



FOURTH QUARTER 2018
Earnings Conference Call

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February 4, 2019

Forward Looking Statements



During the course of this presentation, we will provide projections and other forward looking statements regarding future events or the future financial performance of Harmonic, including expectations concerning our business strategy for 2019 and beyond, and our Q1 guidance and full year 2019 guidance. Such statements are only current expectations and actual events or results may differ materially. We refer you to Harmonic's filings with the SEC, particularly our most recent Reports on Form 10-K, Form 10-Q and Form 8-K. These documents identify important risk factors that could cause actual results to differ materially from our projections or other forward looking statements. We will also present financial metrics determined on a "non-GAAP" basis. These items, together with the corresponding GAAP numbers and a reconciliation to GAAP, are contained in this presentation and the related earnings press release on our website at www.harmonicinc.com.





Business Highlights



- **Cable Access** segment revenue **up 79%** year over year, led by CableOS



- **Video segment** operating profit **14.2%**, driven by OTT and UHD



Financial Highlights



- Revenue **up 12%** year over year



- Op income **11.2%** and EPS **\$0.11**



- Cash from operations **\$6.6 million**



CableOS™ Momentum Building

- 29 commercial deployments and field trials
 - 4 of top 8 North American and European cable operators
 - 6 of named 10G cable operator sponsors (@CES)
- Over 535,000 cable modems served globally, up 11% sequentially
- Volume DAA roll-outs expected to commence in 2019
 - Over 1,000 DAA nodes shipped during Q4



Positive Financial Trajectory*

- Q4 revenue \$24.1 million, up 79% year over year
- Q4 gross margin 43.6%
- Q4 operating income break-even

* Non-GAAP financial results



Strong Q4 Financial Performance*

- Revenue \$89.5 million, up 22% sequentially and 2% year over year
- Gross margin 57.5%
- Record operating margin 14.2%



Expanding Market Leadership

- Over 37,000 live OTT channels deployed, up 20% year over year
- Video SaaS customers up 171% year over year
- UHD shipments up 58% sequentially

* Non-GAAP financial results

Q4 2018 Financial Highlights*



\$ Millions (except EPS)	Q4 2018	Q3 2018	Q4 2017	Q4/Q3 Change	Q4 Y/Y Change
Total Net Revenue	\$113.6	\$101.4	\$101.1	12%	12%
Cable Revenue	\$24.1	\$28.1	\$13.5	(14)%	79%
Video Revenue	\$89.5	\$73.3	\$87.6	22%	2%
Gross Margin %	54.5%	52.1%	50.1%	2.4%	4.4%
Cable Gross Margin%	43.6%	38.7%	29.9%	4.9%	13.7%
Video Gross Margin%	57.5%	57.2%	53.2%	0.3%	4.3%
Operating Expense	\$49.3	\$47.2	\$49.1	4.5%	0.3%
Operating Income	\$12.7	\$5.7	\$1.6	\$7.0	\$11.1
Diluted Share Count	89.0	87.8	82.0	1.2	7.0
EPS	\$0.11	\$0.04	\$0.00	\$0.07	\$0.11
Bookings	\$92.8	\$79.5	\$122.9	16.7%	(24.5)%

* Non-GAAP financial highlights

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Q4 2018 Balance Sheet & Cash Flow Highlights

\$ Millions	Q4 2018	Q3 2018	Q4 2017
Cash	\$66.0	\$61.7	\$57.0
Cash Provided by Operations	\$6.6	\$2.4	\$9.0
Accounts Receivable	\$81.8	\$78.0	\$69.8
DSO	65	70	62
Inventories	\$25.6	\$23.3	\$26.0
Inventory Days	45	43	46
Backlog and Deferred	\$186.4*	\$207.6	\$224.4

* ASC 606 impact reduced the 2018 backlog and deferred revenue by \$22.2 million as compared to 2017.

Q1 2019 Financial Guidance*



\$ Millions (except EPS)	Q1 2019
Total Revenue	\$80 - \$90
Video Segment	\$70 - \$75
Cable Access Segment	\$10 - \$15
Gross Margin	52.5% - 54.5%
Operating Expenses	\$49 - \$51
Operating Income	\$(9.0) - \$0.1
EPS	\$(0.11) - \$(0.01)
Tax Rate	12%
Shares, millions	88.2
Cash	\$60 - \$70

* Non-GAAP

Full Year 2019 Financial Guidance*

\$ Millions (except EPS)	Full Year 2019
Total Revenue	\$390 - \$440
Video Segment	\$290 - \$310
Cable Access Segment	\$100 - \$130
Gross Margin	50.0% - 53.5%
Operating Expenses	\$195 - \$205
Operating Income	\$(10.0) - \$40.4
EPS	(\$0.16) - \$0.33
Tax Rate	12%
Shares, millions (basic, diluted)	89.5 - 91.1
Cash	\$65 - \$85

* Non-GAAP



Cable Access

1. Scale first wave of CableOS deployments
2. Secure new CableOS design wins
3. Establish market-leading DAA footprint



Video

1. Extend live OTT market share
2. Expand addressable market via SaaS
3. Deliver consistent segment profitability

Focused on growth, profitability
and
shareholder value creation





harmonic

Q&A

Use of Non-GAAP Financial Measures



In establishing operating budgets, managing its business performance, and setting internal measurement targets, the Company excludes a number of items required by GAAP. Management believes that these accounting charges and credits, most of which are non-cash or non-recurring in nature, are not useful in managing its operations and business. Historically, the Company has also publicly presented these supplemental non-GAAP measures in order to assist the investment community to see the Company “through the eyes of management,” and thereby enhance understanding of its operating performance. The non-GAAP measures presented here are revenue, segment revenue, gross profit, operating expenses, income (loss) from operations, non-operating expense, net, net income (loss) and net income (loss) per diluted share. The presentation of non-GAAP information is not intended to be considered in isolation or as a substitute for results prepared in accordance with GAAP, and is not necessarily comparable to non-GAAP results published by other companies. A reconciliation of the historical and forward looking non-GAAP financial measures discussed in this presentation to the most directly comparable historical and forward looking GAAP financial measures is included with the financial information contained in this presentation. The non-GAAP adjustments described below have historically been excluded from our GAAP financial measures. These adjustments are acquisition accounting impacts to TVN deferred revenue, TVN acquisition and integration related costs, restructuring and related charges, Cable Access inventory charge, Avid litigation settlement and associated legal fees and non-cash items, such as warrant amortization, impairment of long-term investment, stock-based compensation expense, amortization of intangibles, non-cash interest expenses on convertible debt, gain (loss) on equity investments and adjustments that normalize the tax rate.

Q4 2018 GAAP to Non-GAAP Reconciliations (in thousands, except EPS and percentages)



Three months ended December 31, 2018

	Revenue	Gross Profit	Total Operating Expense	Income from Operations	Total Non-operating expense, net	Net Income
GAAP	\$ 113,655	\$ 60,321	\$ 52,996	\$ 7,325	\$ (2,747)	\$ 3,330
Accounting impact related to warrant amortization	(7)	(7)	—	(7)	—	(7)
Stock-based compensation	—	376	(2,711)	3,087	—	3,087
Amortization of intangibles	—	1,295	(791)	2,086	—	2,086
Restructuring and related charges	—	(27)	(214)	187	—	187
Non-cash interest expenses related to convertible notes	—	—	—	—	1,577	1,577
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	(593)
Total adjustments	(7)	1,637	(3,716)	5,353	1,577	6,337
Non-GAAP	\$ 113,648	\$ 61,958	\$ 49,280	\$ 12,678	\$ (1,170)	\$ 9,667
	<i>As a % of revenue (GAAP)</i>	53.1%	46.6%	6.4 %	(2.4)%	2.9 %
	<i>As a % of revenue (Non-GAAP)</i>	54.5%	43.4%	11.2 %	(1.0)%	8.5 %
Diluted net income per share:						
	Diluted net income per share-GAAP					\$ 0.04
	Diluted net income per share-Non-GAAP					\$ 0.11
Shares used to compute diluted net income per share:						
	GAAP and Non-GAAP					89,028

Q3 2018 GAAP to Non-GAAP Reconciliations (in thousands, except EPS and percentages)



Three months ended September 28, 2018

	Revenue	Gross Profit	Total Operating Expense	Income (Loss) from Operations	Total Non-operating expense, net	Net Income (Loss)
GAAP	\$ 100,616	\$ 50,102	\$ 53,753	\$ (3,651)	\$ (3,237)	\$ (7,758)
Accounting impact related to warrant amortization	790	790	—	790	—	790
Stock-based compensation	—	614	(4,819)	5,433	—	5,433
Amortization of intangibles	—	1,295	(792)	2,087	—	2,087
Restructuring and related charges	—	7	(987)	994	—	994
Loss on equity investments	—	—	—	—	72	72
Non-cash interest expenses related to convertible notes	—	—	—	—	1,528	1,528
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	227
Total adjustments	790	2,706	(6,598)	9,304	1,600	11,131
Non-GAAP	\$ 101,406	\$ 52,808	\$ 47,155	\$ 5,653	\$ (1,637)	\$ 3,373
<i>As a % of revenue (GAAP)</i>		49.8%	53.4%	(3.6)%	(3.2)%	(7.7)%
<i>As a % of revenue (Non-GAAP)</i>		52.1%	46.5%	5.6 %	(1.6)%	3.3 %
Diluted net income (loss) per share:						
Diluted net loss per share-GAAP						\$ (0.09)
Diluted net income per share-Non-GAAP						\$ 0.04
Shares used to compute diluted net income (loss) per share:						
GAAP						86,321
Non-GAAP						87,770

Q4 2017 GAAP to Non-GAAP Reconciliations

(in thousands, except EPS and percentages)



Three months ended December 31, 2017

	Revenue	Gross Profit	Total Operating Expense	Income (Loss) from Operations	Total Non-operating expense, net	Net Loss
GAAP	\$ 100,974	\$ 48,572	\$ 56,663	\$ (8,091)	\$ (3,938)	\$ (11,845)
Accounting impact related to warrant amortization	115	115	—	115	—	115
Stock-based compensation	—	747	(4,756)	5,503	—	5,503
Amortization of intangibles	—	1,295	(795)	2,090	—	2,090
Restructuring and related charges	—	(56)	(1,223)	1,167	—	1,167
TVN acquisition-and integration-related costs	—	—	(84)	84	—	84
Avid litigation settlement and associated legal fees	—	—	(692)	692	—	692
Loss on impairment of long-term investments	—	—	—	—	530	530
Non-cash interest expenses related to convertible notes	—	—	—	—	1,429	1,429
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	(121)
Total adjustments	115	2,101	(7,550)	9,651	1,959	11,489
Non-GAAP	\$ 101,089	\$ 50,673	\$ 49,113	\$ 1,560	\$ (1,979)	\$ (356)
<i>As a % of revenue (GAAP)</i>		48.1%	56.1%	(8.0)%	(3.9)%	(11.7)%
<i>As a % of revenue (Non-GAAP)</i>		50.1%	48.6%	1.5 %	(2.0)%	(0.4)%
Diluted net loss per share:						
Diluted net loss per share-GAAP						\$ (0.14)
Diluted net loss per share-Non-GAAP						\$ 0.00
Shares used to compute diluted net loss per share:						
GAAP and Non-GAAP						82,014

2018 GAAP to Non-GAAP Reconciliations (in thousands, except EPS and percentages)



Twelve months ended December 31, 2018

	Revenue	Gross Profit	Total Operating Expense	Income (Loss) from Operations	Total Non-operating expense, net	Net Income (Loss)
GAAP	\$ 403,558	\$ 209,209	\$ 214,220	\$ (5,011)	\$ (11,937)	\$ (21,035)
Accounting impact related to warrant amortization	1,178	1,178	—	1,178	—	1,178
Stock-based compensation	—	1,953	(15,336)	17,289	—	17,289
Amortization of intangibles	—	5,180	(3,187)	8,367	—	8,367
Restructuring and related charges	—	857	(2,918)	3,775	—	3,775
Gain on equity investments	—	—	—	—	(111)	(111)
Avoid litigation settlement and associated legal fees	—	—	6	(6)	—	(6)
Non-cash interest expenses related to convertible notes	—	—	—	—	6,060	6,060
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	950
Total adjustments	1,178	9,168	(21,435)	30,603	5,949	37,502
Non-GAAP	\$ 404,736	\$ 218,377	\$ 192,785	\$ 25,592	\$ (5,988)	\$ 16,467
<i>As a % of revenue (GAAP)</i>		51.8%	53.1%	(1.2)%	(3.0)%	(5.2)%
<i>As a % of revenue (Non-GAAP)</i>		54.0%	47.6%	6.3 %	(1.5)%	4.1 %
Diluted net income (loss) per share:						
Diluted net loss per share-GAAP						\$ (0.25)
Diluted net income per share-Non-GAAP						\$ 0.19
Shares used to compute diluted net income (loss) per share:						
GAAP						85,615
Non-GAAP						86,741

2017 GAAP to Non-GAAP Reconciliations (in thousands, except EPS and percentages)



Twelve months ended December 31, 2017

	Revenue	Gross Profit	Total Operating Expense	Loss from Operations	Total Non-operating expense, net	Net Loss
GAAP	\$ 358,246	\$ 169,820	\$ 240,697	\$ (70,877)	\$ (13,830)	\$ (82,955)
Cable Access inventory charge	—	3,316	—	3,316	—	3,316
Acquisition accounting impact related to TVN deferred revenue	111	111	—	111	—	111
Accounting impact related to warrant amortization	153	153	—	153	—	153
Stock-based compensation	—	2,370	(14,240)	16,610	—	16,610
Amortization of intangibles	—	5,180	(3,142)	8,322	—	8,322
Restructuring and related charges	—	1,279	(5,307)	6,586	—	6,586
TVN acquisition-and integration-related costs	—	342	(2,476)	2,818	—	2,818
Avid litigation settlement and associated legal fees	—	—	(8,048)	8,048	—	8,048
Loss on impairment of long-term investments	—	—	—	—	530	530
Non-cash interest expenses related to convertible notes	—	—	—	—	5,489	5,489
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	3,156
Total adjustments	264	12,751	(33,213)	45,964	6,019	55,139
Non-GAAP	\$ 358,510	\$ 182,571	\$ 207,484	\$ (24,913)	\$ (7,811)	\$ (27,816)
	<i>As a % of revenue (GAAP)</i>	47.4%	67.2%	(19.8)%	(3.9)%	(23.2)%
	<i>As a % of revenue (Non-GAAP)</i>	50.9%	57.9%	(6.9)%	(2.2)%	(7.8)%
Diluted net loss per share:						
	Diluted net loss per share-GAAP				\$	(1.02)
	Diluted net loss per share-Non-GAAP				\$	(0.34)
Shares used to compute diluted net loss per share:						
	GAAP and Non-GAAP					80,974

Q1 2019 Guidance GAAP to Non-GAAP Reconciliations (in millions, except EPS and percentages)



Q1 2019 Financial Guidance

	Revenue	Gross Profit	Total Operating Expense	Income (Loss) from Operations	Total Non-operating Expense, net	Net Loss
GAAP	\$80.0 to \$90.0	\$40.5 to \$47.6	\$52.0 to \$54.0	\$(13.5) to \$(4.4)	\$(3.2)	\$(17.4) to \$(8.3)
Stock-based compensation	—	0.2	(2.2)	2.4	—	2.4
Amortization of intangibles	—	1.3	(0.8)	2.1	—	2.1
Restructuring and related charges	—	—	—	—	—	—
Non-cash interest expense related to convertible notes	—	—	—	—	1.6	1.6
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	\$0.9 to \$2.0
Total adjustments	—	1.5	(3.0)	4.5	1.6	\$7.0 to \$8.1
Non-GAAP	\$80.0 to \$90.0	\$42.0 to \$49.1	\$49.0 to \$51.0	\$(9.0) to \$0.1	\$(1.6)	\$(9.3) to \$(1.3)
<i>As a % of revenue (GAAP)</i>		50.6% to 52.9%	57.8% to 67.5%	(16.9)% to (4.9)%	(3.6)%	(21.7)% to (9.2)%
<i>As a % of revenue (Non-GAAP)</i>		52.5% to 54.5%	54.4% to 63.8%	(11.3)% to 0.1%	(2.0)%	(11.6)% to (1.4)%
Diluted net loss per share:						
Diluted net loss per share-GAAP						\$(0.20) to \$(0.09)
Diluted net loss per share-Non-GAAP						\$(0.11) to \$(0.01)
Shares used to compute diluted net loss per share:						
GAAP and Non-GAAP						88.2

2019 Guidance GAAP to Non-GAAP Reconciliations

(in millions, except EPS and percentages)



2019 Financial Guidance

	Revenue	Gross Profit	Total Operating Expense	Income (Loss) from Operations	Total Non-operating Expense, net	Net Income (Loss)
GAAP	\$390.0 to \$440.0	\$188.3 to \$228.7	\$211.1 to \$221.1	\$(32.8) to \$17.6	\$(13.1)	\$(48.5) to \$1.9
Stock-based compensation expense	—	1.5	(12.9)	14.4	—	14.4
Amortization of intangibles	—	5.2	(3.2)	8.4	—	8.4
Restructuring and related charges	—	—	—	—	—	—
Non-cash interest expense related to convertible notes	—	—	—	—	6.7	6.7
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	\$(1.5) to \$4.6
Total adjustments	—	6.7	(16.1)	22.8	6.7	\$28.0 to \$34.1
Non-GAAP	\$390.0 to \$440.0	\$195.0 to \$235.4	\$195.0 to \$205.0	\$(10.0) to \$40.4	\$(6.4)	\$(14.4) to \$29.9
<i>As a % of revenue (GAAP)</i>		48.3% to 52.0%	48.0% to 56.7%	(8.4)% to 4.0%	(3.0)%	(12.4)% to 0.4%
<i>As a % of revenue (Non-GAAP)</i>		50.0% to 53.5%	44.3% to 52.6%	(2.6)% to 9.2%	(1.5)%	(3.7)% to 6.8%
Diluted net income (loss) per share:						
Diluted net income (loss) per share-GAAP						\$(0.54) to \$0.02
Diluted net income (loss) per share-Non-GAAP						\$(0.16) to \$0.33
Shares used to compute diluted net loss per share:						
GAAP and Non-GAAP						89.5
Shares used to compute diluted net income per share:						
GAAP and Non-GAAP						91.1