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PRESENTATION

Operator

Welcome to the Q1 2022 Harmonic Earnings Conference Call. My name is Val, and I'll be your operator on today's call. (Operator Instructions) Please note that this conference is being recorded.

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

David Hanover

Thank you, operator. Hello, everyone, and thank you for joining us today for Harmonic's First Quarter 2022 Financial Results Conference Call.

With me today are Patrick Harshman, President and Chief Executive Officer; and Sanjay Kalra, Chief Financial Officer.

Before we begin, I'd like to point out that in addition to 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 going to Slide 2. During this call, we will provide projections and other forward-looking statements regarding future events or future financial performance of the company. Such statements are only current expectations, and actual events or results may differ materially. We refer you to documents Harmonic filed with the SEC, including our most recent 10-Q and 10-K reports and the forward-looking statements section of today's preliminary results press release. These documents identify important risk factors, which can cause actual results to differ materially from those contained in our projections or forward-looking statements.

And please note that unless otherwise indicated, the financial metrics we provide during 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***

So, thanks, David, and welcome, everyone, to our first quarter call.

So during the first quarter of 2022, Harmonic carried forward the strong business momentum we achieved in 2021. Revenue was up 32% year-over-year to $147.4 million. EPS was $0.08 and book-to-bill was 1.4%, all of which drove further growth of our backlog and deferred revenue to a record level at quarter end.

Among the business highlights enabling these corporate results were Cable Access segment revenue growth of 98%, Video segment SaaS revenue growth of 75% year-over-year and solid bottom line contributions from both segments. The robust demand we continue to see for our solutions and our consistent execution despite significant supply chain and global geopolitical challenges, make a strong statement about the health and management of our business and our confidence in delivering sustained market leadership, growth and value creation for our customers and stockholders as we continue in 2022 and beyond.

Taking a closer look at our Cable Access segment, we delivered another exceptional quarter. Segment revenue was up 98% year-over-year. By quarter end, we had 77 broadband service providers were deploying on CableOS, up 45% year-over-year. And broadband modem served grew to 6.1 million, up 100% year-over-year and still only about 10% of the currently addressable footprint defined by our wins to date.

As Sanjay will discuss momentarily, adjusted segment EBITDA margin was approximately 12%, an impressive result considering persistent supply chain cost and capacity headwinds. Despite these challenges, overall market conditions are trending favorably for our broadband access business. Consumer and enterprise demand for broadband capacity is strong and growing, and competition between broadband service providers is heating up worldwide.

Against this market backdrop, our competitive position has never been strong. The distributed architectures we invented have become a de facto industry standard. It's becoming clearer that our continuing technology advances, expanding cloud-native software and digital hardware are way out in front of the competition. Consequently, demand for our end-to-end systems, encompassing software and hardware continues to exceed previous expectations.

Looking ahead to the remainder of 2022, we anticipate existing customers will continue to aggressively scale. And of course, we will also remain very focused on winning new accounts, both large and small. While multi-gigabit DOCSIS-based services remain the foundation of the business, we're increasingly bullish about our fiber-to-the-home opportunity. We have successfully launched fiber-to-the-home with several smaller customers. We're making good progress qualifying our solution with Tier 1 accounts.

At last week's CableLabs 10G showcase in Denver, we wowed attendees with our latest cloud native platform, demonstrating DOCSIS 4.0, reaching 8.5 gigabits per second downstream and 5 gigabits per second upstream. We also showcased converged multi-gigabit DOCSIS 3.1 in symmetric 10 gig fiber-to-the-home services deployed through our CableOS Ripple outdoor node platform, a unique Harmonic capability illustrating both the strategic value and widely deploying our outdoor node platforms and through our innovations, the cable industry's ability to compete effectively with competitive fiber offerings.

Putting it all together, we remain confident that our broadband access business is uniquely positioned for strong profitable growth for the foreseeable future. And to be clear, this positive outlook incorporates what we know about the Russian war in Ukraine. We anticipate no sales of broadband access systems in Russia, and our updated guidance contemplates continued disruption and possibly additional expense associated with our personnel in Ukraine, a subset of our global R&D team.

Looking beyond 2022, we now forecast the 2024 top line revenue, EBITDA dollars and EBITDA percentage for the broadband access segment will be ahead of the plan we communicated to you during our Investor Day in June last year. We're planning another Investor Day in the coming months, during which time we will further flesh out this multi-year update. In the meantime, we're excited about the broadband market and demand trends we see, and we're fully focused on execution in 2022.

So turning now to our Video segment. Here, we also delivered a solid quarter and start to the fiscal year. First quarter segment revenue was $65.8 million, down 6.4% year-over-year, while segment gross margin was 58.8%, up 370 basis points year-over-year, resulting in approximately flat segment gross profit. We achieved strong streaming SaaS revenue growth for the quarter, up 75% year-over-year, which was offset by expected slower decline in legacy video appliance sales.

As a reminder, in June last year, we also laid out our multi-year video business strategic plan, similar to what we did for our Cable Access business. Our video appliance has 2 core elements: taking a leading position in the growing streaming SaaS market, particularly for live sports and maximizing revenue and profit from the declining video plan's broadcast market. Our first quarter results highlight continuing execution of this plan.

On the broadcast appliance side of the business, demand and outlook continues largely as anticipated. In contrast to our broadband access business, we have historically sold video appliances and related services in Russia. And now as a result of the war in Ukraine, we anticipate losing approximately $6 million of previously forecasted Russian video business during 2022.

Fortunately, we expect this Russia gap to be largely filled by video appliance and streaming SaaS upside in other parts of the world, where we're seeing stronger than original forecast demand. Streaming SaaS upside in the coming quarters is due in part to a major new sports-driven win during the first quarter with a Tier 1 streaming media company, as well as continued expansion of live stream and sports delivery for customers that have already launched. During the quarter, we set several new internal records for live content delivered and advertisements inserted, and a reputation for enabling best-in-class live streaming continues to grow.

Looking ahead, we remain confident that our transformation in video to streaming SaaS is working. Considering our strong first quarter start and a robust sales pipeline, we expect our streaming SaaS revenue to grow over 50% again in 2022. And we remain on track to achieve the 2024 streaming SaaS targets we laid out for you in our Investor Day last year.

In summary for our Video segment, continued profitability, gross margin expansion and streaming SaaS growth, all point to a successful transformation and value creation story.

And with that, I'll turn it over to you now, 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 Q1 press release and earnings presentation includes reconciliations of non-GAAP financial measures to GAAP that are discussed on this call. Both of these are available on our website.

For the first quarter of 2022, we delivered solid financial results that were near or above the top of our guidance ranges. These results demonstrate the strength of our businesses, which continue to perform well despite challenges related to the war in Ukraine, the pandemic and our supply chain.

Before I run through our quarterly financials in more detail, I brief please review key highlights here on Slide 7. We reported record first quarter revenue of $147.4 million, along with solid EPS of $0.08. The considerable business momentum we saw in 2021 continued in the first quarter of 2022, with bookings of $205.5 million and a book-to-bill ratio of 1.4%. This drove another record backlog and deferred revenue position at quarter end of $497.3 million. Considering the strong first quarter performance and the positive market and competitive trends mentioned by Patrick, we are raising our full-year revenue, adjusted EBITDA and EPS guidance.

Now let's review our first quarter financials in more detail. Turning to Slide 8. As I just mentioned, total company Q1 revenue was $147.4 million, up 32.1% year-over-year and down 5.4% sequentially from a seasonally strong Q4. Looking first at our Cable Access business segment. Revenue for the quarter was $81.6 million, up 97.8% year-over-year and 17% sequentially, reflecting both the continued ramp-up of existing customers and new customer wins, including some early success we are seeing with our fiber-to-the-home application.

In our Video segment, we reported total Q1 revenue of $65.8 million, down 6.4% year-over-year, of which SaaS revenues were $6.7 million, up 75.3% year-over-year. This modest decline was primarily due to timing of a few broadcast projects and the impact of ceasing sales in Russia. Later on, I will share more details on the anticipated impact on our video business of season sales in Russia. We had 3 customers representing greater than 10% of total revenue during the quarter.

Comcast contributed 31%. Intelsat contributed 13%, and Vodafone contributed 10% of total revenue. Total company gross margin declined by 320 basis points to 47.3% compared to 50.5% in Q4 '21 and by 310 basis points versus Q1 '21. This decline is due to elevated Cable Access segment supply chain-related costs and increased mix of Cable Access segment revenues.

Cable Access segment revenue was 55.4% of total company revenue in the quarter. Cable Access gross margin for Q1 '22 was at the high end of our expectations at 38% compared to 40.3% in Q4 '21 and 42.2% in Q1 '21. As anticipated, extraordinary supply chain costs weighed on margins in the first quarter of 2022 relative to the prior year. Also as anticipated, we forecast Cable Access gross margins improving in the second quarter of -- as these non-recurring premium costs have now largely flowed through.

Video segment gross margin was 58.8% in Q1 '22, up 370 basis points compared to 55.1% in the year-ago period and flat sequentially. The annual improvement reflects an improved software mix within our appliance category. as well as our expanding SaaS business.

Moving down the income statement on Slide 9. Q1 '22 operating expenses were $58.4 million compared to $58 million in Q4 '21 and $51.1 million in Q1 '21. The year-over-year increase is primarily due to increased research and development, as well as sales and marketing activities to support the growth of our Cable Access business. Operating expenses represented 39.6% of revenue in Q1 '22 compared to 45.8% of revenue in Q1 '21, demonstrating operating leverage as revenues continue to ramp.

Adjusted EBITDA for Q1 '22 was 9.8% of revenue at $14.5 million, comprised of $9.7 million from Cable Access and $4.8 million from Video. This compares to an adjusted EBITDA of $23.8 million, or 15.3% of revenue in Q4 '21 and a year-over-year improvement compared to $9.1 million, or 8.2% of revenue in Q1 '21. This all translated into Q1 '22 EPS of $0.08 per share compared to $0.16 per share in Q4 '21 and $0.04 per share for Q1 '21.

We ended the quarter with a diluted weighted average share count of 110.6 million compared to 110.5 million in Q4 '21 and 103.2 million in Q1 '21. The sequential increase is primarily due to the issuance of 1.3 million shares to employees for vested restricted stock units, ESPP purchases and performance-based compensation, offset by a reduction in convertible debt dilution of 0.8 million shares and the dilutive effect of outstanding RSUs and options by 0.4 million shares, both resulting from the decrease in our average stock price in the quarter and by share repurchases of 223,000 shares in the quarter at an average price of $9.18. The year-over-year increase reflects dilution of our convertible debt by 2.5 million shares and the dilutive effect of outstanding RSUs and options by 0.8 million shares, both resulting from an increase in our average stock price during the year, and 4.2 million shares due to the weighted effect of stock issued to employees and ESPP shares.

In early February 2022, we announced a stock repurchase program, under which we may repurchase up to $100 million of our outstanding shares of common stock through February 2025. We intend to fund the share repurchases from cash on hand and cash generated from operations. Repurchases under the program may be made from time to time through open market purchases and 10b5-1 trading plan, in accordance with the applicable securities laws. The timing and amount of any repurchases will depend on a variety of factors, including the price of our common stock, market conditions, corporate needs and regulatory requirements.

Turning now to the order book. We are pleased to report yet another quarter of strong new bookings. As noted earlier, Q1 bookings were a record $205.5 million compared to $267.3 million in Q4 '21 and up 113.4% from Q1 '21, demonstrating continued robust demand for our solutions. Demand for our Cable Access products was the biggest driver, although Q1 bookings for both segments were up year-over-year in all regions worldwide. The book-to-bill ratio was 1.4% in the quarter compared to 1.7% in Q4 '21 and 0.9% in Q1 '21. On the Cable Access side of the business, we see cable operators buying ahead in anticipation of accelerating 2022 and early 2023 broadband network deployments.

Turning to Slide 10. We'll now discuss our liquidity position and balance sheet. We ended Q1 with a cash of $100.7 million compared to $133.4 million at the end of Q4 '21 and $100.8 million in Q1 last year. The $32.7 million sequential cash decrease is primarily comprised of $27.5 million of cash used in working capital, largely in accounts receivable and inventories to support business growth, offset by operating profits of both Cable Access and Video segments, $2.1 million of share repurchases, as I just mentioned, and $2.4 million of cash used in the purchase of fixed assets. Our day sales outstanding at the end of Q1 was 71 days compared to 51 days at the end of Q4 '21 and 69 days in Q1 2021.

We expect collections and therefore, accounts receivable to improve in Q2. Our days inventory on hand was 95 days at the end of Q1, compared to 83 days at the end of Q4 '21 and 58 days at the end of Q1 '21, reflecting increasing inventory at the end of the quarter as we prepare for heavy shipments for the rest of the year. We continue to build inventory at higher-than-normal levels to proactively manage the supply chain.

At the end of Q1, total backlog and deferred revenue was a record $497.3 million, up 13% sequentially from $441 million at Q4 '21 and up 81% year-over-year from $274.3 million at Q1 '21. This latest backlog in deferred revenue reflects continued growing demand from our large cable customers and increasing video streaming SaaS commitments. Note that more than 80% of our backlog and deferred revenue has customer request dates for shipments of products and providing services within the next 12 months. As mentioned on previous calls, not included in our backlog is additional contractually agreed CableOS business with 3 of our initial Tier 1 cable customers.

At the end of Q1 '22, this incremental amount was approximately $98 million, down from $104 million last quarter and approximately $6 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 $595 million, which continues to provide us with a very solid base as we move ahead into 2022.

Now, I'll turn to our revised non-GAAP guidance for 2022, beginning on Slide 11. I will also give brief commentary on key changes from our prior annual guidance we gave in January. For the total company for full-year 2022, we now expect revenue in the range of $585 million to $625 million. The 4% midpoint increase on our previous guidance was driven by an increase in expected cable segment revenue.

Gross margin in the range of 49.1% to 50.2%, marginally up 5 basis points at the midpoint versus prior guidance. Gross profit to range from $287 million to $314 million, up 4% at midpoint versus prior guidance. Operating expenses to range from $238 million to $251 million, up 1% at the midpoint of our prior guidance, driven primarily by increased compensation expenses and possible relocation costs related to our contract engineering resources in Ukraine. Adjusted EBITDA to range from $60 million to $74 million. This represents a 16% increase at the midpoint versus prior guidance, driven by the expected increase in cable revenues discussed earlier. EPS to range from $0.34 to $0.45. At the midpoint, this is a 20% increase versus prior guidance. An effective tax rate of 13%, a weighted average diluted share count of approximately 110.8 million, a decline of 1.8 million shares from prior guidance. This was primarily due to reduced dilution on debt, given a softer average stock trading price. Finally, cash at the end of 2022 is expected to come in between $100 million to $110 million, in line with our prior guidance.

Turning to Slide 12. I will review our total company outlook for the second quarter of 2022. We expect revenue in the range of $144 million to $154 million; gross margin in the range of 49.3% to 51.2%, gross profit in the range of $71 million to $79 million; operating expenses to range from $61 million to $64 million; adjusted EBITDA to range from $13 million to $18 million, a weighted average diluted share count of approximately 110.8 million, EPS to range from $0.07 to $0.11. At the end of Q2, cash is expected to range from $100 million to $110 million.

On Slide 13, I will first give you guidance for both the full year and second quarter of 2022 for our cable segment. For the full-year 2022, based on our progress to date, we expect Cable Access to achieve revenue between $310 million to $338 million, an 8% increase from midpoint of prior guidance, implying full-year revenue growth of 48% at the midpoint. Given our success in navigating capacity constraints through the first 4 months of the year, we are more comfortable expanding the high end of our outlook. Although to be clear, challenges remain, necessitating a still wide range.

Gross margins between 42% to 43.4%. This marginal 40 basis points improvement from prior guidance is due to an expected increase in software and services contributions. Gross profit between $130 million to $147 million, up 9% from prior guidance at the midpoint. Operating expenses between $93 million to $101 million, up 3% from prior guidance at the midpoint. Adjusted EBITDA between $43 million to $51 million, up 22% from prior guidance at the midpoint. For our Cable Access segment, in Q2, we expect revenue in the range of $74 million to $80 million; gross margin in the range of 42% to 44%; gross profit in the range of $31 million to $35 million; operating expenses in the range of $24 million to $26 million, adjusted EBITDA to range from $8 million to $11 million.

Now moving on to Slide 14. We will review full year and second quarter 2022 video segment guidance. Currently, we expect revenue in the range of $275 million to $287 million, nearly consistent with prior guidance despite an approximately $6 million negative revenue drag from ceasing sales in Russia. Gross margins in the range of 57% to 58.3%, with a 25 basis point improvement over prior guidance at midpoint. Gross profit in the range of $157 million to $167 million, basically flat with prior guidance at midpoint. Operating expenses in the range of $145 million to $150 million, slightly better than prior guidance at the midpoint. Adjusted EBITDA in the range of $17 million to $23 million, a slight improvement from prior guidance.

For Video segment, in Q2, we expect revenue in the range of $70 million to $74 million; gross margins in the range of 57% to 59%; gross profit in the range of $40 million to $44 million, operating expenses in the range of $37 million to $38 million; adjusted EBITDA to range from $4 million to $7 million.

In summary, we continue to build on our momentum from 2021 with a strong first quarter and grew our record backlog and deferred revenue balance even further, positioning ourselves well for the balance of 2022 and the trajectory to execute our long-term model.

Patrick earlier shared key financial highlights from our updated long-term model for the cable segment. And we are in process of planning another Investor Day in the coming months, during which we will further provide further details on this positive multi-year update. So please stay tuned for additional details on our Investor Day.

Thank you, everyone, for your attention today. And now, I'll turn it back to Patrick for final remarks before we open up the call for questions.

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

Okay. Thanks, Sanjay.

We'd like to conclude by summarizing our priorities for the remainder of the year. At the corporate level, in 2022, we intend to extend our market reach, leadership and deployment velocity to create even greater value for our customers and our shareholders. For Cable Access business, this means that our objectives remain driving volume deployments with our Tier 1 customers, winning and scaling with new global operators and expanding our address market for a unique converged solution for DOCSIS and fiber-to-the-home applications.

As the results demonstrate, we've already made solid progress in all 3 of these fronts during the first quarter. For Video segment, we continue to focus on accelerating the growth of our streaming SaaS customer base, extending the breadth of our streaming SaaS solution to enable even faster growth and leveraging the traditional broadcast appliance business to profitably enable these transformations. And here again, we delivered good progress in all 3 of these areas during the first quarter. We're looking forward to the rest of 2022, and we appreciate your continued support.

And with that, let's now open up the call to your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Our first question comes from Simon Leopold of Raymond James.

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

Two, if I may. The first one is, could you help us understand your exposure either directly or indirectly to the lockdowns in China and what you've assumed in terms of your ability to operate? Are you identifying alternate sources? Or do you expect it to be short lived? Just trying to understand how you've factored that into this guidance? And then I've got a follow-up.

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

Okay. Well, first, the headline that Simon is, that it is factored into the guidance. We sell some products, again, primarily video in China. So there is a, I'd say, a modest revenue headwind there that has been factored into the guidance that we shared. And as your question anticipates or understands, we do some limited amount of component sourcing. We don't do any manufacturing. We don't do any R&D in

China. And fortunately, the areas from which we source our -- the subset of components that we source to build some of the hardware products that we do elsewhere, we're not so far impacted significantly by the lockdowns. We have thought about the implications of the lockdowns spread to the areas where we're doing business. And as best as we can, we've factored in those risk factors into the guidance that we provided.

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

Thanks. And then in terms of the follow-up, in the past, we've talked about, I guess, the penetration rates of CableOS in terms of the number of subscribers turned on to the network, relative to the number of total subscribers for the customer base. Where does that metric stand? And do you -- how do you see that evolving over the next year or 2?

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

Well, at quarter end, about 6 million modems had been -- our systems had been deployed to serve 6 million modems exclusively for our CableOS software predominantly, also through our hardware. And that represents 100% year-over-year growth. In other words, that metric was about $3 million a year ago. And that is -- if we add up the modems served by the customers that have now begun or in the process of deploying our solutions, that's about 10% of the footprint. So in other words, it's about a $60 million cable modem footprint that we are currently addressing.

So, I guess a couple of things. Clearly, there's a ton of runway left with those customers who have already selected and are deploying us, not to mention the pipeline of newer customers that we're pursuing or the add-on, fiber-to-the-home applications we're going after. If you look in our guidance for this year, I think the midpoint of the guidance is about 45% or thereabouts, Sanjay, in very round numbers, I mean, and it's not correlated 100%, Simon. But that implies roughly 50% more business than last year and roughly 50% more subscribers. So, you might add our customers to add an aggregate, I don't know, roughly 4.5 million more cable modems over the course of 2022. I mean, please, that's a -- back of the envelope kind of a number just to help, I think, give you the ZIP code of the way we see this evolving. I'll stop there. Does that help?

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

That's really very helpful. That's exactly what I was looking for.

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

I'll just add. At the midpoint of the guidance, the cable margins are approximately 42.5%.

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

That's really very helpful. That's exactly what I was looking for. I'll just say at the midpoint of the guidance, the cable margins are approximately 42.5%.

Operator

Our next question comes from Ryan Koontz of Needham.

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

A nice quarter there, especially on the cable front. And if you could provide us any color on kind of the mix in the quarter. It sounds like hardware, obviously, saw some headwinds on supply chain costs that kind of moved through the flow and impacted this quarter? And how should we think about that mix as it sits both in the quarter and in your backlog as well, would be helpful.

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

Yes. So the mix in the quarter for hardware is modestly up in Q2 compared to Q1. At the same time, in Q1, as I mentioned, the margins were at the lower end, 38%. And that came in primarily because we had non-recurring premium costs, which are largely behind us. That said, if you look at the mix overall for the year and compare it to the last year, there's just a modest increase in hardware versus software. And that plays all into the margins for the whole year as well, which are pretty much flat at midpoint.

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

Right. So your outlook here for the rest of the year on cable, you sound pretty confident. You're not going to see a ton of variability there, and there should be a floor on the margin front?

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

That's right.

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

That's great. And just a follow-up, if I could. As you think about the supply chain impacts there, Sanjay, any other major concerns you have? Obviously, there's a lot of moving parts here, but I assume no major changes in your view of supply chain going forward here?

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

No major changes from where we are. That said, supply chain challenge still remains a big challenge, which we deal with every day. And based on where we see, in terms of capacity constraints, we see some improvement, and hence, we have expanded the high end of our revenue range. That said, in terms of the margin pressures, I think we are pretty much flat.

Operator

Our next question comes from Kyle McNealy of Jefferies.

Kyle P. McNealy ***Jefferies LLC, Research Division - Equity Analyst***

This is Kyle on for George Notter. I wanted to get a sense if you could tell us kind of some of your activity with Tier 1 cable operators and how many of them are in progress with trials right now currently for CableOS. I know you used to give a number that was similar to that and now you're moving to deploying customers, which is great. But wanted to get a sense, if we can get update on what the pipeline looks like, specifically for Tier 1s.

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

We're involved with a number of -- let me take a step back, Kyle, forgive me first. I think previously, we've talked about 9 Tier 1 wins. That's where we are. Of those, I don't know, 4 to 5 are actively deploying and the remaining 4 to 5 are still in the process of really getting off the ground. So, that's the story from a currently deploying perspective. If we go even further up the pipeline of activity, indeed, we are engaged with several additional Tier 1s, both in the Americas and outside of the Americas who are in various stages of evaluating the solution. We remain quite optimistic that we will continue to see new customers, both large as well as medium and smaller and continue to adopt our platform in 2022 and beyond.

Kyle P. McNealy ***Jefferies LLC, Research Division - Equity Analyst***

Okay. Great. And one more for me. This one is regarding your progress with FTTP deployments. That activity certainly sounds pretty positive. Can you give us a sense for what types of deployments these are -- your first ones are? Are they edge-outs by cable operators or kind of more substantial brownfield upgrades? How much of their footprint are they upgrading? And are there any pure-play FTTP customers in there at all?

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

So I'll start with the last one first. There are a couple of smaller pure fiber-to-the-home players. But the focus so far and the success so far has been with cable operators or hybrid fiber cable operators. And let's face it, every cable operator is over time becoming a hybrid operator. We see fiber being used to 2 main applications. One is greenfields, new housing developments, businesses, et cetera. And as your question alluded to, we also see growing strategic use of fiber and brownfields.

So, this is going after a high-end customers where maybe a fiber offering is needed or use surgically to compete with competitive fiber offerings. Our product slots in really well in those kind of applications where we see fiber being used, let's say, surgically or so-called fiber islands is another term being used in the industry to kind of overlay existing cable infrastructure with pockets of fiber. So, we see all of the above being used and we think our solution works really well for these hybrid kind of applications and business models.

Operator

Our next question comes from Tim Savageaux of Northland Securities.

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

And yes, congrats on the very, very strong results and increased outlook yet again for Cable Access. And that's kind of part of my -- leads to my at least first question, which is on the -- back on the PON side. To what extent, I guess, is PON revenue material to either that guidance increase or to the overall cable access revenue number for calendar '22? And competitively, I wonder if you might comment, you had CommScope announced a PON platform this morning. Would be interested in your thoughts on the overall competitive landscape and maybe try to relate the extent of your leadership in kind of the virtualized distributed DOCSIS world, maybe relate that to where you think you are in the PON world amongst the same customer base?

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

Okay. Thanks for the question, Tim. I'll try to address that. Sanjay, please feel to jump in. So on the first part of the question, look, the demand has been strong. The backlog and deferred revenue has been strong. It's principally driven by the data over cable products and solutions. Fiber-to-the-home is certainly part of that. Our ability to raise guidance is more to do with our view of kind of expanding supply chain capacity that increased demand. Put differently, the outlook for our business continues to be capacity constrained, not demand constrained. So from the beginning, fiber is part of that. But yes, the increase is not so much due to incremental fiber demand as it is our ability to -- our increased confidence in squeezing more through the supply chain.

That being said, why I think the second part of your question is how are we competitively positioned on the fiber front? We think we're uniquely positioned, Tim. And that's from 2 perspectives. Number one, we do think not just in cable, but more broadly in telecom. We think our cloud-native core platform is really unique and really out front. And so both within the context of DOCSIS, but also within the context of fiber platforms, doing the core data handling, provisioning, interfacing the system all in a cloud-native way we think is unique, is powerful and is out ahead of just about everyone else were aware in the broadband space in general.

And certainly, our ability to do that in a converged way for DOCSIS and fiber solution in kind of one common provisioning, for example, is pretty powerful and is part of what's gaining residence. The other part of the power of the solution is the out of the network, the platform conversion. Our OLTs, if you don't mind me getting a little bit more technical, the fiber components are hardened, Ethernet switch capability, all of it drops right into the existing node platforms we've already been deploying.

So particularly if you're a cable operator who's been deploying DAA for cable initially, whether you intend it to or not, you've already actually deployed a fiber-to-the-home platform through which the software exists centrally and through which you can very easily through plug-in upgrades extend to fiber. So, this is -- we think this is uniquely powerful. This is not just us going to market with some kind of additional adjacent product. This is a truly integrated solution.

Last week at CableLabs, there was a really interesting workshop for the industry, attended very well by a number of cable operators, some really exciting demonstrations were done. And our converged DOCSIS and fiber capability was prominently highlighted by ourselves and by customers. And I think it really speaks to the unique opportunity we have here in what was said.

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

And maybe if I could follow up there. I mean, I think you mentioned maybe you are running ahead of some of the targets you outlined at the Analyst Day for Cable Access. You can feel free to increase those targets, if you like, but it sounds like maybe not yet. But as you look at maybe the 2 equations are 2 factors that might be driving that, which is your share of the market and overall growth in the market. You set out some TAM estimates back then. Would you say that the market has expanded faster than you thought since the Analyst Day on either the data over cable PON side or both? Or has Harmonic been more successful kind of capturing customers and gaining share? Would be interested in that dynamic.

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

It's more the latter than the former, which is not to say that we're not excited about the growth of the market. But what we do now believe relative to 9 months ago or whenever it was, when we held our Analyst Day, Tim, is that we believe that we will capture an even larger share of the spend. And that's particularly true on the hardware side of the equation. It means that we expect top line growth ahead of what we projected.

Yes, it does mean a blended gross margin down, but it means EBIT dollars and EBIT dollar margin percentage greater than what we projected at that time, which we think net-net is positive news. And so it's more a reflection of our growing confidence in our ability to command more share, Tim, and lead this market than it is in belief of even faster market growth, although a big part of why we're here is we believe that this is a pretty exciting market to be attacked.

Operator

(Operator Instructions) I'm showing no further questions at this time. I'd like to turn the call back over to Patrick Harshman for any closing remarks.

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

Okay. Well, thank you very much, all, for joining us today. Clearly, we had a strong quarter. I hope it also comes across clearly that we're excited about our opportunities. We're focused on execution. Both our cable business and our video business are well on track with not only the 2022 targets that we outlined, but the longer-range targets. We expect us to continue to execute in the context of an interesting market, let us say. And clearly, the opportunities outweigh the challenges, and we're excited about what lies ahead.

We appreciate your time today, and we appreciate your support. And we look forward to talking with you next time. Thanks all. Have a good day.

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

Thank you all.

Operator

Thank you. Ladies and gentlemen, this does conclude today's conference. Thank you all for participating. You may now disconnect. Have a great day.