Tim Savageaux from Northland Capital.

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

Congrats on the bookings, in particular. And I did want to follow up there a little bit around the kind of topic of new versus existing customers. And you mentioned a Virgin call where they were talking about fiber-to-the-home. Actually, Comcast had some pretty interesting things to say about virtualization and accelerating next-gen technology deployment on their call. I don't know if that's coincident. I mean, you obviously saw a fair bit of growth here in the quarter with Comcast.

And so as you look at that, is -- are you seeing -- can you comment, I guess, on those comments or if you're seeing a meaningful acceleration there? And despite that, it does look like, from a booking standpoint, you did add some meaningful new orders there. So any further color on those specific comments? And then with regard to whether you're seeing -- you might have seen a few of those 4 Tier 1s you mentioned go into volume deployment pretty much last quarter, and that might have accounted for some of the strength in bookings beyond Comcast.

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

I would attribute the step-up in bookings in the second quarter -- I don't actually have the breakdown in front of me, and I don't know if you've got a comment, Sanjay. But I think it certainly wasn't dominated by existing customers. New customers contributed materially, Tim. So I think it's probably safest to think about the booking number as an equal balance between healthy orders from existing customers and new customer order inflow.

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

I agree. There's a decent mix between new and existing.

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

Yes. We're gratified to hear some of the leading operators in the space talk openly about their thinking. I mean, they've been talking about, I think -- the leaders in the cable industry began talking about 10G maybe 2 years ago at the CES conference. And with increased worldwide competition from fiber coming, I think that the topic of competing in next-generation broadband, thinking through what next-generation broadband looks like, and here I'm just talking about going beyond just symmetric gig to really symmetric multi-gigabit services and ultimately, symmetric 10 gigabit services, this is not science fiction anymore. This is a very relevant topic.

And our view is that those who have selected us early were really among the operators who are out front earliest thinking about this and who put the greatest importance on ensuring that their networks were going to be competitive not just in the next 18 months but over the next decade. So from that perspective, it's not news to us, Tim. I think the news is, if you will, that there's more open discussion about it. And perhaps the element of news there is the extent to which we're now seeing a mix of advanced DOCSIS, virtualized DOCSIS, DAA together with fiber as really coming into focus as an attractive blend of capabilities for meeting these next -- this kind of next phase of competition and consumer demand in the industry. Does that help? Or if you have the color...

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

That's fantastic. Yes, much appreciated.

Operator

Next question comes from the line of Steven Frankel from Colliers.

Steven Bruce Frankel ***Colliers Securities LLC, Research Division - Senior VP & Director of Research***

And Patrick, in the spectrum reallocation part of the Video business, there was an opportunity to not just sell some hardware into those customers but build a recurring revenue relationship around maybe some of your SaaS offerings as well. Could you update us on how that mission might be going?

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

It continues to be an attractive opportunity. I would say fairly well, but we have -- we still have work to do if I had to summarize it, Steve. I mean, taking a step back, overall, we're quite pleased with the progress we're making in SaaS. Certainly, the discussions with operators involved in the whole 5G thing are part of that mix. But I wouldn't put a disproportionate weight on it. But it is an attractive opportunity.

More generally, I think our brand is really strengthening from a SaaS perspective. More and more media companies around the globe are starting to understand what we're doing in that space, both those who might have an opportunity to reallocate stuff between satellites or, in fact, take it off entirely and move to fiber. I think everybody is understanding better that Harmonic is bringing both -- some of that traditional network capability as well as streaming SaaS capabilities to the party. And it's continuing to be pretty fun and exciting to work on.

Steven Bruce Frankel ***Colliers Securities LLC, Research Division - Senior VP & Director of Research***

And how has the size of the typical SaaS engagement changed over the last year? Are you getting larger initial deal sizes or are these deal sizes growing over time as that ad element comes in and the customer ramps?

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

Well, it's all of the above. On one hand, definitely part of the growing pipeline includes bigger deals than we've had before. And I'd say that end of the spectrum is bigger. At the same time, though, as our brand becomes stronger, we're kind of doing a better job of addressing what I'd call the long tail. In an aggregate, particularly when you think about content generation worldwide, there's a lot of opportunity under that long tail.

So through sales force investments that Sanjay mentioned, through new channel development as well as direct sales, what we're trying to go after are both ends of the spectrum. And we're seeing more success on both ends of the spectrum, both the bigger deals and the smaller.

Thinking about the ad stuff, in particular, I'd say their most impressive so far has been some of the maturation of that stuff. Maybe maturation is too far along, but some of the development of that with some of the larger engagements that we have, particularly in North America. So engagements with larger media companies who perhaps have more mature advertising models is where we're seeing some very encouraging uptick there. And hence, we're increasingly optimistic about that targeted ad model getting more traction with the other large ones as well as the longer tail that I mentioned a moment ago.

Steven Bruce Frankel ***Colliers Securities LLC, Research Division - Senior VP & Director of Research***

Great. And then on CableOS, now that it's -- the market is starting to mature and you have such a strong reputation in the market, do you have any more visibility into those that haven't launched into kind of the velocity of their launch once they get started?

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

I think it's improving. It's still work in progress, but it's still improving. Particularly a large Tier 1, every one of them has their own kind of unique environment, operating paradigms, et cetera. So I think there is no such thing as a turnkey 15-day Tier 1 turnup.

That being said, we are getting better. We're getting more sophisticated. I think our lab integration, field service, professional services teams are excellent. I think it's a big part of the value we're bringing to the party now. It's not only the technology but the know-how, and that's serving us well. But to be clear, it's still heavy lifting. And that's okay. I mean, these are -- we're all broadband customers. So the fact that -- consumers, I mean. The fact that our customers are taking it carefully, they're triple checking everything to make sure the service is fully robust, et cetera, et cetera, it makes complete sense. But we're seeing good progress, and I think you're seeing that show up in our numbers.

Steven Bruce Frankel ***Colliers Securities LLC, Research Division - Senior VP & Director of Research***

Great. Tremendous quarter, so congratulations, and I look forward to the back half of the year.

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

All right. Well, thank you very much, Steve. We appreciate it.

Operator

Showing no further question at this time, I would now like to turn the conference back to CEO, Patrick Harshman, for closing remarks.

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

Okay. Well, thank you all for joining us today. We've had a strong quarter. The outlook is strong. We're executing the plan we've discussed. We're excited about our business. We're encouraged by the market conditions, and we look forward to continuing to make progress and to continue to communicate with you. So we look forward to talking with you all next time. Until then, have a good day.

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

Great. Thank you all. Bye.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation, and have a wonderful day. You may all disconnect.
