



# Third Quarter 2014 Earnings Conference Call

October 28, 2014

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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 Q3 2014 financial results, Q4 2014 financial outlook and business strategy for 2014 and beyond. 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).

- Revenue \$108.1M
  - Down 1% sequentially
  - Video up \$3.5M, Cable Edge down \$5.4M sequentially
  - 62% Service Provider, 38% Broadcast & Media
- Bookings \$97.8M
  - Down 14% sequentially, due principally to seasonality of support renewals
  - Book-to-bill ratio .9, same as Q3 2013 and Q3 2012
  - Backlog and deferred revenue \$116.6M
- Operating performance
  - Gross margin 53.6% (non-GAAP)
  - EPS \$0.06 (non-GAAP)
  - Cash generated from operations \$0.7M
  - Repurchased 4.9 million shares for \$31.7M

- Service Provider
  - Down 10% sequentially
  - Video demand soft in advance of market transitions
  - Cable edge down from record Q2
- Broadcast and Media
  - Up 17% sequentially
  - Broad based improvement
  - Sharp product bookings increase in Q3
- Geographical
  - APAC up 15% sequentially
  - Americas flat sequentially
  - EMEA down 13% sequentially

## Video

### Market dynamics:

- Major technology transitions
  - MPEG 2/4 to HEVC; UHD
  - Appliance to NFV
  - Integrated OTT
- Demand for lower TCO
- EMEA macro, customer consolidation

### Execution:

- VOS (virtualization) progress
  - Winning compression “shoot-outs”
  - Added new OTT functionality
  - Sky Italia first customer
- New Polaris media orchestration suite

## Cable Edge

### Market dynamics:

- Sustainable edgeQAM demand
  - VOD resurgence
  - OTT / mCMTS
- Growing distributed CCAP momentum

### Execution:

- NSG Pro momentum continues
  - VOD, mCMTS; first license sales
- Dual approaches to 2-way CCAP
  - Centralized: Demonstrated NSG Pro upstream card at SCTE
  - Distributed: Exo in trials

Extending technology lead in advance of market transition



News Technology Award: **Ellipse 3202**

Best of Show: **Electra XVM**

IBC Innovation Award: **Turner  
(ProMedia)**

CSI Awards: **Electra XVM  
NSG Exo**

Broadcast Product of Year: **Electra XVM**

Broadcast Beat Product of Year: **Ellipse 3202**



4.5 BTI Diamond Rating: **VOS**

4.5 BTI Diamond Rating: **Electra XVM**

4.0 BTI Diamond Rating: **ProView 8100**

3.5 BTI Diamond Rating & **NSG Exo**

Honorable Mention: **Electra XVM**

Broadcast Beat Product of Year: **Ellipse 3202**

Multichannel News Innovator Award **NSG Exo**

# Positioned to Drive Top & Bottom Line Growth

## Strategically Positioned

- Video: Virtualization leader, content creation through delivery
- Cable Edge: Dual CCAP capability, centralized and distributed

## Competitively Advantaged

- Unparalleled IP
- Strategic focus in Cable Edge & Video Processing
- Global brand and deep relationships spanning leading Media companies and Service Providers

2015 +

- Both businesses scaling
- Revenue and earnings growth

**Strong earnings growth expected for 2015**

# Q3 2014: Financial Highlights

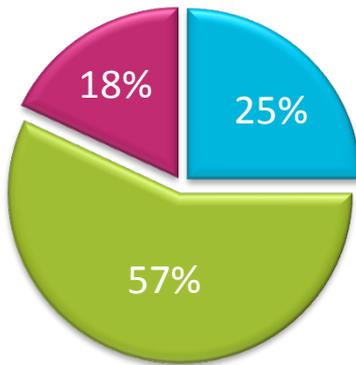


\$Millions (except GM & EPS)	Q3 2014	Q2 2014	Q3 2013	Q3 / Q2 Change	Q3 Y/Y Change
Total Net Revenue	\$108.1	\$109.6	\$122.9	-1%	-12%
Gross Margin % – Non-GAAP	53.6%	50.1%	50.8%	350 bp	280 bp
Operating Expense – Non-GAAP	\$51.2	\$52.5	\$53.7	-3%	-5%
EPS – Non-GAAP	\$0.06	\$0.02	\$0.07	\$0.04	(\$0.01)
Bookings	\$97.8	\$113.4	\$115.9	-14%	-16%
Book to Bill	0.9	1.0	0.9	-10%	-
Backlog and Deferred	\$116.6	\$132.1	\$123.6	-12%	-6%

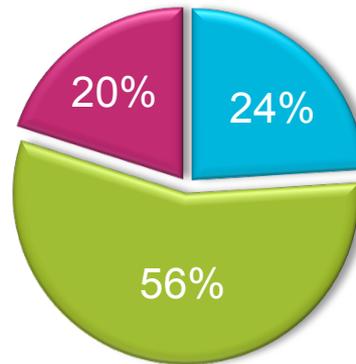
# YTD 2014 Revenue Trends

## YTD 2014 Revenues \$325.7M

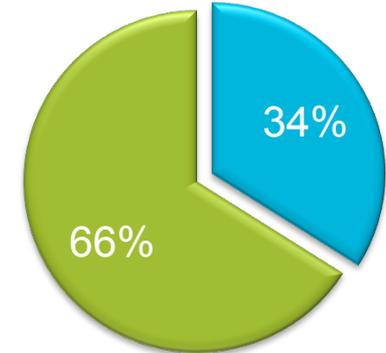
### Geography



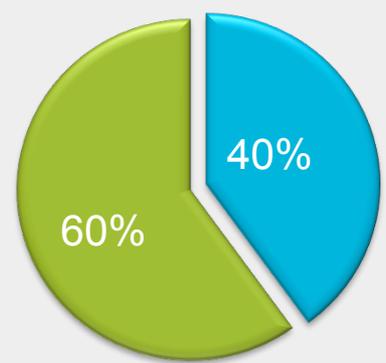
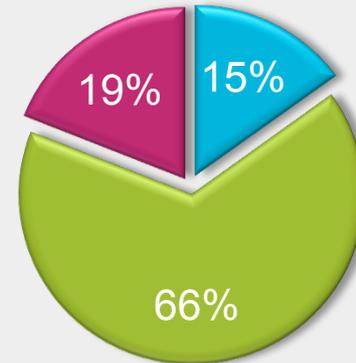
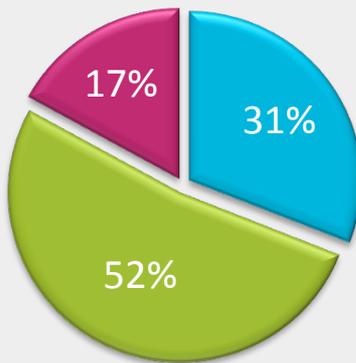
### Products



### Markets



## YTD 2013 Revenues \$341.7M



- EMEA
- Americas
- APAC

- Cable Edge
- Video Products
- Service & Support

- Broadcast & Media
- Service Provider

# Q3 2014: Balance Sheet Highlights



	\$Millions	
Cash	\$97.2	
Accounts Receivable	\$75.6	64 days
Inventories	\$32.5	6.2 turns
Cash From Operations	\$0.7	
Shares Repurchased	\$31.7	4.9M Shares

- Q3 2014: repurchased 4.9 million shares for \$31.7M
- Cumulative repurchases of 36.3 million shares for \$225M since 2Q 2012
- Shares outstanding on Sept. 26, 2014 approximately 88.4 million
- \$75M authorized for future purchases as of Sept. 26, 2014

Returned nearly 160% of cash from operations to shareholders since 2Q'12

# Q4 2014: Financial Guidance



	Metric
Revenue	\$96M - \$106M
Non-GAAP Gross Margin*	52.5% - 53.5%
Non-GAAP Operating Expenses*	\$50M - \$51M
Non-GAAP Tax Rate	21%

\*Excludes charges for stock-based compensation, the amortization of intangibles and restructuring and related charges.



Thank You

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 margin, operating expenses, income (loss) from operations and net income (loss) (including those amounts as a percentage of revenue), and net income (loss) per 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, and adjustments that normalize the tax rate.

# 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>53.6%</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

# Q2 2014: GAAP to Non-GAAP Reconciliations

	Three months ended			
	June 27, 2014			
	Gross Profit	Total Operating Expense	Income (Loss) from Operations	Net Income (Loss)
<b>GAAP from continuing operations</b>	\$ 49,817	\$ 58,466	\$ (8,649)	\$ (37,062)
Stock-based compensation in cost of revenue	623	-	623	623
Stock-based compensation in research and development	-	(1,269)	1,269	1,269
Stock-based compensation in selling, general and administrative	-	(2,669)	2,669	2,669
Amortization of intangibles	4,482	(1,718)	6,200	6,200
Restructuring and related charges	-	(284)	284	284
Discrete tax items and tax effect of non-GAAP adjustments	-	-	-	27,863
<b>Non-GAAP from continuing operations</b>	<b>\$ 54,922</b>	<b>\$ 52,526</b>	<b>\$ 2,396</b>	<b>\$ 1,846</b>
<i>As a % of revenue (GAAP)</i>	<i>45.5%</i>	<i>53.4%</i>	<i>-7.9%</i>	<i>-33.8%</i>
<i>As a % of revenue (Non-GAAP)</i>	<i>50.1%</i>	<i>47.9%</i>	<i>2.2%</i>	<i>1.7%</i>
<b>Diluted net income (loss) per share from continuing operations:</b>				
Diluted net loss per share from continuing operations-GAAP				\$ (0.39)
Diluted net income per share from continuing operations-Non-GAAP				\$ 0.02
<b>Shares used to compute diluted net income (loss) per share from continuing operations:</b>				
GAAP				93,966
Non-GAAP				95,294

# Q3 2013: GAAP to Non-GAAP Reconciliations

	Three months ended			
	September 27, 2013			
	Gross Profit	Total Operating Expense	Income (Loss) from Operations	Net Income
<b>GAAP from continuing operations</b>	\$ 56,792	\$ 59,347	\$ (2,555)	\$ 36,675
Stock-based compensation in cost of revenue	605	-	605	605
Stock-based compensation in research and development	-	(1,076)	1,076	1,076
Stock-based compensation in selling, general and administrative	-	(2,264)	2,264	2,264
Amortization of intangibles	4,763	(2,001)	6,764	6,764
Restructuring and related charges	324	(259)	583	583
Discrete tax items and tax effect of non-GAAP adjustments	-	-	-	(40,846)
<b>Non-GAAP from continuing operations</b>	<b>\$ 62,484</b>	<b>\$ 53,747</b>	<b>\$ 8,737</b>	<b>\$ 7,121</b>
<i>As a % of revenue (GAAP)</i>	<i>46.2%</i>	<i>48.3%</i>	<i>-2.1%</i>	<i>29.8%</i>
<i>As a % of revenue (Non-GAAP)</i>	<i>50.8%</i>	<i>43.7%</i>	<i>7.1%</i>	<i>5.8%</i>
<b>Diluted net income per share from continuing operations:</b>				
Diluted net income per share from continuing operations-GAAP				\$ 0.36
Diluted net income per share from continuing operations-Non-GAAP				\$ 0.07
<b>Shares used to compute diluted net income (loss) per share from continuing operations:</b>				
GAAP				102,723
Non-GAAP				102,723