



**THIRD QUARTER 2018**  
Earnings Conference Call

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October 29, 2018

# 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 2018 and beyond, and our Q4 and full year 2018 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](http://www.harmonicinc.com).



## Business Highlights



- Cable Access segment revenue **up 153%** year over year, led by CableOS



- Video segment **operating profit 7.2%**, driven by OTT and UHD



- CableOS node shipments for DAA **up 174%** sequentially



## Financial Highlights



- Revenue **up 11%** year over year



- Operating income **5.6%**



- Cash **up \$7.6 million** sequentially



## CableOS Momentum Building

- Over 25 commercial deployments and field trials
  - Announced Buckeye Broadband deployment, serving over 120,000 modems
- Over 480,000 cable modems served globally, up 20% sequentially
  - Live consumers and enterprises receiving broadband service via CableOS
- Ramping volume shipments of DAA nodes, up 174% sequentially



## Positive Financial Trajectory\*

- Revenue \$28.1 million, up 153% year over year and 39% sequentially
- Operating profit 1.4%, profitable for second consecutive quarter
- Project pipeline supports \$100 million 2018 revenue target

\* Non-GAAP financial results



## Consistent Financial Performance\*

- Gross margin 57.2%, operating margin 7.2%
- Fifth consecutive quarter of positive operating profit
- Healthy backlog and deferred revenue, enabling visibility and consistency



## Growth Transformation On Track

- Over 35,000 linear OTT channels deployed, up 4% sequentially and 23% year over year
- UHD shipments up 138% sequentially
  - Launched UHD NASA channel on Roku, powered by Video SaaS
- Number of Video SaaS customers up 200% year over year

\* Non-GAAP financial results

# Q3 2018 Financial Highlights\*



\$ Millions (except EPS)	Q3 2018	Q2 2018	Q3 2017	Q3/Q2 Change	Q3 Y/Y Change
Total Net Revenue	\$101.4	\$99.4	\$91.6	2.0%	11.0%
Gross Margin %	52.1%	54.0%	53.4%	(1.9)%	(1.3)%
Operating Expense	\$47.2	\$47.0	\$47.7	0.4%	(1.1)%
Operating Income	\$5.7	\$6.8	\$1.3	(\$1.1)	\$4.4
EPS	\$0.04	\$0.05	(\$0.01)	(\$0.01)	\$0.05
Bookings	\$79.5	\$107.9	\$96.0	(26.3)%	(17.2)%

\* Non-GAAP financial highlights

# Q3 2018 Balance Sheet & Cash Flow Highlights



\$ Millions	Q3 2018	Q2 2018	Q3 2017
Cash	\$61.7	\$54.1	\$50.0
Cash Provided by (Used in) Operations	\$2.4	\$9.9	(\$8.6)
Accounts Receivable	\$78.0	\$82.6	\$71.6
DSO	70	75	70
Inventories	\$23.3	\$23.0	\$31.8
Inventory Days	43	45	67
Backlog and Deferred	\$207.6	\$230.4	\$200.9

## Q4 2018 Financial Guidance\*

\$ Millions (except EPS)	Q4 2018
Total Revenue	\$105 - \$118
Video Segment	\$80 - \$83
Cable Access Segment	\$25 - \$35
Gross Margin	49% - 50%
Operating Expenses	\$49 - \$50
Operating Income	\$2.2 - \$9.6
EPS	\$0.01 - \$0.07
Tax Rate	16%
Shares, millions	89.2
Cash	\$55 - \$65

\* Non-GAAP



# Full Year 2018 Financial Guidance\*



\$ Millions (except EPS)	Updated Guidance	Prior Guidance
Total Revenue	\$396 - \$409	\$388 - \$411
Video Segment	\$304 - \$307	\$296 - \$309
Cable Access Segment	\$92 - \$102	\$92 - \$102
Gross Margin	52.5% - 53.0%	52.0% - 53.0%
Operating Expenses	\$192.5 - \$193.5	\$195 - \$197
Operating Income	\$15.1 - \$22.5	\$6 - \$24
EPS	\$0.09 - \$0.16	(\$0.01) - \$0.16
Tax Rate	16%	16%
Shares, millions (basic, diluted)	86.9	85.7, 86.6
Cash	\$55 - \$65	\$50 - \$60

\* Non-GAAP

**Narrowed Video Revenue range.  
Improved Operating Expense, EPS and Cash ranges.**



## Cable Access

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



## Video

1. Drive OTT sales growth
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.

# 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 from Operations	Total Non-operating Expense, net	Net Income (Loss)
<b>GAAP</b>	\$ 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
<b>Total adjustments</b>	790	2,706	(6,598)	9,304	1,600	11,131
<b>Non-GAAP</b>	\$ 101,406	\$ 52,808	\$ 47,155	\$ 5,653	\$ (1,637)	\$ 3,373
		<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>
		49.8%	53.4%	(3.6)%	(3.2)%	(7.7)%
		<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>
		52.1%	46.5%	5.6 %	(1.6)%	3.3 %
<b>Diluted net income (loss) per share:</b>						
Diluted net loss per share-GAAP						\$ (0.09)
Diluted net income per share-Non-GAAP						\$ 0.04
<b>Shares used to compute diluted net income (loss) per share:</b>						
GAAP						86,321
Non-GAAP						87,770

# Q2 2018 GAAP to Non-GAAP Reconciliations (in thousands, except EPS and percentages)



Three months ended June 29, 2018

	Revenue	Gross Profit	Total Operating Expense	Income from Operations	Total Non-operating Expense, net	Net Income (Loss)
<b>GAAP</b>	\$ 99,160	\$ 51,603	\$ 50,961	\$ 642	\$ (2,664)	\$ (2,913)
Accounting impact related to warrant amortization	284	284	—	284	—	284
Stock-based compensation	—	448	(2,564)	3,012	—	3,012
Amortization of intangibles	—	1,295	(800)	2,095	—	2,095
Restructuring and related charges	—	115	(631)	746	—	746
Gain on equity investments	—	—	—	—	(183)	(183)
Non-cash interest expenses related to convertible notes	—	—	—	—	1,501	1,501
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	22
<b>Total adjustments</b>	284	2,142	(3,995)	6,137	1,318	7,477
<b>Non-GAAP</b>	\$ 99,444	\$ 53,745	\$ 46,966	\$ 6,779	\$ (1,346)	\$ 4,564
		<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>
		52.0%	51.4%	0.6 %	(2.7)%	(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>
		54.0%	47.2%	6.8 %	(1.4)%	4.6 %
<b>Diluted net income (loss) per share:</b>						
Diluted net loss per share-GAAP						\$ (0.03)
Diluted net income per share-Non-GAAP						\$ 0.05
<b>Shares used to compute diluted net income (loss) per share:</b>						
GAAP						85,304
Non-GAAP						85,758

# Q3 2017 GAAP to Non-GAAP Reconciliations (in thousands, except EPS and percentages)



Three months ended September 29, 2017

	Revenue	Gross Profit	Total Operating Expense	Income (Loss) from Operations	Total Non-operating Expense, net	Net Loss	
<b>GAAP</b>	\$ 92,014	\$ 47,025	\$ 61,231	\$ (14,206)	\$ (3,292)	\$ (15,583)	
Accounting impact related to warrant amortization	(378)	(378)	—	(378)	—	(378)	
Stock-based compensation	—	478	(3,242)	3,720	—	3,720	
Amortization of intangibles	—	1,295	(793)	2,088	—	2,088	
Restructuring and related charges	—	549	(2,028)	2,577	—	2,577	
TVN acquisition-and integration-related costs	—	—	(117)	117	—	117	
Avid litigation settlement and associated legal fees	—	—	(7,356)	7,356	—	7,356	
Non-cash interest expenses related to convertible notes	—	—	—	—	1,384	1,384	
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	(1,820)	
<b>Total adjustments</b>	\$ (378)	\$ 1,944	\$ (13,536)	\$ 15,480	\$ 1,384	\$ 15,044	
<b>Non-GAAP</b>	\$ 91,636	\$ 48,969	\$ 47,695	\$ 1,274	\$ (1,908)	\$ (539)	
	<i>As a % of revenue (GAAP)</i>		51.1%	66.5%	(15.4)%	(3.6)%	(16.9)%
	<i>As a % of revenue (Non-GAAP)</i>		53.4%	52.0%	1.4 %	(2.1)%	(0.6)%
<b>Diluted net loss per share:</b>							
Diluted net loss per share-GAAP						\$ (0.19)	
Diluted net loss per share-Non-GAAP						\$ (0.01)	
<b>Shares used to compute diluted net loss per share:</b>							
GAAP and Non-GAAP						81,445	

# YTD Q3 2018 GAAP to Non-GAAP Reconciliations

(in thousands, except EPS and percentages)



Nine months ended September 28, 2018

	Revenue	Gross Profit	Total Operating Expense	Income (Loss) from Operations	Total Non-operating Expense, net	Net Income (Loss)
<b>GAAP</b>	\$ 289,903	\$ 148,888	\$ 161,224	\$ (12,336)	\$ (9,190)	\$ (24,365)
Accounting impact related to warrant amortization	1,185	1,185	—	1,185	—	1,185
Stock-based compensation	—	1,577	(12,625)	14,202	—	14,202
Amortization of intangibles	—	3,885	(2,396)	6,281	—	6,281
Restructuring and related charges	—	884	(2,704)	3,588	—	3,588
Gain on equity investments	—	—	—	—	(111)	(111)
Non-cash interest expenses related to convertible notes	—	—	—	—	4,483	4,483
Avid litigation settlement and associated legal fees	—	—	6	(6)	—	(6)
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	1,543
<b>Total adjustments</b>	<b>\$ 1,185</b>	<b>\$ 7,531</b>	<b>\$ (17,719)</b>	<b>\$ 25,250</b>	<b>\$ 4,372</b>	<b>\$ 31,165</b>
<b>Non-GAAP</b>	<b>\$ 291,088</b>	<b>\$ 156,419</b>	<b>\$ 143,505</b>	<b>\$ 12,914</b>	<b>\$ (4,818)</b>	<b>\$ 6,800</b>
	<i>As a % of revenue (GAAP)</i>	<i>51.4%</i>	<i>55.6%</i>	<i>(4.3)%</i>	<i>(3.2)%</i>	<i>(8.4)%</i>
	<i>As a % of revenue (Non-GAAP)</i>	<i>53.7%</i>	<i>49.3%</i>	<i>4.4 %</i>	<i>(1.7)%</i>	<i>2.3 %</i>
<b>Diluted net income (loss) per share:</b>						
	Diluted net loss per share-GAAP					\$ (0.29)
	Diluted net income per share-Non-GAAP					\$ 0.08
<b>Shares used to compute diluted net income (loss) per share:</b>						
	GAAP					85,188
	Non-GAAP					85,962



# YTD Q3 2017 GAAP to Non-GAAP Reconciliations (in thousands, except EPS and percentages)



Nine months ended September 29, 2017

	Revenue	Gross Profit	Total Operating Expense	Loss from Operations	Total Non-operating Expense, net	Net Loss
<b>GAAP</b>	\$ 257,272	\$ 121,248	\$ 184,034	\$ (62,786)	\$ (9,892)	\$ (71,110)
Cable Edge inventory charge	—	3,316	—	3,316	—	3,316
Acquisition accounting impacts related to TVN deferred revenue	111	111	—	111	—	111
Accounting impact related to warrant amortization	38	38	—	38	—	38
Stock-based compensation	—	1,623	(9,484)	11,107	—	11,107
Amortization of intangibles	—	3,885	(2,347)	6,232	—	6,232
Restructuring and related charges	—	1,335	(4,084)	5,419	—	5,419
TVN acquisition-and integration-related costs	—	342	(2,392)	2,734	—	2,734
Avid litigation settlement and associated legal fees	—	—	(7,356)	7,356	—	7,356
Non-cash interest expenses related to convertible notes	—	—	—	—	4,060	4,060
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	3,278
<b>Total adjustments</b>	149	10,650	(25,663)	36,313	4,060	43,651
<b>Non-GAAP</b>	\$ 257,421	\$ 131,898	\$ 158,371	\$ (26,473)	\$ (5,832)	\$ (27,459)
	<i>As a % of revenue (GAAP)</i>	47.1%	71.5%	(24.4)%	(3.8)%	(27.6)%
	<i>As a % of revenue (Non-GAAP)</i>	51.2%	61.5%	(10.3)%	(2.3)%	(10.7)%
<b>Diluted net loss per share:</b>						
	Diluted net loss per share-GAAP					\$ (0.88)
	Diluted net loss per share-Non-GAAP					\$ (0.34)
<b>Shares used to compute diluted net loss per share:</b>						
	GAAP and Non-GAAP					80,618

# Q4 2018 Guidance GAAP to Non-GAAP Reconciliations (in millions, except EPS and percentages)



## Q4 2018 Financial Guidance

	Revenue	Gross Profit	Total Operating Expense	Income (Loss) from Operations	Total Non-operating Expense, net	Net Income (Loss)
<b>GAAP</b>	\$104.7 to \$117.7	\$50.3 to \$56.7	\$52.5 to \$53.5	\$(3.2) to \$4.2	\$(3.2)	\$(6.9) to \$0.5
Accounting impact related to warrant amortization	0.3	0.3	—	0.3	—	0.3
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	—	—	—	—	1.6	1.6
Tax effect of non-GAAP adjustments	—	—	—	—	—	\$(0.8) to 0.4
<b>Total adjustments</b>	0.3	1.9	(3.5)	5.4	1.6	\$6.2 to \$7.4
<b>Non-GAAP</b>	\$105.0 to \$118.0	\$52.2 to \$58.6	\$49.0 to \$50.0	\$2.2 to \$9.6	\$(1.6)	\$0.5 to \$6.7
<i>As a % of revenue (GAAP)</i>		48.0% to 48.5%	44.6% to 51.1%	(3.1)% to 3.6%	(3.0)%	(6.6)% to 0.4%
<i>As a % of revenue (Non-GAAP)</i>		49.0% to 50.0%	41.5% to 47.6%	2.1% to 8.1%	(1.5)%	0.5% to 5.7%
<b>Diluted net income (loss) per share:</b>						
Diluted net loss per share-GAAP						\$(0.08) to \$0.01
Diluted net income per share-Non-GAAP						\$0.01 to \$0.07
<b>Shares used to compute diluted net loss per share:</b>						
GAAP						86.8
<b>Shares used to compute diluted net income per share:</b>						
GAAP and Non-GAAP						89.2

# 2018 Guidance GAAP to Non-GAAP Reconciliations (in millions, except EPS and percentages)



## 2018 Financial Guidance

	Revenue	Gross Profit	Total Operating Expense	Income (Loss) from Operations	Total Non-operating Expense, net	Net Income (Loss)
<b>GAAP</b>	\$394.5 to \$407.5	\$199.1 to \$205.5	\$213.7 to \$214.7	\$(15.6) to \$(8.2)	\$(12.3)	\$(31.2) to \$(23.8)
Accounting impact related to warrant amortization	1.5	1.5	—	1.5	—	1.5
Stock-based compensation	—	1.9	(15.3)	17.2	—	17.2
Amortization of intangibles	—	5.2	(3.2)	8.4	—	8.4
Restructuring and related charges	—	0.9	(2.7)	3.6	—	3.6
Non-cash interest expense related to convertible notes	—	—	—	—	6.1	6.1
Gain on equity investment	—	—	—	—	(0.1)	(0.1)
Tax effect of non-GAAP adjustments	—	—	—	—	—	\$0.7 to 1.9
<b>Total adjustments</b>	1.5	9.5	(21.2)	30.7	6.0	\$37.4 to \$38.6
<b>Non-GAAP</b>	\$396.0 to \$409.0	\$208.6 to \$215.0	\$192.5 to \$193.5	\$15.1 to \$22.5	\$(6.3)	\$7.4 to \$13.6
<i>As a % of revenue (GAAP)</i>		50.0% to 50.5%	52.4% to 54.4%	(4.0)% to (2.0)%	(3.0)%	(7.9)% to (5.8)%
<i>As a % of revenue (Non-GAAP)</i>		52.5% to 53.0%	47.1% to 48.9%	3.8% to 5.5%	(1.5)%	1.9% to 3.3%
<b>Diluted net income (loss) per share:</b>						
Diluted net loss per share-GAAP						\$(0.36) to \$(0.28)
Diluted net income per share-Non-GAAP						\$0.09 to \$0.16
<b>Shares used to compute diluted net loss per share:</b>						
GAAP						85.7
<b>Shares used to compute diluted net income per share:</b>						
Non-GAAP						86.9