



Investor Presentation

18th Annual Needham Growth Conference
January 14, 2016

Hal Covert, CFO

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 2015 and 2016, and our Q4 2015 financial results. 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 filing on Form 8-K.

Who We Are



The Worldwide Leader

in video delivery infrastructure



Enabling amazing video experiences

Harmonic



CA

Silicon
Valley

\$398M

LTM
Revenue

1,120

Employees

8

Major Sites
Worldwide

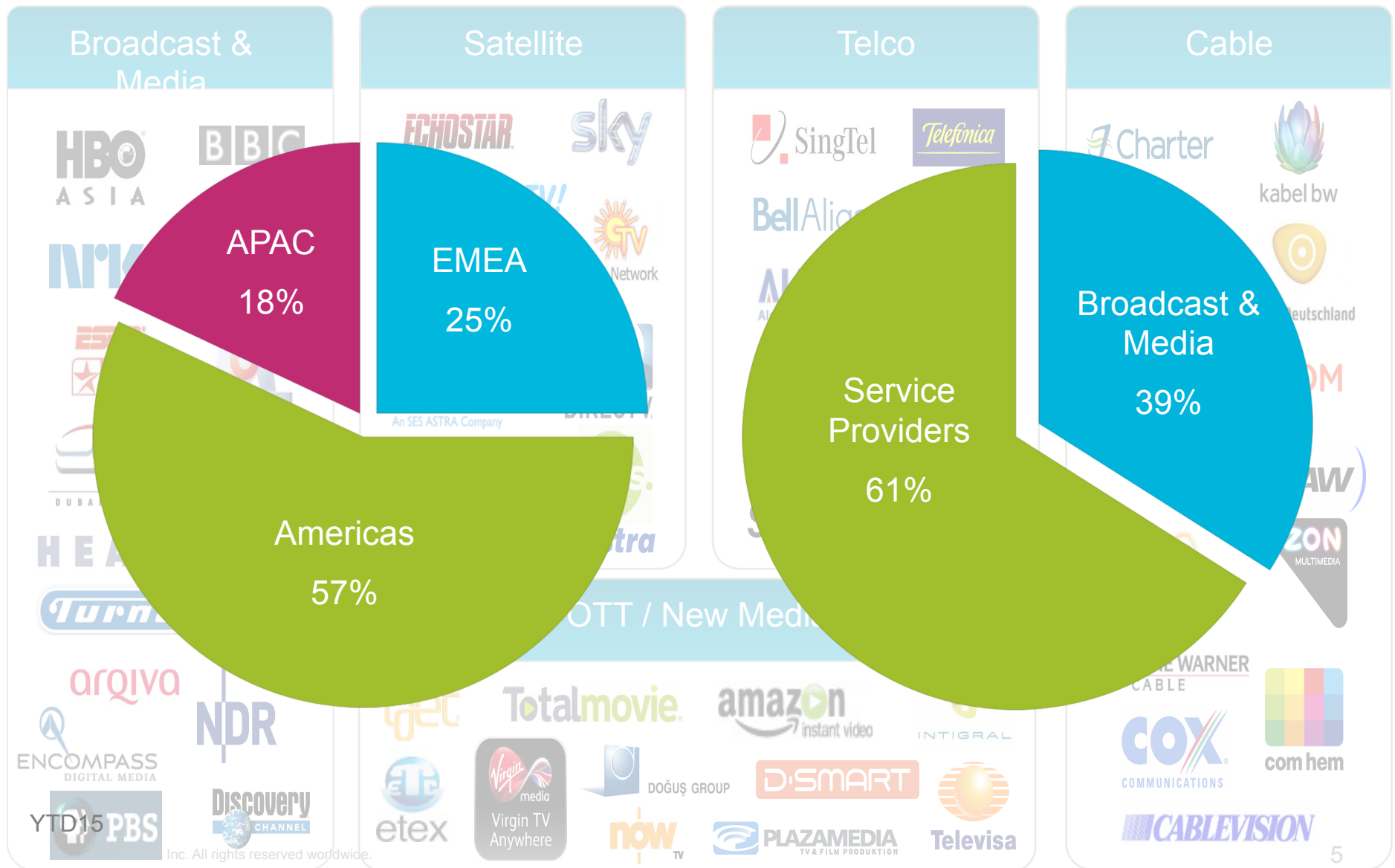
>4,000

Customers
Globally

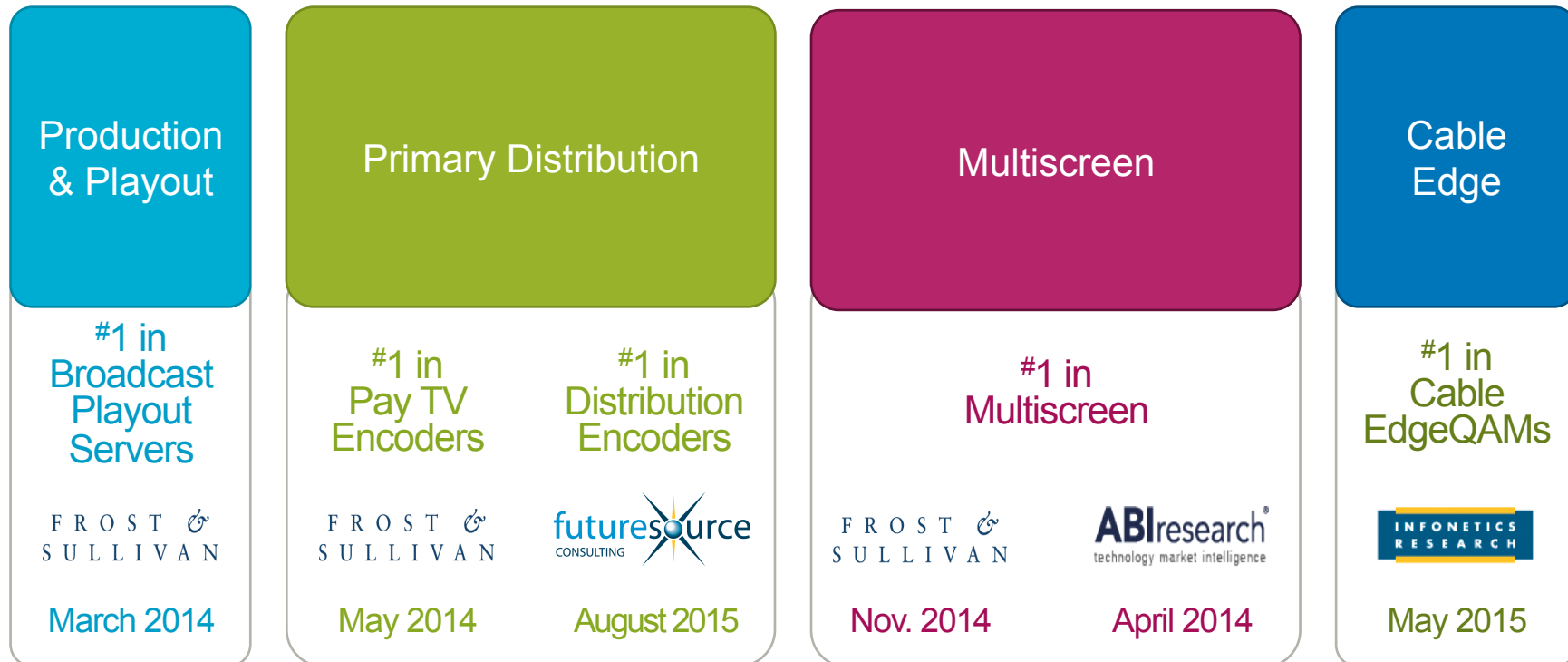
NOTE: As of December 4, 2015

©2015 Harmonic Inc. All rights reserved worldwide.

Customers



Harmonic is the leader



Harmonic Business Lines



Video

- \$1.5B 2018 TAM
- 2014 Revenue: \$327M

Key Customer Challenges:

- Cord cutters, shavers and nevers
- Skinny bundles
- Direct-to-consumer
- Mobile Video

Strategic Platform:



Cable Edge

- \$1.5B - \$2.0B 2018 TAM
- 2014 Revenue: \$107M

Key Customer Challenges:

- Unabated bandwidth demand
- Service provider competition for higher speed services
- Network capacity & utilization
- Growth costs

Strategic Platform:



Video Technology Transitions



Software,
Virtualization
and Cloud



IP



HEVC



UHD



2016 and beyond

Video Segment Trends



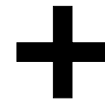
- Challenging customer spending environment
- Technology transition to software underway
- Improved gross margin aiding operating performance

Revenue and Operating Margin

\$ Millions	Q3 2015	Q2 2015	Q3 2014
Total Net Video Revenue	\$71.9	\$78.2	\$81.4
Gross Margin % – Non-GAAP	57.5%	57.7%	58.0%
Operating Margin % – Non-GAAP	5.0%	6.3%	8.1%

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

Creates a Global Video Powerhouse



Global Scale

- >5,000 leading content and service provider customers
- >500 sales, service and support personnel
- >300 channel partners and resellers

Industry-leading Innovation Capability

- >600 expert video engineers globally
- 6 major global R&D centers
- Complementary skill sets accelerate innovation

Operating Efficiencies

- Go-to-market
- Supply chain
- Core technology and infrastructure leverage

Harmonic's Cable Edge TAM Expanding



Race to Deliver Gigabit Services

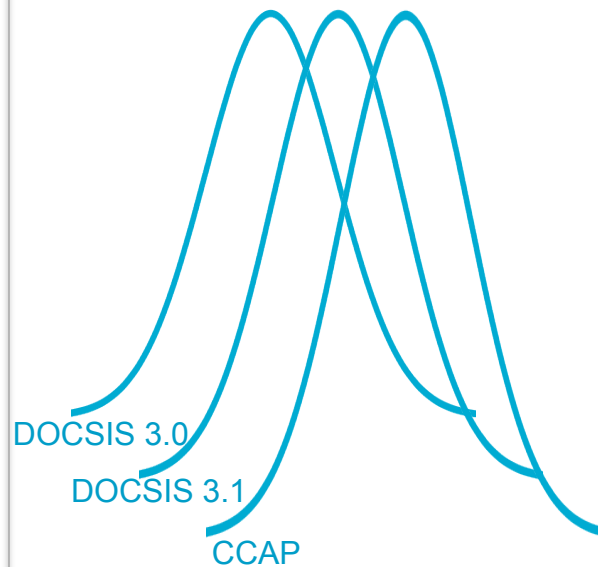
AT&T U-verse
with GigaPower™



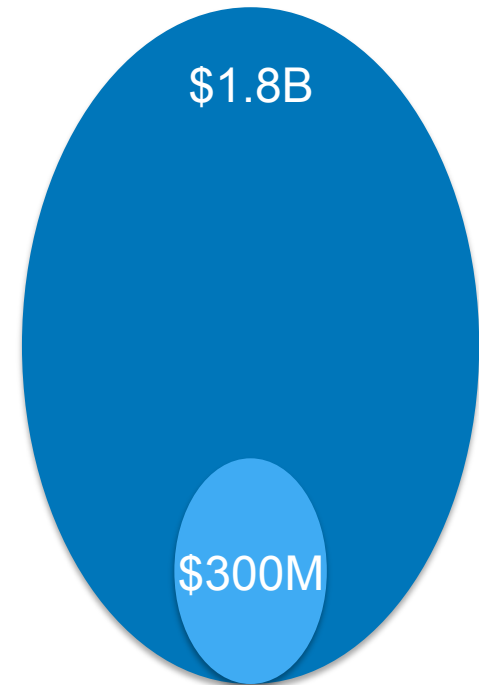
G1GABLAST
COX



New Technologies: DOCSIS 3.1 & CCAP



6X TAM Expansion 2016+



NOTE: market size based on Infonetics research and HLIT estimates

©2015 Harmonic Inc. All rights reserved worldwide.

Harmonic's Cable Edge Strategy



Complementary centralized & distributed solutions

Breadth of video/encryption solutions

Breakthrough in RF port density

Uniquely manages video and DOCSIS traffic across the RF spectrum

NSG Pro
Centralized
PHY shelf



NSG Exo Outdoor
Remote PHY device



NSG Exo
Remote PHY device

Cable OS[®]

Cable Edge Segment Trends



- Global revenue decline
- Technology transition to DOCSIS 3.1/CCAP underway
- Operating margin impacted by lower revenue, CCAP investment

Revenue and Operating Margin

\$ Millions	Q3 2015	Q2 2015	Q3 2014
Total Net Cable Edge Revenue	\$11.4	\$24.9	\$26.7
Gross Margin % – Non-GAAP	48.7%	39.2%	40.0%
Operating Margin % – Non-GAAP	-34.7%	1.4%	0.5%

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. See Appendix.



Financial Overview

Key Annual Financial Metric Takeaways

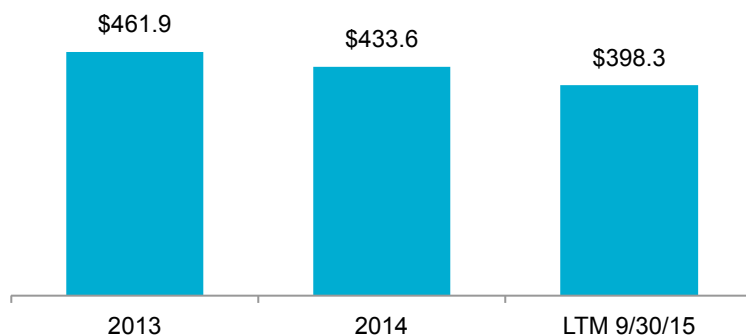


- Revenue
 - Technology transitions delaying near-term customer purchase decisions
 - Strong strategic customer relationships
 - Compelling customer value proposition with flexible product and service offerings
 - Maintaining market share
- Non-GAAP gross margin %
 - Higher mix of software revenue
 - Business model transitioning to more of a software orientation with associated SLAs
- Operating and EBITDA margins %
 - Continued sales and R&D investment
 - Minimized impact on operating and EBITDA margins by tightly controlling overall operating expenses
- Maintained positive free cash flow

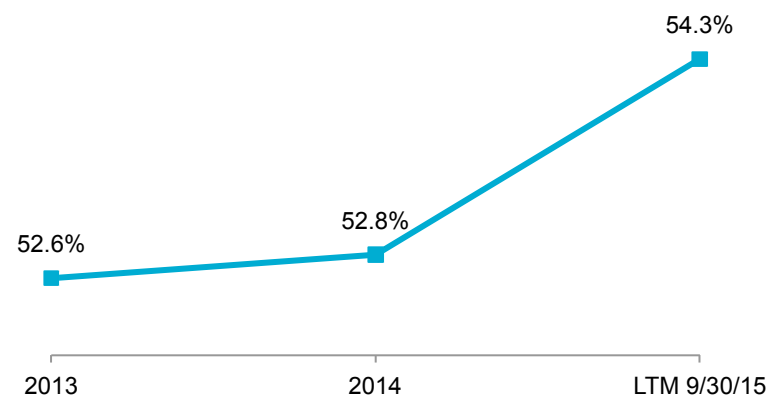
Key Annual Financial Metrics



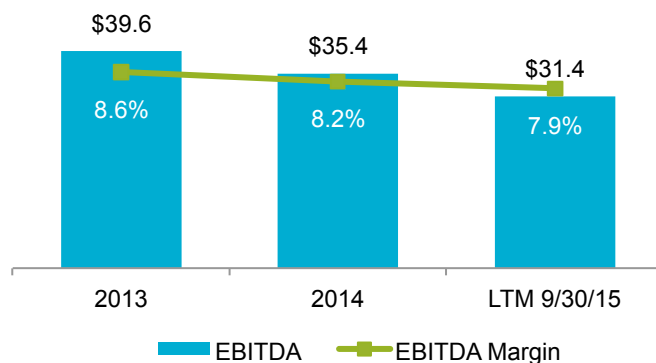
Revenue



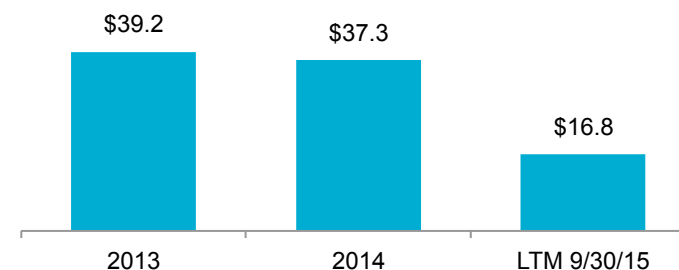
Non-GAAP Gross Margins



EBITDA and EBITDA Margins



Free Cash Flow ⁽¹⁾



NOTE: Dollars in millions. See Appendix for reconciliation.

(1) Free Cash Flow defined as Cash Flow from Operations less Capex.

©2015 Harmonic Inc. All rights reserved worldwide.

Q4 2015 Financial and Business Update



- Q4 2015 Bookings \$101M
- Preliminary Q4 2015 Revenue, GM% and Non-GAAP EPS
 - Revenue \$84M-\$85M
 - GM 54%-55%
 - Non-GAAP EPS (\$.01)-breakeven
- Q4 2015 earning conference call in mid February
 - Q4 2015 financial results
 - Q1 2016 and full year 2016 financial goals
 - Harmonic + Thomson synergies
- Thomson acquisition close on track



Q & A

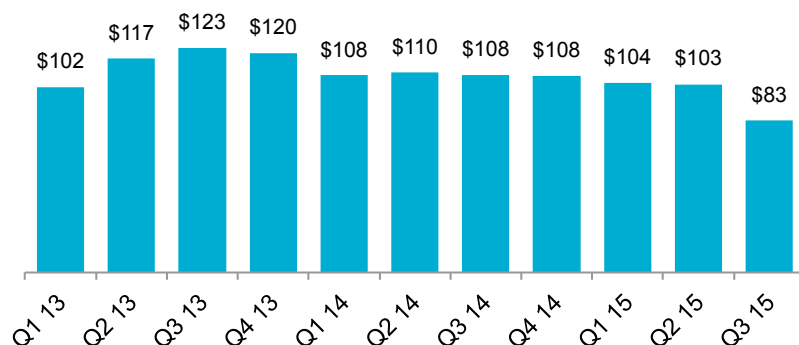


Appendix

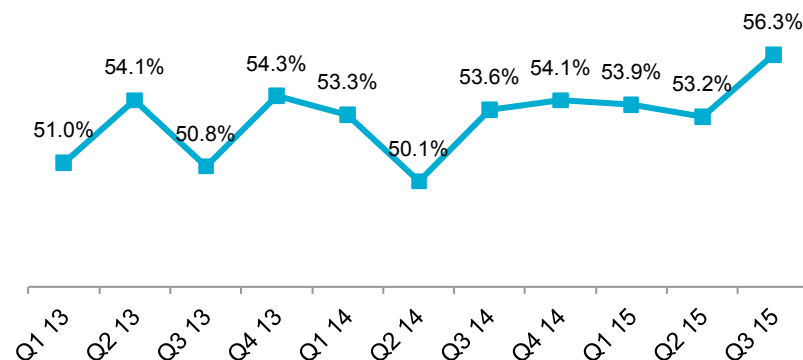
Key Quarterly Financial Metrics



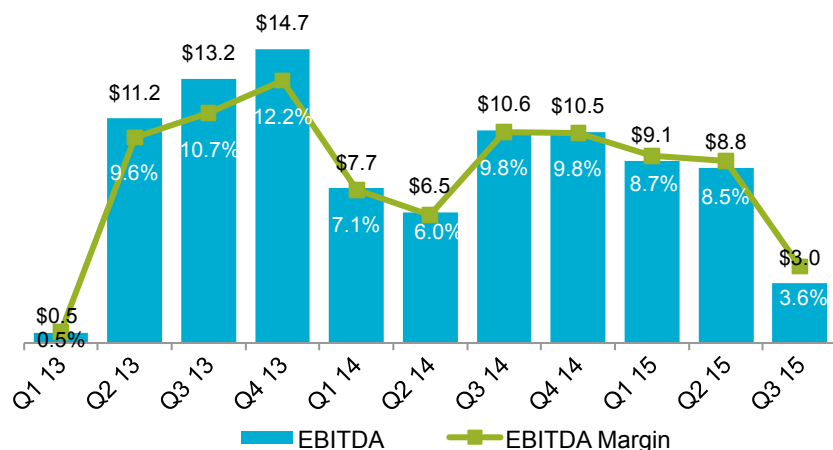
Revenue



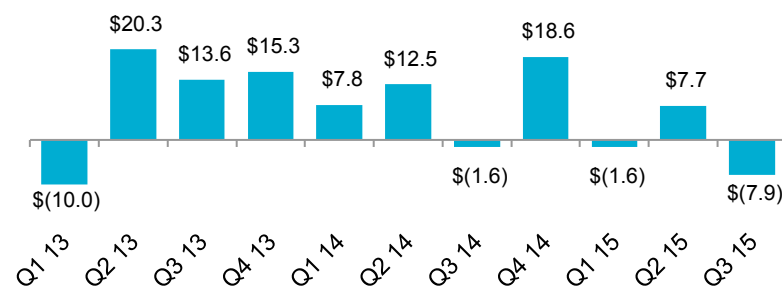
Non-GAAP Gross Margins



EBITDA and EBITDA Margins



Free Cash Flow (1)



NOTE: Dollars in millions. See Appendix for reconciliation.

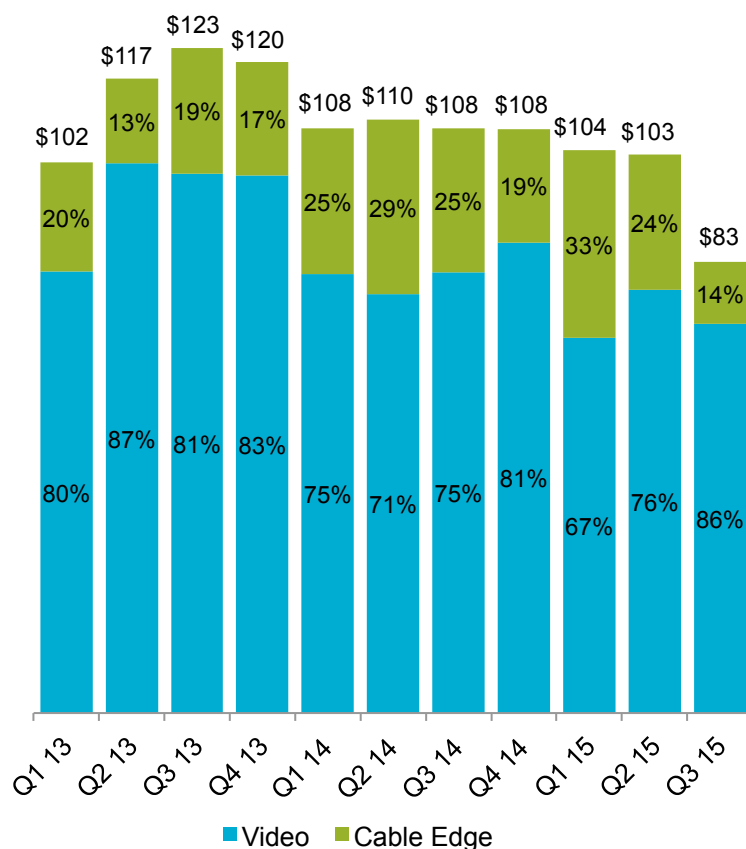
(1) Free Cash Flow defined as Cash Flow from Operations less Capex.

©2015 Harmonic Inc. All rights reserved worldwide.

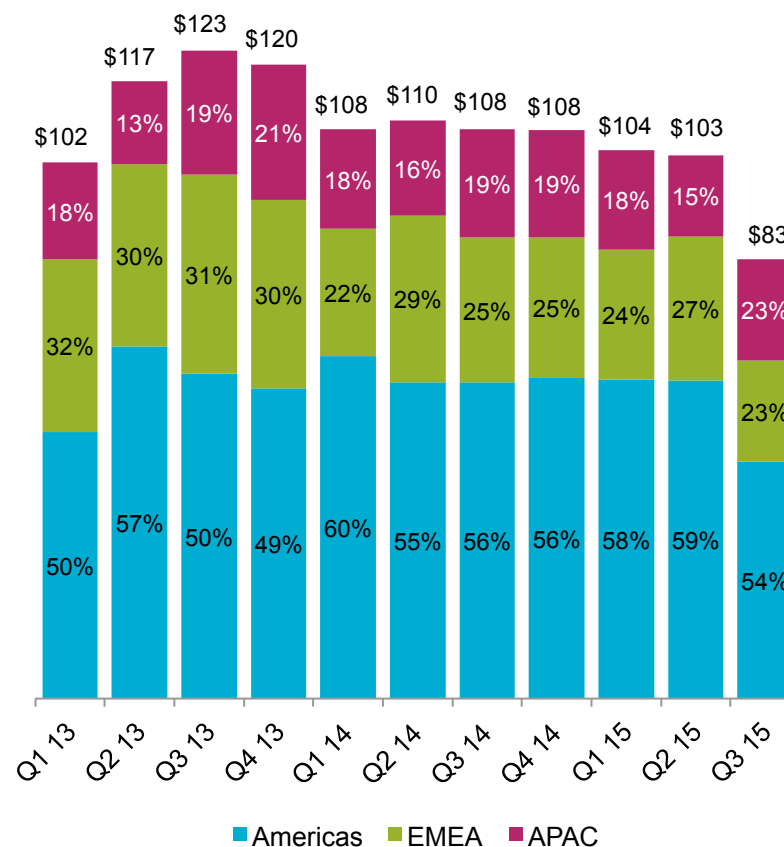
Revenue: Segment and Geographic Splits



By Segments



By Geography



NOTE: Dollars in millions.

©2015 Harmonic Inc. All rights reserved worldwide.

Annual GAAP to Non-GAAP Margin and Free Cash Flow Reconciliation



(in \$K, except per share data)

Gross margin - GAAP

add (less) adjustments:

Stock-based compensation

Intangibles amortization

Impairment of leasehold Improvement

Inventory & R&D materials impairment

Severance

Proxy contest expenses

Gross Profit - NON-GAAP

EBIT - GAAP

add (less) adjustments:

Stock-based compensation

Intangibles amortization

Impairment of leasehold Improvement

Excess facility

Abandon Fixed assets (IT project-SFDC)

Inventory impairment

Severance

Proxy contest expenses

Impairment of investment

Total adjustments

EBIT - NON-GAAP

EBITDA - GAAP

Total EBIT adjustments

Less: intangibles amortization

EBITDA - NON-GAAP

Cash Flow from Operations

Less: Capital Expenditure

Free Cash Flow

FY13	FY14	LTM 9/30/15
220,445	212,348	212,435
2,412	2,359	1,991
19,233	13,745	1,329
148	-	-
404	191	191
271	123	142
-	-	-
242,913	228,766	216,088
(23,371)	(21,927)	(11,533)
16,002	17,287	16,412
27,329	20,520	7,113
148	-	-
-	157	121
-	1,138	1,138
404	369	306
1,692	1,412	1,335
750	-	-
-	-	2,505
46,325	40,883	28,930
22,954	18,956	17,397
20,599	15,052	9,541
46,325	40,883	28,930
(27,329)	(20,520)	(7,113)
39,595	35,415	31,358
53,759	47,369	28,412
(14,581)	(10,065)	(11,599)
39,178	37,304	16,813

Quarterly GAAP to Non-GAAP Margin and Free Cash Flow Reconciliation

(in \$K, except per share data)

GAAP to NON-GAAP

Gross margin – GAAP

add (less) adjustments:

Stock-based compensation

Intangibles amortization

Impairment of leasehold Improvement

Inventory & R&D materials impairment

Severance

Gross Profit - NON-GAAP

EBIT - GAAP

add (less) adjustments:

Stock-based compensation

Intangibles amortization

Impairment of leasehold Improvement

Excess facility

Abandon Fixed assets (IT project-SFDC)

Inventory impairment

Severance

Proxy contest expenses

Impairment of investment

Total adjustments

EBIT - NON-GAAP

EBITDA – GAAP

Total EBIT adjustments

Less: intangibles amortization

EBITDA - NON-GAAP

Cash Flow from Operations

Less: Capital Expenditure

Free Cash Flow

	FY13 Q1	FY13 Q2	FY13 Q3	FY13 Q4	FY14 Q1	FY14 Q2	FY14 Q3	FY14 Q4	FY15 Q1	FY15 Q2	FY15 Q3
Gross margin – GAAP	46,165	57,892	56,792	59,596	52,312	49,817	53,428	56,791	55,028	54,385	46,231
add (less) adjustments:											
Stock-based compensation	611	622	605	574	516	623	612	608	528	422	433
Intangibles amortization	4,945	4,762	4,763	4,763	4,716	4,482	3,851	696	461	86	86
Impairment of leasehold Improvement	101	47	-	-	-	-	-	-	-	-	-
Inventory & R&D materials impairment	-	-	151	253	-	-	-	191	-	-	-
Severance	40	18	173	40	79	-	15	29	-	-	113
Gross Profit - NON-GAAP	51,862	63,341	62,484	65,226	57,623	54,922	57,906	58,315	56,017	54,893	46,863
EBIT - GAAP	(15,034)	(4,737)	(2,325)	(1,275)	(7,210)	(8,776)	(3,799)	(2,142)	(2,998)	(284)	(6,109)
add (less) adjustments:											
Stock-based compensation	3,899	4,022	3,945	4,136	3,807	4,561	4,352	4,567	4,134	3,884	3,827
Intangibles amortization	7,033	6,772	6,764	6,760	6,666	6,200	5,512	2,142	1,907	1,532	1,532
Impairment of leasehold Improvement	101	47	-	-	-	-	-	-	-	-	-
Excess facility	-	-	-	-	32	-	-	125	(4)	-	-
Abandon Fixed assets (IT project-SFDC)	-	-	-	-	-	-	-	1,138	-	-	-
Inventory impairment	-	-	151	253	-	-	63	306	-	-	-
Severance	464	260	432	536	196	284	340	592	48	185	510
Proxy contest expenses	-	750	-	-	-	-	-	-	-	-	-
Impairment of investment	-	-	-	-	-	-	-	-	2,505	-	-
Total adjustments	11,497	11,851	11,292	11,685	10,701	11,045	10,267	8,870	8,590	5,601	5,869
EBIT - NON-GAAP	(3,537)	7,114	8,967	10,410	3,491	2,269	6,468	6,728	5,592	5,317	(240)
EBITDA – GAAP	(3,961)	6,135	8,664	9,761	3,683	1,683	5,868	3,818	2,402	4,685	(1,364)
Total EBIT adjustments	11,497	11,851	11,292	11,685	10,701	11,045	10,267	8,870	8,590	5,601	5,869
Less: intangibles amortization	(7,033)	(6,772)	(6,764)	(6,760)	(6,666)	(6,200)	(5,512)	(2,142)	(1,907)	(1,532)	(1,532)
EBITDA - NON-GAAP	503	11,214	13,192	14,686	7,718	6,528	10,623	10,546	9,085	8,754	2,973
Cash Flow from Operations	(5,743)	24,825	16,052	18,625	11,245	15,534	742	19,848	2,028	11,560	(5,024)
Less: Capital Expenditure	(4,274)	(4,481)	(2,494)	(3,332)	(3,431)	(3,048)	(2,380)	(1,206)	(3,651)	(3,854)	(2,888)
Free Cash Flow	(10,017)	20,344	13,558	15,293	7,814	12,486	(1,638)	18,642	(1,623)	7,706	(7,912)

4Q 2015 GAAP to Non-GAAP EPS Reconciliation



Harmonic Inc.
GAAP to Non-GAAP Reconciliations (Unaudited)
(In millions, except percentages and per share data)

	Three months ended Dec. 31, 2015	
	Range	
GAAP net loss from continuing operations	\$ (7.5)	\$ (6.5)
Stock-based compensation	3.8	3.8
Amortization of intangibles	1.5	1.5
Restructuring and related charges	0.7	0.7
TVN acquisition costs	1.3	1.3
Non-cash interest expense related to convertible debt	0.1	0.1
Discrete tax items and tax effect of non-GAAP adjustments	(1.0)	(0.9)
Non-GAAP net income (loss) from continuing operations	<u>\$ (1.1)</u>	<u>\$ 0.0</u>
Net income (loss) per share from continuing operations:		
GAAP	<u>\$ (0.09)</u>	<u>\$ (0.08)</u>
Non-GAAP	<u>\$ (0.01)</u>	<u>\$ 0.00</u>
Shares used in net loss per share calculation-GAAP	<u>84.9</u>	<u>84.9</u>
Shares used in net income(loss) per share calculation-non-GAAP	<u>84.9</u>	<u>85.6</u>



Thank You