



FIRST QUARTER 2019 Earnings Conference Call

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April 29, 2019

The Harmonic logo, featuring the word "harmonic" in a lowercase, sans-serif font with a blue play button icon above the letter "i".

harmonic

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 Q2 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.



Financial Highlights*



- Revenue **\$80.1 million**



- Gross margin **54.5%** and EPS **\$(0.05)**



- Cash from operations **\$4.2 million**

* Non-GAAP financial results



Business Highlights



CableOS

- Tier 1s prepared for Q2 & Q3 launches
- Cable modems served over 670,000



Video

- SaaS customer base up 32% sequentially
- 7th consecutive profitable quarter



CableOS Momentum

- 32 commercial deployments and field trials
 - 4 of top 8 North American and European cable operators
 - NCTC deal to address hundreds of smaller operators
- 670,000 cable modems served globally, up 24% sequentially
- 8 new patent filings since January 1



Outlook Positive

- Tier 1 DAA roll-outs commencing in Q2
 - Forecasting significant volume ramp through Q3 & Q4
- Latest market research* projects >\$1.9 billion market size in 2023
- Full year financial outlook reconfirmed

* “DAA Transition Underway”, Dell’Oro Group, March 2019



SaaS Transformation Accelerating

- Over 6.5 million consumers served daily by VOS SaaS, up 70% year over year
- Video SaaS customer base of 25, up 32% sequentially
- New Microsoft Azure and Akamai partnership
- Growing SaaS pipeline creates near-term revenue headwind



Financial Performance Solid*

- SaaS and Service revenue \$24.1 million, 36% of total segment revenue
- Gross margin 57.5% unchanged, sequentially and year over year
- 7th consecutive profitable quarter

* Non-GAAP financial results

Q1 2019 Financial Highlights*



\$ Millions (except EPS)	Q1 2019	Q4 2018	Q1 2018	Q1/Q4 Change	Q1 Y/Y Change
Total Net Revenue	\$80.1	\$113.6	\$90.2	(29.5)%	(11.2)%
Cable Revenue	\$12.9	\$24.1	\$18.5	(46.3)%	(29.9)%
Video Revenue	\$67.2	\$89.5	\$71.7	(25.0)%	(6.4)%
Gross Margin %	54.5%	54.5%	55.3%	-	(0.8)%
Cable Gross Margin%	39.3%	43.6%	46.7%	(4.3)%	(7.4)%
Video Gross Margin%	57.5%	57.5%	57.5%	-	-
Total Net Revenue	\$80.1	\$113.6	\$90.2	(29.5)%	(11.2)%
Appliance and integration	\$52.4	\$83.1	\$64.1	(37.0)%	(18.3)%
SaaS and service	\$27.7	\$30.5	\$26.1	(9.0)%	6.1%
SaaS and service revenue as a % of total revenue	34.6%	26.8%	29.0%	7.8%	5.6%
SaaS and service gross margin %	61.3%	64.5%	56.3%	(3.2)%	5.0%
SaaS customers	25	19	13	32.0%	92.0%

* Non-GAAP financial highlights

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Q1 2019 Financial Highlights (Cont.)*



\$ Millions (except EPS)	Q1 2019	Q4 2018	Q1 2018	Q1/Q4 Change	Q1 Y/Y Change
Operating Expenses	\$47.5	\$49.3	\$49.4	(3.6)%	(3.8)%
Operating Income (loss)	\$(3.8)	\$12.7	\$0.5	\$(16.5)	\$(4.3)
Diluted Share Count	88.2	89.0	83.9	(0.8)	4.3
EPS	\$(0.05)	\$0.11	\$(0.01)	\$(0.16)	\$(0.04)
Bookings	\$81.0	\$92.8	\$102.6	(12.7)%	(21.0)%

* Non-GAAP financial highlights

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Q1 2019 Balance Sheet & Cash Flow Highlights

\$ Millions	Q1 2019	Q4 2018	Q1 2018
Cash	\$69.9	\$66.0	\$52.0
Cash Provided by (Used in) Operations	\$4.2	\$6.6	\$(6.6)
Accounts Receivable	\$58.9	\$81.8	\$74.8
DSO	66	65	75
Inventories	\$29.3	\$25.6	\$25.1
Inventory Days	72	45	56
Backlog and Deferred Revenue	\$187.2	\$186.4	\$224.4

Q2-2019 Financial Guidance*



\$ Millions (except EPS)	Q2-2019
Total Revenue	\$80 - \$90
Video Segment	\$70 - \$75
Cable Access Segment	\$10 - \$15
Gross Margin	52.5% - 53.5%
Operating Expenses	\$51 - \$52
Operating Loss	\$(10.0) - \$(3.0)
EPS	\$(0.11) - \$(0.05)
Tax Rate	12%
Shares, millions	88.9
Cash	\$60 - \$70

* Non-GAAP

Full Year 2019 Financial Guidance*



\$ Millions (except EPS)	Full Year 2019
Total Revenue	\$385 - \$430
Video Segment	\$285 - \$300
Cable Access Segment	\$100 - \$130
Gross Margin	50.0% - 53.5%
Operating Expenses	\$195 - \$205
Operating Income (Loss)	\$(12.5) - \$34.6
EPS	\$(0.19) - \$0.27
Tax Rate	12%
Shares, millions (basic, diluted)	89.3 – 91.0
Cash	\$65 - \$85

* Non-GAAP



Cable Access

1. Scale first wave of CableOS deployments
2. Secure new CableOS design wins
3. Execute Tier 1 DAA roll-outs



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





Q&A

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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.

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



Three months ended March 29, 2019

	Revenue	Gross Profit	Total Operating Expense	Loss from Operations	Total Non-operating Expense, net	Net Loss
GAAP	\$ 80,106	\$ 41,849	\$ 50,257	\$ (8,408)	\$ (3,217)	\$ (11,306)
Accounting impact related to warrant amortization	25	25	—	25	—	25
Stock-based compensation	—	225	(1,888)	2,113	—	2,113
Amortization of intangibles	—	1,295	(788)	2,083	—	2,083
Restructuring and related charges	—	301	(57)	358	—	358
Non-cash interest expenses related to convertible notes	—	—	—	—	1,606	1,606
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	334
Total adjustments	25	1,846	(2,733)	4,579	1,606	6,519
Non-GAAP	\$ 80,131	\$ 43,695	\$ 47,524	\$ (3,829)	\$ (1,611)	\$ (4,787)
		<i>As a % of revenue (GAAP)</i>	<i>As a % of revenue (GAAP)</i>	<i>As a % of revenue (GAAP)</i>	<i>As a % of revenue (GAAP)</i>	<i>As a % of revenue (GAAP)</i>
		52.2%	62.7%	(10.5)%	(4.0)%	(14.1)%
		<i>As a % of revenue (Non-GAAP)</i>	<i>As a % of revenue (Non-GAAP)</i>	<i>As a % of revenue (Non-GAAP)</i>	<i>As a % of revenue (Non-GAAP)</i>	<i>As a % of revenue (Non-GAAP)</i>
		54.5%	59.3%	(4.8)%	(2.0)%	(6.0)%
Diluted net loss per share:						
Diluted net loss per share-GAAP						\$ (0.13)
Diluted net loss per share-Non-GAAP						\$ (0.05)
Shares used to compute diluted net loss per share:						
GAAP and Non-GAAP						88,165

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>	<i>As a % of revenue (GAAP)</i>	<i>As a % of revenue (GAAP)</i>	<i>As a % of revenue (GAAP)</i>	<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>	<i>As a % of revenue (Non-GAAP)</i>	<i>As a % of revenue (Non-GAAP)</i>	<i>As a % of revenue (Non-GAAP)</i>	<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

Q1 2018 GAAP to Non-GAAP Reconciliations

(in thousands, except EPS and percentages)



Three months ended March 30, 2018

	Revenue	Gross Profit	Total Operating Expense	Income (Loss) from Operations	Total Non-operating Expense, net	Net Loss
GAAP	\$ 90,127	\$ 47,183	\$ 56,510	\$ (9,327)	\$ (3,289)	\$ (13,694)
Accounting impact related to warrant amortization	111	111	—	111	—	111
Stock-based compensation	—	515	(5,242)	5,757	—	5,757
Amortization of intangibles	—	1,295	(804)	2,099	—	2,099
Restructuring and related charges	—	762	(1,086)	1,848	—	1,848
Avid litigation settlement and associated legal fees	—	—	6	(6)	—	(6)
Non-cash interest expenses related to convertible notes	—	—	—	—	1,454	1,454
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	1,294
Total adjustments	\$ 111	\$ 2,683	\$ (7,126)	\$ 9,809	\$ 1,454	\$ 12,557
Non-GAAP	\$ 90,238	\$ 49,866	\$ 49,384	\$ 482	\$ (1,835)	\$ (1,137)
		<i>As a % of revenue (GAAP)</i>	<i>As a % of revenue (GAAP)</i>	<i>As a % of revenue (GAAP)</i>	<i>As a % of revenue (GAAP)</i>	<i>As a % of revenue (GAAP)</i>
		52.4%	62.7%	(10.3)%	(3.6)%	(15.2)%
		<i>As a % of revenue (Non-GAAP)</i>	<i>As a % of revenue (Non-GAAP)</i>	<i>As a % of revenue (Non-GAAP)</i>	<i>As a % of revenue (Non-GAAP)</i>	<i>As a % of revenue (Non-GAAP)</i>
		55.3%	54.7%	0.5%	(2.0)%	(1.3)%
Diluted net loss per share:						
Diluted net loss per share-GAAP						\$ (0.16)
Diluted net loss per share-Non-GAAP						\$ (0.01)
Shares used to compute diluted net loss per share:						
GAAP and Non-GAAP						83,912

Q2 2019 Guidance GAAP to Non-GAAP Reconciliations (in millions, except EPS and percentages)



Q2 2019 Financial Guidance

	Revenue	Gross Profit	Total Operating Expense	Loss from Operations	Total Non-operating Expense, net	Net Loss
GAAP	\$80.0 to \$90.0	\$40.4 to \$46.4	\$54.5 to \$55.5	\$(15.1) to \$(8.1)	\$(3.3)	\$(19.1) to \$(12.1)
Stock-based compensation	—	0.3	(2.7)	3.0	—	3.0
Amortization of intangibles	—	1.3	(0.8)	2.1	—	2.1
Non-cash interest expense related to convertible notes	—	—	—	—	1.7	1.7
Tax effect of non-GAAP adjustments	—	—	—	—	—	\$1.3 to \$2.1
Total adjustments	—	1.6	(3.5)	5.1	1.7	\$8.1 to \$8.9
Non-GAAP	\$80.0 to \$90.0	\$42.0 to \$48.0	\$51.0 to \$52.0	\$(10.0) to \$(3.0)	\$(1.6)	\$(10.2) to \$(4.0)
		50.5% to 51.5%	60.6% to 69.4%	(18.9)% to (9.0)%	(4.0)%	(23.9)% to (13.5)%
<i>As a % of revenue (GAAP)</i>						
		52.5% to 53.5%	56.7% to 65.0%	(12.5)% to (3.4)%	(2.0)%	(12.8)% to (4.5)%
<i>As a % of revenue (Non-GAAP)</i>						
Diluted net loss per share:						
Diluted net loss per share-GAAP						\$(0.21) to \$(0.14)
Diluted net loss per share-Non-GAAP						\$(0.11) to \$(0.05)
Shares used to compute diluted net loss per share:						
GAAP and Non-GAAP						88.9

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	\$385.0 to \$430.0	\$185.6 to \$222.7	\$210.5 to \$220.5	\$(34.9) to \$12.2	\$(13.1)	\$(50.3) to \$(3.2)
Stock-based compensation	—	1.4	(12.3)	13.7	—	13.7
Amortization of intangibles	—	5.2	(3.1)	8.3	—	8.3
Restructuring and related charges	—	0.3	(0.1)	0.4	—	0.4
Non-cash interest expense related to convertible notes	—	—	—	—	6.7	6.7
Tax effect of non-GAAP adjustments	—	—	—	—	—	\$(1.1) to \$4.6
Total adjustments	—	6.9	(15.5)	22.4	6.7	\$28.0 to \$33.7
Non-GAAP	\$385.0 to \$430.0	\$192.5 to \$229.6	\$195.0 to \$205.0	\$(12.5) to \$34.6	\$(6.4)	\$(16.6) to \$24.8
<i>As a % of revenue (GAAP)</i>		48.2% to 51.8%	48.9% to 57.3%	(9.1)% to 2.8%	(3.0)%	(13.1)% to (0.7)%
<i>As a % of revenue (Non-GAAP)</i>		50.0% to 53.5%	45.3% to 53.2%	(3.2)% to 8.0%	(1.5)%	(4.3)% to 5.8%
Diluted net income (loss) per share:						
Diluted net loss per share-GAAP						\$(0.56) to \$(0.04)
Diluted net income (loss) per share-Non-GAAP						\$(0.19) to \$0.27
Shares used to compute diluted net loss per share:						
GAAP and Non-GAAP						89.3
Shares used to compute diluted net income per share:						
Non-GAAP						91.0