

19-Feb-2026

Harmonic, Inc. (HLIT)

Q4 2025 Earnings Call

CORPORATE PARTICIPANTS

David Hanover

Head-Investor Relations, Harmonic, Inc.

Nimrod Ben-Natan

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

Walter F. Jankovic

Chief Financial Officer, Harmonic, Inc.

OTHER PARTICIPANTS

Simon Leopold

Analyst, Raymond James & Associates, Inc.

Ryan Koontz

Analyst, Needham & Co. LLC

Steven Frankel

Analyst, Rosenblatt Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Fourth Quarter and Full Year 2025 Harmonic Earnings Conference Call. My name is Michelle and I'll be your operator for today's call. All participants will be in listen-only mode. After the speaker's presentation, there'll be a question-and-answer session. [Operator Instructions] Please note that this conference is being recorded.

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

David Hanover

Head-Investor Relations, Harmonic, Inc.

Thank you, operator. Hello, everyone, and thank you for joining us today for Harmonic's fourth quarter and full year 2025 financial results conference call. With me today are Nimrod Ben-Natan, President and CEO; and Walter Jankovic, Chief Financial Officer. Before we begin, I'd like to point out that in addition to the audio portion of the webcast, we've also provided slides for this webcast, which you may view by going to our webcast on our Investor Relations website.

Now turning to slide 2. During this call, we will provide projections and other forward-looking statements regarding future events or future financial performance of the company. Such statements are only current expectations, and actual events or results may differ materially. We refer you to documents Harmonic files with the SEC, including our most recent 10-Q and 10-K reports and the forward-looking statement section of today's preliminary results press release. These documents identify important risk factors, which can cause actual results to differ materially from those contained in our projections or forward-looking statements. 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 or on our website.

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

Nimrod Ben-Natan

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

Thanks, David, and welcome, everyone to our fourth quarter and full year 2025 earnings call. We delivered a strong fourth quarter, reflecting accelerating momentum across our Broadband business. This is our first earnings call following the announcement of the pending sale of our Video business to MediaKind. This is a decisive step that will push our growth strategy forward and transform us into what I call the new Harmonic, a pure-play Broadband leader. This transaction will simplify our operating model and align all of our resources to unlock growth opportunities in the expanding Broadband infrastructure market. With the Video sale expected to close in the second quarter of 2026, all financial and operating results I discussed today reflect our continuing operations, meaning our core Broadband business.

Turning to slide 4, Broadband revenue for the quarter was \$98.2 million, representing 9% sequential growth and coming in above the high end of guidance. In addition, we delivered record quarterly bookings of \$346.9 million, driving a 3.5 book-to-bill ratio. These bookings were fueled by several multiyear contracts, reinforcing both revenue resiliency and long-term customer commitment to our platform, alongside record diversified Rest-of-World bookings that will support growth in 2026 and beyond.

All of this drove backlog and deferred revenue to \$573.8 million at year end, up 73% year-over-year. The current portion of this alone was \$307 million, more than double last year's level, giving us strong visibility and confidence as we enter 2026. In addition to our core Broadband business, our Video business, now classified as discontinued operations, exceeded our expectations in the fourth quarter, both in terms of revenue and profitability.

The planned sale of this business to MediaKind for approximately \$145 million in cash remains on track. In addition to the strategic benefits, this transaction further enhances our balance sheet and supports a disciplined capital allocation framework focused on investing in growth, maintaining financial flexibility and building long-term shareholder value. A defining theme of 2025, and one that accelerated meaningfully in the fourth quarter, is the diversification and expansion of our customer base beyond our two largest North American accounts.

Rest-of-World revenue, which excludes revenue from these two large customers, grew 33% year-over-year in the fourth quarter. This now represents 41% of total Broadband revenue, a meaningful shift in our revenue mix, underscoring the continuing momentum of our diversification initiatives. We delivered record Rest-of-World bookings in the fourth quarter, reflecting growing adoption of our platform globally and increasing confidence from operators investing in multiyear network modernization.

For example, together with Normann Engineering, our longest-standing partner in Europe, we recently marked 20 successful DOCSIS and fiber deployments across the region, including with operators in Austria and Germany. We also announced that Telia, the second largest telecom operator in Norway, is modernizing its Broadband network using our virtualized cOS platform in a distributed access architecture. What is very important here is that we are not just seeing one-off wins. Rather, these recent deployments are the result of expanding platform relationships.

Customers typically start with an initial deployment such as DOCSIS, and as they standardize on our platform and services, they grow their footprint and expand across our portfolio, adding fiber and our intelligence-driven cloud capabilities. Our fiber business continues to scale rapidly and is an increasingly important growth driver, with strong revenue growth in the fourth quarter and for the full year. We are seeing growing fiber wins with both telco and cable operators in North America and internationally.

A major highlight is our expanding collaboration with iZZi, the largest MSO in Mexico. iZZi has selected our cOS platform and remote OLT solutions to power a strategic fiber Broadband expansion across its network. This multiyear deployment leverages our open ONT strategy, lowering iZZi's total cost of ownership while accelerating their fiber rollouts. It is a strong example of how our platform simplifies large-scale fiber transitions. Enabling our fiber market momentum are several new fiber product innovations. We recently introduced a new pluggable combo OLT option, which is particularly attractive for operators executing surgical footprint expansions and serving rural markets in a highly cost effective way.

What is particularly compelling and a key differentiator for Harmonic is how fiber and DOCSIS converge within our cloud-native architecture, allowing operators to efficiently manage both technologies through a unified platform, simplifying operations and lowering total cost of ownership across their entire access networks. Our unified DOCSIS 4.0 strategy continues to gain traction as the ecosystem matures and operators' confidence builds.

Major operators are advancing DOCSIS 4.0 roadmaps and reporting tangible operating benefits from network upgrades, including fewer service calls and faster refer times. We successfully completed a DOCSIS 4.0 field validation with Vodafone Germany, further reinforcing the maturity of the technology and our leadership in this space. Unified DOCSIS 4.0 node shipments are now ramping with initial deliveries this quarter. We are transitioning from field trials and early deployments to scale commercial deployments, marking an important inflection point for this cycle. Looking ahead, operators are increasingly seeking platforms that help them anticipate issues, optimize performance and reduce operational friction, ultimately lowering operating expenses and improving competitiveness.

This creates an extraordinary opportunity for Harmonic to leverage the unique data available through our virtualized cloud platform and provide innovative, new intelligence-driven operational solutions. Following the successful introduction of Beacon and Pathfinder, which help customers maximize the speed performance of their networks while minimizing truck rolls, we have introduced new subscriber experience detection capabilities that can identify and mitigate network issues before they generate support calls, directly helping operators reduce churn and lower operating cost.

Over time, we expect continued development of this intelligence layer to increase recurring revenue, deepen customer integration, improve margins and expand our addressable market into AI-enabled operations beyond access infrastructure. Turning to slide 5. Network investment is no longer just about speed. It is about measurable business outcomes. A large North American operator recently highlighted significant reductions in service calls and faster meantime to repair in areas where next-generation DOCSIS 4.0 technology has been deployed.

These improvements translate directly into lower operating costs and higher subscriber satisfaction. When operators invest in network quality, their returns show up in reduced churn, stronger loyalty and improved competitive position. Our own commitment to customer success is reflected in our world-class net promoter score of 82, as measured at the end of 2025, underscoring the trust operators place in our platform and our team.

Customer success is the foundation of our growth model. Moving to slide 6, Harmonic wins because we enable operators to scale bandwidth faster, more cost-effectively, and with improved subscriber satisfaction. Our

differentiation is built on technology leadership, speed of execution, improving customer network reliability and solutions that drive lower total cost of ownership. We now have 146 cOS deployments in production, serving more than 41 million cable modems and ONUs worldwide.

At this scale, the gap between Harmonic and the rest of the market is no longer incremental. It is structural. Our platform brings a decade of production maturity, proven operational consistency, an unmatched scale in virtualized Broadband and a wealth of real-time network data that is now beginning to be exploited. This is why leading cable and now telco operators are standardizing on Harmonic as they modernize their networks, and why we believe there are so many compelling growth opportunities still in front of us.

Moving to slide 7. The broader market opportunity ahead of us is substantial. According to Dell'Oro, the cable serviceable addressable market is expected to grow from approximately \$510 million in 2025 to over \$1.1 billion by 2030. What's driving this is that across the industry, Broadband operators are accelerating network modernization as data consumption continues to rise at a rapid pace. AI-powered applications, immersive content experience and multi-gigabit services are driving sustained bandwidth growth and placing increasing performance demands on Broadband networks.

This investment cycle is not driven by speed alone. Operators are increasingly focused on quality of experience, churn reduction and operating efficiency. Network capability has become a direct driver of customer satisfaction, application adoption and long-term competitiveness. Our share positions remain strong in virtual CMTS, RPDs and remote OLTs with meaningful room to expand. In fiber, the addressable market exceeds \$2.6 billion and represents a significant opportunity where our share is growing.

Importantly, these market figures exclude the AI operation and tools market, which represents an additional growth vector we have begun to actively target. Turning to slide 8. Our long term strategy centers on four priorities. First, expanding our market leadership in DOCSIS through continued innovation in cOS, remote devices, outdoor nodes and recurring services, while accelerating our fiber position with both cable and telco operators globally.

Our objective is not simply participation, but category leadership across access architectures driven by continued investment in innovation and differentiated capabilities. Second, increasing customer diversification. We are targeting sustained Rest-of-World growth of 30% or more annually, expanding beyond our largest North American customers and building a broader, more balanced global revenue base. Third, driving software and cloud differentiation. Our cloud native architecture and intelligent automation capabilities create opportunities to expand recurring revenue, deepen platform integration, and build long-term customer relationships.

And fourth, maintaining operational and cost discipline. As a pure play Broadband company, we are simplifying our cost structure and positioning the business to generate meaningful operating leverage as revenue scales. Together, these priorities are designed to expand our addressable market, increase revenue durability and improve our long-term margin profile.

Moving to slide 9. As we enter 2026, Harmonic is well-positioned as a focused, pure play Broadband innovator, providing market-leading DOCSIS and fiber-to-the-home solutions augmented by an intelligence-driven software layer for automation and subscriber experience to operators worldwide. With the sale of our Video business, we are transitioning to a company fully dedicated to the growing Broadband market. This sharpens our strategic focus, simplifies our operating model to a single go-to-market motion and product roadmap and improves our ability to generate long-term operating leverage as we scale.

The transaction also provides us with a significant capital infusion with a stronger balance sheet and incremental cash. We are positioned to invest in organic innovation, expand into adjacent Broadband opportunities, and pursue disciplined inorganic expansion where it accelerates diversification and market leadership. We believe this combination, leadership in DOCSIS, expanding presence in fiber and a growing intelligence-driven software capability, positions Harmonic for accelerated growth and improved long-term operating margins.

With that, I will turn the call over to Walter to walk through our financials in more detail.

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 Q4 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're in the process of selling our Video business to MediaKind.

As a result, this segment is classified as held for sale and reported as discontinued operations. Unless otherwise noted, all results discussed today relate to continuing operations. We've also provided historical information for continuing operations to support your financial modeling and prior period comparisons. The transaction remains on track to close in the second quarter of this year, subject to customary conditions, including the completion of the required consultation with the French employee works council.

We closed the year with exceptionally strong quarterly Broadband bookings, driving a 3.5 book to bill ratio for the quarter and a significant year-over-year increase in backlog. This robust backlog enhances our visibility for 2026, and combined with unified DOCSIS 4.0 ramps, large customer deployment plans and accelerating Rest-of-World adoption will help drive strong Broadband revenue growth throughout the course of this year.

On slide 11, you'll find some of the financial highlights for the quarter. For total company results, including Video discontinued operations, revenue was \$157.3 million, EPS was \$0.14 and adjusted EBITDA was \$23.8 million, all well above our Q4 guidance. For continuing operations, fourth quarter Broadband revenue was \$98.2 million, above our \$85 million to \$95 million guidance range, with adjusted EBITDA of \$12.1 million and EPS of \$0.06. These results include \$3 million in stranded costs related to the pending Video business sale. The revenue upside reflected strong bookings and service deployments in the quarter.

For the fourth quarter, we had one customer representing greater than 10% of total revenue, which accounted for 53% of total revenue. To remind everyone, this metric is now based on continuing operations, which is only our Broadband business. Our Q4 Rest-of-World revenue showed strong year-over-year growth of 33%, representing 41% of total revenue, underscoring our customer diversification progress. As a reminder, Rest-of-World revenue describes all revenue that is not from our largest two customers, as measured by subscriber count. Starting with next quarter's results, we will refer to Rest-of-World as rest of market, as this name more accurately reflects the grouping of these customers, which can be in any region, including the US.

Recurring revenue, reflected in the services and SaaS revenue line item, made up 16%, of our total continuing operations or Broadband revenue. Moving on to slide 12, you'll find our fiscal year 2025 actual results. For the total company, net revenue was \$570.8 million, with a gross margin of 55.8%, adjusted EBITDA of \$83.8 million and EPS of \$0.47. Continuing operations generated \$360.5 million in revenue, a 48.7% gross margin, adjusted EBITDA of \$47.3 million, and EPS of \$0.23. These results include a \$2.3 million tariff impact and approximately \$9 million of stranded costs related to the pending Video sale.

Turning to slide 13, you can see our balance sheet and cash flow highlights for continuing operations. Our balance sheet remains strong with \$124.1 million of cash and cash equivalents at year end. The sequential change in cash was mainly attributed to positive free cash flow in the quarter, offset by share repurchases. Free cash flow during the fourth quarter was \$9.6 million. For the full year, we increased cash by \$22.6 million, while also repurchasing \$79 million in stock during the year. We generated \$97 million in free cash flow, which was an increase of \$44 million from the prior year, demonstrating strong profitability and cash generation, even amid a Broadband industry transition to DOCSIS 4.0.

Furthermore, given our expectations for progressive and significant full year Broadband revenue growth in 2026, we are confident in our ability to expand profit margins and generate free cash flow, considering the high operating leverage we have already shown in Broadband. DSO at the end of Q4 was 79 compared to 61 in Q3 2025 and 76 in Q4 2024. The sequential increase was due to a large number of shipments that took place earlier in the third quarter. We expect DSO to trend in the high 70s going forward based on our customer mix. Inventory decreased \$1 million in the quarter and our days inventory on hand fell to 83 days from 91 days last quarter.

Q4 bookings reached a record \$346.9 million, nearly matching all of total Broadband revenue for full year 2025, resulting in a 3.5 book to bill ratio. At the end of Q4, total backlog and deferred revenue was \$573.8 million, up 73% year-over-year. Of that, \$307 million or 53.5% is expected to convert to revenue within the next 12 months, an increase of 110% year-over-year. This provides us excellent visibility for 2026 growth.

As shown on slide 14, we believe we have ample liquidity to support our capital allocation priorities. with \$124 million in cash, an \$82 million undrawn credit facility and expected net proceeds from the planned Video sale. Additionally, we continue to anticipate a meaningful reduction in our cash income taxes in 2026 due to the passage of the One Big Beautiful Bill Act, 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.

Investing in organic growth and diversification, returning capital to our shareholders, and pursuing 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. We also expect to invest in additional organic Broadband opportunities in both our services business and fiber portfolio. Under our expanded \$200 million share repurchase program, to date, we have already repurchased \$101 million of our common shares, including \$13.3 million in Q4 2025, and an additional \$21.8 million post year-end.

As we stated previously, we expect to fund ongoing repurchases through the strong free cash flow generation over the next several years. In addition, we expect to realize a substantial cash infusion from the sale of Video. This will also position us well to explore additional opportunities, including inorganic options, to further diversify and grow our Broadband business.

Now, I would like to briefly discuss stranded costs on slide 15. These are shared corporate and infrastructure expenses previously allocated across both Broadband and Video that will now reside in continuing operations. We anticipate approximately \$10 million in stranded costs for 2026, including \$3 million in public company costs. We believe roughly 30% of these are temporary costs and will be removed within one year following the closing of the video sale.

Turning to guidance on slide 16, we lay out our continuing operations, non-GAAP financial guidance for Q1 2026 and full year 2026. And we have included an FY 2026 EPS bridge to assist in comparing our continuing operations results to the previous combined Broadband and Video results. Please note, beginning this period, the company will provide guidance on adjusted operating profit before tax basis rather than on an adjusted EBITDA basis.

This change reflects our view that operating profit is the more commonly used profitability measure in this industry and provides a more complete and transparent view of our underlying operating performance. Given the company's limited capital expenditures and low depreciation and amortization, the difference between the two metrics is minimal. With our 2026 guidance, we're taking a prudent and measured approach on both revenue and margins, considering factors such as the current memory chip pricing and supply dynamics. Built into our full year margin guidance is the current market pricing expected for memory?

Now let me walk you through the guidance. For Q1 2026, we expect Broadband to deliver revenue between \$100 million to \$105 million, gross margins between 54% to 55% due to favorable product mix, operating profit between \$18 million to \$20 million and EPS of \$0.11 to \$0.12. As our guidance shows, we expect modest sequential Broadband revenue growth in Q1 2026 versus Q4 2025, with momentum building considerably as we move throughout 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 million. For the full year 2026, we expect Broadband to generate revenue between \$440 million to \$480 million, gross margins between 51% to 53%, declining from the Q1 levels due to product mix and surging memory costs as they flow into shipments after the Q1 timeframe.

Operating profit between \$74 million to \$99 million and EPS of \$0.46 to \$0.63. This full year Broadband gross margin guidance includes an estimated tariff impact of approximately \$4 million, while operating profit includes stranded costs of approximately \$10 million. Our non-GAAP tax rate in Q1 and full year 2026 is now 24.5% and reflects the higher expected US mix of business in our continuing operations.

Regarding the previously mentioned EPS bridge, Video, which as a reminder is now classified as discontinued operations, contributed \$0.24 in EPS in 2025. Also in 2026, continuing operations includes \$10 million of stranded costs and EPS impact of \$0.07. These items provide a bridge to prior total company EPS results and expectations.

On slide 17, we provide some historical context to our continuing operations and our full year 2026 guidance. Revenues are forecasted to grow quite strongly in 2026, between 22% and 33% due to the extremely strong bookings we saw in Q4 combined with unified DOCSIS 4.0 ramps, large customer deployment plans and rest of market adoption. 2026 gross margin is projected to increase several hundred basis points due to cOS mix, offset partially by expected higher memory costs. Operating expenses increased primarily due to expanded portfolio investments and the impact of foreign exchange.

Again, you can see here our record backlog and deferred revenue level as compared to prior years, which positions us well for growth in 2026 and beyond. We ended the year with strong performance in Broadband and Video, exceeding our expectations. Record Broadband bookings provide excellent visibility for the coming year and revenue resiliency over the long term. As we finish 2025, we are now seeing DOCSIS 4.0 transition evolve from headwinds to tailwinds, positioning us for accelerated growth as deployments ramp. The Video sale will

streamline our operations, strengthen our balance sheet and allow us to focus entirely on our fast-growing Broadband business.

This will position us well for accelerating our growth and diversification across Broadband, both in DOCSIS and fiber-to-the-home to take full advantage of the growing available market. With Broadband – with robust demand, strong cash generation and expanding operating leverage, we are confident in our ability to deliver sustained revenue growth, margin expansion and continued strong free cash flow in 2026 and beyond.

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. To summarize our Broadband business delivered a strong finish to 2025. Record bookings and substantial backlog growth provide clear visibility into 2026 and beyond. With the pending sale of our Video business, we're well-placed to capitalize on this industry's growth as a pure-play leader in the Broadband deployment space. Our converged DOCSIS and fiber architecture is proven at scale, enabling operators to deliver multi-gigabit services with higher quality of experience and lower cost of ownership.

Fiber continues to accelerate as the major growth engine and unified DOCSIS 4.0 is transitioning from trials to commercial scale. At the same time, our intelligence-driven software capabilities are expanding our differentiation and extending our addressable market. Supported by strong Rest-of-World momentum and a more diversified customer base, Harmonic will lead the next phase of Broadband networks modernization. These dynamics give us confidence in our long-term growth trajectory as DOCSIS 4.0 and fiber deployments scale through 2026 and beyond.

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 our first question comes from Simon Leopold with Raymond James. Your line is open.

Simon Leopold

Analyst, Raymond James & Associates, Inc.

Q

Thanks for taking the question. I want to start out with how you're thinking about the customer mix for the full year 2026 in that I assume there are a number of moving parts, and it's intriguing to see the Rest-of-World customers getting as big as they did this quarter. So, it's a positive, but I imagine we should not make the assumption that they remain at 40% of revenue for the full year. So, I'd love to get your thoughts on how 2026 assumptions might be broken down by major customers versus rest-of-world?

Walter F. Jankovic

Chief Financial Officer, Harmonic, Inc.

A

Hi, Simon. It's Walter. Maybe I'll address that here first. So with regards to 2026, the comments we made today around Rest-of-World and the expected continued growth at 30% plus is one of the factors in looking at the absolute growth of that contingent of customers. Obviously, from quarter-to-quarter, depending on what the largest customers spend, the percent will vary. However, over the long-term, with the expectation around this year's growth and continued growth in Rest-of-Market customers, we expect that metric to continue moving north. However, as you look at quarter-to-quarter, you will see it move up and down based on what the other customers are doing in terms of the larger customers.

Simon Leopold

Analyst, Raymond James & Associates, Inc.

Q

Okay. And you've given us quarterly guidance, full year guidance on gross margin. I just wanted sort of do a sanity check on my arithmetic in that it sounds like you're expecting some COGS hit from memory to basically start contributing in the second quarter. My rough estimate is something like 300 basis points, which sounds similar to what we've heard from others. But is that kind of the right magnitude of how to think about it?

Walter F. Jankovic

Chief Financial Officer, Harmonic, Inc.

A

Here's what we've assumed based on the very dynamic situation around memory pricing today. We've built in around a net \$6 million impact as a result of the pricing that we see today. We have committed orders out there for the supply that we need in 2026, and the pricing on that is generally fixed to some degree. It could move. So we've built in a certain factor there in terms of the margin impact solely from the price element of memory. And as I mentioned, we have already have committed all of the supply we need for 2026.

Now, one of the factors beyond margin that I would like to highlight and mention, and it kind of reflects back to the comments I made with regards to the full-year guidance and being prudent about it, is that there's always risk that some of those deliveries that are committed get delayed, which could impact your timing of your revenue, or there could be impacts to our customers' ecosystem from other products out there that could have a knock-on or indirect effect on delivery schedules later in the year.

So that's why we've taken a more prudent view of our guidance for the full year, but specifically with regards to the pricing of memory, we've got a pretty good handle of where it is right now, and we've built that in based on looking at the net impact. And when I say net on the \$6 million, it's net of what we expect from customer recoveries in terms of additional price adders.

Simon Leopold

Analyst, Raymond James & Associates, Inc.

Q

Maybe one last value that maybe you've given us, and I haven't found it yet, but I'm just trying to figure out in 2025, what would be the sort of other customers, Rest-of-World customers' Broadband purchases? So we know total company, I'm trying to figure out what they did in the Broadband segment.

Walter F. Jankovic

Chief Financial Officer, Harmonic, Inc.

A

For – yeah, it's in the...

Nimrod Ben-Natan

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

A

...for 2025? I think you can...

Walter F. Jankovic

Chief Financial Officer, Harmonic, Inc.

A

For 2025.

Nimrod Ben-Natan

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

A

Yeah, [ph] 130 and a (00:38:22) change.

Simon Leopold

Analyst, Raymond James & Associates, Inc.

Q

[ph] 130 (00:38:23). Yeah. Great. Thank you. Appreciate it.

Nimrod Ben-Natan

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

A

[ph] 138 for Q3, 138 (00:38:30)

Walter F. Jankovic

Chief Financial Officer, Harmonic, Inc.

A

[ph] 138 million (00:38:34) as compared to 2024 at just under \$95 million.

Simon Leopold

Analyst, Raymond James & Associates, Inc.

Q

Thank you very much. Appreciate that.

Walter F. Jankovic

Chief Financial Officer, Harmonic, Inc.

A

Thanks, Simon.

Operator: Thank you. Our next question comes from Ryan Koontz with Needham & Company. Your line is open.

Ryan Koontz

Analyst, Needham & Co. LLC

Q

Great. Thanks for question. Nice quarter and outlook, guys. With regards to the big bookings step up you saw here in Q4, maybe can you discuss, customer behaviors there that drove kind of change in behavior and a little bit about the composition there as it relates to maybe the difference between your larger customers and some of your Rest-of-Market customers within that backlog?

Walter F. Jankovic

Chief Financial Officer, Harmonic, Inc.

A

Yeah. Hey, Ryan, it's Walter. Yeah, maybe I'd kick it off and Nimrod can add some more color to it. But just in terms of the bookings there in Q4, the way I would categorize it, it was very strong in Rest-of-World. So the dynamics of both larger customers as well as the Rest-of-World were strong.

We had some bookings that are multi-year bookings included in there, but you have the current metric there as well in terms of how much of that backlog is going to be expected to be turned into revenue over the next 12 months. And certainly, customers are putting their orders in sooner. We're getting more visibility and we're pushing our teams to get that level of visibility so that way we can ensure that we're ordering appropriately in terms of getting our supply chain ready for the growth.

Ryan Koontz

Analyst, Needham & Co. LLC

Q

Great. And maybe I'll just follow up if I could on the margin outlook within Broadband. What do you – what's your perspective there on kind of increasing mix of software? Is that one of the tailwinds you're seeing as it relates to the step up in gross margins for 2026?

Walter F. Jankovic

Chief Financial Officer, Harmonic, Inc.

A

Yeah. Yeah, Ryan. Absolutely. It is the step up of the cOS mix for 2026, which is helping to drive that. Obviously, we're scaling up and also scaling a broader customer sets. So those are all things that are tailwinds. One of the headwinds, as explained on the prior question with regards to memory, that's a headwind for us in terms and it's been factored in to the overall margin guide.

Nimrod Ben-Natan

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

A

And maybe one more comment on the licenses. Historically, we had quarters in which we delivered more hardware versus software. And one of the indicators you see now is increasing our connected modems in ONU. When customers are connecting subscribers, this is typically when there is more cOS licenses being recognized.

Ryan Koontz

Analyst, Needham & Co. LLC

Q

And is that a factor of – what's driving that higher connectivity rate? Is it just customer rollout or is there some [indiscernible] (01:00:29)

Nimrod Ben-Natan

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

A

Yeah, it's a ramp up of production. Sometimes it takes longer to go through integration phase. We announced quite a few new customers over the course of 2025. So as we get into end of 2025 and 2026, you see more of them starting to connect subscribers.

Ryan Koontz

Analyst, Needham & Co. LLC

Q

Great. Thank you.

Operator: Thank you. Our next question comes from George Notter with Wolfe Research. Your line is open.

Q

Hi, guys. It's [ph] Taran (00:42:30) for George. I just want to confirm you said \$6 million in net cost – in cost net of pricing actions, correct? And if so, what sort of pricing actions do you guys plan on taking with your customers?

Walter F. Jankovic

Chief Financial Officer, Harmonic, Inc.

A

Well, [ph] Taran (00:42:46) it's Walter here. Specifically, the net is, just to confirm the number, it's \$6 million net that we've built in there. And the pricing actions have to do with certain products that obviously have higher memory content in it and rolling out those actions. I won't get specific about the nature of those, but obviously, this is a significant impact across the industries and it's impacting a lot of different vendors out there. So I'm you've heard very similar from them as well.

Q

Great. Thank you.

Operator: Thank you. And our next question comes from Steven Frankel with Rosenblatt Securities. Your line is open.

Steven Frankel

Analyst, Rosenblatt Securities, Inc.

Q

Good afternoon. Wonder if you might characterize the bookings in the quarter, how significant was that ROW contribution to the total? Or did you also have significant bookings from your two key customers in Q4?

Walter F. Jankovic

Chief Financial Officer, Harmonic, Inc.

A

Steve, it's Walter. It was a mix of both, to be honest. Well spread out between larger customers as well as Rest-of-World. And you saw today in our commentary in terms of the expectations of Rest-of-World growth at 30% plus. So that's helping us have the level of visibility and confidence around that continued growth trajectory.

Steven Frankel

Analyst, Rosenblatt Securities, Inc.

Q

Okay. And then, on memory, maybe in these products that are more memory intense, typically what percent of the BOM does memory represent?

Walter F. Jankovic

Chief Financial Officer, Harmonic, Inc.

A

As compared to other products in the industry outside of what we specifically do, I think we'd fall in the category of the lower end of the spectrum as compared to high memory count. For example, if you look at CPE type of equipment, customer prem equipment modems, that would have a much higher memory content BOM in the product versus the products we do. But nonetheless, it does have an impact and that's why we made the comments we did.

Steven Frankel

Analyst, Rosenblatt Securities, Inc.

Q

Okay. And one more quick one. In the revenue breakdown of SaaS and service, if you look at that \$58 million in 2025, could you give us a rough idea of what maintenance was of the \$58 million?

Walter F. Jankovic

Chief Financial Officer, Harmonic, Inc.

A

It was the large majority in terms of SLA contracts, but included in there under the SaaS umbrella are the features and functionality that we're also selling out to customers and very much a focused area of growth. And Nimrod mentioned it earlier in his opening remarks in regards to investments we're making around tools and the intelligence on the network. So maybe Nimrod, you'd like to comment further on that.

Nimrod Ben-Natan

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

A

So that's a component of that. It's a growing component and we expect that to grow into 2026 and beyond. And that's also an area of an investment, whether organic or inorganic. We see that as number one, very critical for our customers. Number two, very beneficial for our business, given the recurring nature of that.

Steven Frankel

Analyst, Rosenblatt Securities, Inc.

Q

And were any of the multi-year agreements you talked about in the quarter kind of more software focused on these new value added offerings or are these new customers that are securing multi-year view into nodes and associated software?

Nimrod Ben-Natan

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

A

There was a mix in the booking, there was a mix of hardware and software, as well as our tools. When we publicly talk about tools and more recently, intelligence, these are kind of the categories that we talked about. There was a mix of all of the above.

Steven Frankel

Analyst, Rosenblatt Securities, Inc.

Q

Okay, great. Thank you.

A

Walter F. Jankovic

Chief Financial Officer, Harmonic, Inc.

Thanks, Steve.

Operator: Thank you. I'm showing no further questions at this time. I'd like to turn the call back over to Nimrod for any further remarks.

Nimrod Ben-Natan

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

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

Operator: Thank you for your participation. You may now disconnect. Good day.

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