



# Management Presentation

November, 2014

# 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 2014 business strategy and our Q4 2014 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-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.



Harmonic

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## The Worldwide Leader

in video delivery infrastructure



Enabling amazing video experiences

through integrated solutions with unrivaled simplicity, flexibility and efficiency

# Harmonic

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**CA**

Silicon  
Valley

**\$462M**

2013 Annual  
Revenue

**1040**

Employees

**8**

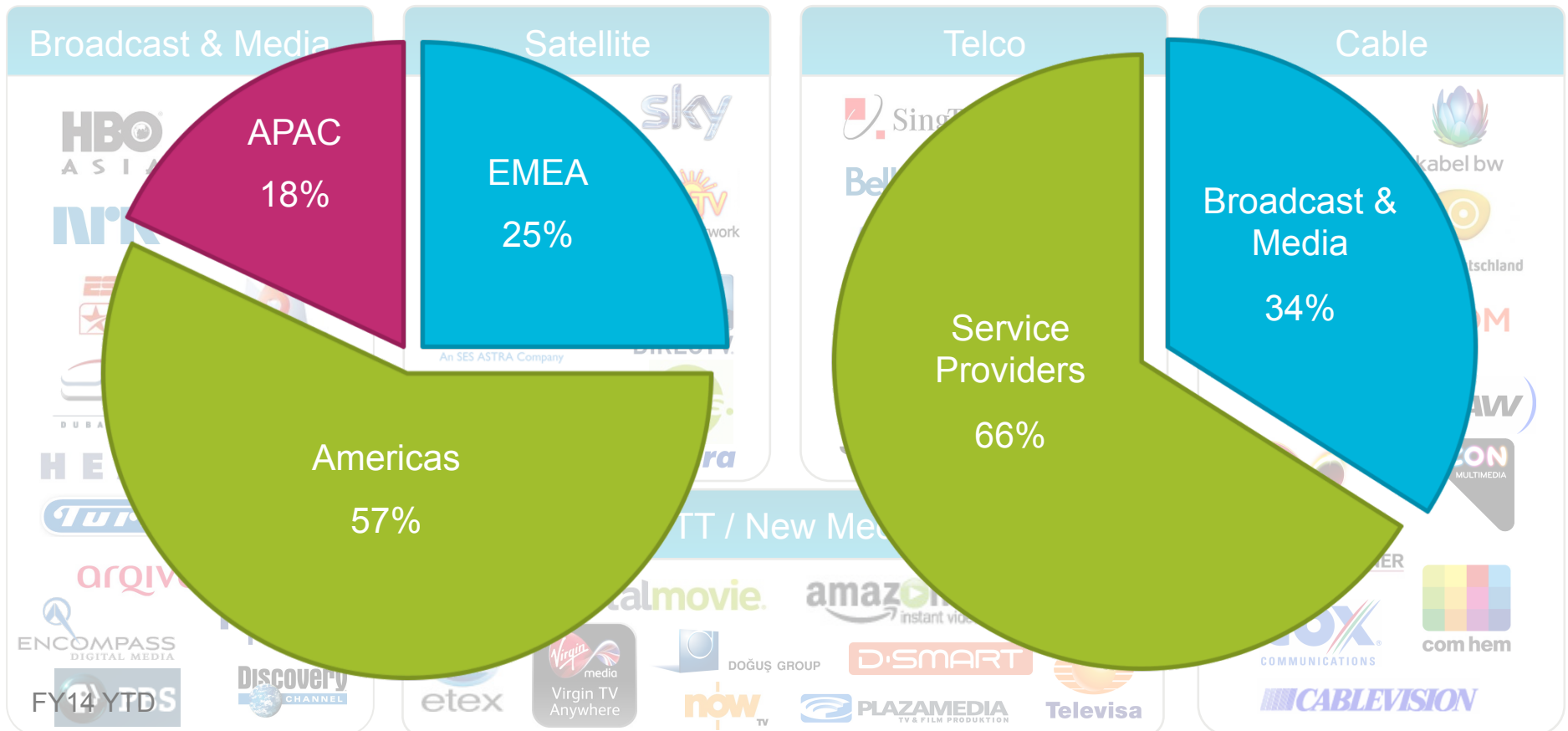
Major Sites  
Worldwide

**3850**

Customers  
Globally

# Customers

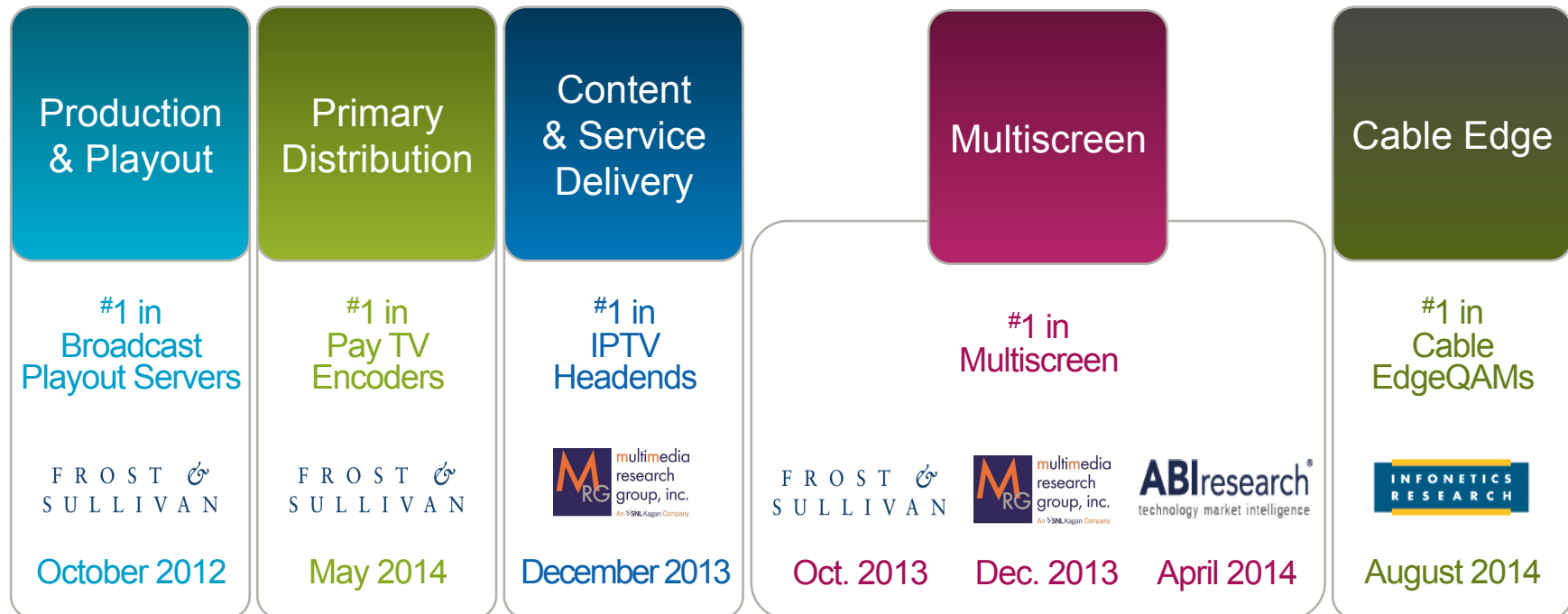
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# Industry Leadership

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Harmonic is the leader



# Business Strategy



## Video

- \$382M 2013 revenue
- Double-digit operating income
- \$2.5B 2017 addressable market
- Disruptive transition to software / cloud
- Coming refresh for HEVC & UltraHD
- New Strategic Platform - **VOS**

## Cable Edge

- \$80M 2013 revenue
- Investment mode
- \$1.6B 2017 addressable market
- Disruptive transition to managed IP video
- New Strategic Platform – **NSG Pro/Exo**

- Strengthened Go To Market strategy
- Solidly positioned to accelerate earnings growth

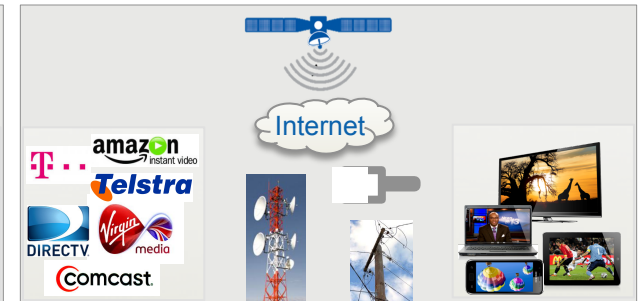




# Video Business

# Harmonic's Video Business Overview




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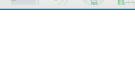
## Production & Playout

## Primary Distribution

## Broadcast & Multiscreen Delivery

-  **Spectrum**  
Ingest & Playout Server
-  **MediaGrid**  
High Performance Storage
-  **ProMedia**  
Transcoder
-  **MAS**  
Media Asset Management

-  **Electra XVM**  
Virtualized Media Processor
-  **Electra**  
Encoder
-  **ProView**  
Integrated Receiver Decoder
-  **DMS**  
Distribution Management

-  **Electra XVM**  
Virtualized Media Processor
-  **Electra**  
Encoder
-  **ProStream**  
Stream Processor and Transcoder
-  **ProMedia / ProMedia X**  
Virtualized Media Processor
-  **NMX** Digital Service manager



# Customer Challenges

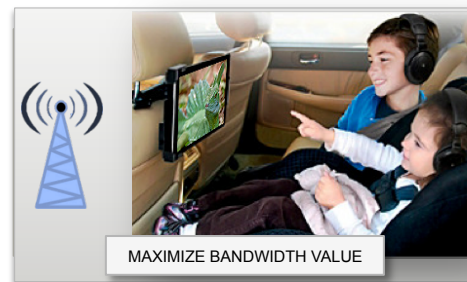
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Production & Playout

Primary Distribution

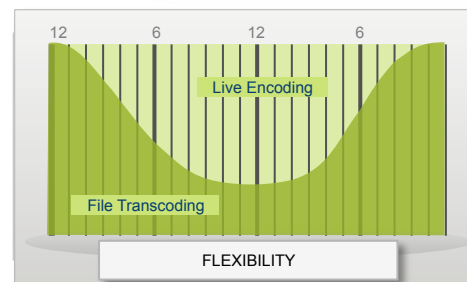
Broadcast & Multiscreen  
Delivery

*Profitably monetize  
vastly more content*



*Deliver stunning  
video experiences  
everywhere*

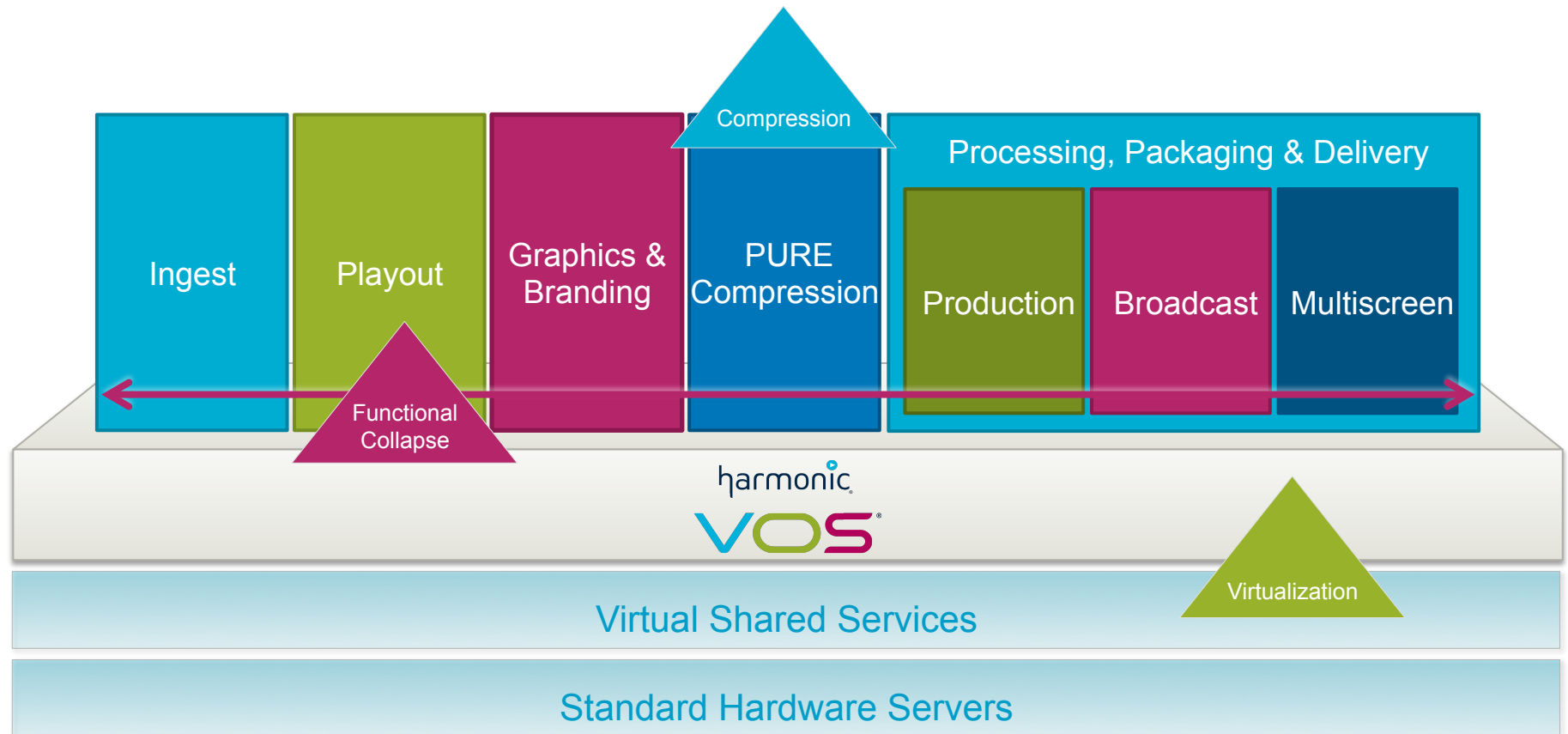
*Significantly reduce  
video infrastructure  
TCO*



*Nimbly pursue content  
monetization  
opportunities*

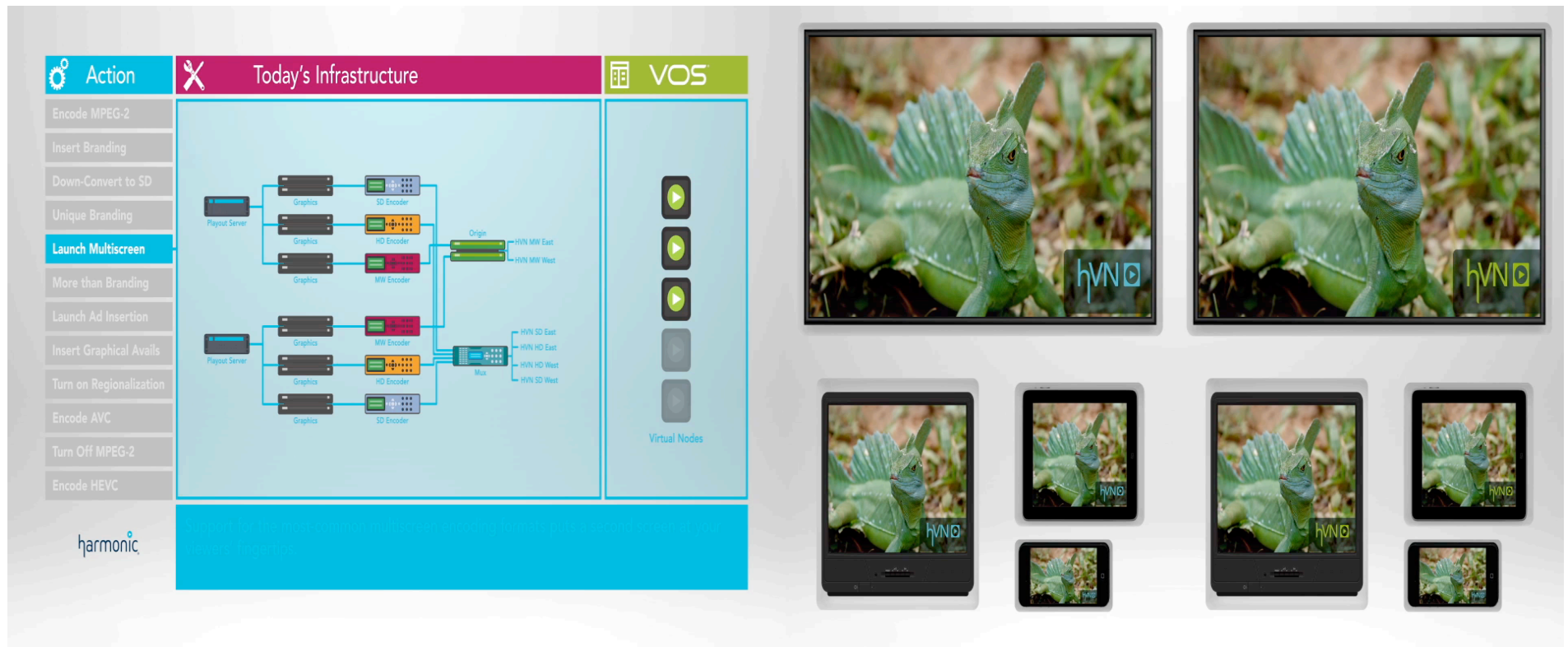
# VOS: Re-inventing Video Infrastructure

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# VOS: Simplicity and Flexibility

Virtualization



# Virtualizing Video: Software Centric Coding

Compression

## PURE Compression Engine

SD

MPEG-2

CBR

HD

MPEG-4/  
AVC

VBR

UHD

HEVC

ABR

Stunning  
Video  
Quality



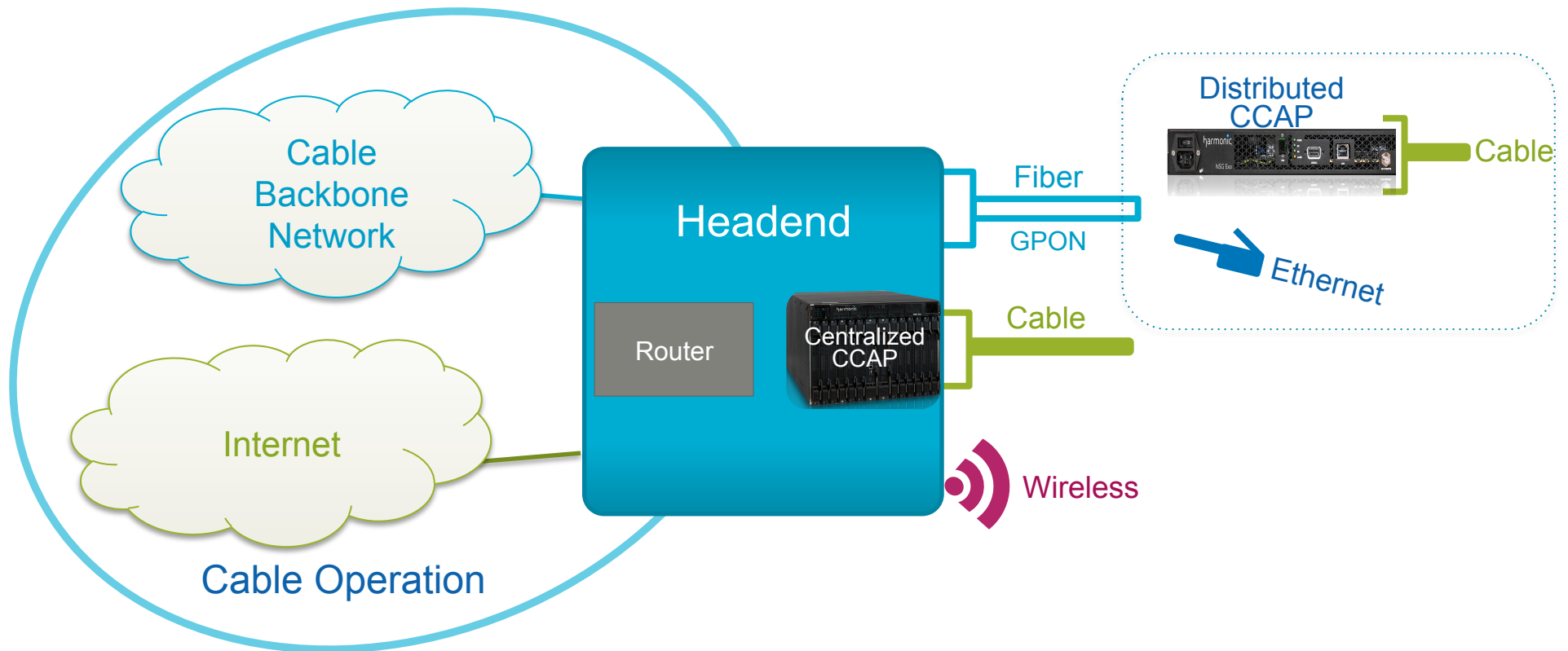


## Cable Edge Business



# The New Cable Network

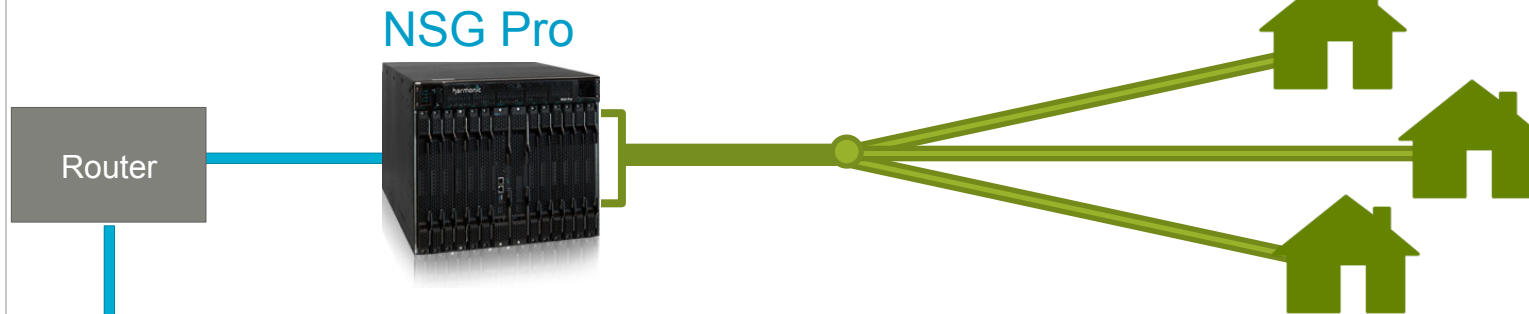
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# The New Cable Network

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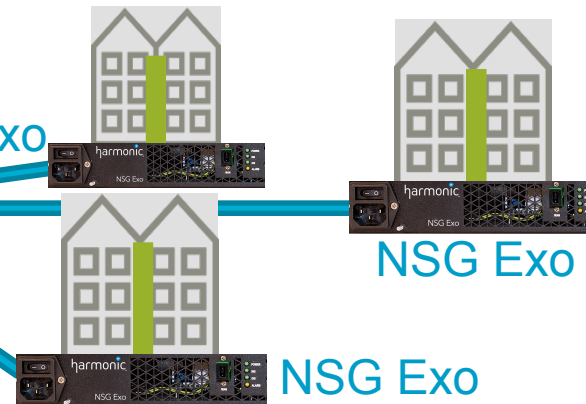
Centralized



Cable OS<sup>®</sup>

Distributed

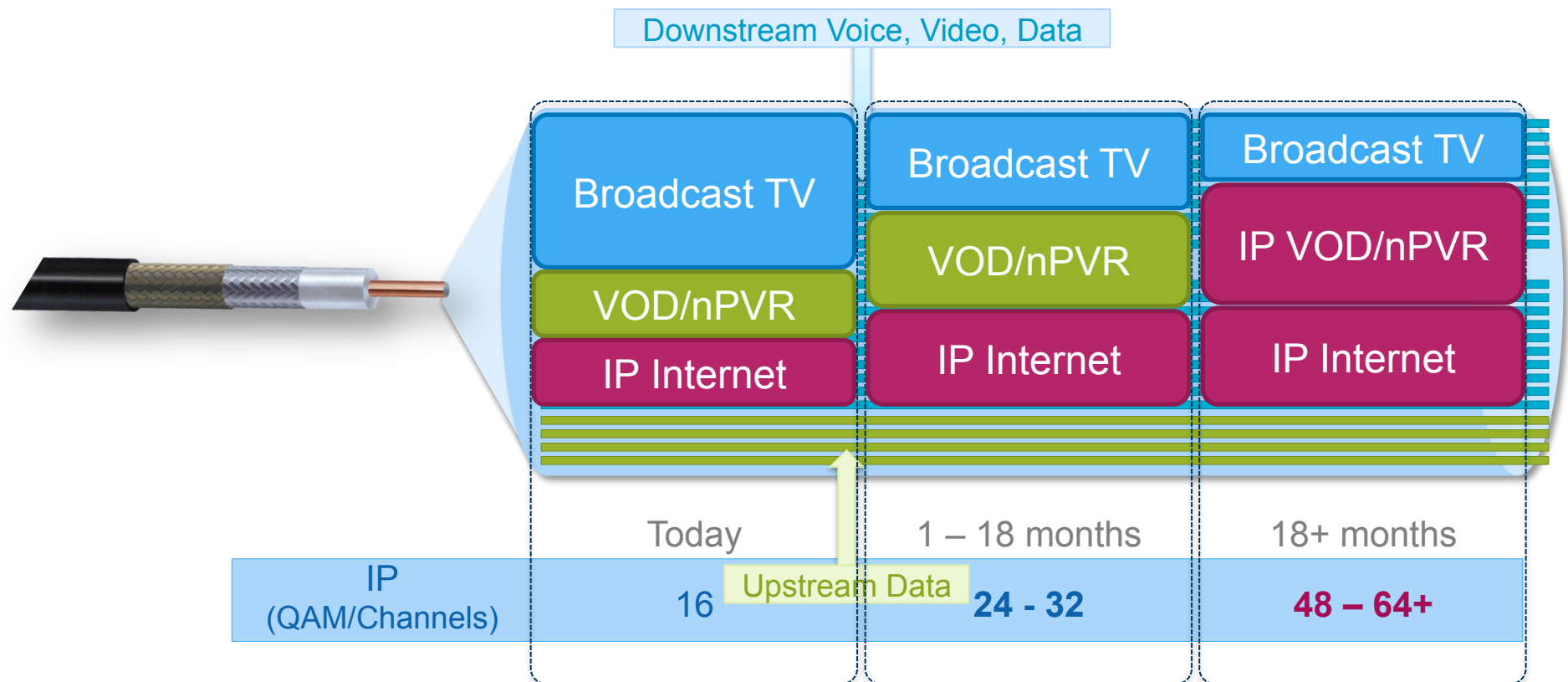
NSG Exo





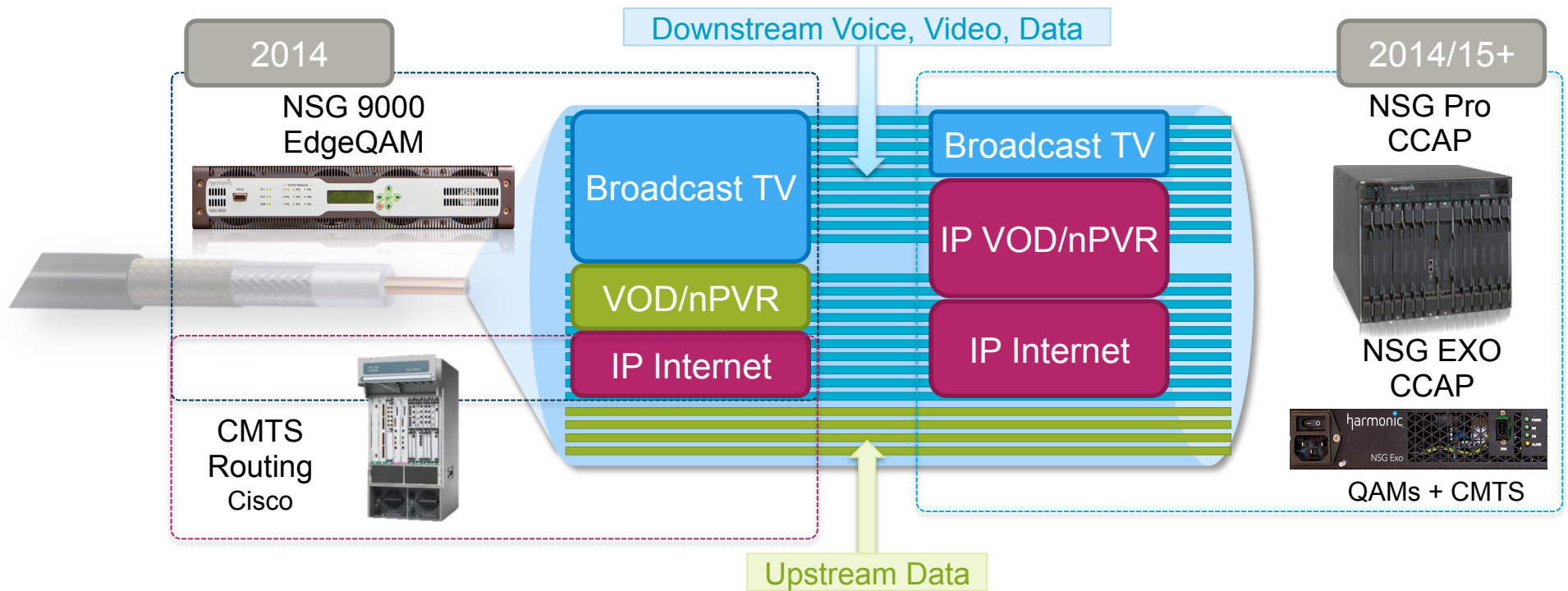
# Changing the Profile of Cable

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# Changing the Profile of Cable

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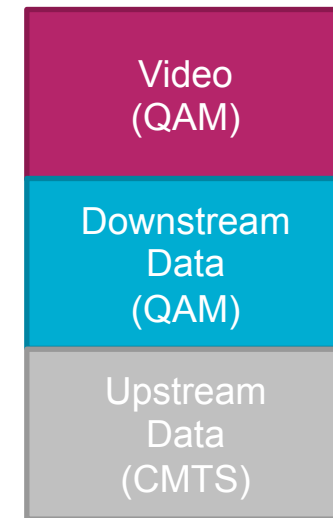


# NSG Pro Differentiators

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- Most narrowcast QAMs per service group
- Router-independent architecture
- Operational and capital efficiency
  - Software control of all downstream services
  - Highest service group density per RU
  - Software licensing
  - Price per port

Cable OS<sup>®</sup>



NSG  
Pro

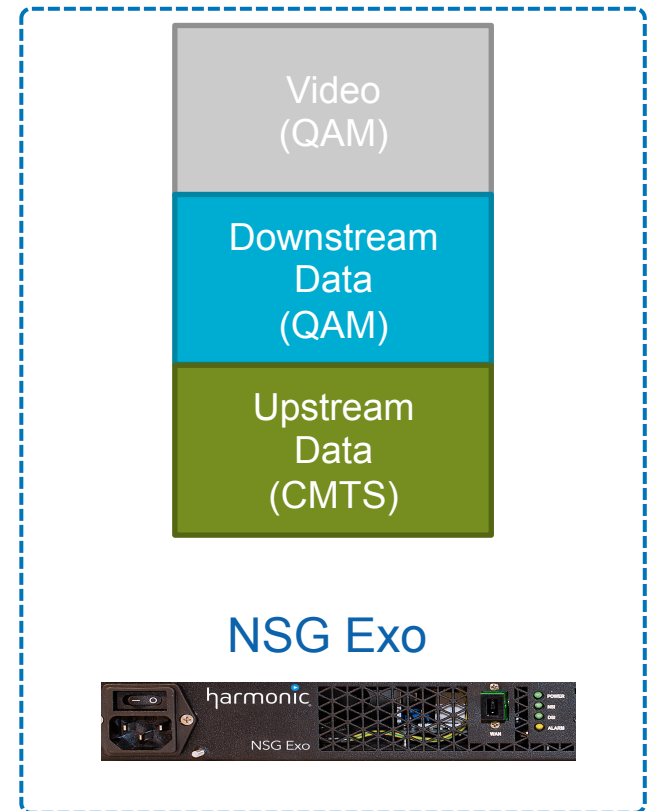


# NSG Exo Differentiators

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- First to market DAA platform
- Common architecture
- Operational and capital efficiency
  - Leverages deep fiber in networks
  - Broadens market for services
  - Simplifies management
  - Applicable beyond cable industry

Cable OS<sup>®</sup>



# Playing to Win



- Managing business in investment mode
  - Doubled engineering team over last 18 months
- Successfully seeding the centralized CCAP market
  - Strong customer feedback and relationships
  - Early NSG Pro market share success
- First to market with a decentralized CCAP platform
  - Full CMTS capabilities today
  - Revenue contributor this year
- Driving for significant revenue growth and margin expansion

Competitively positioned to capture significant CCAP share



# Financial Overview

# 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%



## 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

# Share Repurchase Progress



- 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.	

# Two Lines of Business

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Video	2013	2014 - 2015	Beyond
Revenue	\$382M	Mid single digit growth	Faster than market growth
Operating Margin	7%	10 – 15%	15%+

Cable Edge	2013	2014 - 2015	Beyond
Revenue	\$80M	High teens – low 20's growth	Faster than market growth
Operating Margin	Investing	Investing - 5%	10% – 15%

# Company Target Model

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	2014 - 2015	Beyond
Long Term Growth Rate	Mid single digit+	Faster than market
Gross Margin	53% - 56%	56% - 60%
2014 Operating Margin	8% - 12%	15%+

# Building Shareholder Value

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- Continued focus on growth opportunities
  - Capitalize on new strategic platforms
  - Expand global customer base
- Accelerate core market share leadership
- Enhance margin profile
- Optimize balance sheet
- Drive long-term earnings accretion





Thank You



# Disclosures

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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 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>	\$ 57,906	\$ 51,177	\$ 6,729	\$ 5,147
<i>As a % of revenue (GAAP)</i>	49.4%	52.7%	-3.3%	1.0%
<i>As a % of revenue (Non-GAAP)</i>	53.6%	47.4%	6.2%	4.8%
<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				
Diluted net income per share from continuing operations-Non-GAAP				
<b>Shares used to compute diluted net income (loss) per share from continuing operations:</b>				
GAAP				
Non-GAAP				

# 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