

A large, stylized blue arrow graphic pointing to the right. The arrow is filled with a pattern of overlapping, semi-transparent blue triangles of various shades, creating a geometric, crystalline effect. The arrow's outline is a lighter blue, and it has a slight 3D effect with a darker blue shadow on the left side.

# Fourth Quarter 2016 Earnings Conference Call

Patrick Harshman, President & CEO  
Hal Covert, CFO

February 28, 2017

## 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 2017 and beyond, and our Q1 2017 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).

## Q4 2016 Results\* Summary



- Revenue \$114M
  - Video business up 14% sequentially, 45% y-o-y
  - Cable Edge business down 10% sequentially, 37% y-o-y
- Bookings \$117M
  - Up 20% sequentially, 16% year-over-year
  - Backlog and deferred revenue \$188M, near record level
- Gross Margin 56%
  - Up 3.6% sequentially
  - Stronger mix of video software products and services
- EPS \$0.08
  - TVN integration improving operating leverage

\* Non-GAAP financial results

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## Video Business Update

- Record performance in Q4
  - Revenue \$105M
  - Gross margin 57.5%
  - Operating margin 13.5%
- Software transition gaining momentum
  - Software-based appliances: 2016 sales up >200% y-o-y
  - Licenses for high-quality OTT: 2016 sales up >200% y-o-y
  - Cloud and SaaS: new tier 1 recurring revenue deal signed in Q4
- 2017 outlook positive
  - Softer Q1 following strong Q4 order timing
  - Continued software and SaaS growth
  - >10% full-year operating margin

Positioned for sustainable earnings growth

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## Cable Edge Business Update

- Executing CableOS growth plan
  - First General Availability (GA) product released in Q4
  - First revenue and commercial deployments in Q4
  - Expanded Tier 1 customer engagements in Q4
- Legacy EdgeQAM demand continues to decline
  - Q4 was lowest revenue quarter on record
  - Customer engagements transitioning to CableOS
- 2017 CableOS outlook positive
  - Scale trials and early deployments in first half
  - Revenue shipments begin ramp in second half

Targeting Leadership in >\$2B CCAP Market

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## Financial Update



- Better than expected Q4 results
  - Q4 Video product revenue timing impacts outlook for Q1
  - Sum of Q4 and expectations for Q1 underscore positive business momentum
- Completed integration of Thomson Video Networks in Q4
  - Exceeded synergy plan, >\$20M
  - Neutral to Non-GAAP operating income in 2016
  - Accretive in 2017
- 2017 financial aspirations unchanged

## Q4 2016 Financial Highlights\*



\$ Millions (except GM & EPS)	Q4 2016	Q3 2016	Q4 2015	Q4/ Q3 Change	Q4 Y/Y Change	2016	2015	Y/Y Change
Total Net Revenue	\$113.8	\$101.7	\$86.6	12%	31%	\$408.3	\$377.0	8%
- Video Revenue	\$104.8	\$91.7	\$72.4	14%	45%	\$353.5	\$291.8	21%
- Cable Edge Revenue	\$9.0	\$10.0	\$14.2	-10%	-37%	\$54.9	\$85.2	-36%
Gross Margin %	56.1%	52.5%	55.0%	3.6%	1.1%	53.3%	54.5%	-1.2%
Operating Expense	\$54.2	\$52.9	\$46.7	2%	16%	\$215.4	\$193.5	11%
Operating Income	\$9.6	\$0.4	\$1.0	\$9.2	\$8.6	\$2.4	\$11.9	-\$9.5
EPS	\$0.08	(\$0.01)	\$0.01	\$0.09	\$0.07	(\$0.04)	\$0.10	-\$0.14
Bookings	\$116.9	\$97.3	\$101.0	20%	16%	\$441.1	\$372.2	19%
Book to Bill	1.0	1.0	1.2	-	-17%	1.1	1.0	10%

\*Non-GAAP financial highlights

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## Q4 2016 Balance Sheet Highlights



	\$ Millions	
Cash and short-term investments	\$62.6	
Accounts Receivable	\$86.8	70 days
Inventories	\$41.2	68 days
Cash From Operations	\$13.4	
Backlog and Deferred	\$188.4	

## Q1 2017 Financial Guidance



\$ Millions (except EPS)	Video	Cable Edge	Total
Non-GAAP Revenue	\$80 - \$86	\$7 - \$9	\$87 - \$95
Non-GAAP Gross Margin	54.0% - 55.0%	38.0% - 40.0%	53.0% - 54.0%
Non-GAAP Operating Expenses			\$52 - \$53
Non-GAAP Operating Loss			(\$6) - (\$2)
Non-GAAP EPS			(\$0.08) - (\$0.04)
Non-GAAP Tax Rate			15%
Shares, millions			81
Cash and short-term investments on hand at quarter-end			\$60 - \$65

## 2017 Strategic Priorities



### Video Business

- Drive revenue and margin growth, led by OTT
- Expand Cloud, SaaS and 4K market leadership
- Deliver double-digit operating income

### Cable Edge Business

- Successfully scale early CableOS deployments
- Achieve new design wins with additional Tier 1 operators
- Exit the year with >\$100 million annualized run rate

Drive new phase of growth, profitability and shareholder value



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Q&A

## 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 warrant amortization, 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.

## Q4 2016 GAAP to Non-GAAP Reconciliations (in thousands, except EPS)



	Revenue	Gross Profit	Total Operating Expense	Income (loss) from Operations	Total Non-operating expense, net	Net Income(Loss)
<b>GAAP</b>	\$ 113,102	\$ 57,693	\$ 73,922	\$ (16,229)	\$ (2,848)	\$ (10,443)
Cable Edge inventory charge	—	(327)	—	(327)	—	(327)
Acquisition accounting impact related to TVN deferred revenue	239	239	—	239	—	239
Accounting impact related to warrant amortization	434	434	—	434	—	434
Stock-based compensation in cost of revenue	—	543	—	543	—	543
Stock-based compensation in research and development	—	—	(1,130)	1,130	—	1,130
Stock-based compensation in selling, general and administrative	—	—	(2,845)	2,845	—	2,845
Amortization of intangibles	—	1,328	(797)	2,125	—	2,125
Restructuring and related charges	—	3,975	(11,519)	15,494	—	15,494
Gain on pension curtailment	—	(551)	1,404	(1,955)	—	(1,955)
TVN acquisition and integration-related costs	—	439	(4,828)	5,267	(98)	5,169
Non-cash interest expenses related to convertible notes	—	—	—	—	1,295	1,295
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	(9,821)
<b>Total adjustments</b>	673	6,080	(19,715)	25,795	1,197	17,171
<b>Non-GAAP</b>	\$ 113,775	\$ 63,773	\$ 54,207	\$ 9,566	\$ (1,651)	\$ 6,728
<i>As a % of revenue (GAAP)</i>		51.0%	65.4%	(14.3)%	(2.5)%	(9.2)%
<i>As a % of revenue (Non-GAAP)</i>		56.1%	47.6%	8.4%	(1.5)%	5.9%
<b>Diluted income (loss) per share:</b>						
Diluted net loss per share-GAAP						\$ (0.13)
Diluted net income per share-Non-GAAP						\$ 0.08
<b>Shares used to compute net income (loss) per share:</b>						
GAAP						78,389
Non-GAAP						80,112

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



	Revenue	Gross Profit	Total Operating Expense	Income (loss) from Operations	Total Non-operating expense, net	Net loss
<b>GAAP</b>	\$ 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)
<b>Total adjustments</b>	325	2,024	(10,353)	12,377	2,609	14,934
<b>Non-GAAP</b>	\$ 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)%
<b>Diluted loss per share:</b>						
Diluted net loss per share-GAAP					\$ (0.21)	
Diluted net loss per share-Non-GAAP					\$ (0.01)	
<b>Shares used to compute diluted loss per share:</b>						
GAAP and Non-GAAP					78,092	

## Q4 2015 GAAP to Non-GAAP Reconciliations (in thousands, except EPS)



	Revenue	Gross Profit	Total Operating Expense	Income (loss) from Operations	Total Non-operating expense, net	Net Income (loss)
<b>GAAP</b>	\$ 86,603	\$ 47,068	\$ 53,429	\$ (6,361)	\$ (418)	\$ (7,199)
Stock-based compensation in cost of revenue	—	479	—	479	—	479
Stock-based compensation in research and development	—	—	(1,186)	1,186	—	1,186
Stock-based compensation in selling, general and administrative	—	—	(2,072)	2,072	—	2,072
Amortization of intangibles	—	86	(1,445)	1,531	—	1,531
Restructuring and related charges	—	—	(746)	746	—	746
Loss on impairment of long-term investment	—	—	—	—	—	—
TVN acquisition costs	—	—	(1,309)	1,309	—	1,309
Non-cash interest expenses related to convertible note	—	—	—	—	184	184
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	266
<b>Total adjustments</b>	—	565	(6,758)	7,323	184	7,773
<b>Non-GAAP</b>	\$ 86,603	\$ 47,633	\$ 46,671	\$ 962	\$ (234)	\$ 574
<i>As a % of revenue (GAAP)</i>		54.3%	61.7%	(7.3)%	(0.5)%	(8.3)%
<i>As a % of revenue (Non-GAAP)</i>		55.0%	53.9%	1.1%	(0.3)%	0.7%
<b>Diluted income (loss) per share:</b>						
Diluted net loss per share-GAAP						\$ (0.08)
Diluted net income per share-Non-GAAP						\$ 0.01
<b>Shares used to compute diluted income (loss) per share:</b>						
GAAP						84,932
Non-GAAP						85,629

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



	Revenue	Gross Profit	Total Operating Expense	Income (loss) from Operations	Total Non-operating expense, net	Net loss
<b>GAAP</b>	\$ 405,911	\$ 200,750	\$ 267,786	\$ (67,036)	\$ (13,394)	\$ (72,314)
Cable Edge inventory charge	—	4,033	—	4,033	—	4,033
Acquisition accounting impact related to TVN deferred revenue	1,967	1,967	—	1,967	—	1,967
Accounting impact related to warrant amortization	434	434	—	434	—	434
Acquisition accounting impacts related to TVN fair value of inventory	—	189	—	189	—	189
Stock-based compensation in cost of revenue	—	1,554	—	1,554	—	1,554
Stock-based compensation in research and development	—	—	(3,711)	3,711	—	3,711
Stock-based compensation in selling, general and administrative	—	—	(7,795)	7,795	—	7,795
Amortization of intangibles	—	4,433	(10,403)	14,836	—	14,836
Restructuring and related charges	—	3,951	(16,007)	19,958	—	19,958
Gain on pension curtailment	—	(551)	1,404	(1,955)	—	(1,955)
TVN acquisition and integration-related costs	—	1,049	(15,887)	16,936	—	16,936
Loss on impairment of long-term investment	—	—	—	—	2,735	2,735
Non-cash interest expenses related to convertible notes	—	—	—	—	4,967	4,967
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	(7,624)
<b>Total adjustments</b>	<b>2,401</b>	<b>17,059</b>	<b>(52,399)</b>	<b>69,458</b>	<b>7,702</b>	<b>69,536</b>
<b>Non-GAAP</b>	<b>\$ 408,312</b>	<b>\$ 217,809</b>	<b>\$ 215,387</b>	<b>\$ 2,422</b>	<b>\$ (5,692)</b>	<b>\$ (2,778)</b>
<i>As a % of revenue (GAAP)</i>		<i>49.5 %</i>	<i>66.0 %</i>	<i>(16.5)%</i>	<i>(3.3)%</i>	<i>(17.8)%</i>
<i>As a % of revenue (Non-GAAP)</i>		<i>53.3 %</i>	<i>52.8 %</i>	<i>0.6 %</i>	<i>(1.4)%</i>	<i>(0.7)%</i>
<b>Diluted loss per share:</b>						
Diluted net loss per share-GAAP						\$ (0.93)
Diluted net loss per share-Non-GAAP						\$ (0.04)
<b>Shares used to compute diluted loss per share:</b>						
GAAP and Non-GAAP						77,705

## 2015 GAAP to Non-GAAP Reconciliations (in thousands, except EPS)



	Revenue	Gross Profit	Total Operating Expense	Income (loss) from Operations	Total Non-operating expense, net	Net Income (loss)
<b>GAAP</b>	\$ 377,027	\$ 202,712	\$ 215,660	\$ (12,948)	\$ (3,120)	\$ (15,661)
Stock-based compensation in cost of revenue	—	1,862	—	1,862	—	1,862
Stock-based compensation in research and development	—	—	(4,435)	4,435	—	4,435
Stock-based compensation in selling, general and administrative	—	—	(9,285)	9,285	—	9,285
Amortization of intangibles	—	719	(5,783)	6,502	—	6,502
Restructuring and related charges	—	113	(1,372)	1,485	—	1,485
Loss on impairment of long-term investment	—	—	—	—	2,505	2,505
TVN acquisition costs	—	—	(1,309)	1,309	—	1,309
Non-cash interest expenses related to convertible note	—	—	—	—	184	184
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	(2,823)
<b>Total adjustments</b>	—	2,694	(22,184)	24,878	2,689	24,744
<b>Non-GAAP</b>	\$ 377,027	\$ 205,406	\$ 193,476	\$ 11,930	\$ (431)	\$ 9,083
<i>As a % of revenue (GAAP)</i>		53.8 %	57.2 %	(3.4)%	(0.8)%	(4.2)%
<i>As a % of revenue (Non-GAAP)</i>		54.5 %	51.3 %	3.2 %	(0.1)%	2.4 %
<b>Diluted income (loss) per share:</b>						
Diluted net loss per share-GAAP						\$ (0.18)
Diluted net income per share-Non-GAAP						\$ 0.10
<b>Shares used to compute diluted income (loss) per share:</b>						
GAAP						87,514
Non-GAAP						88,476

## Q1 2017 Guidance GAAP to Non-GAAP Reconciliations (in millions, except EPS)



	Revenue	Gross Profit	Total Operating Expense	Loss from Operations	Total Non-operating expense, net	Net Loss
<b>GAAP</b>	\$86.5 to \$94.5	\$42.7 to \$47.7	\$58.7 to \$59.7	\$(16.0) to \$(12.0)	\$(2.7)	\$(19.1) to \$(15.6)
Acquisition accounting impact related to TVN deferred revenue	0.2	0.2	—	0.2	—	0.2
Accounting impact related to warrant amortization	0.3	0.3	—	0.3	—	0.3
Stock-based compensation expense	—	0.5	(3.6)	4.1	—	4.1
Amortization of intangibles	—	1.3	(0.8)	2.1	—	2.1
Restructuring and related charges and TVN integration costs	—	1.0	(2.3)	3.3	—	3.3
Non-cash interest expense related to convertible notes	—	—	—	—	1.3	1.3
Discrete tax items and tax effect of non-GAAP adjustments	—	—	—	—	—	1.3
<b>Total adjustments</b>	0.5	3.3	(6.7)	10.0	1.3	12.6
<b>Non-GAAP</b>	\$87.0 to \$95.0	\$46.0 to \$51.0	\$52.0 to \$53.0	\$(6.0) to \$(2.0)	\$(1.4)	\$(6.5) to \$(3.0)
<i>As a % of revenue (GAAP)</i>		49% to 50%	63% to 68%	(18)% to (14)%	(3)%	(22)% to (16)%
<i>As a % of revenue (Non-GAAP)</i>		53% to 54%	56% to 60%	(6)% to (3)%	(1)%	(7)% to (3)%
<b>Diluted income (loss) per share:</b>						
Diluted net loss per share-GAAP						<u>\$(0.24) to \$(0.19)</u>
Diluted net loss per share-Non-GAAP						<u>\$(0.08) to \$(0.04)</u>
<b>Shares used to compute diluted income (loss) per share:</b>						
GAAP						<u>80.0</u>
Non-GAAP						<u>81.0</u>