



# Fourth Quarter and Year End 2015 Earnings Conference Call

February 16, 2016

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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, the closing of the TVN acquisition, and our Q1 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](http://www.harmonicinc.com).

# Q4 2015 Results Summary



- Revenue \$87M
  - Up 4% sequentially
- Bookings \$101M
  - Up 35% sequentially
  - Driven by international and video business
- Gross margin 55%
  - Down 1% sequentially from record Q3
- EPS \$0.01 (non-GAAP)
  - Up from breakeven in Q3

# Q4 2015 Video Business Update



- Improving demand trends
  - Rebound in global service provider activity
- Continuing shift to software
  - Harmonic VOS being embraced for both traditional pay TV and OTT
- Position bolstered by Thomson Video Networks acquisition



# Thompson Video Networks Acquisition Update

- Positive customer response
  - Scale, quality, innovation
- Accelerates strategy
  - Consolidates technology and market leadership
  - Accretive in first year
- Expected to close by April 1



# 4Q 2015 Cable Edge Business Update



- CableOS program on track
  - Successful DOCSIS 3.1 interoperability at CableLabs
  - First financial commitment from Tier 1 international customer
  - First revenue shipments in second half of 2016



Cable OS<sup>®</sup>

- Legacy EdgeQAM demand flat
  - Steady, modest demand in U.S. and overseas

# Q4 2015 Financial Highlights



\$ Millions (except GM & EPS)	Q4 2015	Q3 2015	Q4 2014	Q4 / Q3 Change	Q4 Y/Y Change
Total Net Revenue	\$86.6	\$83.3	\$107.9	4%	-20%
- Video Revenue	\$72.4	\$71.9	\$86.9	1%	-17%
- Cable Edge Revenue	\$14.2	\$11.4	\$20.9	24%	-32%
Gross Margin % – Non-GAAP	55.0%	56.3%	54.1%	-1.3%	.9%
Operating Expense – Non-GAAP	\$46.7	\$47.3	\$51.6	-1%	-9%
Operating Income – Non-GAAP	\$1.0	-\$0.4	\$6.7	\$1.3	-\$5.7
EPS – Non-GAAP	\$0.01	\$0.00	\$0.06	\$0.01	-\$0.05
Bookings	\$101.0	\$74.6	\$121.1	35%	-17%
Book to Bill	1.2	0.9	1.1	33%	9%

# Q4 2015 Balance Sheet Highlights



	\$ Millions	
Cash	\$152.8	
Accounts Receivable	\$69.5	73 days
Inventories	\$38.8	91 days
Cash From Operations	-\$2.2	
Shares Repurchased	\$52.9	11.6M Shares
Backlog and Deferred	\$120.1	

# Q1 2016 Financial Guidance



\$ Millions (except EPS)	Video	Cable Edge	Q1 2016
Revenue	\$70 - \$72	\$12 - \$14	\$82 - \$86
Non-GAAP Gross Margin			54% - 55%
Non-GAAP Operating Expenses			\$46 - \$48
Non-GAAP Operating Income			\$(2) - \$(1)
Non-GAAP EPS			\$(0.03) - \$(0.02)
Non-GAAP Tax Rate			15%
Shares, millions			79
See total company reconciliation of GAAP to Non-GAAP			

# 2016 Financial Guidance



\$ Millions, except EPS	Thomson	Video	Cable Edge	2016
Revenue	\$55 - \$60	\$290 - \$295	\$55 - \$60	\$400 - \$415
Non-GAAP Gross Margin	47% - 50%	57% - 58%	45% - 47%	~55%
Non-GAAP Operating Expenses				\$208 - \$212
Non-GAAP Operating Income				\$14 - \$16
Non-GAAP EPS				\$0.09 - \$0.12
Non-GAAP Tax Rate				15%
Shares, millions				80
See total company reconciliation of GAAP to Non-GAAP				

# 2016 Strategic Priorities



## Video Business

- Lead in software and OTT market transitions
- Integrate TVN to extend global market leadership and drive earnings accretion

## Cable Edge Business

- Enter DOCSIS 3.1 CCAP market via new CableOS platform
- Secure multiple CableOS Tier 1 wins

## Corporate

- Deliver revenue, gross margin and earnings growth
- Exit the year with double-digit operating margin



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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 gross profit, operating expenses, income (loss) from operations and net income (loss) (including those amounts as a percentage of revenue), 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 restructuring and related charges, acquisition transaction costs, and non-cash items, such as stock-based compensation expense, amortization of intangibles, impairment of long-term investment, non-cash interest expenses on convertible debt and adjustments that normalize the tax rate.

# Q4 2015 GAAP to Non-GAAP Reconciliations

(in thousands, except EPS)



	Three months ended			
	December 31, 2015			
	Gross Profit	Total Operating Expense	income (Loss) from Operations	Net Income (Loss)
<b>GAAP</b>	\$ 47,068	\$ 53,429	\$ (6,361)	\$ (7,199)
Stock-based compensation in cost of revenue	479	-	479	479
Stock-based compensation in research and development	-	(1,186)	1,186	1,186
Stock-based compensation in selling, general and administrative	-	(2,072)	2,072	2,072
Amortization of intangibles	86	(1,445)	1,531	1,531
Restructuring and impairment charges	-	(746)	746	746
TVN acquisition costs	-	(1,309)	1,309	1,309
Non-cash interest expense related to convertible debt	-	-	-	184
Discrete tax items and tax effect of non-GAAP adjustments	-	-	-	266
<b>Non-GAAP</b>	\$ 47,633	\$ 46,671	\$ 962	\$ 574
<i>As a % of revenue (GAAP)</i>	54.3%	61.7%	-7.3%	-8.3%
<i>As a % of revenue (Non-GAAP)</i>	55.0%	53.9%	1.1%	0.7%
<b>Diluted net loss per share:</b>				
Diluted net loss per share-GAAP				\$ (0.08)
Diluted net income per share-Non-GAAP				\$ 0.01
<b>Shares used to compute diluted net income (loss) per share:</b>				
GAAP				84,932
Non-GAAP				85,629

# Q3 2015 GAAP to Non-GAAP Reconciliations

(in thousands, except EPS)



	Three months ended			
	October 2, 2015			
	Gross Profit	Total Operating Expense	Loss from Operations	Net Loss
<b>GAAP</b>	\$ 46,231	\$ 52,488	\$ (6,257)	\$ (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 asset impairment charges	113	(397)	510	510
Discrete tax items and tax effect of non-GAAP adjustments	-	-	-	(1,224)
<b>Non-GAAP</b>	<b>\$ 46,863</b>	<b>\$ 47,251</b>	<b>\$ (388)</b>	<b>\$ (166)</b>
<i>As a % of revenue (GAAP)</i>	<i>55.5%</i>	<i>63.0%</i>	<i>-7.5%</i>	<i>-5.8%</i>
<i>As a % of revenue (Non-GAAP)</i>	<i>56.3%</i>	<i>56.7%</i>	<i>-0.5%</i>	<i>-0.2%</i>
<b>Diluted net loss per share:</b>				
Diluted net loss per share-GAAP				\$ (0.05)
Diluted net loss per share-Non-GAAP				\$ (0.00)
<b>Shares used to compute diluted net loss per share:</b>				
GAAP				87,991
Non-GAAP				87,991

# Q4 2014 GAAP to Non-GAAP Reconciliations

(in thousands, except EPS)



	Three months ended			
	December 31, 2014			
	Gross Profit	Total Operating Expense	Income (Loss) from Operations	Net Income (Loss)
<b>GAAP</b>	\$ 56,791	\$ 58,953	\$ (2,162)	\$ (4,854)
Stock-based compensation in cost of revenue	608	-	608	608
Stock-based compensation in research and development	-	(1,255)	1,255	1,255
Stock-based compensation in selling, general and administrative	-	(2,704)	2,704	2,704
Amortization of intangibles	696	(1,446)	2,142	2,142
Restructuring and asset impairment charges	220	(1,941)	2,161	2,161
Discrete tax items and tax effect of non-GAAP adjustments	-	-	-	1,251
<b>Non-GAAP</b>	<u>\$ 58,315</u>	<u>\$ 51,607</u>	<u>\$ 6,708</u>	<u>\$ 5,267</u>
<i>As a % of revenue (GAAP)</i>	52.6%	54.6%	-2.0%	-4.5%
<i>As a % of revenue (Non-GAAP)</i>	54.1%	47.8%	6.2%	4.9%
<b>Diluted net income (loss) per share:</b>				
Diluted net loss per share-GAAP				\$ (0.06)
Diluted net income per share-Non-GAAP				\$ 0.06
<b>Shares used to compute diluted net income (loss) per share:</b>				
GAAP				88,012
Non-GAAP				89,342

# 2015 GAAP to Non-GAAP Reconciliations

(in thousands, except EPS)



	Year ended			
	December 31, 2015			
	Gross Profit	Total Operating Expense	Income (Loss) from Operations	Net Income (Loss)
<b>GAAP</b>	\$ 202,712	\$ 215,660	\$ (12,948)	\$ (15,661)
Stock-based compensation in cost of revenue	1,862	-	1,862	1,862
Stock-based compensation in research and development	-	(4,435)	4,435	4,435
Stock-based compensation in selling, general and administrative	-	(9,285)	9,285	9,285
Amortization of intangibles	719	(5,783)	6,502	6,502
Restructuring and asset impairment charges	113	(1,372)	1,485	1,485
TVN acquisition costs	-	(1,309)	1,309	1,309
Non-cash interest expense related to convertible debt	-	-	-	184
Loss on impairment of long-term investment	-	-	-	2,505
Discrete tax items and tax effect of non-GAAP adjustments	-	-	-	(2,823)
<b>Non-GAAP</b>	<b>\$ 205,406</b>	<b>\$ 193,476</b>	<b>\$ 11,930</b>	<b>\$ 9,083</b>
<i>As a % of revenue (GAAP)</i>	<i>53.8%</i>	<i>57.2%</i>	<i>-3.4%</i>	<i>-4.2%</i>
<i>As a % of revenue (Non-GAAP)</i>	<i>54.5%</i>	<i>51.3%</i>	<i>3.2%</i>	<i>2.4%</i>
<b>Diluted net income(loss) per share:</b>				
Diluted net loss per share-GAAP				\$ (0.18)
Diluted net income per share-Non-GAAP				\$ 0.10
<b>Shares used to compute diluted net income (loss) per share:</b>				
GAAP				87,514
Non-GAAP				88,476

# 2014 GAAP to Non-GAAP Reconciliations

(in thousands, except EPS)



	Year ended			
	December 31, 2014			
	Gross Profit	Total Operating Expense	Income (Loss) from Operations	Net Income (Loss)
<b>GAAP</b>	\$ 212,348	\$ 233,919	\$ (21,571)	\$ (46,248)
Stock-based compensation in cost of revenue	2,359	-	2,359	2,359
Stock-based compensation in research and development	-	(4,844)	4,844	4,844
Stock-based compensation in selling, general and administrative	-	(10,084)	10,084	10,084
Amortization of intangibles	13,745	(6,775)	20,520	20,520
Restructuring and asset impairment charges	314	(2,762)	3,076	3,076
Discrete tax items and tax effect of non-GAAP adjustments	-	-	-	20,445
<b>Non-GAAP</b>	<b>\$ 228,766</b>	<b>\$ 209,454</b>	<b>\$ 19,312</b>	<b>\$ 15,080</b>
<i>As a % of revenue (GAAP)</i>	<i>49.0%</i>	<i>54.0%</i>	<i>-5.0%</i>	<i>-10.7%</i>
<i>As a % of revenue (Non-GAAP)</i>	<i>52.8%</i>	<i>48.3%</i>	<i>4.5%</i>	<i>3.5%</i>
<b>Diluted net income(loss) per share:</b>				
Diluted net loss per share-GAAP				\$ (0.50)
Diluted net income per share-Non-GAAP				\$ 0.16
<b>Shares used to compute diluted net income (loss) per share:</b>				
GAAP				92,508
Non-GAAP				93,802

# Q1 2016 Guidance

## GAAP to Non-GAAP Reconciliations

(in millions, except EPS)



	Q1-2016 Guidance			
	Gross Profit	Total Operating Expense	Loss from Operations	Net Loss
<b>GAAP</b>	\$43 to \$46	\$52 to \$54	\$(9) to \$(8)	\$(10) to \$(9)
Stock-based compensation	0.6	(3.9)	4.5	4.5
Amortization of intangibles	-	(1.5)	1.5	1.5
TVN transaction costs	-	(1.0)	1.0	1.0
Non-cash interest expense related to convertible notes	-	-	-	1.2
Discrete tax items and tax effect of non-GAAP adjustments	-	-	-	(1.0)
	0.6	(6.4)	7.0	7.2
<b>Non-GAAP</b>	\$44 to \$47	\$46 to \$48	\$(2) to \$(1)	\$(3) to \$(2)
<i>As a % of revenue (GAAP)</i>	<i>53% to 54%</i>	<i>approx. 64%</i>	<i>(11)% to (9)%</i>	<i>(12)% to (10)%</i>
<i>As a % of revenue (Non-GAAP)</i>	<i>54% to 55%</i>	<i>approx. 56%</i>	<i>(4)% to (2)%</i>	<i>(3)% to (2)%</i>
<b>Diluted net loss per share:</b>				
Diluted net loss per share-GAAP				\$(0.12) to \$(0.11)
Diluted net loss per share-Non-GAAP				\$(0.03) to \$(0.02)
<b>Shares used to compute diluted net loss per share:</b>				
GAAP and Non-GAAP				79.0

# 2016 Guidance

## GAAP to Non-GAAP Reconciliations

(in millions, except EPS)



	Full Year 2016 Guidance			
	Gross Profit	Total Operating Expense	Income (Loss) from Operations	Net Income (Loss)
<b>GAAP</b>	\$217 to \$223	\$248 to \$252	\$(31) to \$(29)	\$(35) to \$(33)
Stock-based compensation	2.6	(15.4)	18.0	18.0
Amortization of intangibles	2.3	(3.7)	6.0	6.0
Restructuring and related charges	-	(20.0)	20.0	20.0
TVN acquisition costs	-	(1.0)	1.0	1.0
Non-cash interest expense related to convertible debt	-	-	-	5.0
Discrete tax items and tax effect of non-GAAP adjustments	-	-	-	(8.0)
	4.9	(40.1)	45.0	42.0
<b>Non-GAAP</b>	\$222 to \$228	\$208 to \$212	\$14 to \$16	\$7 to \$9
<i>As a % of revenue (GAAP)</i>	<i>approx. 54%</i>	<i>approx. 62%</i>	<i>approx. (8)%</i>	<i>approx. (9)%</i>
<i>As a % of revenue (Non-GAAP)</i>	<i>approx. 55%</i>	<i>approx. 52%</i>	<i>approx. 2%</i>	<i>approx. 2%</i>
<b>Diluted net income (loss) per share:</b>				
Diluted net loss per share-GAAP				<u>\$(0.45) to \$(0.42)</u>
Diluted net income per share-Non-GAAP				<u><u>\$0.09 to \$0.12</u></u>
<b>Shares used to compute diluted net loss per share:</b>				
GAAP				<u>79.0</u>
Non-GAAP				<u><u>80.0</u></u>