



# Second Quarter 2015 Earnings Conference Call

July 27, 2015

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# 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 2015, and beyond, and our Q3 2015 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).

# Q2 2015 Results Summary



- Revenue \$103M
  - Down 1% sequentially
  - Video revenue up 13%, driven by new platform adoption
  - Cable Edge revenue down 28% off record Q1
- Bookings \$99M
  - Up 2% sequentially
  - Global Video momentum offset soft Cable Edge demand
- Gross margin 53%
  - Down slightly sequentially
- EPS \$0.05
  - Flat sequentially
- Cash from operations \$12M

# Q2 2015 Video Business Update



- Sequential and year-over-year increase in revenue, bookings, EBIT margin
- Accelerating new platform adoption
  - Growing VOS momentum, bookings triple Q1
  - Broadening Tier 1 Service Provider demand
  - Added nearly two dozen new customers
- Market beginning to rebound
  - Linear OTT, UHD/4K and HEVC encoding wins
  - Shipped industry's first Ultra HD encoder with High Dynamic Range



# 2015 Video Business Outlook Update



## ■ Market Dynamics and Catalysts

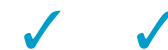
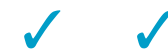
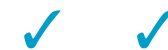
- NFV video delivery
- OTT linear channel bundles
- UHD/4K and HEVC ecosystem
- Customer consolidation, currency



## ■ Harmonic Milestones

- Accelerating new VOS customer wins
- Extending VOS platform innovations and function attach rate
- Live 4K/UHD deployments
- Polaris-enabled media production and playout wins

Q1 Q2



# Q2 2015 Cable Edge Business Update



- Soft demand off record Q1
  - Absorbing network capacity
  - Customer consolidation
- Expanded two-way CCAP customer lab engagement
  - Increasingly positive customer feedback
- NSG Pro (centralized CCAP platform)
  - Expanding global NSG Pro footprint
- NSG Exo (distributed CCAP platform)
  - Growing international trial activity

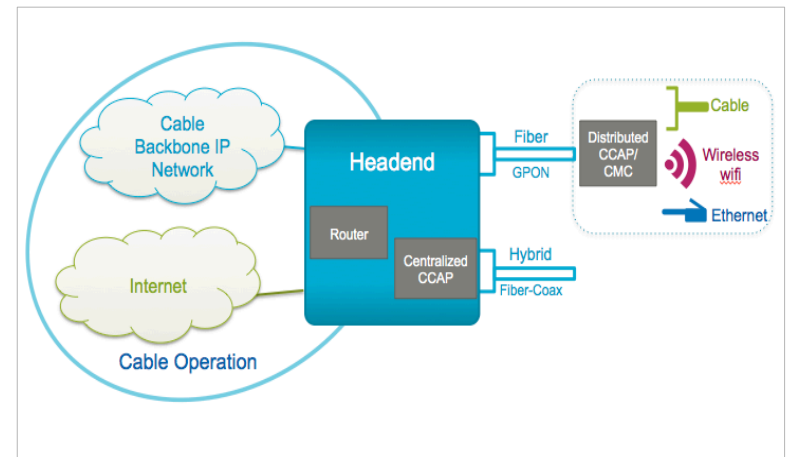


# 2015 Cable Edge Business Outlook Update



## ■ Market Dynamics and Catalysts

- Continued edge QAM bandwidth demand for VOD & OTT
- Accelerating gigabit broadband demand: DOCSIS 3.1 and distributed CCAP architectures
- Customer consolidation activity



## ■ Harmonic Milestones for two-way CCAP

- Global expansion of NSG Pro footprint
- Additional NSG Exo wins (DOCSIS 3.0)
- DOCSIS 3.1 development, NSG Pro and Exo platforms

	Q1	Q2
– Global expansion of NSG Pro footprint	✓	✓
– Additional NSG Exo wins (DOCSIS 3.0)	✓	✓
– DOCSIS 3.1 development, NSG Pro and Exo platforms	✓	✓

# Targeting Earnings Growth



## Strategically Positioned

- Video: Leader in compression, virtualization, 4K, OTT
- Cable Edge: Executing DOCSIS CCAP strategy

## Competitively Advantaged

- Unparalleled innovation, services and TCO
- Strong global brand
- Deep customer relationships: Broadcast, Media and Service Providers

## Driving Value Creation

- Market momentum of new products confirming IP
- Margins expanding, earnings growth
- Solid cash generation, continued share buyback



# Q2 2015 Financial Highlights



\$ Millions (except GM & EPS)	Q2 2015	Q1 2015	Q2 2014	Q2 / Q1 Change	Q2 Y/Y Change
Total Net Revenue	\$103.1	\$104.0	\$109.6	-1%	-6%
Gross Margin % – Non-GAAP	53.2%	53.9%	50.1%	-70 bp	310 bp
Operating Expense – Non-GAAP	\$49.6	\$49.9	\$52.5	-1%	-6%
EPS – Non-GAAP	\$0.05	\$0.05	\$0.02	-	\$0.03
Bookings	\$99.3	\$97.3	\$113.4	2%	-12%
Book to Bill	1.0	0.9	1.0	1%	-
Backlog and Deferred	\$120.6	\$122.2	\$132.1	-1%	-9%

# Q2 2015 Video Segment Trends



- Strong rebound in the Americas and EMEA
- Accelerating adoption of new products
- Operating margin improvement reflects significant leverage

## Revenue and Operating Margin

\$ Millions (except GM & EPS)	Q2 2015	Q1 2015	Q2 2014	Q2 / Q1 Change	Q2 Y/Y Change
Total Net Video Revenue	\$78.2	\$69.3	\$77.3	\$8.9	\$0.9
Operating Margin \$ – Non-GAAP	\$4.9	-\$0.1	\$0.4	\$5.0	\$4.5
Operating Margin % – Non-GAAP	6.3%	-0.1%	0.5%	6.4%	5.8%

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

# Q2 2015 Cable Edge Segment Trends



- Global revenue decline, down 28% sequentially
- Strong CCAP adoption through first half, up 17% year-over-year
- Operating margin impacted by lower revenue and software mix

## Revenue and Operating Margin

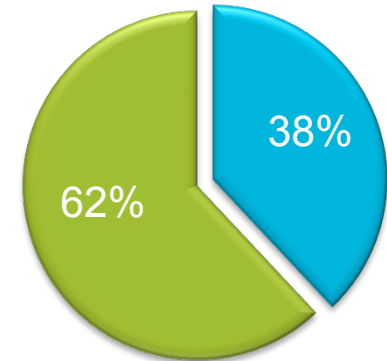
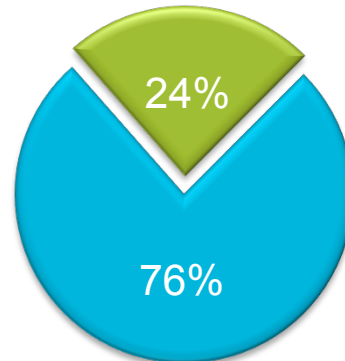
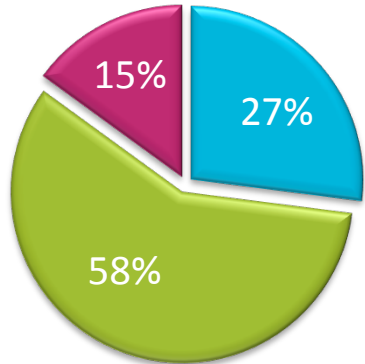
\$ Millions (except GM & EPS)	Q2 2015	Q1 2015	Q2 2014	Q2 / Q1 Change	Q2 Y/Y Change
Total Net Cable Edge Revenue	\$24.9	\$34.7	\$32.3	-\$9.8	-\$7.4
Operating Margin \$ – Non-GAAP	\$0.4	\$6.2	\$2.0	-\$5.8	-\$1.6
Operating Margin % – Non-GAAP	1.4%	17.8%	6.2%	-16.4%	-4.8%

*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.*

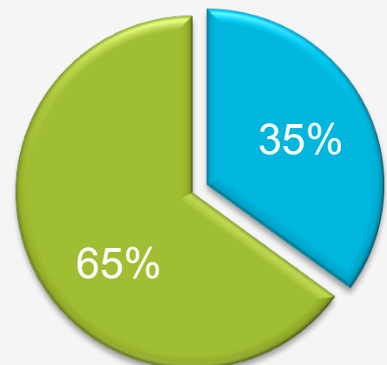
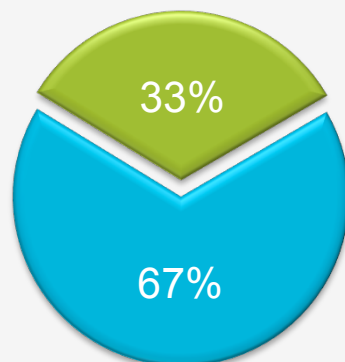
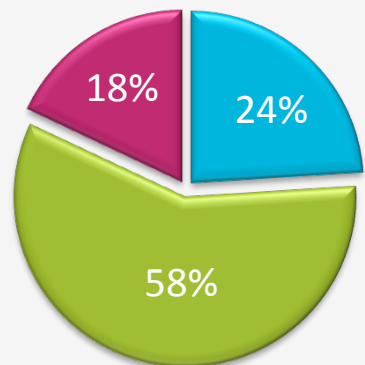
# Q2 2015 Revenue Trends



## Q2 2015 Revenues \$103 million



## Q1 2015 Revenues \$104 million



### Geography

- EMEA
- Americas
- APAC

### Segments

- Video
- Cable Edge

### Markets

- Broadcast & Media
- Service Provider

# Q2 2015 Balance Sheet Highlights



	\$ Millions	
Cash	\$105.1	
Accounts Receivable	\$76.1	67 days
Inventories	\$31.2	6.2 turns
Cash From Operations	\$11.6	
Shares Repurchased	\$7.0	1.0M Shares

Returned over \$243M to shareholders since 2Q'12 in the form of share repurchases

	Q3 2015
Revenue	\$92M - \$102M
Non-GAAP Gross Margin*	53% - 54%
Non-GAAP Operating Expenses*	\$49M - \$50M
Non-GAAP Tax Rate	21%

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



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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 profit, operating expenses, income (loss) from operations and net income (loss) (including those amounts as a percentage of revenue), 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 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, impairment of long-term investment and adjustments that normalize the tax rate.



# Q2 2015 GAAP to Non-GAAP Reconciliations



	Three months ended			
	July 3, 2015			
	Gross Profit	Total Operating Expense	Income (Loss) from Operations	Net Income (loss)
<b>GAAP from continuing operations</b>	\$ 54,385	\$ 54,728	\$ (343)	\$ (994)
Stock-based compensation in cost of revenue	422	-	422	422
Stock-based compensation in research and development	-	(1,027)	1,027	1,027
Stock-based compensation in selling, general and administrative	-	(2,435)	2,435	2,435
Amortization of intangibles	86	(1,446)	1,532	1,532
Restructuring and related charges	-	(185)	185	185
Discrete tax items and tax effect of non-GAAP adjustments	-	-	-	(393)
	<u>\$ 54,893</u>	<u>\$ 49,635</u>	<u>\$ 5,258</u>	<u>\$ 4,214</u>
<i>As a % of revenue (GAAP)</i>	<i>52.7%</i>	<i>53.1%</i>	<i>-0.3%</i>	<i>-1.0%</i>
<i>As a % of revenue (Non-GAAP)</i>	<i>53.2%</i>	<i>48.1%</i>	<i>5.1%</i>	<i>4.1%</i>
<b>Diluted net income(loss) per share from continuing operations:</b>				
Diluted net loss per share from continuing operations-GAAP				\$ (0.01)
Diluted net income per share from continuing operations-Non-GAAP				\$ 0.05
<b>Shares used to compute diluted net income (loss) per share from continuing operations:</b>				
GAAP				88,426
Non-GAAP				89,444

# Q1 2015 GAAP to Non-GAAP Reconciliations



	Three months ended			
	April 3, 2015			
	Gross Profit	Total Operating Expense	Income from Operations	Net Income (loss)
<b>GAAP from continuing operations</b>	\$ 55,028	\$ 55,015	\$ 13	\$ (2,657)
Stock-based compensation in cost of revenue	528	-	528	528
Stock-based compensation in research and development	-	(1,148)	1,148	1,148
Stock-based compensation in selling, general and administrative	-	(2,458)	2,458	2,458
Amortization of intangibles	461	(1,446)	1,907	1,907
Restructuring and related charges	-	(44)	44	44
Loss on impairment of long-term investment	-	-	-	2,505
Discrete tax items and tax effect of non-GAAP adjustments	-	-	-	(1,472)
	<u>\$ 56,017</u>	<u>\$ 49,919</u>	<u>\$ 6,098</u>	<u>\$ 4,461</u>
<i>As a % of revenue (GAAP)</i>	<i>52.9%</i>	<i>52.9%</i>	<i>0.0%</i>	<i>-2.0%</i>
<i>As a % of revenue (Non-GAAP)</i>	<i>53.9%</i>	<i>48.0%</i>	<i>5.9%</i>	<i>4.3%</i>
<b>Diluted net income(loss) per share from continuing operations:</b>				
Diluted net loss per share from continuing operations-GAAP				\$ (0.03)
Diluted net income per share from continuing operations-Non-GAAP				\$ 0.05
<b>Shares used to compute diluted net income (loss) per share from continuing operations:</b>				
GAAP				88,655
Non-GAAP				90,100

# 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