



# Third Quarter 2015 Earnings Conference Call

October 27, 2015

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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 2015, and beyond, and our Q4 2015 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).



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# Q3 2015 Results Summary



- Revenue \$83M
  - Down 19% sequentially
  - Challenging spending environment
- Bookings \$75M
  - Down 25% sequentially
  - Project delays in video, cable edge transition underway
- Record Gross Margin 56%
  - Up 3% sequentially
- Breakeven EPS (non-GAAP)
- Repurchased 1.27 million shares for \$7.8M

# Q3 2015 Revenue Update



- Soft demand trends worldwide
  - 5 of top 10 customers impacted by consolidation
  - Currency and macro-economic headwinds
  - Customers wrestling with technology and business transitions
  - Nearly two dozen material delayed orders
- Video down \$6M sequentially
  - Slower than expected customer decisions, currency
  - Several high profile competitive wins, expanded pipeline
- Cable Edge down \$14M sequentially
  - Customer consolidation, project timing, technology transitions
  - Transformative CCAP growth initiative progressing as planned

- Transition to IP video and virtualization
  - Meaningful percentage of top opportunities for IP / OTT services
  - Transition to VOS faster than expected
  - Elongated customer decision cycles
- UltraHD gaining momentum
  - Increasing pace of 2016 service announcements
  - Modest but growing deal pipeline, bolstered by NASA channel
- Consolidation
  - Customer deals net positive, but impacting near-term buying
  - Competitor deals net positive, highlight strategic importance of video



- Edge QAM demand soft
  - Customer consolidation
  - Project timing
  - Some demand shifting to IP/DOCSIS
  - Expect modest Q4 rebound
- DOCSIS 3.1 CCAP ramp beginning mid-2016
  - Harmonic’s 3.1 CCAP program progressing well:
    - Key customer lab milestones this quarter (Q4 2015)
    - Field trials planned for Q1 2016
    - Positive customer feedback on innovative architecture
    - Maintaining aggressive investment strategy



# Driving Shareholder Value



## Video Business

- Strengthening next-gen video services leadership
- Transforming to higher-value software, NFV

## Cable Edge Business

- New CCAP business, significant TAM expansion
- Disruptive blend of innovative technologies

## Corporate Value

- Expanding addressable market
- Expanding gross margins
- Cash generation, share buyback

# Q3 2015 Financial Highlights



| \$ Millions<br>(except GM & EPS) | Q3<br>2015 | Q2<br>2015 | Q3<br>2014 | Q3 / Q2<br>Change | Q3 Y/Y<br>Change |
|----------------------------------|------------|------------|------------|-------------------|------------------|
| Total Net Revenue                | \$83.3     | \$103.1    | \$108.1    | -19%              | -23%             |
| Gross Margin % – Non-GAAP        | 56.3%      | 53.2%      | 53.6%      | 310 bp            | 270 bp           |
| Operating Expense – Non-GAAP     | \$47.3     | \$49.6     | \$51.2     | -5%               | -8%              |
| EPS – Non-GAAP                   | \$0.00     | \$0.05     | \$0.06     | -\$0.05           | -\$0.06          |
| Bookings                         | \$74.6     | \$99.3     | \$97.8     | -25%              | -24%             |
| Book to Bill                     | 0.9        | 1.0        | 0.9        | -10%              | -                |
| Backlog and Deferred             | \$110.8    | \$120.6    | \$116.6    | -8%               | -5%              |

# Q3 2015 Video Segment Trends



- Challenging customer spending environment
- Strong gross margin aiding operating performance

## Revenue and Operating Margin

| \$ Millions<br>(except GM & EPS) | Q3<br>2015 | Q2<br>2015 | Q3<br>2014 | Q3 / Q2<br>Change | Q3 Y/Y<br>Change |
|----------------------------------|------------|------------|------------|-------------------|------------------|
| Total Net Video Revenue          | \$71.9     | \$78.2     | \$81.4     | -\$6.3            | -\$9.5           |
| Operating Margin \$ – Non-GAAP   | \$3.6      | \$4.9      | \$6.6      | -\$1.3            | -\$3.0           |
| Operating Margin % – Non-GAAP    | 5.0%       | 6.3%       | 8.1%       | -1.3%             | -3.1%            |

*NOTE: Video operating margin excludes unallocated corporate expenses consisting of certain corporate-level operating expenses and charges such as restructuring and asset impairment charges.*

# Q3 2015 Cable Edge Segment Trends



- Global revenue decline
- Operating margin impacted by lower revenue, CCAP investment

## Revenue and Operating Margin

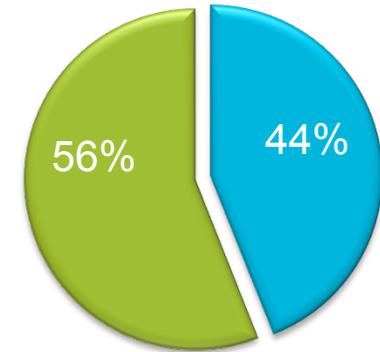
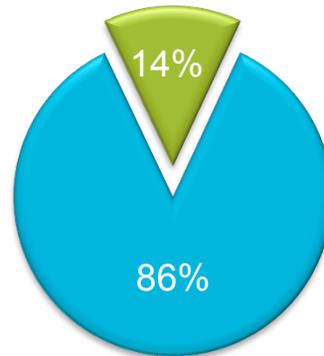
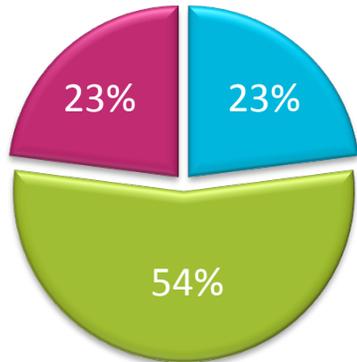
| \$ Millions<br>(except GM & EPS) | Q3<br>2015 | Q2<br>2015 | Q3<br>2014 | Q3 / Q2<br>Change | Q3 Y/Y<br>Change |
|----------------------------------|------------|------------|------------|-------------------|------------------|
| Total Net Cable Edge Revenue     | \$11.4     | \$24.9     | \$26.7     | -\$13.5           | -\$15.3          |
| Operating Margin \$ – Non-GAAP   | -\$4.0     | \$0.4      | \$0.1      | -\$4.4            | -\$4.1           |
| Operating Margin % – Non-GAAP    | -34.7%     | 1.4%       | 0.5%       | -36.1%            | -35.2%           |

*NOTE: Cable edge operating margin excludes unallocated corporate expenses consisting of certain corporate-level operating expenses and charges such as restructuring and asset impairment charges.*

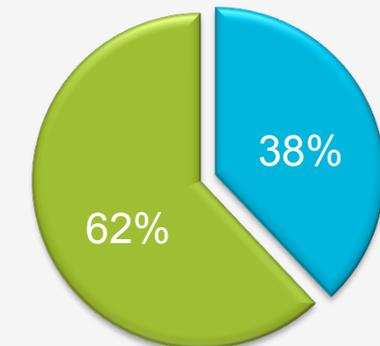
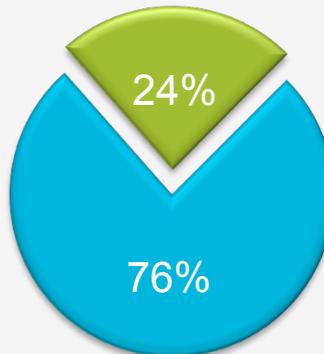
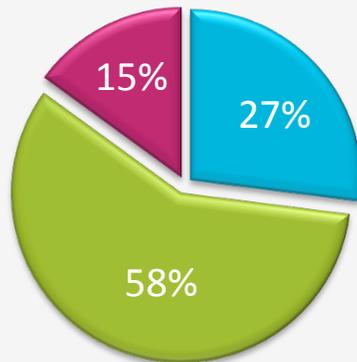
# Q3 2015 Revenue Trends



## Q3 2015 Revenues \$83 million



## Q2 2015 Revenues \$103 million



### Geography

- EMEA
- Americas
- APAC

### Segments

- Video
- Cable

### Markets

- Broadcast & Media
- Service Provider

# Q3 2015 Balance Sheet Highlights



|                      | \$ Millions |             |
|----------------------|-------------|-------------|
| Cash                 | \$87.6      |             |
| Accounts Receivable  | \$64.1      | 70 days     |
| Inventories          | \$39.9      | 3.7 turns   |
| Cash From Operations | -\$5.0      |             |
| Shares Repurchased   | \$7.8       | 1.3M Shares |

Returned over \$251M to shareholders since 2Q'12 in the form of share repurchases

|  | Q4 2015       |
|--|---------------|
| Revenue  | \$78M - \$88M |
| Non-GAAP Gross Margin*   | 54% - 55%     |
| Non-GAAP Operating Expenses*   | \$46M - \$47M |
| Non-GAAP Tax Rate  | 21%           |
| *Excludes charges for stock-based compensation, the amortization of intangibles and restructuring and related charges. |               |



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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 non-GAAP financial measures discussed in this presentation to the most directly comparable historical 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 and non-cash items, such as stock-based compensation expense, amortization of intangibles, impairment of long-term investment and adjustments that normalize the tax rate.

# Q3 2015 GAAP to Non-GAAP Reconciliations



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

# Q2 2015 GAAP to Non-GAAP Reconciliations



|   | Three months ended |                         |                               |                   |
|---|--------------------|-------------------------|-------------------------------|-------------------|
|   | July 3, 2015       |                         |                               |                   |
|   | Gross Profit       | Total Operating Expense | Income (Loss) from Operations | Net Income (loss) |
| <b>GAAP from continuing operations</b>  | \$ 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)             |
|   | <u>\$ 54,893</u>   | <u>\$ 49,635</u>        | <u>\$ 5,258</u>               | <u>\$ 4,214</u>   |
| <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>       |
| <b>Diluted net income(loss) per share from continuing operations:</b>                         |                    |                         |                               |                   |
| Diluted net loss per share from continuing operations-GAAP                                    |                    |                         |                               | \$ (0.01)         |
| Diluted net income per share from continuing operations-Non-GAAP                              |                    |                         |                               | \$ 0.05           |
| <b>Shares used to compute diluted net income (loss) per share from continuing operations:</b> |                    |                         |                               |                   |
| GAAP  |                    |                         |                               | 88,426            |
| Non-GAAP  |                    |                         |                               | 89,444            |

# Q3 2014 GAAP to Non-GAAP Reconciliations



|  | Three months ended |                         |                               |                 |
|--|--------------------|-------------------------|-------------------------------|-----------------|
|  | September 26, 2014 |                         |                               |                 |
|  | Gross Profit       | Total Operating Expense | Income (Loss) from Operations | Net Income      |
| <b>GAAP from continuing operations</b>   | \$ 53,428          | \$ 56,966               | \$ (3,538)                    | \$ 1,078        |
| Stock-based compensation in cost of revenue  | 612                | -                       | 612                           | 612             |
| Stock-based compensation in research and development                                   | -                  | (1,219)                 | 1,219                         | 1,219           |
| Stock-based compensation in selling, general and administrative                        | -                  | (2,521)                 | 2,521                         | 2,521           |
| Amortization of intangibles  | 3,851              | (1,661)                 | 5,512                         | 5,512           |
| Restructuring and related charges  | 15                 | (388)                   | 403                           | 403             |
| Discrete tax items and tax effect of non-GAAP adjustments                              | -                  | -                       | -                             | (6,198)         |
| <b>Non-GAAP from continuing operations</b>   | <b>\$ 57,906</b>   | <b>\$ 51,177</b>        | <b>\$ 6,729</b>               | <b>\$ 5,147</b> |
| <i>As a % of revenue (GAAP)</i>  | <i>49.4%</i>       | <i>52.7%</i>            | <i>-3.3%</i>                  | <i>1.0%</i>     |
| <i>As a % of revenue (Non-GAAP)</i>  | <i>53.0%</i>       | <i>47.4%</i>            | <i>6.2%</i>                   | <i>4.8%</i>     |
| <b>Diluted net income per share from continuing operations:</b>                        |                    |                         |                               |                 |
| Diluted net income per share from continuing operations-GAAP                           |                    |                         |                               | \$ 0.01         |
| Diluted net income per share from continuing operations-Non-GAAP                       |                    |                         |                               | \$ 0.06         |
| <b>Shares used to compute diluted net income per share from continuing operations:</b> |                    |                         |                               |                 |
| GAAP   |                    |                         |                               | 91,800          |
| Non-GAAP   |                    |                         |                               | 91,800          |