



THIRD QUARTER 2019 Earnings Conference Call

Patrick Harshman, President & CEO
Sanjay Kalra, CFO

October 28, 2019

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

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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 2019 and beyond, and our Q4 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.



Record financial
results



Extended CableOS
leadership



Executing Video
transformation



Refinanced
convertible debt



Record **Revenue and Profit***

- \$55.7 million revenue
- \$42.9 million gross profit
- Full year guidance raised



Executing Growth Strategy

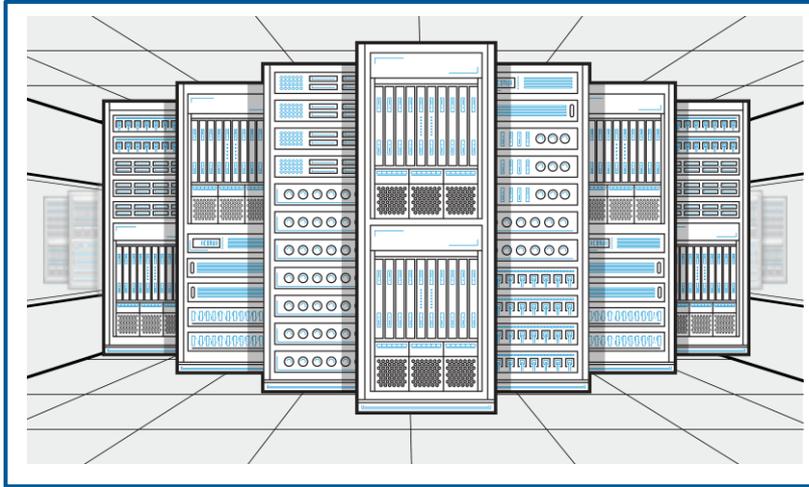
- Commercially deployed with 19 customers
 - 935,000+ cable modems served globally, up 20% sequentially
- International Tier 1 revenue ramps in Q4
- Expanding addressed market with FTTH + DOCSIS convergence
- Leading industry transformation

* Non-GAAP

Virtualization Is New Market Reality

Harmonic Customers Reporting Disruptive Operational Benefits

192 Service Groups



70%

Power Savings

20 > 1

Rack Reduction

30m > 15s

Mean Time to Detect

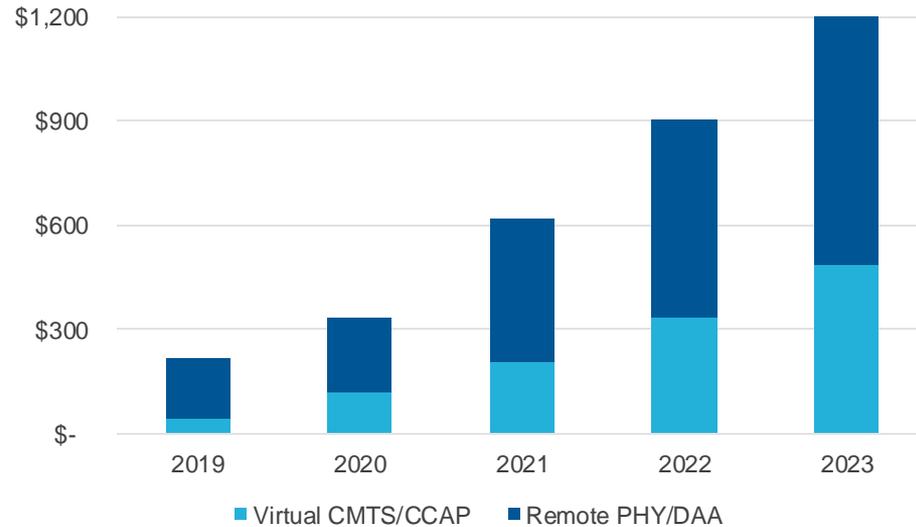
20,000 > 70

HHP Reach from
Targeted SW Upgrades

Virtualization Market Poised For Growth

Harmonic CableOS Leading the Market

vCMTS & Remote PHY Revenue **Market Growth Forecast (\$M)***



Remote PHY / DAA

vCMTS Software

*Source: Dell'Oro | July 2019 Report



Solid **Financial Outlook***

- Revenue \$60.0 million
- Gross margin 57.7%, reflecting software transition
- Raising Q4 guidance, full-year profit plan on track



Executing **Live Streaming Growth Strategy**

- Live streaming business continues to grow, offsetting declining broadcast sales
- Added 8 new SaaS streaming customers, total up 29% sequentially and 140% year over year
- New CDN optimization solution for live streaming expands addressed market

* Non-GAAP

Expanding Live OTT Customer Base

Powered by **Harmonic VOS®** Cloud-Native Platform



New mobile OTT service
in Indonesia



New live OTT streaming
of open-wheel racing in North
America



New subscription-based online
TV service in the United States



New premium and
24/7 OTT channels on hybrid
cloud platform



24/7/365 online auction
shopping network



Financial Results and Outlook

Sanjay Kalra, CFO

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Solid **Financial Results***

- Revenue was a record \$115.7 million
- Gross Margins were a record 67%
- Non-GAAP EPS of \$0.25
- Cash of \$66.7 million
- Refinanced convertible debt with significantly improved terms



Increased **Guidance for Key Financial Metrics**

- Q4 - improved revenue, operating income, EPS ranges
- FY'19 - improved revenue, operating income, EPS ranges

* Non-GAAP

Q3 2019 Financial Highlights*



Delivered 14% Y/Y Revenue Growth

Revenue Growth Driven by our Cable Access Segment

Financial Metric \$ Millions (except EPS)	Q3 2019	Q2 2019	Q3 2018	Q3/Q2 Change	Q3 Y/Y Change
Total Net Revenue	\$115.7	\$84.9	\$101.4	36.3%	14.1%
Cable Revenue	\$55.7	\$13.3	\$28.1	319.7%	98.4%
Video Revenue	\$60.0	\$71.6	\$73.3	(16.2)%	(18.1)%
Gross Margin %	67.0%	53.6%	52.1%	13.4%	14.9%
Cable Gross Margin%	77.1%	30.8%	38.7%	46.3%	38.4%
Video Gross Margin%	57.7%	57.9%	57.2%	(0.2)%	0.5%
Total Net Revenue	\$115.7	\$84.9	\$101.4	36.3%	14.1%
Appliance and integration	\$83.1	\$54.5	\$72.7	52.6%	14.2%
SaaS and service	\$32.6	\$30.4	\$28.7	7.2%	13.9%
SaaS and service revenue as a % of total revenue	28.2%	35.9%	28.3%	(7.7)%	(0.1)%
SaaS and service gross margin %	60.6%	62.6%	60.9%	(2.0)%	(0.3)%
SaaS customers	36	28	15	29%	140%

Q3 2019 Financial Highlights*



Delivered Record Profitability & Y/Y EPS Growth in Q3

Financial Metric \$ Millions (except EPS)	Q3 2019	Q2 2019	Q3 2018	Q3/Q2 Change	Q3 Y/Y Change
Operating Expenses	\$47.7	\$48.3	\$47.2	(1.4)%	1.1%
Operating Income (loss)	\$29.9	\$(2.8)	\$5.7	\$32.7	\$24.2
Diluted Share Count	97.6	88.9	87.8	8.7	9.8
EPS	\$0.25	\$(0.04)	\$0.04	\$0.29	\$0.21
Bookings	\$126.5	\$92.6	\$79.5	36.6%	59.1%
Book to bill ratio	1.1	1.1	0.8	0.2%	39.4%

* Non-GAAP

Q3 2019 Balance Sheet & Cash Flow Highlights



Solid Balance Sheet with Cash Generation

Financial Metric \$ Millions	Q3 2019	Q2 2019	Q3 2018
Cash	\$66.7	\$58.1	\$61.7
Cash Provided by (Used in) Operations	\$5.8	\$(8.8)	\$2.4
Accounts Receivable	\$100.9	\$70.6	\$78.0
DSO	78	75	70
Inventories	\$29.0	\$27.7	\$23.3
Inventory Days	68	63	43
Backlog and Deferred Revenue	\$192.5	\$194.7	\$207.6

Q4 2019 Financial Guidance Highlights*

Improved Revenue, Operating Income and EPS ranges
Expect to deliver solid profitability in Q4

Financial Metric	Prior Guidance	Updated Guidance	
Total Revenue (\$M)	\$100 - \$110	\$108 - \$118	↑
Video Segment (\$M)	\$70 - \$75	\$78 - \$83	↑
Cable Access Segment (\$M)	\$30 - \$35	\$30 - \$35	
Gross Margin (\$M)	51.0% - 52.5%	51.0% - 52.5%	
Operating Expenses (\$M)	\$48 - \$50	\$48 - \$50	
Operating Income (\$M)	\$1- \$10	\$5- \$14	↑
EPS	\$(0.01) - \$0.07	\$0.03 - \$0.11	↑
Cash (\$M)	\$90 - \$100	\$90 - \$100	

* Non-GAAP

Full Year 2019 Financial Guidance Highlights*

Improved Revenue, Gross Margin, Operating Income, EPS ranges
Expect to deliver solid EPS improvement YoY

Financial Metric	Prior Guidance	Updated Guidance	
Total Revenue (\$M)	\$375 - \$395	\$389 - \$399	↑
Video Segment (\$M)	\$272 - \$282	\$277 - \$282	↑
Cable Access Segment (\$M)	\$103 - \$113	\$112 - \$117	↑
Gross Margin (\$M)	56.0% - 57.5%	57.0% - 57.5%	↑
Operating Expenses (\$M)	\$192 - \$196	\$191.5 - \$193.5	
Operating Income (\$M)	\$15 - \$35	\$28.5 - \$37.5	↑
EPS	\$0.07 - \$0.26	\$0.20 - \$0.29	↑
Cash (\$M)	\$90 - \$100	\$90 - \$100	

* Non-GAAP



Cable Access

1. Execute Tier 1 roll-outs
2. Secure new CableOS design wins
3. Scale the business



Video

1. Expand live OTT customer base
2. Grow expanded streaming solutions
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 restructuring and related charges, Cable Access inventory charge, Avid litigation settlement and associated legal fees and non-cash items, such as warrant amortization, loss on debt extinguishment, stock-based compensation expense, amortization of intangibles, non-cash interest and other expenses on convertible debt, gain (loss) on equity investments and adjustments that normalize the tax rate.

Q3 2019 GAAP to Non-GAAP Reconciliations

(in thousands, except EPS and percentages)



Three months ended September 27, 2019

	Revenue	Gross Profit	Total Operating Expense	Loss from Operations	Total Non-operating Expense, net	Net Income
GAAP	\$ 115,725	\$ 75,540	\$ 52,991	\$ 22,549	\$ (10,289)	\$ 11,657
Stock-based compensation	—	405	(3,689)	4,094	—	4,094
Amortization of intangibles	—	1,295	(785)	2,080	—	2,080
Restructuring and related charges	—	331	(861)	1,192	—	1,192
Loss on convertible debt extinguishment	—	—	—	—	5,695	5,695
Non-cash interest and other expenses related to convertible notes	—	—	—	—	2,625	2,625
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	(2,751)
Total adjustments	\$ —	\$ 2,031	\$ (5,335)	\$ 7,366	\$ 8,320	\$ 12,935
Non-GAAP	\$ 115,725	\$ 77,571	\$ 47,656	\$ 29,915	\$ (1,969)	\$ 24,592
		<i>As a % of revenue (GAAP)</i>				
		65.3%	45.8%	19.5 %	(8.9)%	10.1 %
		<i>As a % of revenue (Non-GAAP)</i>				
		67.0%	41.2%	25.9 %	(1.7)%	21.3 %
Diluted net income per share:						
Diluted net income per share-GAAP						\$ 0.12
Diluted net income per share-Non-GAAP						\$ 0.25
Shares used to compute diluted net loss per share:						
GAAP and Non-GAAP						97,596

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



Three months ended June 28, 2019

	Revenue	Gross Profit	Total Operating Expense	Loss from Operations	Total Non-operating Expense, net	Net Loss	
GAAP	\$ 84,865	\$ 43,928	\$ 51,692	\$ (7,764)	\$ (3,384)	\$ (11,845)	
Accounting impact related to warrant amortization	23	23	—	23	—	23	
Stock-based compensation	—	193	(2,317)	2,510	—	2,510	
Amortization of intangibles	—	1,295	(784)	2,079	—	2,079	
Restructuring and related charges	—	91	(277)	368	—	368	
Non-cash interest and other expenses related to convertible notes	—	—	—	—	1,656	1,656	
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	1,238	
Total adjustments	\$ 23	\$ 1,602	\$ (3,378)	\$ 4,980	\$ 1,656	\$ 7,874	
Non-GAAP	\$ 84,888	\$ 45,530	\$ 48,314	\$ (2,784)	\$ (1,728)	\$ (3,971)	
		<i>As a % of revenue (GAAP)</i>	<i>51.8%</i>	<i>60.9%</i>	<i>(9.1)%</i>	<i>(4.0)%</i>	<i>(14.0)%</i>
		<i>As a % of revenue (Non-GAAP)</i>	<i>53.6%</i>	<i>56.9%</i>	<i>(3.3)%</i>	<i>(2.0)%</i>	<i>(4.7)%</i>
Diluted net loss per share:							
Diluted net loss per share-GAAP						\$ (0.13)	
Diluted net loss per share-Non-GAAP						\$ (0.04)	
Shares used to compute diluted net loss per share:							
GAAP and Non-GAAP						88,931	

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)
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 and other 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

YTD Q3 2019 GAAP to Non-GAAP Reconciliations

(in thousands, except EPS and percentages)



Nine months ended September 27, 2019

	Revenue	Gross Profit	Total Operating Expense	Income from Operations	Total Non-operating Expense	Net Income (Loss)	
GAAP	\$ 280,696	\$ 161,317	\$ 154,940	\$ 6,377	\$ (16,890)	\$ (11,494)	
Accounting impact related to warrant amortization	48	48	—	48	—	48	
Stock-based compensation	—	823	(7,894)	8,717	—	8,717	
Amortization of intangibles	—	3,885	(2,357)	6,242	—	6,242	
Restructuring and related charges	—	723	(1,195)	1,918	—	1,918	
Loss on debt extinguishment	—	—	—	—	5,695	5,695	
Non-cash interest and other expenses related to convertible notes	—	—	—	—	5,887	5,887	
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	(1,179)	
Total adjustments	\$ 48	\$ 5,479	\$ (11,446)	\$ 16,925	\$ 11,582	\$ 27,328	
Non-GAAP	\$ 280,744	\$ 166,796	\$ 143,494	\$ 23,302	\$ (5,308)	\$ 15,834	
		<i>As a % of revenue (GAAP)</i>	<i>57.5%</i>	<i>55.2%</i>	<i>2.3 %</i>	<i>(6.0)%</i>	<i>(4.1)%</i>
		<i>As a % of revenue (Non-GAAP)</i>	<i>59.4%</i>	<i>51.1%</i>	<i>8.3 %</i>	<i>(1.9)%</i>	<i>5.6 %</i>
Diluted net income (loss) per share:							
Diluted net loss per share-GAAP						\$ (0.13)	
Diluted net income per share-Non-GAAP						\$ 0.17	
Shares used to compute diluted net income (loss) per share:							
GAAP						89,030	
Non-GAAP						92,579	

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 Income (Loss)
GAAP	\$ 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 and other 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
Total adjustments	\$ 1,185	\$ 7,531	\$ (17,719)	\$ 25,250	\$ 4,372	\$ 31,165
Non-GAAP	\$ 291,088	\$ 156,419	\$ 143,505	\$ 12,914	\$ (4,818)	\$ 6,800
	<i>As a % of revenue (GAAP)</i>	51.4%	55.6%	(4.3)%	(3.2)%	(8.4)%
	<i>As a % of revenue (Non-GAAP)</i>	53.7%	49.3%	4.4 %	(1.7)%	2.3 %
Diluted net income (loss) per share:						
	Diluted net loss per share-GAAP					\$ (0.29)
	Diluted net income per share-Non-GAAP					\$ 0.08
Shares used to compute diluted net income (loss) per share:						
	GAAP					85,188
	GAAP and Non-GAAP					85,962

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



Q4 2019 Financial Guidance

	Revenue	Gross Profit	Total Operating Expense	Income (Loss) from Operations	Total Non-operating Expense, net	Net Income (Loss)
GAAP	\$108.0 to \$118.0	\$53.5 to \$60.4	\$52.2 to \$54.2	\$(0.7) to \$8.2	\$(3.3)	\$(4.6) to \$4.3
Stock-based compensation	—	0.3	(3.2)	3.5	—	3.5
Amortization of intangibles	—	1.3	(0.8)	2.1	—	2.1
Restructuring and related charges	—	—	(0.2)	0.2	—	0.2
Non-cash interest and other expenses related to convertible notes	—	—	—	—	1.8	1.8
Tax effect of non-GAAP adjustments	—	—	—	—	—	\$(0.9) to \$0.2
Total adjustments	—	1.6	(4.2)	5.8	1.8	\$6.7 to \$7.8
Non-GAAP	\$108.0 to \$118.0	\$55.1 to \$62.0	\$48.0 to \$50.0	\$5.1 to \$14.0	\$(1.5)	\$3.2 to \$11
<i>As a % of revenue (GAAP)</i>		49.5% to 51.1%	44.2% to 50.2%	(0.7)% to 6.9%	(2.8)%	(4.3)% to 3.6%
<i>As a % of revenue (Non-GAAP)</i>		51.0% to 52.5%	40.7% to 46.3%	4.7% to 11.8%	(1.3)%	2.9% to 9.3%
Diluted net income (loss) per share:						
Diluted net income (loss) per share-GAAP						\$(0.05) to \$0.04
Diluted net income per share-Non-GAAP						\$0.03 to \$0.11
Shares used to compute diluted net loss per share:						
GAAP						90.5
Shares used to compute diluted net income per share:						
GAAP and Non-GAAP						95.8

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



2019 Financial Guidance

	Revenue	Gross Profit	Total Operating Expense	Income from Operations	Total Non-operating Expense, net	Net Income (Loss)
GAAP	\$388.7 to \$398.7	\$214.9 to \$221.8	\$207.0 to \$209.0	\$5.9 to \$14.8	\$(20.2)	\$(16.0) to \$(7.1)
Stock-based compensation	—	1.1	(11.1)	12.2	—	12.2
Amortization of intangibles	—	5.2	(3.1)	8.3	—	8.3
Restructuring and related charges	—	0.7	(1.4)	2.1	—	2.1
Non-cash interest and other expenses related to convertible notes	—	—	—	—	13.4	13.4
Tax effect of non-GAAP adjustments	—	—	—	—	—	\$(2.0) to \$(0.9)
Total adjustments	—	7.0	(15.6)	22.6	13.4	\$34.0 to \$35.1
Non-GAAP	\$388.7 to \$398.7	\$221.9 to \$228.8	\$191.4 to \$193.4	\$28.5 to \$37.4	\$(6.8)	\$19.1 to \$26.9
<i>As a % of revenue (GAAP)</i>		55.3% to 55.6%	51.9% to 53.8%	1.5% to 3.7%	(5.1)%	(4.1)% to (1.8)%
<i>As a % of revenue (Non-GAAP)</i>		57.1% to 57.4%	48.0% to 49.8%	7.3% to 9.4%	(1.7)%	4.9% to 6.7%
Diluted net income (loss) per share:						
Diluted net loss per share-GAAP						\$(0.18) to \$(0.08)
Diluted net income per share-Non-GAAP						\$0.20 to \$0.29
Shares used to compute diluted net loss per share:						
GAAP						89.9
Shares used to compute diluted net income per share:						
Non-GAAP						93.8