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Harmonic, Inc. (HLIT)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the third quarter 2026 Harmonic Earnings Conference Call. My name is Heidi, and I will be the operator for today's call.

At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions]

Please note that this conference is being recorded. I will now turn the call over to Scott Eckstein, Investor Relations. Scott, you may begin.

Scott Eckstein

Senior Vice President-Investor Relations, KCSA Strategic Communications

Thank you, operator. Hello, everyone, and thank you for joining us today for Harmonic's Third Quarter 2026 Financial Results Conference Call. With me today are Nimrod Ben-Natan, President and CEO; and Walter Jankovic, Chief Financial Officer.

Before we begin, I'd like to point out that in addition to the audio portion of the webcast, we've also provided slides for this webcast which may view by going to our webcast, our Investor Relations website.

Now turning to slide 2. During this call, we will provide projections and other forward-looking statements regarding future events or future financial performance of the company. Such statements are only current expectations, and actual events or results may differ materially.

We refer you to documents Harmonic filed with the SEC, including our most recent 10-Q and 10-K reports and the forward-looking statement section of today's preliminary results press release. These documents identify

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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, Scott, and welcome everyone to our third quarter 2026 earnings call. This is our first call since our September Investor Day, where we laid out the strategy built on three growth engines: Connectivity, Intelligence, and Edge AI Compute. AI is produced in data centers, but it is experienced over broadband. As it moves into homes, businesses, and billions of connected devices, the network has to deliver more capacity, lower latency, and higher reliability.

AI agents already generate a large and fast growing share of Internet traffic. What's new this quarter is that the largest AI platforms begun launching always-on personal assistants that work around the clock interacting with us and with the connected devices in our homes. That means more sessions, more upstream traffic, and tighter latency demands on home broadband.

At the same time, broadband remains hypercompetitive. Operators are fighting for every subscriber, so they need to deliver the best customer experience while keeping operating costs in check. That is the role of intelligence and SensAI, which I will cover shortly. Whether operators need more capacity or an enhanced quality of experience and more efficient operations, they are turning to the virtualized distributed architecture we pioneered and the intelligence we've built on it.

Now let's discuss third quarter. It was another quarter of strong execution and a breakout one. Revenue grew 64% year-over-year to $148.8 million, well above the high end of our guidance. Rest-of-Market revenue more than doubled year-over-year to reach a record 46% of total revenue. That's the trend we highlighted at Investor Day and it puts us on track for Rest-of-Market to become the majority of our business. Rest-of-Market also represented over 60% of our bookings in the quarter. Reflecting this performance and a more favorable environment, we are once again raising our full year 2026 outlook.

We're also continuing to expand our customer base. In the third quarter, we added nine new customers across seven countries spanning DOCSIS and fiber and including telco operators. Three of them are regional Tier 1 operators. Liberty Latin America, which serves more than 20 countries and territories across Latin America and the Caribbean, selected us for DOCSIS and fiber.

TDC, Denmark's largest telecommunication and digital infrastructure company, selected our platform for a unified DOCSIS 4.0 upgrade. And we also signed a Tier 1 operator in Belgium. We also added Baycom, a major regional cable and broadband operator serving Japan's Osaka metropolitan area, and Fibex, a fiber broadband operator extending high speed connectivity across Venezuela.

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We continue to lead in DOCSIS and to extend that leadership position. Our deployed cOS footprint now includes 167 customers serving almost 53 million CPE devices. And unified DOCSIS 4.0 is now shipping in volume with a growing number of operators. cOS is also helping operators compete for multi-dwelling units. One of the most competitive segments in broadband.

In Washington State, Lightcurve use cOS and our compact Oyster node to deliver 8x1 gigabit per second service over existing in-building coax, giving MDU residents fiber-like speeds without a costly fiber overbuild while keeping the option to add fiber later. And earlier this month, Cablenet, the second largest fixed network operator in Cyprus, announced it is modernizing its access network on cOS, consolidating data centers and hub sites to lower operating costs while improving the subscriber experience.

Fiber momentum continued as well. Pearl-1XL, introduced earlier this year, is now shipping in volume and we booked another strong quarter for it in the quarter. Oyster+ is ramping, too, giving operators a compact power protected way to extend fiber without a street cabinet. We also acquired a vendor agnostic fiber management and provisioning platform this quarter and rebranded it cOS Loop. Loop is performing well with its established customer base in Brazil, and we're seeing strong interest from harmonic customers in North America and Europe.

Intelligence was also a big part of our quarter. In September, we launched SensAI, an open intelligence fabric that works across any network and any vendor, turning data from every system into decisions operators can act on.

Since they came to market after extended trials with operators and customers' feedback has been very strong. We are now in the next stage. New wins and the migration of our existing cloud customers onto SensAI have already begun.

At SCTE TechExpo we demonstrated SensAI running live on a production network, finding issues inside the home and out in the plant on DOCSIS and fiber regardless of vendor, and it is already delivering value.

At one operator, SensAI pinpointed in about 10 minutes a field issue the team had chased for 10 days, then caught another further down the same line. Our installed intelligence base also grew with Beacon now live at 25 operators, up from about 20 last quarter.

And now that cOS Loop is part of Harmonic. We have integrated its data into SensAI and launched proof of concept with a handful of Loop customers.

We also launched Recon developed with Comcast, which brings fiber monitoring technology proven in Comcast Network to cable and fiber operators alike. It gives operators real time visibility across their fiber, spotting degradation and fiber cuts before customers notice and pinpointing where to fix them. And because it integrates with SensAI, small issues are stopped before they become outages.

Let me now turn to slide 5 and give you our first quarterly update on the three growth engines we outlined at our Investor Day, which together represent a total addressable market opportunity of more than $7 billion by 2030.

We will report on each of them every quarter. Connectivity is our core market representing roughly $5.4 billion of that opportunity. Our strategy is to address it on one cOS platform, extend our leadership in DOCSIS, continue taking our fiber portfolio beyond cable into telco, and get ahead of the move to 50 gig.

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For telcos our OLT portfolio including hardened remote OLTs and our open ONT approach, provide the interoperability and supply choice they want. And with cOS Loop, our fiber offering is now end-to-end and works across multi-vendor networks. Our differentiated 50 gig solution received very positive feedback at recent industry events and is on track for introduction in 2027, positioning us for the next wave of fiber investment.

Intelligence is our newest growth market and the timing could not be better. In a hyper competitive environment, operators win and keep subscribers on reliability and experience, and they have to do it without adding cost.

That is exactly what SensAI is built for and with Recon and cOS Loop feeding it our intelligence portfolio now expands DOCSIS and fiber from inside the home to the broader network.

Our strategy is to turn our install base into a natural on-ramp for SensAI revenue. Starting this quarter and running through 2027, we are migrating all of our premium cloud customers onto SensAI. So when they choose to expand into its full capabilities, there is nothing new to deploy.

With an expanding SensAI pipeline, we remain on the path we outlined at the Investor Day. We expect intelligence to reach about 10% of revenue over the next three years, adding a new and growing recurring revenue stream for Harmonic.

Edge AI Compute is our third growth engine and it represents potential upside to our long-term model. As operators modernize with cOS, they free up space and power in facilities that sit milliseconds from their subscribers and businesses.

This quarter, our largest customers highlighted where Edge AI Compute is heading. One began live streaming from more than 200 edge compute sites inside its network, and another announced commercial Edge AI partnerships. On compute, it can activate across more than 1,000 facilities. Our opportunity is to bring this capability to the broader market using cOS as the orchestration layer, and we are in development with key customers and partners.

That concludes my opening remarks. 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 Scott mentioned earlier, our Q3 press release and earnings presentation include reconciliations of our non-GAAP to GAAP financial measures, both of these are available on our website.

I'm pleased to report that we had a breakout third quarter with revenue increasing 64% year-over-year to $148.8 million, which far exceeded the high end of our guidance. This included over 100% growth in Rest-of-Market. In addition, we closed the quarter with backlog and deferred revenue of $534 million, up 58% year-over-year. Notably, over 60% of bookings in the quarter came from Rest-of-Market.

Given these results and a strengthening demand environment, we are once again raising our full year guidance, with revenue now expected to be between $545 million and $555 million, up from our prior range of $505 million to $525 million. I'll provide a more detailed breakout of our guidance shortly.

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Let's move to slide 7, where we have the financial highlights for the quarter. Revenue was $148.8 million, well above our guidance range of $125 million to $135 million. Gross margin for the quarter was 52.1%, just above the high end of our guidance range, inclusive of net unrecovered memory costs of less than $3 million.

Operating expenses were $44.5 million, above our guidance range, mainly due to performance-based incentive accruals tied to our improved full year 2026 financial performance forecast and earn-outs associated with our Q3 tuck-in acquisition of a vendor-agnostic fiber management and provisioning platform.

OpEx also reflects the completion of a multiyear custom development project in Q2. The engineers on this program were previously charged to cost of revenue and are now in R&D assigned to other products, which adds approximately $2 million per quarter to operating expenses starting in Q3.

Moving to the bottom line, EPS was $0.23, well above our guidance range of $0.15 to $0.19, and operating profit was $33 million, exceeding our guidance of $23 million to $28 million. These results include $1.5 million in stranded costs related to the video business sale, net of TSAs. The revenue upside was broad-based and included a number of Rest-of-Market customers ramping their deployments during the quarter, as well as a seasonal increase in our outside client services business.

In Q3, four customers each accounted for more than 10% of revenue. Our top two customers represented 54% of total revenue combined. Our Q3 Rest-of-Market revenue showed very strong year-over-year growth of 101% and sequential growth of 39% and represented 46% of total revenue, highlighting our expanding customer diversification.

As a reminder, Rest-of-Market revenue describes all revenues that is not from our two largest customers as measured by subscriber count.

Turning to slide 8, you can see our balance sheet and cash flow highlights. Our sequential cash change was largely due to a $75 million repayment of borrowings under our revolving credit facility during the quarter, leaving $160 million available under this facility at October 2.

Additionally, we had negative free cash flow of $5.1 million for the quarter, which was due in part to a continued increase in inventory, including memory, as we took delivery to secure supply for growth and an increase in receivables.

DSO at the end of Q3 was 71 compared to 61 in Q2 2026 and 61 in Q3 2025. As we stated on past calls, we expected DSO to trend back to the low-70s based on our customer mix and timing of revenue. Inventory increased $28.3 million in the quarter and our days inventory on hand increased to 120 days from 95 days last quarter. This, too, was expected as we support growth and secure supply.

Our overall book-to-Bill was 0.7 in Q3 with Rest-of-Market book-to-bill around 1.0. Q3 has traditionally been a lower bookings quarter for the business. As we have said before, we expect book-to-bill to fluctuate from quarter-to-quarter, but over time to return to our historical benchmark of greater than one reflecting the growth in our business.

At the end of Q3, backlog in deferred revenue was $534 million, up 58% year-over-year, and down from $587.6 million in Q2 on seasonally lower bookings, of which 72% is expected to convert to revenue within the next 12 months. This gives us increased visibility for the remainder of 2026 and into 2027.

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As shown on slide 9. We continue to believe we have ample liquidity to support our capital allocation priorities with $143 million in cash and $160 million undrawn credit facility. We repaid $75 million under our revolving credit facility in the quarter to reduce interest costs while keeping the full $160 million available to us.

This total available liquidity gives us the financial flexibility to execute our capital allocation plan. Our capital allocation priorities remain unchanged: invest in organic growth and diversification, return capital to our shareholders and pursue strategic M&A to accelerate our growth strategy and diversify our business.

In line with our first key priority. We plan to keep investing in organic growth, organic opportunities exist in both our intelligence platform business and fiber portfolio, including 50 gig as well as in the new markets we outlined during our recent Investor Day.

We will also continue to invest in inventory over the next several quarters, including advancing memory and other purchases to secure supply. Under our current $200 million share repurchase program. To date, we've already repurchased $142 million of our shares, including $4 million of shares during the third quarter and $16 million following the end of the third quarter.

As we stated previously, we expect to fund ongoing repurchases through both current cash and strong free cash flow generation over the next several years with a minimum goal of purchasing enough shares each year to offset any dilution from equity compensation awards.

In addition, with our substantial cash position and available liquidity, we're well-positioned to explore additional inorganic growth opportunities that would accelerate our growth and diversification strategy including scaling our intelligence platform.

In Q3, we completed the tuck-in acquisition of a vendor agnostic fiber management and provisioning platform company referred to now as cOS Loop.

Turning to guidance on slide 10. Here we provide our continuing operations, non-GAAP financial guidance for Q4 2026 and full year 2026, which reflects our raised full year 2026 outlook.

We continue to take a measured approach to guidance for both revenue and margins. We believe this is prudent given external factors such as the situation in the Middle East and secondarily component supply dynamics and pricing. Our full year margin guidance incorporates the current market pricing for memory.

Now let me walk you through the guidance. For Q4 2026 we expect to deliver revenue between $141 million and $151 million, gross margins between 51% and 52%, reflecting elevated memory costs. Operating profit between $28 million and $34 million and EPS between $0.19 and $0.23.

As our guidance shows, we expect strong year-over-year revenue growth to continue in Q4 2026 at approximately 49% at the midpoint. Q4 operating profit includes approximately $1.5 million in stranded costs. For the full year 2026, we expect revenue between $545 million and $555 million, up $35 million or 6.8% from the midpoint of our prior guidance.

Gross margins between 52.1% and 52.4%, up from 51% to 52% previously guided. Operating profit between $118 million and $124 million and EPS between $0.80 and $0.84, up approximately $0.11 or 15.5% from the midpoint of our prior guidance.

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This is the third time this year that we have raised our full year outlook. Compared to the full year outlook provided at the start of the year in February, our current full year outlook at the midpoint reflects a revenue increase of approximately 20% and EPS increase of 50%. This demonstrates the momentum that has been building in our business.

In addition, with minimal debt and a net cash position, changes in interest rates have little impact on our earnings.

As we noted last quarter, we've built in approximately $3 million in Q4 for net increased memory costs that are not expected to be passed on. Our team has done a terrific job securing memory supply for the rest of 2026 and well into 2027. We believe the current challenging supply and cost environment will persist into 2027.

Beyond memory, we are beginning to see other component costs rising through 2027, and we plan to mitigate these cost pressures by passing through increases to customers where appropriate.

Additionally, full year operating profit now includes approximately $7.6 million in stranded cost, down from our prior estimate of $10 million. And to reiterate what we said on prior earnings calls, we continue to believe approximately 30% or more of the original $10 million of stranded costs are temporary, and will be eliminated by the end of Q2 2027. Please note that our expected non-GAAP tax rate for full year 2026 remains at 23%.

In summary, in the third quarter, we delivered results that once again significantly exceeded our guidance, with revenue growing 64% year-over-year. Our strong backlog and deferred revenue and secured supply give us increased visibility, enabling us to once again raise our full year 2026 guidance.

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 close, our Q3 marked another quarter of strong execution and a record setting one. Revenue was up 64% year-over-year. Rest-of-Market was a record 46% of total revenue. We signed nine new customers, including three regional Tier 1s. And we made real progress on each of three growth engines. And as a result of all of this, we are once again raising our full year 2026 outlook.

Our long-term growth rests on four pillars: technology leadership, an expanding addressable market, a strong operating model, and proven execution. This quarter we delivered on all four of these, and operators keep choosing Harmonic because we let them evolve their networks from DOCSIS to fiber to intelligence and the edge on one platform.

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

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QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] We will take our first question, and your question comes from Simon Leopold from Raymond James. Please go ahead. Your line is open.

Simon Leopold
Analyst, Raymond James & Associates, Inc.

Q

Thank you very much for taking the question. First, just a quick clarification, if I might, and then the question. You mentioned 54% of revenue from your top two customers. I want to confirm that these are the same top two we've seen and if you might be able to give us the breakdown between those two.

And then, the question I wanted to ask about is regarding, I would characterize as at least a perceptual threat of competition to your customers coming from satellite. I want to get your perspective on how you're hearing and what you're discussing with your customers as far as their need to upgrade and their consideration of a new dimension of not just competing against cable versus telco but versus satellite as a alternate broadband provider. Thank you.

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

A

Hi, Simon. It's Walter. I'll take your first question. With regard to the top two customers, those are always the same top two, because it's based on the highest subscriber count. And in the quarter, as we mentioned, they were 37% and 16% in terms of those two customers.

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

A

And Simon, to your question about the competitive environment, it's hyper competitive and it is very competitive on the fixed wireless and on fiber in different geographies. I think the satellite broadband is mostly in rural areas. You definitely see that less in the urban, kind of more densely populated areas.

Regardless, we see our customers really focusing on making sure their network is competitive, making sure they provide the best quality of experience, and they do all of that at the lowest possible cost. They want to make sure that they don't kind of break the envelope of their operating environment.

So, in summary, the satellite broadband by itself does not change the investment or priorities that we're seeing. It is simply sharpening the focus that they have on what they need to do.

Simon Leopold
Analyst, Raymond James & Associates, Inc.

Q

Thank you.

Operator: Thank you. We will take our next question. And the question comes from Steven Frankel from Roseblatt (sic) [Rosenblatt] Securities. Please go ahead. Your line is open.

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Steven Frankel
Analyst, Rosenblatt Securities, Inc.

Q

Thank you, and congratulations. Walter, you've shown some good resilience on gross margin. How would you kind of contribute that how much of that is buying well ahead of time versus maybe pricing or product mix as we move forward? And incorporating Q4 as well, as you think about that, because that guidance seems a little higher than at least I was anticipating.

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

A

Yes, Steve. So with regards to, the memory cost, what you're seeing in both Q3 and Q4 is now the elevated level of cost for memory. So think of it as kind of the market price that's out there for memory. So we did front run a lot of memory and that benefited us on the first half of the year.

Now we've continued to see memory prices going up even from the levels that, let's say we're at in the Q3, Q4 timeframe. However, that increase is marginal compared to what we had seen earlier in the year when we were stockpiling memory to facilitate the supply for this year as well as well into 2027.

So the way I think about the margins right now, you see Q3 and Q4 are kind of similar in that range that we've provided previously and in both quarters we are anticipating in Q4 again about a $3 million impact as a result of those elevated memory costs.

And as we think about next year, we'll continue seeing that kind of level of cost, if not a little bit higher than that in memory. I think one of the other things I mentioned in the prepared remarks today is that we're also seeing other component costs increasing as we go through 2027. And as I mentioned in the remarks that we expect to mitigate that by passing that on to customers as appropriate.

Steven Frankel
Analyst, Rosenblatt Securities, Inc.

Q

Okay. And could you give us an update on the fiber customer count?

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

A

We did not break down the fiber customers out of the total that we provide every quarter. The total itself is broken down into three categories: cable-only, cable and fiber, and fiber-only. But we don't break them down.

Out of the nine, that we announced this quarter, there is a handful that are fiber customers and our fiber business is expanding with existing customers as well.

Steven Frankel
Analyst, Rosenblatt Securities, Inc.

Q

Okay, great. Thank you. I'll jump back into the queue.

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

A

Great. Thanks, Steve.

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Operator: Thank you. [Operator Instructions] We will take our next question. And the question comes from George Notter from Wolfe Research. Please go ahead. Your line is open.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Hi, guys. It's Darrin calling on for George. Thanks for taking the question. Can you talk a little bit about what components you're seeing, price increases and then kind of on the tail end of that to what extent or to what extent do you expect to raise pricing on those? It sounds like this is more of a 2027 event.

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

A

Yes, certainly, as we are looking forward and working with the supply base, we're seeing components going up in terms of key silicon as well as items like PCBs as well as other components across the board.

And it's something that we're very focused on as we go through 2027. And as I mentioned, our expectation is to raise prices accordingly for the increases that we're seeing in some of these key components.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Okay. Got it. And then just one last question here. To what extent do you intend to make more memory purchases? Because it sounds like you guys are going to continue pursuing that even though you have inventory into well into 2027. What's your strategy there?

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

A

Our strategy has been to stay ahead of it in terms of making sure we've got supply for our customers to be able to fulfill the increasing demand that we're seeing across all of our customer base, as you've seen today, definitely increasing in terms of the Rest-of-Market revenue and customer base.

So we are staying ahead of it in terms of going ahead so many quarters and picking up memory to ensure that we've got the supply. And as in the earlier question, by getting ahead of it, it's actually saved us some money as those commodities have increased in cost.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Sure. Thank you so much.

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

A

Thank you.

Operator: Thank you. There are no further questions. I will now hand the call back to management for closing remarks.

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Nimrod Ben-Natan

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

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

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.

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