



Corporate Overview

Needham's 19th Annual Growth Conference

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January 10, 2017

Forward Looking Statements



During the course of this presentation, we will provide projections and other forward looking statements regarding future events and the financial performance of Harmonic, including expectations concerning our business strategy for 2016 and 2017, and our Q4 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 10K, Form 10Q and Form 8K. 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. Some of these items, together with the corresponding GAAP numbers and a reconciliation to GAAP, are contained in this presentation. The rest can be found in related filings on form 8K.

Who We Are



The Worldwide Leader

in video delivery infrastructure



Enabling amazing video experiences

Harmonic-at-a-Glance



\$403M

2016
Revenue
Target

1,400

Employees

Global

10 Major
Sites
Worldwide

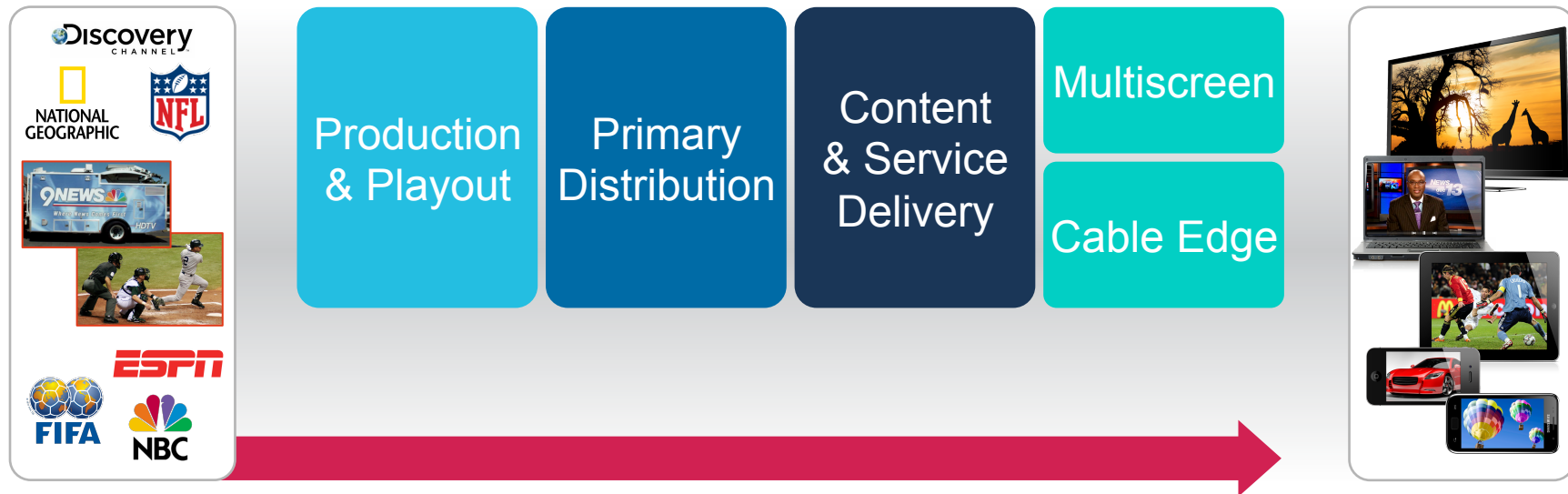
1,700

Leading
Content &
Service
Providers

\$97M

R&D
Spend

End-to-End Video Delivery Infrastructure



Video Delivery Infrastructure

Our Customers



BROADCAST & MEDIA

arqiva



CABLE

COM HEM



TELCO



SATELLITE



MULTISCREEN



Harmonic Business Lines



Video

- \$1.5B 2018 target market
- 2016 Revenue Target: \$347M

Strategy:

- Recent significant acquisition of TVN
- Ongoing transformation from hardware appliances to software & cloud-based applications
- Leadership in IP-based & OTT video solutions
- Superior Video Quality / bandwidth optimization

Cable Edge

- \$1.5B - \$2.0B 2018 target market
- 2016 Revenue Target: \$56M

Strategy:

- Enter CCAP market with disruptive software-based platform: industry-leading technical performance, scalability and cost efficiency
- Leverage market-leading edgeQAM deployments and cable industry relationships
- Executed warrant agreement with Comcast

NOTE: Market sizes are Harmonic estimates

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Harmonic's Video Segment

State of the Video Market



Content
Explosion



Changing
Consumer
Behaviors



Global Screen
Time
Increasing



Monetization
Shifting &
Increasing



Legacy
Distribution
Models Being
Challenged

Strong Demand Changing Traditional Models

Video Demand Drivers



Software,
Virtualization and
Cloud



IP



HEVC



UHD



2016 and beyond

Created a Global Video Powerhouse



THOMSON

▶ VIDEO NETWORKS

Industry-leading Innovation

- **Rated #1 in Video Quality**
- >600 expert video engineers globally
- 8 major global R&D centers

Unparalleled Service

- >5,000 content and service provider customers
- >500 sales, service and support personnel
- >400 channel and technology partners

Customer TCO*

- Acquisition Costs: 10 – 30% lower with integrated solutions
- Operating Costs: 15 – 40% lower through streamlined workflows
- Long Term & Change Costs: 15 – 35% lower through virtualized video infrastructure

NOTE: Per Harmonic analysis in published [TCO white paper](#)
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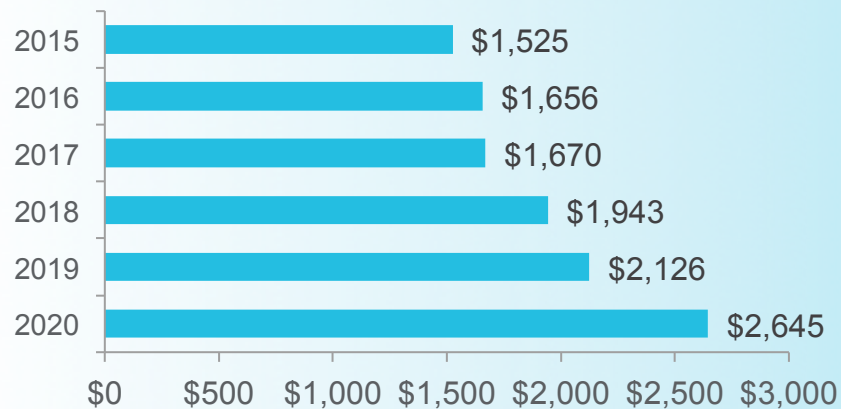


Harmonic's Cable Edge Segment

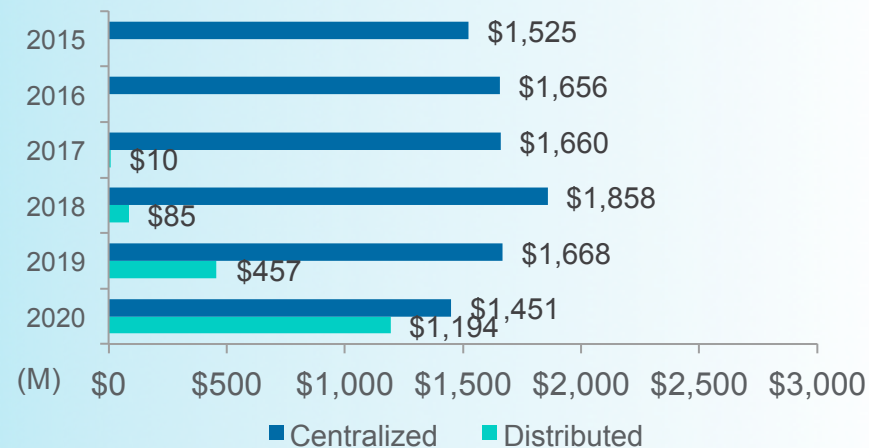
Cable Edge Market Transition



Worldwide Revenue for Centralized and Distributed CCAP Platforms



Worldwide Revenue by Platform



- Competition (Fiber, G.fast) and new technology (DAA, FDX) to drive accelerated access upgrade
- Overall CAPEX growth
- Clear trend towards distributed architectures

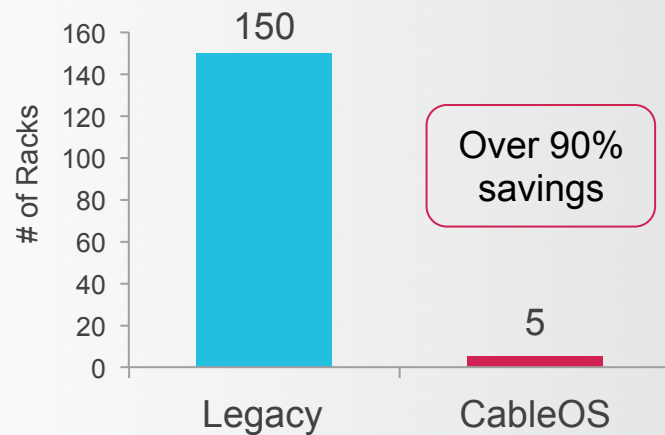
Source: SNL Kagan, "Cable operators to ramp spending on centralized, distributed access platforms to \$2.65B in 2020," June, 2016

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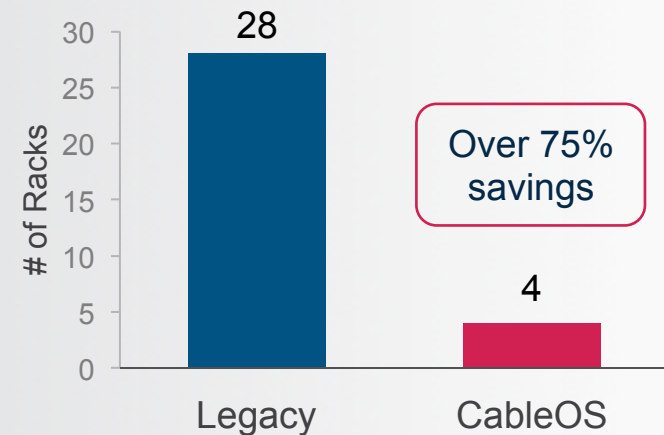
CableOS CCAP Case Studies



Distributed Space and Power Savings



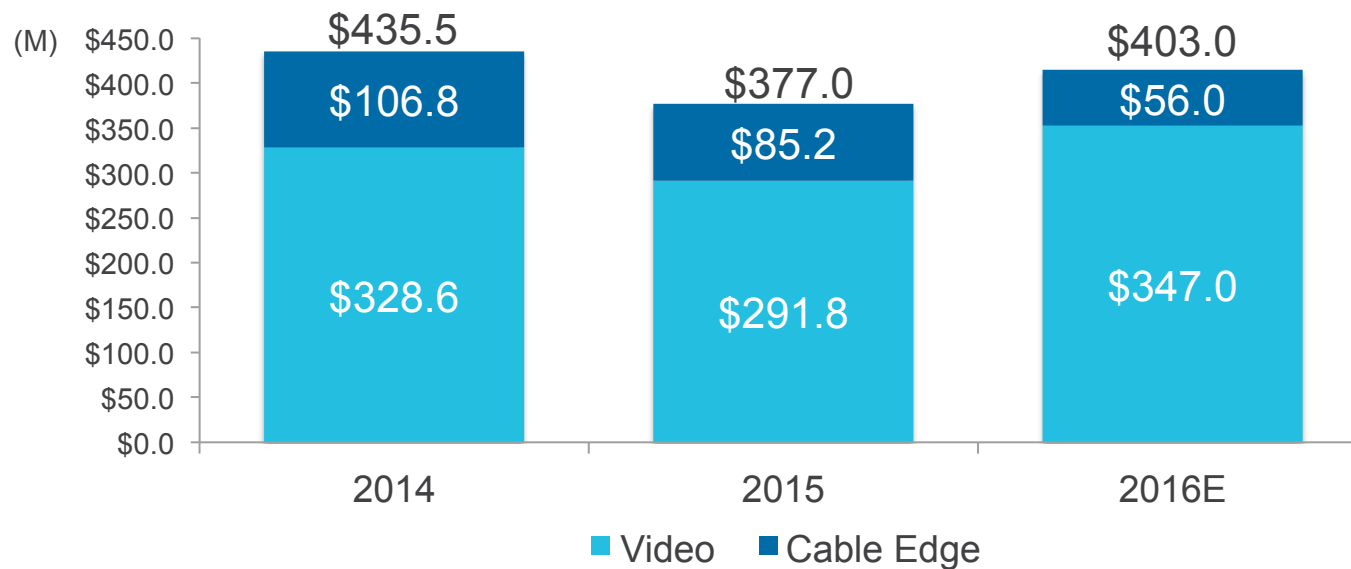
Centralized Space and Power Savings





Financial Overview

Revenue Trends



- 2015 decline in video revenue in advance of launch of new VOS software platform
- Declining legacy EdgeQAM revenue in advance of transition to CCAP
- 2016 video increase due to adoption of VOS plus additional TVN revenue

Q3 2016 Financial Highlights*



\$ Millions (except GM & EPS)	Q3 2016	Q2 2016	Q3 2015	Q3 / Q2 Change	Q3 Y/Y Change	Q3 2016 YTD	Q3 2015 YTD	Q3 YTD Change
Total Net Revenue	\$101.7	\$110.3	\$83.3	-8%	22%	\$294.5	\$290.4	1%
- Video Revenue	\$91.7	\$91.3	\$71.9	0%	28%	\$248.6	\$219.4	13%
- Cable Edge Revenue	\$10.0	\$19.0	\$11.4	-47%	-12%	\$45.9	\$71.0	-35%
Gross Margin %	52.5%	53.0%	56.3%	-0.5%	-3.8%	52.3%	54.3%	-2.0%
Operating Expense	\$52.9	\$57.7	\$47.3	-8%	12%	\$161.2	\$146.8	10%
Operating Income (Loss)	\$0.4	\$0.8	(\$0.4)	-\$0.4	\$0.8	(\$7.1)	\$11.0	-165%
EPS	(\$0.01)	\$0.00	\$0.00	-\$0.01	-\$0.01	(\$0.12)	\$0.10	-\$0.22
Bookings	\$97.3	\$117.3	\$74.6	-17%	30%	\$324.2	\$271.2	20%
Book to Bill	1.0	1.1	0.9	-9%	11%	1.1	0.9	22%

*Non-GAAP financial highlights

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Q3 2016 Balance Sheet Highlights



	\$ Millions
Cash and short-term investments	\$52.7
Accounts Receivable	\$99.1 / 89 days
Inventories	\$35.8 / 65 days
Convertible Debt	\$128
Backlog and Deferred Revenue	\$181.1
Shares Outstanding, millions	78.1

Q4 2016 Financial Guidance



\$ Millions (except EPS)	Video	Cable Edge	Q4 2016
Non-GAAP Revenue	\$97 - \$100	\$9 - \$11	\$106 - \$111
Non-GAAP Gross Margin	55.0% - 56.0%	36.0% - 37.0%	53.0% - 54.0%
Non-GAAP Operating Expenses			\$50 - \$52
Non-GAAP Operating Income			\$6 - \$8
Non-GAAP EPS			\$0.05 - \$0.07
Non-GAAP Tax Rate			15%
Shares, millions			79
Cash and short-term investments on hand at quarter-end			\$60 - \$65



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Q&A

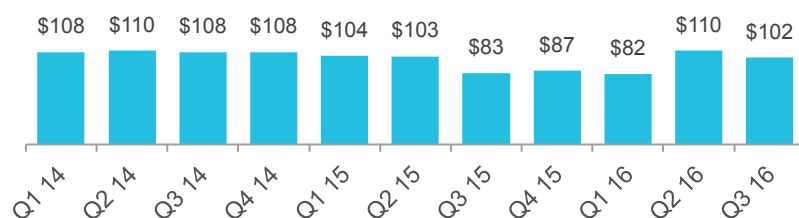


Appendix

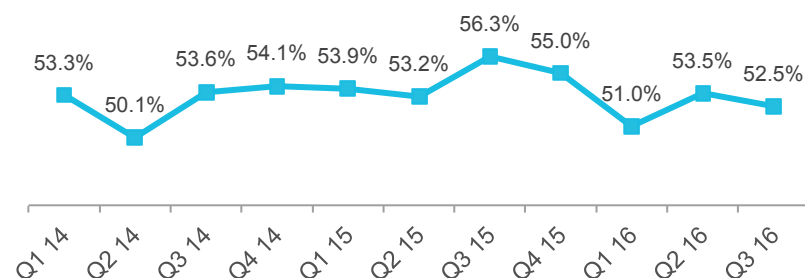
Key Quarterly Financial Metrics



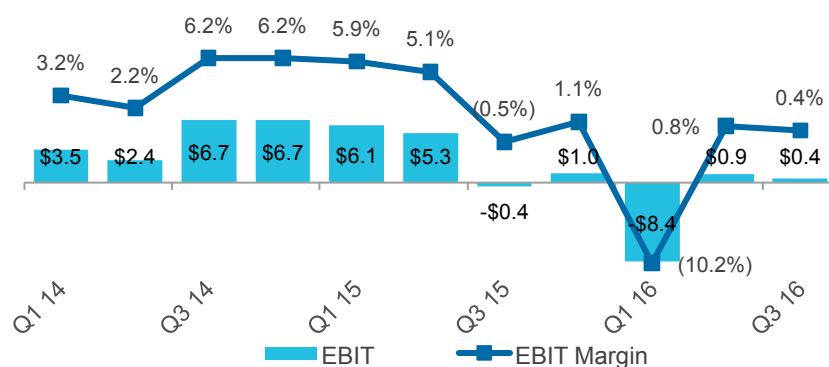
Revenue (1)



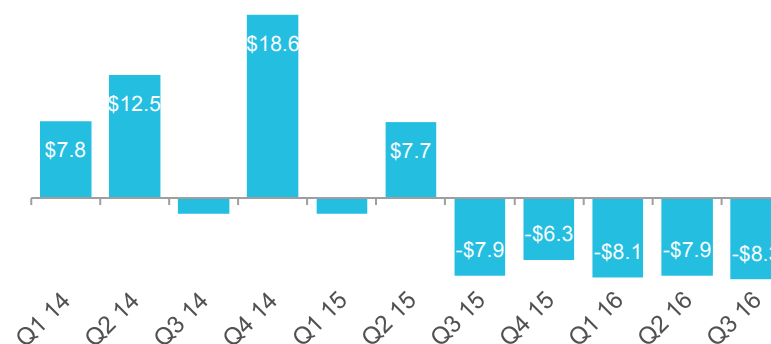
Non-GAAP Gross Margins



Non-GAAP EBIT and EBIT Margins



Free Cash Flow (2)



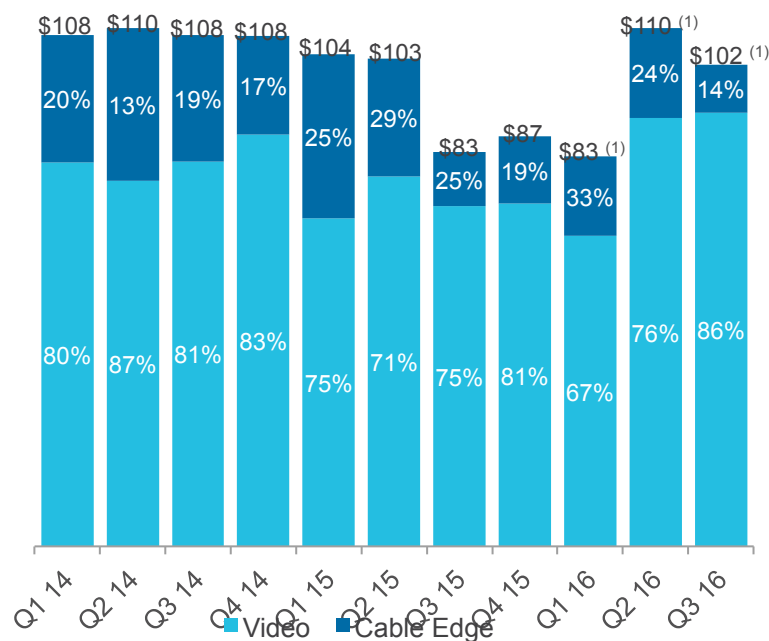
NOTE: Dollars in millions.

(1) Q1- Q3 2016 revenue is Non-GAAP. See reconciliations on slides 25 & 26. (2) Free Cash Flow defined as Cash Flow from Operations less Capex.

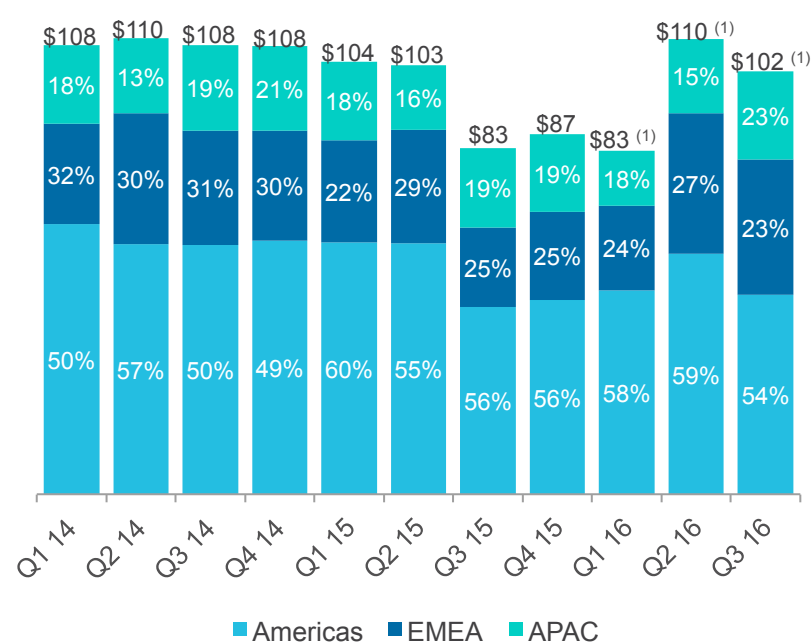
Segment and Geographic Revenue Splits



By Segments



By Geography



NOTE: Dollars in millions.

1) Q1 and Q2 2016 revenue is Non-GAAP. See reconciliations on slides 25 & 26.

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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, 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 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.

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



	Revenue	Gross Profit	Total Operating Expense	Income (loss) from Operations	Total Non-operating Income (expense), net	Net loss
GAAP	\$ 101,406	\$ 51,363	\$ 63,296	\$ (11,933)	\$ (4,321)	\$ (16,012)
Cable Edge inventory charge	—	(159)	—	(159)	—	(159)
Acquisition accounting impact 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)
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

Q2 2016 GAAP to Non-GAAP Reconciliations (in thousands, except EPS)



	Revenue	Gross Profit	Total Operating Expense	Income (loss) from Operations	Total Non-operating Income (expense), net	Net Loss
GAAP	\$ 109,571	\$ 51,040	\$ 69,158	\$ (18,118)	\$ (2,319)	\$ (20,679)
Cable Edge inventory charge	—	4,519	—	4,519	—	4,519
Acquisition accounting impacts 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	1,233
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	285
Non-GAAP	<u>\$ 110,351</u>	<u>\$ 58,509</u>	<u>\$ 57,709</u>	<u>\$ 800</u>	<u>\$ (1,086)</u>	<u>\$ (243)</u>
<i>As a % of revenue (GAAP)</i>		46.6 %	63.1 %	(16.5) %	(2.1) %	(18.9) %
<i>As a % of revenue (Non-GAAP)</i>		53.0 %	52.3 %	0.7 %	(1.0) %	(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 and Non-GAAP						<u>77,342</u>

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



	Revenue	Gross Profit	Total Operating Expense	Income (loss) from Operations	Total Non-operating Income (expense), net	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
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	<u>77,475</u>

Q4 2016 Guidance GAAP to Non-GAAP Reconciliations (in millions, except EPS)



	Revenue	Gross Profit	Total Operating Expense	Income(loss) from Operations	Total Non-operating Income (expense), net	Net Income(loss)
GAAP	\$105.8 to \$110.8	\$51.0 to \$55.0	\$67.5 to \$69.5	\$(16.5) to \$(14.5)	(2.6)	\$(19.0) to \$(17.0)
Acquisition accounting impact related to TVN deferred revenue	0.2	0.2	—	0.2	—	0.2
Stock-based compensation expense	—	0.6	(3.8)	4.4	—	4.4
Amortization of intangibles	—	1.4	(1.0)	2.4	—	2.4
Restructuring and related charges and TVN acquisition/integration costs	—	2.8	(12.7)	15.5	—	15.5
Non-cash interest expense related to convertible notes	—	—	—	—	1.3	1.3
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	(0.8)
	0.2	5.0	(17.5)	22.5	(1.3)	23.0
Non-GAAP	\$106.0 to \$111.0	\$56.0 to \$60.0	\$50.0 to \$52.0	\$6.0 to \$8.0	Approx. (\$1.3)	\$4.0 to \$6.0
<i>As a % of revenue (GAAP)</i>		48% to 49%	62% to 63%	(15)% to (14)%	(2)%	(18)% to (15)%
<i>As a % of revenue (Non-GAAP)</i>		53% to 54%	46.0% to 47%	6% to 7.0%	(1)%	4% to 5.0%
Diluted income (loss) per share:						
Diluted net loss per share-GAAP						\$(0.24) to \$(0.22)
Diluted net income per share-Non-GAAP						\$0.05 to \$0.07
Shares used to compute diluted income (loss) per share:						
GAAP and Non-GAAP						79.0



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