



THIRD QUARTER 2017
Earnings Conference Call

Patrick Harshman, President & CEO
Sanjay Kalra, CFO

October 30, 2017

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 2017 and beyond, and our Q4 2017 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 2017 Results* Summary



Revenue \$91.6M

- Up 11% sequentially
- Video segment up 15% sequentially
- Cable Edge segment down 16% sequentially

Bookings \$96.0M

- Up 5% sequentially
- Backlog and deferred revenue \$200.9M, record level

Gross Margin 53.4%

EPS \$(0.01)

* Non-GAAP financial results

Video Segment Update



Video revenue \$84.2M, up 15% sequentially

- Gross margin 57.4%, operating margin 8.3%
- Media playout and OTT growth drove rebound
- OTT SaaS: TCV 6% total bookings; ARR \$7M

OTT growth strategy

- Strong “premium OTT” innovation pipeline
- Appliances, perpetual licenses and SaaS
- Targeting both traditional media players and new entrants

Ongoing market transition: traditional PayTV to OTT

- Legacy PayTV investment declining, but still substantial
- OTT investment growing, esp live and premium quality

~20,000
OTT channels
deployed
globally

400%
growth in
OTT sales in the
last year

Over
1,000
cloud-native
OTT channels



Targeting OTT leadership and operating income growth in 2018



Cable Edge Segment Update



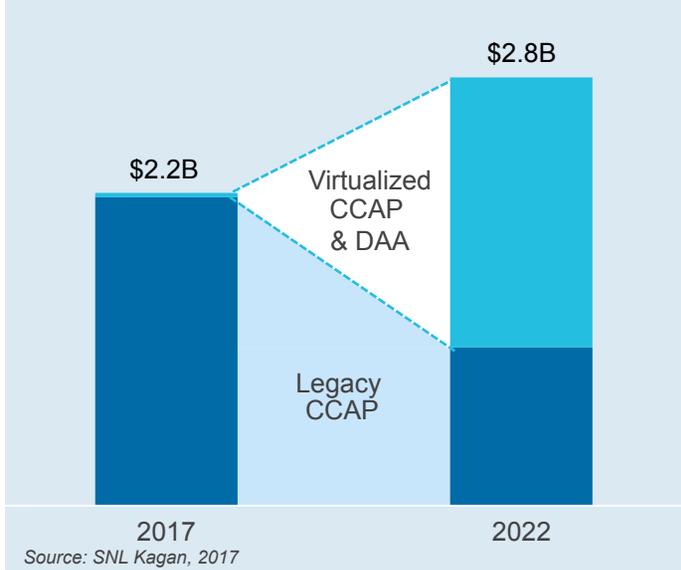
Legacy EdgeQAM demand continues to erode

- Q3 in-line with expectations, down 27% y-o-y

CableOS momentum building

- Virtualization & DAA industry consensus; see Cable-Tec Expo
- Deployments and advanced trials with >10 operators
- Largest deployment >40,000 live consumers
- New “tier 1” design win in October
- PO’s received from 2 of top 5 global cable operators
- >\$20M backlog
- Continue to target \$100M revenue in 2018

Transitioning CCAP Market Demand



 On track for leadership in \$2.8B CCAP market

Q3 2017 Financial Highlights*



\$ Millions (except EPS)	Q3 2017	Q2 2017	Q3 2016	Q3/Q2 Change	Q3 Y/Y Change
Total Net Revenue	\$91.6	\$82.3	\$101.7	11.3%	(9.9)%
Gross Margin %	53.4%	47.9%	52.5%	5.5%	0.9%
Operating Expense	\$47.7	\$55.8	\$52.9	(14.5)%	(9.8)%
Operating Income (Loss)	\$1.3	(\$16.4)	\$0.4	\$17.7	\$0.9
EPS	(\$0.01)	(\$0.20)	\$(0.01)	\$0.19	--
Bookings	\$96.0	\$91.1	\$97.3	5.4%	(1.3)%

*Non-GAAP financial highlights

©2017 Harmonic Inc. All rights reserved worldwide.

Additional Q3 Context and Activity



SaaS TCV mix above guidance

- Represented 6% of total company bookings in Q3
- Slightly higher-than-expected mix impacted revenue \$1.5M, operating income \$0.9M
- Anticipate 5-10% of total bookings through 2018

Settlement agreement reached

- Ended patent infringement suit filed by Avid in 2011
- Harmonic will pay \$6M over 3.5 years
 - \$2.5M in Q4 2017
 - \$1.5M in Q2 2019
 - \$2.0M in Q3 2020

New working capital facility in place

- \$15M available
- Good housekeeping
- No immediate plan to draw funds

Q3 2017 Balance Sheet & Cash Flow Highlights



\$ Millions	Q3 2017	Q2 2017	Q3 2016
Cash	\$50.0	\$52.9	\$52.7
Cash From Operations	(\$8.6)	\$5.7	(\$4.6)
Accounts Receivable	\$71.6	\$60.4	\$99.1
DSO	70	66	89
Inventories	\$31.8	\$35.1	\$35.8
Inventory Days	67	74	67
Backlog and Deferred	\$200.9	\$194.4	\$181.1

Q4 2017 Financial Guidance*



\$ Millions (except EPS)	Video	Cable Edge	Total
Revenue	\$80 - \$86	\$10 - \$14	\$90 - \$100
Gross Margin	55% - 57%	27% - 29%	52% - 53.5%
Operating Expenses			\$48 - \$50
Operating Profit / (Loss)			\$(3.0) - \$5.5
EPS			\$(0.05) - \$0.04
Tax Rate			15%
Shares, millions (basic, diluted)			82, 82.5
Cash, short-term investments			\$40 - \$50

*Non-GAAP

©2017 Harmonic Inc. All rights reserved worldwide.

H2 2017 Strategic Priorities



Video Segment

- Accelerate OTT growth
- Improve profitability of traditional broadcast product lines
- Deliver high single digit H2 operating income



Cable Edge Segment

- Successfully scale early CableOS deployments
- Secure additional Tier 1 operator design wins
- Create backlog and momentum to drive > \$100 million 2018 revenue



Driving renewed growth, profitability and shareholder value



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, 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, 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 and adjustments that normalize the tax rate.

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



	Revenue	Gross Profit	Total Operating Expense	Income (loss) from Operations	Total Non-operating Expense, net	Net Loss
GAAP	\$ 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 in cost of revenue	—	478	—	478	—	478
Stock-based compensation in research and development	—	—	(1,183)	1,183	—	1,183
Stock-based compensation in selling, general and administrative	—	—	(2,059)	2,059	—	2,059
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 fees 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)
Total adjustments	(378)	1,944	(13,536)	15,480	1,384	15,044
Non-GAAP	\$ 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)%
Diluted net loss per share:						
Diluted net loss per share-GAAP						\$ (0.19)
Diluted net loss per share-Non-GAAP						\$ (0.01)
Shares used to compute diluted net loss per share:						
GAAP and Non-GAAP						81,445

Q2 2017 GAAP to Non-GAAP Reconciliations (in thousands, except EPS)



	Revenue	Gross Profit	Total Operating Expense	Loss from Operations	Total Non-operating Expense	Net Loss
GAAP	\$ 82,315	\$ 33,815	\$ 61,237	\$ (27,422)	\$ (3,499)	\$ (31,500)
Cable Edge inventory charge	—	3,331	—	3,331	—	3,331
Stock-based compensation in cost of revenue	—	700	—	700	—	700
Stock-based compensation in research and development	—	—	(1,337)	1,337	—	1,337
Stock-based compensation in selling, general and administrative	—	—	(2,099)	2,099	—	2,099
Amortization of intangibles	—	1,295	(780)	2,075	—	2,075
Restructuring and related charges	—	278	(777)	1,055	—	1,055
TVN acquisition and integration-related costs	—	—	(467)	467	—	467
Non-cash interest expenses related to convertible notes	—	—	—	—	1,360	1,360
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	3,354
Total adjustments	—	5,604	(5,460)	11,064	1,360	15,778
Non-GAAP	\$ 82,315	\$ 39,419	\$ 55,777	\$ (16,358)	\$ (2,139)	\$ (15,722)
<i>As a % of revenue (GAAP)</i>		41.1 %	74.4 %	(33.3)%	(4.3)%	(38.3)%
<i>As a % of revenue (Non-GAAP)</i>		47.9 %	67.8 %	(19.9)%	(2.6)%	(19.1)%
Diluted net loss per share:						
Diluted net loss per share-GAAP						\$ (0.39)
Diluted net loss per share-Non-GAAP						\$ (0.20)
Shares used to compute diluted net loss per share:						
GAAP and Non-GAAP						80,590

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



	Revenue	Gross Profit	Total Operating Expense	Income (loss) from Operations	Total Non-operating Expense	Net Loss
GAAP	\$ 101,406	\$ 51,363	\$ 63,296	\$ (11,933)	\$ (4,321)	\$ (16,012)
Cable Edge inventory charge	—	(159)	—	(159)	—	(159)
Acquisition accounting impacts 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)
Total adjustments	325	2,024	(10,353)	12,377	2,609	14,934
Non-GAAP	\$ 101,731	\$ 53,387	\$ 52,943	\$ 444	\$ (1,712)	\$ (1,078)
<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						\$ (0.01)
Shares used to compute diluted net loss per share:						
GAAP and Non-GAAP						78,092

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



	Revenue	Gross Profit	Total Operating Expense	Loss from Operations	Total Non-operating Expense	Net Loss
GAAP	\$ 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 in cost of revenue	—	1,623	—	1,623	—	1,623
Stock-based compensation in research and development	—	—	(3,497)	3,497	—	3,497
Stock-based compensation in selling, general and administrative	—	—	(5,987)	5,987	—	5,987
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
Total adjustments	149	10,650	(25,663)	36,313	4,060	43,651
Non-GAAP	\$ 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)%
Diluted net loss per share:						
Diluted net loss per share-GAAP						\$ (0.88)
Diluted net loss per share-Non-GAAP						(0.34)
Shares used to compute diluted net loss per share:						
GAAP and Non-GAAP						80,618

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



	Revenue	Gross Profit	Total Operating Expense	Loss from Operations	Total Non-operating Expense	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
	1,728	10,979	(32,684)	43,663	6,505	52,365
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						77,475

Q4 2017 Guidance GAAP to Non-GAAP Reconciliations (in millions, except EPS)



	Revenue	Gross Profit	Total Operating Expense	Income (Loss) from Operations	Total Non-operating Expense, net	Net Income (Loss)
GAAP	\$90.0 to \$100.0	\$44.9 to \$51.4	\$54.4 to \$56.4	\$(11.5) to \$(3.0)	\$(3.1)	\$(15.9) to \$(6.9)
Stock-based compensation expense	—	0.8	(4.7)	5.5	—	5.5
Amortization of intangibles	—	1.3	(0.8)	2.1	—	2.1
Avid litigation legal fees	—	—	(0.3)	0.3	—	0.3
Restructuring and related charges and TVN integration costs	—	—	(0.6)	0.6	—	0.6
Non-cash interest expense related to convertible notes	—	—	—	—	1.4	1.4
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	2.0
Total adjustments	—	2.1	(6.4)	8.5	1.4	\$11.9 to \$9.9
Non-GAAP	\$90.0 to \$100.0	\$47.0 to \$53.5	\$48.0 to \$50.0	\$(3.0) to \$5.5	\$(1.7)	\$(4.0) to \$3.0
<i>As a % of revenue (GAAP)</i>		50% to 51%	57% to 60%	(13)% to (3)%	(3)%	(18)% to (7)%
<i>As a % of revenue (Non-GAAP)</i>		52.0% to 53.5%	50% to 53%	(3)% to 5.5%	(2)%	(4)% to 3%
Diluted net income (loss) per share:						
Diluted net loss per share-GAAP					\$(0.19) to \$(0.08)	
Diluted net (loss) income per share-Non-GAAP					\$(0.05) to \$0.04	
Shares used to compute diluted net loss per share:						
GAAP and Non-GAAP					82.0	
Shares used to compute diluted net income per share:						
Non-GAAP					82.5	

©2017 Harmonic Inc. All rights reserved worldwide.