



Second Quarter 2016 Earnings Conference Call

August 9, 2016

Patrick Harshman, President & CEO

Hal Covert, CFO

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 Q3 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.

Q2 2016 Results* Summary



- Revenue \$110M
 - Up 33% sequentially
 - First full-quarter Thomson Video Networks contribution
- Bookings \$117M
 - Improved global demand for video products
 - Third consecutive >1 book-to-bill quarter
 - Record \$190M backlog and deferred revenue
- Gross Margin 53%
 - Up 2% sequentially
- EPS \$0.00
 - TVN integration synergy execution ongoing
 - Continued strong investment in new CableOS initiative

*Non-GAAP financial results

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Video Business Update



- Improved global demand trends
 - Pay TV and live OTT expansions and upgrades
 - Growing UltraHD/4K momentum
- TVN integration proceeding well
 - Demand for integrated Harmonic + Thomson solutions
 - Global cost synergy execution on track
- Continuing shift to software
 - VOS 1.0 exceeded 75% of Q2 encoding business
 - Tier 1 customer trials of VOS 2.0 Cloud and SaaS offerings
 - Thomson R&D addition enabling transformation acceleration



UHD / HDR / VR

2016 Video Growth and Expense Plan On Track

Cable Edge Business Update



- CableOS program progressing well
 - Expanding Tier 1 customer engagements
 - First revenue shipments in Q4 2016
 - Kagan now estimates addressable market growing to \$2.6B*
 - Planning major announcements later this year
- Softening legacy EdgeQAM demand



2016 CableOS Launch Plan On Track

* SNL Kagan: Global Cable Access Equipment Projections, 6/2/2016



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- Q2 results ahead of plan
 - Record backlog and deferred revenue, improved visibility
- First full quarter with Thomson Video Networks
 - TVN performing in-line with expectations
 - Synergy targets on track
- Executed \$10M engineering collaboration agreement
 - Extends into 2017
- Requirements for software revenue recognition progressing
 - Anticipating a positive impact in the second half of 2016
- Aligning resources to CableOS
 - Legacy Cable Edge product inventory charge

Q2 2016 Financial Highlights*



\$ Millions (except GM & EPS)	Q2 2016	Q1 2016	Q2 2015	Q2 / Q1 Change	Q2 Y/Y Change
Total Net Revenue	\$109.5	\$82.5	\$103.1	33%	6%
- Video Revenue	\$90.5	\$65.7	\$78.2	38%	16%
- Cable Edge Revenue	\$19.0	\$16.8	\$24.9	13%	-24%
Gross Margin %	53.5%	51.1%	53.2%	2.4%	0.3%
Operating Expense	\$57.7	\$50.5	\$49.6	14%	16%
Operating Income(Loss)	\$0.9	(\$8.4)	\$5.3	\$9.3	-\$4.4
EPS	\$0.00	-\$0.11	\$0.05	\$0.11	-\$0.05
Bookings	\$117.3	\$109.6	\$99.3	7%	18%
Book to Bill	1.1	1.3	1.0	-15%	10%

*Non-GAAP financial highlights
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Q2 2016 Balance Sheet Highlights



	\$ Millions	
Cash	\$65.3	
Accounts Receivable	\$102.7	86 days
Inventories	\$36.6	58 days
Cash From Operations	-\$2.9	
Backlog and Deferred- Non-GAAP	\$190.4	

Q3 2016 Financial Guidance



\$ Millions (except EPS)	Video	Cable Edge	Q3 2016
Non-GAAP Revenue*	\$93 - \$96	\$12 - \$14	\$105 - \$110
Non-GAAP Gross Margin*	54.5% - 55.5%	40.0% - 41.0%	53.0% - 54.0%
Non-GAAP Operating Expenses*			\$54 - \$55
Non-GAAP Operating Income*			\$2 - \$4
Non-GAAP EPS			\$0.01 - \$0.03
Non-GAAP Tax Rate			15%
Shares, millions			78
Cash on hand at quarter-end			\$60 - \$65

*See total company reconciliation of GAAP to Non-GAAP

2016 Financial Guidance



\$ Millions (except EPS)	Video	Cable Edge	2016
Non-GAAP Revenue*	\$350 - \$355	\$60 - \$65	\$410 - \$420
Non-GAAP Gross Margin*	55.0% - 56.0%	40.0% - 41.0%	53.0% - 54.0%
Non-GAAP Operating Expenses*			\$212 - \$216
Non-GAAP Operating Income*			\$5 - \$10
Non-GAAP EPS			\$0.01 - \$0.06
Non-GAAP Tax Rate			15%
Shares, millions			78 - 79
Cash on hand at year-end			\$65 - \$70

*See total company reconciliation of GAAP to Non-GAAP

Executing on 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 revenue, 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 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.

Q2 2016 GAAP to Non-GAAP Reconciliations

(in thousands, except EPS)



	Three months ended				
	July 1, 2016				
	Revenue	Gross Profit	Total Operating Expense	Income (loss) from Operations	Net loss
GAAP	\$ 108,759	\$ 51,092	\$ 69,158	\$ (18,066)	\$ (20,627)
Cable Edge inventory charge	—	4,519	—	4,519	4,519
Acquisition accounting impact 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
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	278
Non-GAAP	<u>\$ 109,539</u>	<u>\$ 58,561</u>	<u>\$ 57,709</u>	<u>\$ 852</u>	<u>\$ (198)</u>
		<i>As a % of revenue (GAAP)</i>			
		47.0%	63.6%	(16.6)%	(19.0)%
		<i>As a % of revenue (Non-GAAP)</i>			
		53.5%	52.7%	0.8 %	(0.2)%
Diluted net loss per share:					
Diluted net loss per share-GAAP					\$ (0.27)
Diluted net loss per share-Non-GAAP					<u>\$ 0.00</u>
Shares used to compute diluted net loss per share:					
GAAP					77,342
Non-GAAP					<u>77,342</u>

Q1 2016 GAAP to Non-GAAP Reconciliations

(in thousands, except EPS)



	Three months ended				
	April 1, 2016				
	Revenue	Gross Profit	Total Operating Expense	Loss from Operations	Net Loss
GAAP	\$ 81,832	\$ 40,654	\$ 61,410	\$ (20,756)	\$ (25,180)
Acquisition accounting impacts related to TVN deferred revenue	623	623	—	623	623
Acquisition accounting impacts related to TVN fair value of inventory	—	189	—	189	189
Stock-based compensation in cost of revenue	—	227	—	227	227
Stock-based compensation in research and development	—	—	(969)	969	969
Stock-based compensation in selling, general and administrative	—	—	(1,898)	1,898	1,898
Amortization of intangibles	—	418	(2,365)	2,783	2,783
Restructuring and related charges	—	(29)	(2,612)	2,583	2,583
TVN acquisition and integration-related costs	—	58	(3,038)	3,096	3,096
Impairment of long-term investment	—	—	—	—	1,476
Non-cash interest expenses related to convertible notes	—	—	—	—	1,187
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	1,963
Non-GAAP	<u>\$ 82,455</u>	<u>\$ 42,140</u>	<u>\$ 50,528</u>	<u>\$ (8,388)</u>	<u>\$ (8,186)</u>
		<i>As a % of revenue (GAAP)</i>			
		49.7%	75.0%	(25.4)%	(30.8)%
		<i>As a % of revenue (Non-GAAP)</i>			
		51.1%	61.3%	(10.2)%	(9.9)%
Diluted net loss per share:					
Diluted net loss per share-GAAP					\$ (0.33)
Diluted net loss per share-Non-GAAP					\$ (0.11)
Shares used to compute diluted net loss per share:					
GAAP					76,996
Non-GAAP					76,996

Q2 2015 GAAP to Non-GAAP Reconciliations

(in thousands, except EPS)



	Three months ended					
	July 3, 2015					
	Revenue	Gross Profit	Total Operating Expense	Income (Loss) from Operations	Net Income (Loss)	
GAAP	\$ 103,103	\$ 54,385	\$ 54,728	\$ (343)	\$ (994)	
Stock-based compensation in cost of revenue	—	422	—	422	422	
Stock-based compensation in research and development	—	—	(1,027)	1,027	1,027	
Stock-based compensation in selling, general and administrative	—	—	(2,435)	2,435	2,435	
Amortization of intangibles	—	86	(1,446)	1,532	1,532	
Restructuring and related charges	—	—	(185)	185	185	
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	(393)	
Non-GAAP	\$ 103,103	\$ 54,893	\$ 49,635	\$ 5,258	\$ 4,214	
		<i>As a % of revenue (GAAP)</i>	<i>52.7%</i>	<i>53.1%</i>	<i>(0.3)%</i>	<i>(1.0)%</i>
		<i>As a % of revenue (Non-GAAP)</i>	<i>53.2%</i>	<i>48.1%</i>	<i>5.1%</i>	<i>4.1%</i>
Diluted net income (loss) per share:						
Diluted net loss per share-GAAP					\$ (0.01)	
Diluted net income per share-Non-GAAP					\$ 0.05	
Shares used to compute diluted net income (loss) per share:						
GAAP					88,426	
Non-GAAP					89,444	

Q3 2016 Guidance

GAAP to Non-GAAP Reconciliations

(in millions, except EPS)



Q3 2016 Financial Guidance

	Revenue	Gross Profit	Total Operating Expense	Income(loss) from Operations	Net Income(loss)
GAAP	\$104.5 to \$109.5	\$53.0 to \$56.0	\$65.5 to \$66.5	\$(12.5) to \$(10.5)	\$(12.5) to \$(10.5)
Acquisition accounting impact related to TVN deferred revenue	Approx. \$0.5	Approx. \$0.5	—	Approx. \$0.5	Approx. \$0.5
Stock-based compensation expense	—	Approx. \$0.5	Approx. (\$3.0)	Approx. \$3.5	Approx. \$3.5
Amortization of intangibles	—	Approx. \$1.5	Approx. (\$3.5)	Approx. \$5.0	Approx. \$5.0
Restructuring and related charges and TVN acquisition/integration costs	—	Approx. \$0.5	Approx. (\$5.0)	Approx. \$5.5	Approx. \$5.5
Non-cash interest expense related to convertible notes	—	—	—	—	Approx. \$1.0
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	Approx. (\$2.5)
	Approx. \$0.5	Approx. \$3.0	Approx. (\$11.5)	Approx. \$14.5	Approx. \$13.0
Non-GAAP	\$105.0 to \$110.0	\$56.0 to \$59.0	\$54.0 to \$55.0	\$2.0 to \$4.0	\$0.5 to \$2.5
	<i>As a % of revenue (GAAP)</i>	<i>50% to 51%</i>	<i>61% to 63%</i>	<i>(12)% to (9)%</i>	<i>(12)% to (10)%</i>
	<i>As a % of revenue (Non-GAAP)</i>	<i>53% to 54%</i>	<i>50% to 52%</i>	<i>2% to 4%</i>	<i>0% to 2%</i>
Diluted income (loss) per share:					
Diluted net loss per share-GAAP					\$ (0.16) to \$ (0.14)
Diluted net income per share-Non-GAAP					\$ 0.01 to \$ 0.03
Shares used to compute diluted income (loss) per share:					
GAAP and Non-GAAP					78.0

2016 Guidance

GAAP to Non-GAAP Reconciliations

(in millions, except EPS)



2016 Financial Guidance

	Revenue	Gross Profit	Total Operating Expense	Income(loss) from Operations	Net Income(loss)	
GAAP	\$408.0 to \$418.0	\$202.5 to \$211.5	\$257.5 to \$261.5	\$(55.0) to \$(50.0)	\$(54.0) to \$(50.0)	
Acquisition accounting impact related to TVN deferred revenue	Approx. \$2.0	Approx. \$2.0	—	Approx. \$2.0	Approx. \$2.0	
Acquisition accounting impact related to TVN fair value of inventory	—	Approx. \$0.2	—	Approx. \$0.2	Approx. \$0.2	
Stock-based compensation expense	—	Approx. \$2.0	Approx. \$(12.0)	Approx. \$14.0	Approx. \$14.0	
Amortization of intangibles	—	Approx. \$4.3	Approx. \$(11.0)	Approx. \$15.3	Approx. \$15.3	
Restructuring and related charges and TVN acquisition/integration costs	—	Approx. \$1.5	Approx. \$(22.5)	Approx. \$24.0	Approx. \$24.0	
Cable Edge inventory charge	—	Approx. \$4.5	—	Approx. \$4.5	Approx. \$4.5	
Non-cash interest expense related to convertible notes	—	—	—	—	Approx. \$4.5	
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	Approx. \$(10.0)	
	Approx. \$2.0	Approx. \$14.5	Approx. \$(45.5)	Approx. \$60.0	Approx. \$54.5	
Non-GAAP	\$410.0 to \$420.0	\$217.0 to \$226.0	\$212.0 to \$216.0	\$5.0 to \$10.0	\$0.5 to \$4.5	
		<i>As a % of revenue (GAAP)</i>	<i>50% to 51%</i>	<i>62% to 63%</i>	<i>(13)% to (12)%</i>	<i>(13)% to (12)%</i>
		<i>As a % of revenue (Non-GAAP)</i>	<i>53% to 54%</i>	<i>51% to 52%</i>	<i>1% to 2%</i>	<i>0% to 1%</i>
Diluted income (loss) per share:						
Diluted net loss per share-GAAP					<u>\$(0.69) to \$(0.64)</u>	
Diluted net income per share-Non-GAAP					<u>\$0.01 to \$0.06</u>	
Shares used to compute diluted income (loss) per share:						
GAAP and Non-GAAP					<u>78 to 79</u>	