



Third Quarter 2016 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 2016 and beyond, and our Q4 and full year 2016 financial outlook. 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.

Q3 2016 Results* Summary



- Revenue \$102M
 - Down 8% sequentially (Video up modestly; Cable Edge down 47%)
 - Up 22% year-over-year (Video up 28%; Cable Edge down 12%)
- Bookings \$97M
 - Down 17% sequentially, up 30% year-over-year
 - Seasonal weakness
 - Near record \$181M backlog and deferred revenue
- Gross Margin 52.5%
 - Down 0.5% sequentially
- EPS \$(0.01)
 - Video business profitable and on track
 - Cable Edge business loss in advance of new product ramp

* Non-GAAP financial results

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Video Business Update

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- Video segment growing
 - Revenue up 13% YTD
 - Bookings up 30% YTD
 - Rebound in global Pay TV projects, esp. OTT
- Video segment increasingly profitable
 - Op margin up sequentially, y-o-y; projecting >10% in 2017
 - TVN synergies and integration on track
- New business drivers gaining momentum
 - First Tier 1 cloud streaming win
 - >\$2M SaaS agreements signed
 - 4K / UHD and high dynamic range (HDR) demand starting to build

VOS™ CLOUD

VOS™ 360



Positioned for sustainable growth and improving profitability

Cable Edge Business Update



- Launched new CableOS platform
 - Game-changing innovation based on scalable software
 - Very positive customer response
 - Expanding field trial activity
 - First revenue shipments in Q4
 - Comcast warrant agreement bolsters momentum
- Softening legacy EdgeQAM demand
 - Customer engagements transitioning to CableOS



Targeting Leadership in >\$2B Market

Financial Update



- Softer than expected Q3 revenue
 - Decline in legacy cable edge bookings
 - Stronger mix of software and services extended conversion from bookings to revenue
- Video business is on a positive path
 - Healthy backlog
 - Progress transitioning to software, merchant silicon, cloud
- Expected Thomson integration synergies, restructuring
 - Annualized cost synergies of \$24-25M, up from initial target of \$20M
 - Integration and restructuring charge of \$31-\$33M, up from initial target of \$20M
 - Cash impact of \$28-\$30M, \$20M in 2016
- Comcast warrant agreement
 - Balance sheet adjustment of approximately \$1.6M to account for warrants issued in Q3

Q3 2016 Financial Highlights*



\$ Millions (except GM & EPS)	Q3 2016	Q2 2016	Q3 2015	Q3 / Q2 Change	Q3 Y/Y Change	Q3 2016 YTD	Q3 2015 YTD	Q3 YTD Change
Total Net Revenue	\$101.7	\$110.3	\$83.3	-8%	22%	\$294.5	\$290.4	1%
- Video Revenue	\$91.7	\$91.3	\$71.9	0%	28%	\$248.6	\$219.4	13%
- Cable Edge Revenue	\$10.0	\$19.0	\$11.4	-47%	-12%	\$45.9	\$71.0	-35%
Gross Margin %	52.5%	53.0%	56.3%	-0.5%	-3.8%	52.3%	54.3%	-2.0%
Operating Expense	\$52.9	\$57.7	\$47.3	-8%	12%	\$161.2	\$146.8	10%
Operating Income (Loss)	\$0.4	\$0.8	(\$0.4)	-\$0.4	\$0.8	(\$7.1)	\$11.0	-165%
EPS	(\$0.01)	\$0.00	\$0.00	-\$0.01	-\$0.01	(\$0.12)	\$0.10	-\$0.22
Bookings	\$97.3	\$117.3	\$74.6	-17%	30%	\$324.2	\$271.2	20%
Book to Bill	1.0	1.1	0.9	-9%	11%	1.1	0.9	22%

*Non-GAAP financial highlights

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Q3 2016 Balance Sheet Highlights



	\$ Millions	
Cash and short-term investments	\$52.7	
Accounts Receivable	\$99.1	89 days
Inventories	\$35.8	65 days
Cash From Operations	-\$4.6	
Backlog and Deferred	\$181.1	

Q4 2016 Financial Guidance



\$ Millions (except EPS)	Video	Cable Edge	Q3 2016
Non-GAAP Revenue	\$97 - \$100	\$9 - \$11	\$106 - \$111
Non-GAAP Gross Margin	55.0% - 56.0%	36.0% - 37.0%	53.0% - 54.0%
Non-GAAP Operating Expenses			\$50 - \$52
Non-GAAP Operating Income			\$6 - \$8
Non-GAAP EPS			\$0.05 - \$0.07
Non-GAAP Tax Rate			15%
Shares, millions			79
Cash and short-term investments on hand at quarter-end			\$60 - \$65

Executing on 2016 Strategic Priorities



Video Business

- Delivering bookings, revenue and earnings growth
- New cloud, SaaS and 4K results point to upside
- On track for double-digit operating income in Q4 and 2017

Cable Edge Business

- Entering >\$2B CCAP market via disruptive software platform
- Comcast agreement highlights credibility and opportunity
- Q4 field trials and first customer shipments on track

Entering new phase of growth, profitability and shareholder value



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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, gross profit, operating expenses, income (loss) from operations, total net non-operating income (expense) and 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 and TVN inventory valuation, TVN acquisition and integration related costs, restructuring and related charges, Cable Edge inventory charge and non-cash items, such as impairment of long-term investment, stock-based compensation expense, amortization of intangibles, non-cash interest expenses on convertible debt and adjustments that normalize the tax rate.

Q3 2016 GAAP to Non-GAAP Reconciliations (in thousands, except EPS)



	Revenue	Gross Profit	Total Operating Expense	Income (loss) from Operations	Total Non-operating Income (expense), net	Net loss
GAAP	\$ 101,406	\$ 51,363	\$ 63,296	\$ (11,933)	\$ (4,321)	\$ (16,012)
Cable Edge inventory charge	—	(159)	—	(159)	—	(159)
Acquisition accounting impact related to TVN deferred revenue	325	325	—	325	—	325
Stock-based compensation in cost of revenue	—	360	—	360	—	360
Stock-based compensation in research and development	—	—	(771)	771	—	771
Stock-based compensation in selling, general and administrative	—	—	(1,549)	1,549	—	1,549
Amortization of intangibles	—	1,380	(3,009)	4,389	—	4,389
Restructuring and related charges	—	(1)	27	(28)	—	(28)
TVN acquisition and integration-related costs	—	119	(5,051)	5,170	98	5,268
Loss on impairment of long-term investment	—	—	—	—	1,259	1,259
Non-cash interest expenses related to convertible notes	—	—	—	—	1,252	1,252
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	(52)
Non-GAAP	<u>\$ 101,731</u>	<u>\$ 53,387</u>	<u>\$ 52,943</u>	<u>\$ 444</u>	<u>\$ (1,712)</u>	<u>\$ (1,078)</u>
<i>As a % of revenue (GAAP)</i>		50.7 %	62.4 %	(11.8)%	(4.3)%	(15.8)%
<i>As a % of revenue (Non-GAAP)</i>		52.5 %	52.0 %	0.4 %	(1.7)%	(1.1)%
Diluted net loss per share:						
Diluted net loss per share-GAAP						\$ (0.21)
Diluted net loss per share-Non-GAAP						<u>\$ (0.01)</u>
Shares used to compute diluted net loss per share:						
GAAP and Non-GAAP						<u>78,092</u>

Q2 2016 GAAP to Non-GAAP Reconciliations (in thousands, except EPS)



	Revenue	Gross Profit	Total Operating Expense	Income (loss) from Operations	Total Non-operating Income (expense), net	Net Loss
GAAP	\$ 109,571	\$ 51,040	\$ 69,158	\$ (18,118)	\$ (2,319)	\$ (20,679)
Cable Edge inventory charge	—	4,519	—	4,519	—	4,519
Acquisition accounting impacts related to TVN deferred revenue	780	780	—	780	—	780
Stock-based compensation in cost of revenue	—	424	—	424	—	424
Stock-based compensation in research and development	—	—	(841)	841	—	841
Stock-based compensation in selling, general and administrative	—	—	(1,503)	1,503	—	1,503
Amortization of intangibles	—	1,307	(4,232)	5,539	—	5,539
Restructuring and related charges	—	6	(1,903)	1,909	—	1,909
TVN acquisition and integration-related costs	—	433	(2,970)	3,403	—	3,403
Non-cash interest expenses related to convertible notes	—	—	—	—	1,233	1,233
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	285
Non-GAAP	\$ 110,351	\$ 58,509	\$ 57,709	\$ 800	\$ (1,086)	\$ (243)
<i>As a % of revenue (GAAP)</i>		46.6%	63.1%	(16.5)%	(2.1)%	(18.9)%
<i>As a % of revenue (Non-GAAP)</i>		53.0%	52.3%	0.7%	(1.0)%	(0.2)%
Diluted net loss per share:						
Diluted net loss per share-GAAP						\$ (0.27)
Diluted net loss per share-Non-GAAP						\$ 0.00
Shares used to compute diluted net loss per share:						
GAAP and Non-GAAP						77,342

Q3 2015 GAAP to Non-GAAP Reconciliations (in thousands, except EPS)



	Revenue	Gross Profit	Total Operating Expense	Loss from Operations	Total Non-operating Income (expense), net	Net Loss
GAAP	\$ 83,305	\$ 46,231	\$ 52,488	\$ (6,257)	\$ 178	\$ (4,811)
Stock-based compensation in cost of revenue	—	433	—	433	—	433
Stock-based compensation in research and development	—	—	(1,074)	1,074	—	1,074
Stock-based compensation in selling, general and administrative	—	—	(2,320)	2,320	—	2,320
Amortization of intangibles	—	86	(1,446)	1,532	—	1,532
Restructuring and related charges	—	113	(397)	510	—	510
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	(1,224)
Non-GAAP	\$ 83,305	\$ 46,863	\$ 47,251	\$ (388)	\$ 178	\$ (166)
<i>As a % of revenue (GAAP)</i>		55.5 %	63.0 %	(7.5) %	0.2 %	(5.8) %
<i>As a % of revenue (Non-GAAP)</i>		56.3 %	56.7 %	(0.5) %	0.2 %	(0.2) %
Diluted net income (loss) per share:						
Diluted net loss per share-GAAP						\$ (0.05)
Diluted net loss per share-Non-GAAP						\$ 0.00
Shares used to compute diluted net loss per share:						
GAAP and Non-GAAP						87,991

Q3 YTD 2016 GAAP to Non-GAAP Reconciliations (in thousands, except EPS)



	Revenue	Gross Profit	Total Operating Expense	Income (loss) from Operations	Total Non-operating Income (expense), net	Net Loss
GAAP	\$ 292,809	\$ 143,057	\$ 193,864	\$ (50,807)	\$ (10,546)	\$ (61,871)
Cable Edge inventory charge	—	4,360	—	4,360	—	4,360
Acquisition accounting impacts related to TVN deferred revenue	1,728	1,728	—	1,728	—	1,728
Acquisition accounting impacts related to TVN fair value of inventory	—	189	—	189	—	189
Stock-based compensation in cost of revenue	—	1,011	—	1,011	—	1,011
Stock-based compensation in research and development	—	—	(2,581)	2,581	—	2,581
Stock-based compensation in selling, general and administrative	—	—	(4,950)	4,950	—	4,950
Amortization of intangibles	—	3,105	(9,606)	12,711	—	12,711
Restructuring and related charges	—	(24)	(4,488)	4,464	—	4,464
TVN acquisition and integration-related costs	—	610	(11,059)	11,669	98	11,767
Loss on impairment of long-term investment	—	—	—	—	2,735	2,735
Non-cash interest expenses related to convertible notes	—	—	—	—	3,672	3,672
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	2,197
Non-GAAP	\$ 294,537	\$ 154,036	\$ 161,180	\$ (7,144)	\$ (4,041)	\$ (9,506)
<i>As a % of revenue (GAAP)</i>		48.9 %	66.2 %	(17.4)%	(3.6)%	(21.1)%
<i>As a % of revenue (Non-GAAP)</i>		52.3 %	54.7 %	(2.4)%	(1.4)%	(3.2)%

Diluted net loss per share:

Diluted net loss per share-GAAP	\$ (0.80)
Diluted net loss per share-Non-GAAP	\$ (0.12)
Shares used to compute diluted net loss per share:	
GAAP and Non-GAAP	<u>77,475</u>

Q3 YTD 2015 GAAP to Non-GAAP Reconciliations (in thousands, except EPS)



	Revenue	Gross Profit	Total Operating Expense	Income (loss) from Operations	Total Non-operating Income (expense), net	Net Income (Loss)
GAAP	\$ 290,424	\$ 155,644	\$ 162,231	\$ (6,587)	\$ (2,702)	\$ (8,462)
Stock-based compensation in cost of revenue	—	1,383	—	1,383	—	1,383
Stock-based compensation in research and development	—	—	(3,249)	3,249	—	3,249
Stock-based compensation in selling, general and administrative	—	—	(7,213)	7,213	—	7,213
Amortization of intangibles	—	633	(4,338)	4,971	—	4,971
Restructuring and related charges	—	113	(626)	739	—	739
Loss on impairment of long-term investment	—	—	—	—	2,505	2,505
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	(3,089)
Non-GAAP	\$ 290,424	\$ 157,773	\$ 146,805	\$ 10,968	\$ (197)	\$ 8,509
<i>As a % of revenue (GAAP)</i>		53.6 %	55.9 %	(2.3)%	(0.9)%	(2.9)%
<i>As a % of revenue (Non-GAAP)</i>		54.3 %	50.5 %	3.8 %	(0.1)%	2.9 %

Diluted net loss per share:

Diluted net loss per share-GAAP \$ (0.10)

Diluted net income per share-Non-GAAP \$ 0.10

Shares used to compute diluted net income (loss) per share:

GAAP 88,359

Non-GAAP 89,410

Q4 2016 Guidance GAAP to Non-GAAP Reconciliations (in millions, except EPS)



	Revenue	Gross Profit	Total Operating Expense	Income(loss) from Operations	Total Non-operating Income (expense), net	Net Income(loss)
GAAP	\$105.8 to \$110.8	\$51.0 to \$55.0	\$64.5 to \$66.5	\$(13.5) to \$(11.5)	(\$2.6)	(\$16.0) to (\$14.0)
Acquisition accounting impact related to TVN deferred revenue	0.2	0.2	—	0.2	—	0.2
Stock-based compensation expense	—	0.6	(3.8)	4.4	—	4.4
Amortization of intangibles	—	1.4	(1.0)	2.4	—	2.4
Restructuring and related charges and TVN acquisition/integration costs	—	2.8	(9.8)	12.6	—	12.6
Non-cash interest expense related to convertible notes	—	—	—	—	1.3	1.3
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	(0.8)
	0.2	5.0	(14.6)	19.6	(\$1.3)	20.1
Non-GAAP	\$106.0 to \$111.0	\$56.0 to \$60.0	\$50.0 to \$52.0	\$6.0 to \$8.0	(\$1.3)	\$4.0 to \$6.0
<i>As a % of revenue (GAAP)</i>		48% to 49%	60% to 61%	(13)% to (11)%	(2)%	(15)% to (13)%
<i>As a % of revenue (Non-GAAP)</i>		53% to 54%	46.0% to 47%	6% to 7.0%	(1)%	4% to 5.0%
Diluted income (loss) per share:						
Diluted net loss per share-GAAP						\$(0.20) to \$(0.18)
Diluted net income per share-Non-GAAP						\$0.05 to \$0.07
Shares used to compute diluted income (loss) per share:						
GAAP and Non-GAAP						79.0

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