

First Quarter 2020 Earnings Conference Call

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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 2020 and beyond, and our Q2 guidance. Such statements are only current expectations and actual events or results may differ materially. Due to the current global macroeconomic environment, we don't have visibility into the second half of the year. With this lack of visibility, we are withdrawing our prior 2020 full year guidance. 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 results
impacted
by Covid-19



Solid Cable Access
results
and outlook



Mixed **Video** results
and outlook:
Appliance headwinds
SaaS acceleration

Strong Cable Access and Streaming Video SaaS Position



Solid Q1

- Revenue* \$24 million, up 85.6% year over year
- Commercially deployed with 27 operators, up 17% sequentially
- Over 1.3 million cable modems served, up 30% sequentially



Positive Outlook

- Deployed customers collectively serve >45 million cable modems
- Customers now standardizing on CableOS for all architectures
 - Received first material Tier 1 order for new “shelf” product
- Expanding opportunity, particularly for upstream bandwidth creation

* Non-GAAP



Mixed Quarter Due To Covid-19

- Revenue* \$54.4 million, down 19% year over year
- Appliance sales most impacted
 - Reduced March demand, supply chain constraints and increased costs
 - Headwinds likely persist in Q2
- SaaS and Service sales remained healthy



Streaming SaaS Growth Accelerating

- Strong Q1 results
 - Added 9 new streaming SaaS customers, up 19% sequentially
 - New Tier 1 international telecom operator and Tier 1 domestic media wins
 - Total 7,300 cloud channels deployed worldwide, up 56% sequentially
- Strong SaaS pipeline growth

* Non-GAAP

Scale

>38 petabyte monthly streaming egress, up >200% yoy



Partnerships

Microsoft Azure
Google Cloud Platform
AWS



Brand Awareness

New marketing campaigns and website



Financial Results and Outlook

Sanjay Kalra, CFO



Q1 2020 Financial Highlights*

Cable Access Segment Revenue up 85.6% year over year
SaaS and Service Revenue up 10.5% year over year



Financial Metric \$ Millions	Q1 2020	Q4 2019	Q1 2019	Q1/Q4 Change	Q1 Y/Y Change
Total Net Revenue	\$78.4	\$122.2	\$80.1	(35.8)%	(2.1)%
Cable Revenue	\$24.0	\$43.0	\$12.9	(44.1)%	85.6%
Video Revenue	\$54.4	\$79.2	\$67.2	(27.7)%	(19.1)%
Gross Margin %	48.9%	52.3%	54.5%	(3.4)%	(5.6)%
Cable Gross Margin%	43.3%	38.3%	39.3%	5.0%	4.0%
Video Gross Margin%	51.3%	60.0%	57.5%	(8.7)%	(6.2)%
Total Net Revenue	\$78.4	\$122.2	\$80.1	(35.8)%	(2.1)%
Appliance and integration	\$47.7	\$85.9	\$52.4	(44.4)%	(8.9)%
SaaS and service	\$30.7	\$36.3	\$27.7	(15.4)%	10.5%
SaaS and service revenue %	39.1%	29.7%	34.6%	9.4%	4.5%
SaaS and service gross margin %	51.3%	63.7%	61.3%	(12.4)%	(10)%
SaaS customers	57	48	25	19%	128%

* Non-GAAP

Q1 2020 Financial Highlights*



Financial Metric \$ Millions (except EPS)	Q1 2020	Q4 2019	Q1 2019	Q1/Q4 Change	Q1 Y/Y Change
Operating Expenses	\$47.9	\$49.2	\$47.5	(2.7)%	0.7%
Operating Income (loss)	\$(9.5)	\$14.8	\$(3.8)	\$(24.3)	\$(5.7)
Adjusted EBITDA	\$(7.0)	\$17.6	\$(1.3)	\$(24.6)	\$(5.7)
EPS	\$(0.10)	\$0.12	\$(0.05)	\$(0.22)	\$(0.05)
Diluted Share Count	95.6	97.5	88.2	(1.9)	7.4
Bookings	\$76.3	\$140.1	\$81.0	(45.5)%	(5.8)%
Book to bill ratio	0.97	1.15	1.01	(15.7)%	(4.0)%

Q1 2020 Balance Sheet & Cash Flow Highlights



Financial Metric \$ Millions	Q1 2020	Q4 2019	Q1 2019
Cash	\$71.7	\$93.1	\$69.9
Cash Provided by (Used in) Operations	\$(11.0)	\$30.2	\$4.2
Accounts Receivable	\$93.1	\$88.5	\$58.9
DSO	107	65	66
Inventories	\$34.9	\$29.0	\$29.3
Inventory Days	78	45	72
Backlog and Deferred Revenue	\$207.9	\$210.2	\$187.2

Financial Guidance Highlights*

Financial Metric	Q2'20 Guidance
Total Revenue (\$M)	\$62 - \$77
Video Segment (\$M)	\$42 - \$50
Cable Access Segment (\$M)	\$20 - \$27
Gross Margin	47.0% - 48.0%
Operating Expenses (\$M)	\$45.0 - \$47.0
Operating Loss (\$M)	\$(18.0) - \$(8.0)
Adjusted EBITDA	\$(15.5) - \$(5.5)
EPS	\$(0.18) - \$(0.09)
Cash (\$M)	\$60 - \$70
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Second Half 2020 Guidance : Cable Access Revenue (\$M)	\$65 - \$85

* Non-GAAP



Cable Access

1. Scale Tier-1 CableOS deployments
2. Secure additional CableOS design wins
3. Launch new service & FTTH solutions



Video

1. Grow live streaming
2. Expand addressed market via SaaS
3. Deliver segment profitability

Focused on growth, employee wellbeing, shareholder value creation



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, Adjusted EBITDA, 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 restructuring and related charges, Cable Access inventory charge, accounting impact related to warrant amortization, stock-based compensation expense, amortization of intangibles, non-cash interest and other expenses on convertible debt, and adjustments that normalize the tax rate.

Q1 2020 GAAP to Non-GAAP Reconciliations (in thousands, except EPS and percentages)



Three months ended March 27, 2020

	Revenue	Gross Profit	Total Operating Expense	Loss from Operations	Total Non-operating expense, net	Net Loss
GAAP	\$ 78,417	\$ 36,738	\$ 54,787	\$ (18,049)	\$ (3,176)	\$ (21,954)
Stock-based compensation	—	771	(5,488)	6,259	—	6,259
Amortization of intangibles	—	885	(770)	1,655	—	1,655
Restructuring and related charges	—	(73)	(676)	603	—	603
Non-cash interest and other expenses related to convertible notes	—	—	—	—	1,835	1,835
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	1,816
Total adjustments	—	1,583	(6,934)	8,517	1,835	12,168
Non-GAAP	\$ 78,417	\$ 38,321	\$ 47,853	\$ (9,532)	\$ (1,341)	\$ (9,786)
<i>As a % of revenue (GAAP)</i>		46.8%	69.9%	(23.0)%	(4.1)%	(28.0)%
<i>As a % of revenue (Non-GAAP)</i>		48.9%	61.0%	(12.2)%	(1.7)%	(12.5)%
Diluted net income per share:						
Diluted net loss per share-GAAP						\$ (0.23)
Diluted net loss per share-Non-GAAP						\$ (0.10)
Shares used to compute diluted net income per share:						
GAAP and Non-GAAP						95,575

Q4 2019 GAAP to Non-GAAP Reconciliations (in thousands, except EPS and percentages)



Three months ended December 31, 2019						
	Revenue	Gross Profit	Total Operating Expense	Income from Operations	Total Non-operating expense, net	Net Income
GAAP	\$ 122,178	\$ 61,695	\$ 54,989	\$ 6,706	\$ (2,789)	\$ 5,570
Stock-based compensation	—	297	(3,059)	3,356	—	3,356
Amortization of intangibles	—	1,295	(782)	2,077	—	2,077
Restructuring and related charges	—	668	(1,947)	2,615	—	2,615
Non-cash interest and other expenses related to convertible notes	—	—	—	—	1,796	1,796
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	(3,303)
Total adjustments	—	2,260	(5,788)	8,048	1,796	6,541
Non-GAAP	\$ 122,178	\$ 63,955	\$ 49,201	\$ 14,754	\$ (993)	\$ 12,111
		<i>As a % of revenue (GAAP)</i>				
		50.5%	45.0%	5.5 %	(2.3)%	4.6 %
		<i>As a % of revenue (Non-GAAP)</i>				
		52.3%	40.3%	12.1 %	(0.8)%	9.9 %
Diluted net income per share:						
Diluted net income per share-GAAP						\$ 0.06
Diluted net income per share-Non-GAAP						\$ 0.12
Shares used to compute diluted net income per share:						
GAAP and Non-GAAP						97,499

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>		52.2%	62.7%	(10.5)%	(4.0)%	(14.1)%
<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 income per share:						
GAAP and Non-GAAP						88,165

Adjusted EBITDA Reconciliation (in thousands)

	Three months ended		
	March 27, 2020	December 31, 2019	March 29, 2019
Net income (loss) - GAAP	\$ (21,954)	\$ 5,570	\$ (11,306)
Provision for (benefit from) income taxes	729	(1,653)	(319)
Interest expense, net	2,903	2,789	2,906
Depreciation	2,843	2,807	2,846
Amortization of intangibles	1,655	2,077	2,083
EBITDA	(13,824)	11,590	(3,790)
<i>Adjustments</i>			
Accounting impact related to warrant amortization	—	—	25
Stock-based compensation	6,259	3,356	2,113
Restructuring and related charges	603	2,615	358
Adjusted EBITDA	\$ (6,962)	\$ 17,561	\$ (1,294)

Q2 2020 Guidance GAAP to Non-GAAP Reconciliations (in millions, except EPS and percentages)



	Q2 2020 Financial Guidance					
	Revenue	Gross Profit	Total Operating Expense	Loss from Operations	Total Non-operating Expense, net	Net Loss
GAAP	\$62.0 to \$77.0	\$28.5 to \$36.3	\$49.5 to \$51.5	\$(23.0) to \$(13.0)	\$(3.2)	\$(26.6) to \$(16.8)
Stock-based compensation	—	0.2	(3.4)	3.6	—	3.6
Amortization of intangibles	—	0.1	(0.7)	0.8	—	0.8
Restructuring and related charges	—	0.2	(0.2)	0.4	—	0.4
Non-cash interest and other expenses related to convertible notes	—	—	—	—	1.9	1.9
Tax effect of non-GAAP adjustments	—	—	—	—	—	\$1.5 to \$2.5
Total adjustments	—	0.5	(4.3)	4.8	1.9	\$8.2 to \$9.2
Non-GAAP	\$62.0 to \$77.0	\$29.0 to \$36.8	\$45.0 to \$47.0	\$(18.0) to \$(8.0)	\$(1.3)	\$(17.4) to \$(8.6)
<i>As a % of revenue (GAAP)</i>		46.0% to 47.0%	64.0% to 82.7%	(36.8)% to (16.9)%	(4.2)% to (5.2)%	(43.0)% to (21.9)%
<i>As a % of revenue (Non-GAAP)</i>		47.0% to 48.0%	58.4% to 75.8%	(29.0)% to (10.6)%	(1.7)% to (2.1)%	(28.1)% to (11.2)%
Diluted net loss per share:						
Diluted net loss per share-GAAP						<u>\$(0.28) to \$(0.17)</u>
Diluted net loss per share-Non-GAAP						<u>\$(0.18) to \$(0.09)</u>
Shares used to compute diluted net loss per share:						
GAAP and Non-GAAP						<u>96,777</u>

Adjusted EBITDA Reconciliation on Financial Guidance (in millions)



	Q2 2020 Financial Guidance
Net loss - GAAP	\$(26.6) to \$(16.8)
Provision for income taxes	0.6
Interest expense, net	2.9
Depreciation	2.9
Amortization of intangibles	0.8
EBITDA	\$(19.4) to \$(9.6)
<i>Adjustments</i>	
Stock-based compensation	3.6
Restructuring and related charges	0.4
Adjusted EBITDA	\$(15.5) to \$(5.5)