



# Calix Q4 2016 Financial Results

February 14, 2017

# Safe Harbor

This presentation includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements relate to future events and expectations and involve known and unknown risks and uncertainties. Examples of forward-looking statements include, but are not limited to, statements about our anticipated growth and growth drivers; our future financial condition and results of operations; our future business, financial and operating performance; our growth strategy and market outlook; our development of new products and product features; and the success and/or market adoption of our products and solutions. We have based these forward-looking statements on our current expectations, assumptions and projections. Our actual results or actions may differ materially from those projected in forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties and factors that could cause results to differ materially as described in our filings with the Securities and Exchange Commission, including our annual report on Form 10-K and quarterly reports on Form 10-Q. Except as may be required by law, we undertake no obligation to, and expressly disclaim any obligation to, update or alter any forward-looking statements, whether as a result of new information, future events, changes in assumptions or otherwise.

Please refer to the reconciliations of GAAP to Non-GAAP financial measures in the supplemental information and on the Investor Relations section of [calix.com](http://calix.com)



# 2016 Year in Review

Revenues increased more than 12% year-over-year

Fourth consecutive year of revenue growth

Product and platform innovation accelerated

# Q4 2016 Financial Results vs. Guidance

(\$ in millions, except percentages and per share amounts)

	<b>Actual Non-GAAP</b>	<b>Guidance Non-GAAP</b>	<b>Actual GAAP</b>	<b>Guidance GAAP</b>
<b>Revenues</b>	\$131.8M	\$127 - \$131M	\$131.8M	\$127 - \$131M
<b>Gross margin</b>	40.4%	44.5 - 45.5%	39.6%	43.7 – 44.7%
<b>Operating expenses</b>	\$60.7M	\$58.5 - \$59.5M	\$64.4M	\$62.4 - \$63.4M
<b>EPS</b>	(\$0.14)	(\$0.04) – \$0.00	(\$0.23)	(\$0.14) – (\$0.09)
<b>Cash flow from operations</b>			\$19.2M	Negative

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# Q4 2016 Income Statement Highlights

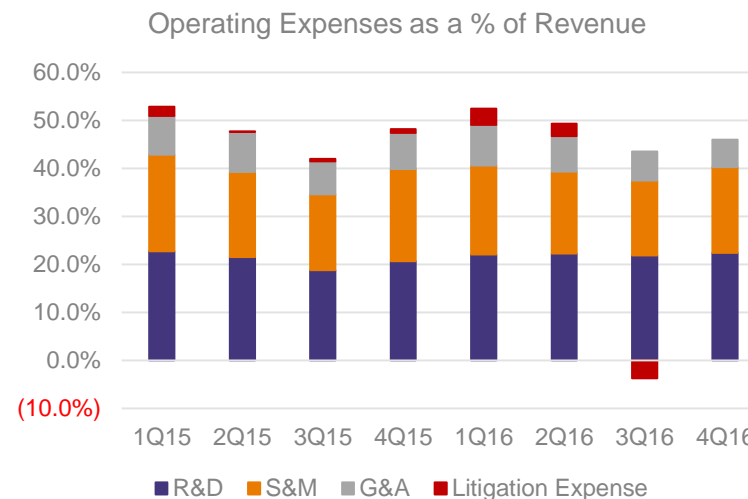
## Revenues

- Increase 26% y/y
- 2 > 10% customers
- Growth y/y across systems, software and services



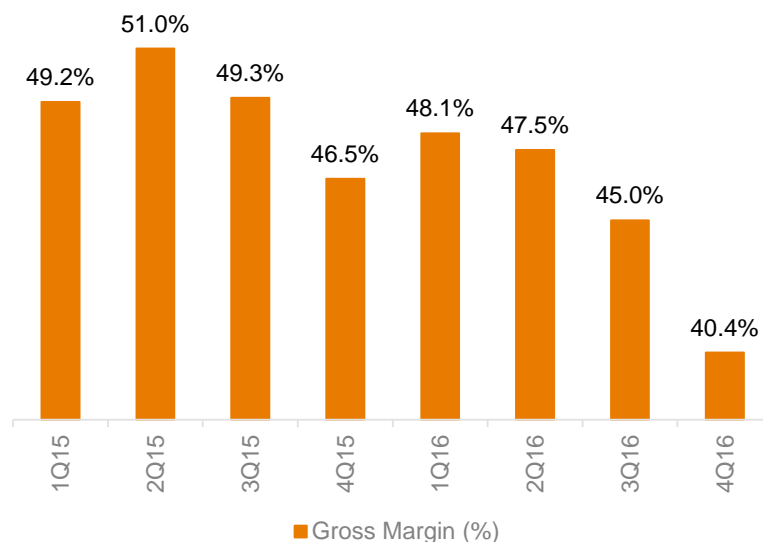
## Non-GAAP operating expenses

- Higher R&D spend due to hiring
- Increased prototypes and contractor spend to support growth initiatives



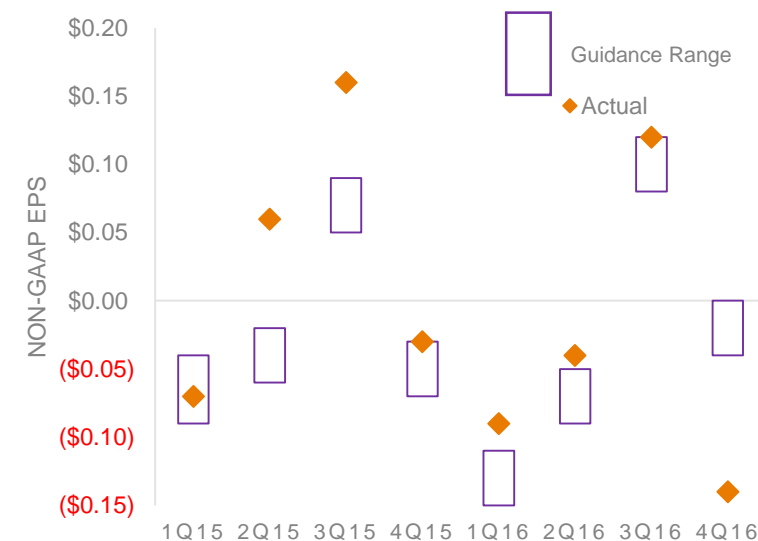
## Non-GAAP gross margins

- Impacted by higher than expected costs in turnkey network improvement projects to meet deadlines
- Less favorable product and regional mix



## Non-GAAP EPS

- Negatively impacted by lower gross margins and higher operating expenses
- Non-operating items in line with expectations

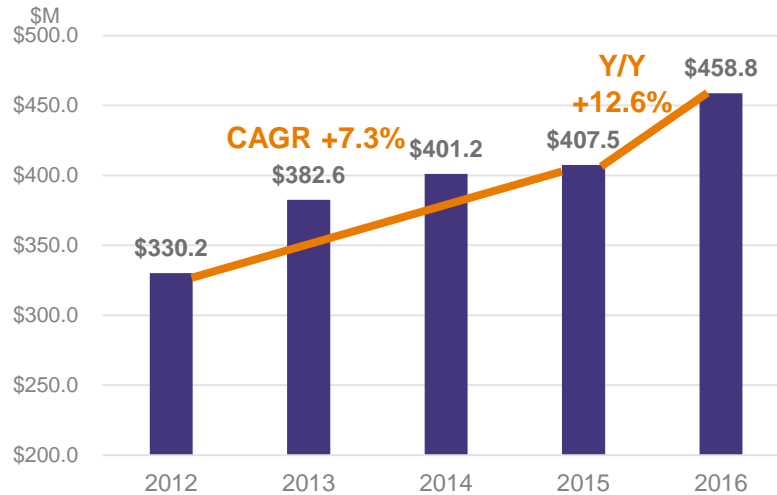


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# Full Year 2016 Income Statement Highlights

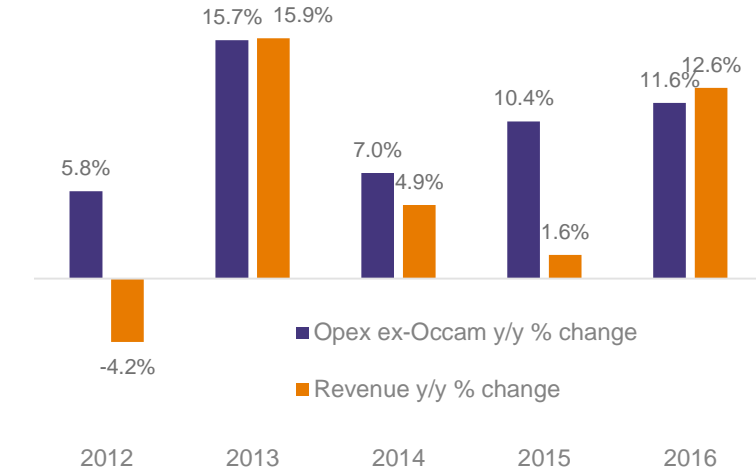
## Revenues

- Increase 12.6% y/y vs. prior four-year CAGR of 7.3%
- Revenue increased y/y across systems, software and services



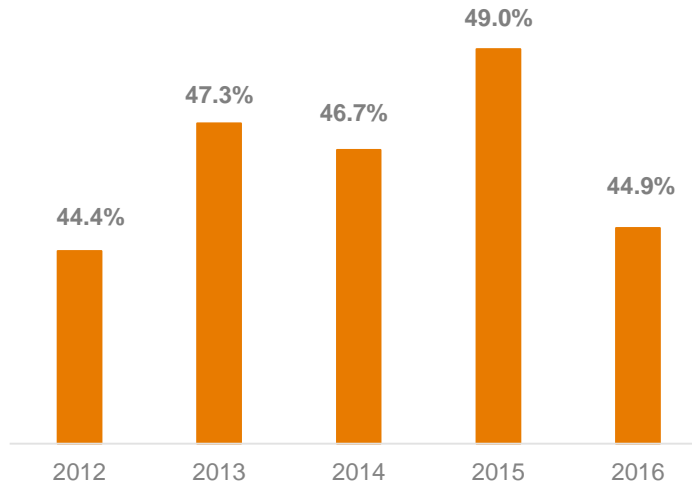
## Non-GAAP operating expenses

- Increased hiring to support growth initiatives
- Investments in internal systems in preparation for growth initiatives



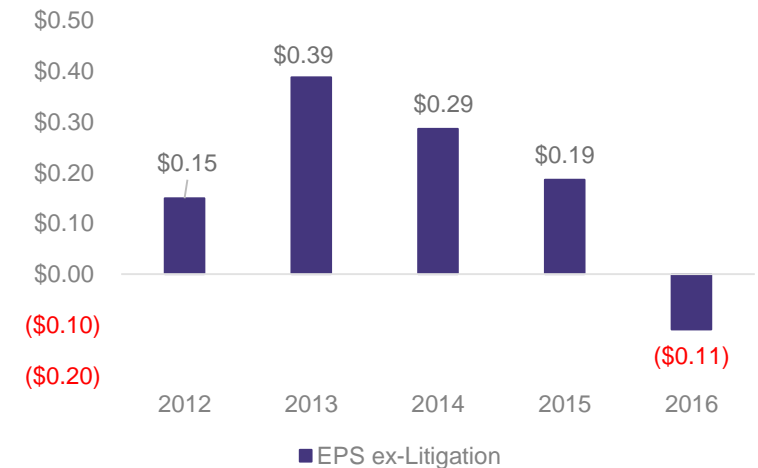
## Non-GAAP gross margins

- Shift in mix between systems and services
- Higher than expected costs in turnkey network improvement projects



## Non-GAAP EPS

- Higher revenues offset by growth investments and lower gross margins
- \$0.03 drag from Occam expenses inclusive of settlement proceeds



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# Q4 2016 Balance Sheet & Cash Flow Highlights

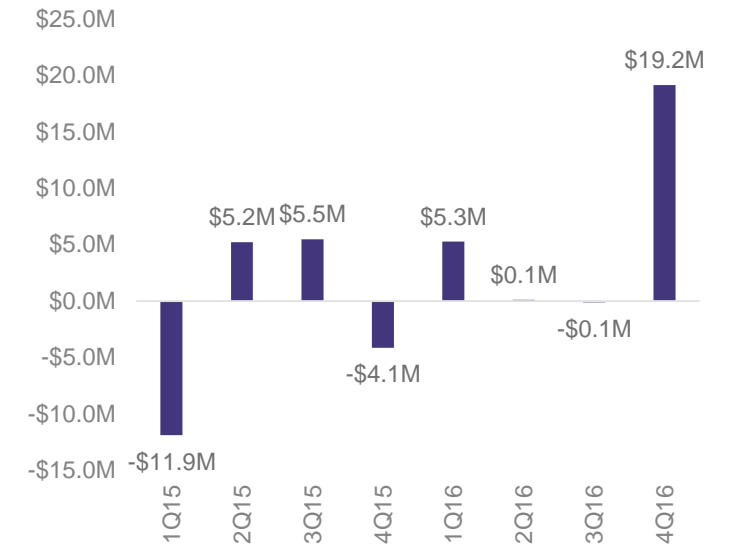
## Cash of \$78.1M

- Includes \$40M share repurchase commenced in Q2 2015 and completed in Q1 2016



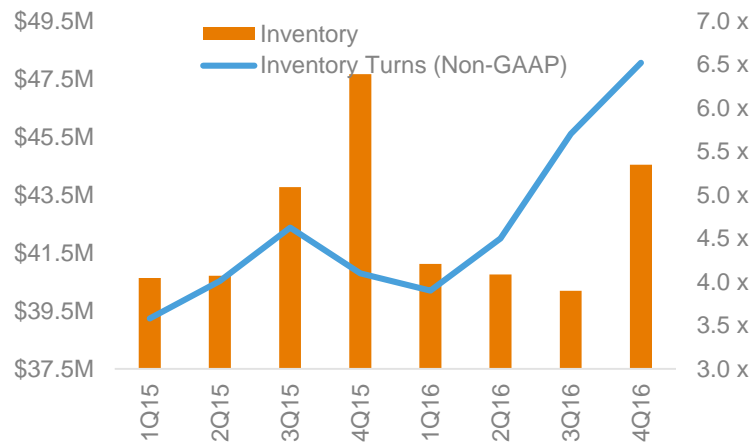
## Operating cash flow

- Improved working capital velocity
- Occam litigation proceeds received
- Customer pre-payments to support future activity



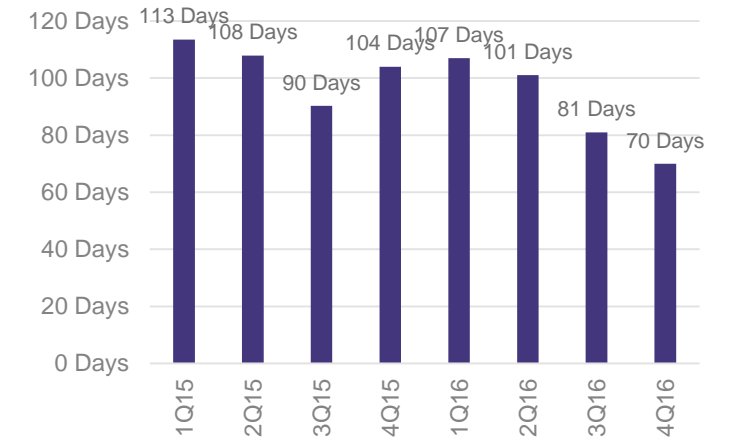
## Inventory velocity

- Highest inventory turns since 2012
- Continued focus on increased commonality of critical components



## Non-GAAP cash conversion cycle

- Excludes customer pre-payments
- Accelerated inventory velocity
- Includes working capital to support turnkey projects



Please refer to the reconciliations of GAAP to Non-GAAP financial measures in the supplemental information and on the Investor Relations section of calix.com



# Q1 2017 Operating Performance Guidance

(\$ in millions, except percentages and per share amounts)

	Non-GAAP	GAAP
Revenues	\$110 - \$114M	\$110 - \$114M
Gross margin	30.0 – 34.0%	29.3 – 33.2%
Operating expenses	\$61.0 - \$63.0M	\$64.9 - \$66.9M
EPS	(\$0.57) – (\$0.49)	(\$0.67) – (\$0.59)
Cash flow from operations		Negative

Please refer to the reconciliations of GAAP to Non-GAAP financial measures in the supplemental information and on the Investor Relations section of calix.com





# 2017 Full Year Operating Performance Guidance

At least 10% year over year revenue growth

Lower Non-GAAP net loss than reported in 2016

2017 GAAP EPS estimated to be approximately \$0.34 lower than Non-GAAP EPS

Please refer to the reconciliations of GAAP to Non-GAAP financial measures in the supplemental information and on the Investor Relations section of [calix.com](http://calix.com)



# Summary



# Q&A



# Additional Information

- Additional information available at <http://investor-relations.calix.com/>
  - Stock Information
  - News & Financial Information
  - Events & Presentations
  - Leadership & Governance
  - Investor Resources

# Supplemental Information



# GAAP to Non-GAAP Reconciliation

## Q1 2015 – Q4 2016 Cost of Revenue and Gross Profit

(\$ in thousands, except percentages)

<b>(Unaudited)</b>	<b>Q1 2015</b>	<b>Q2 2015</b>	<b>Q3 2015</b>	<b>Q4 2015</b>	<b>Q1 2016</b>	<b>Q2 2016</b>	<b>Q3 2016</b>	<b>Q4 2016</b>
GAAP Revenues	\$91,038	\$99,129	\$112,297	\$104,999	\$98,375	\$107,425	\$121,187	\$131,800
GAAP Cost of revenue	\$48,548	\$50,840	\$59,184	\$58,462	\$52,893	\$57,419	\$67,643	\$79,614
Stock-Based Compensation	(175)	(211)	(163)	(160)	(127)	(183)	(174)	(188)
Amortization of Intangibles	(2,088)	(2,088)	(2,088)	(2,089)	(1,663)	(814)	(813)	(814)
Non-GAAP Cost of revenue	\$46,285	\$48,541	\$56,933	\$56,213	\$51,103	\$56,422	\$66,656	\$53,188
GAAP Gross Profit	\$42,490	\$48,289	\$53,113	\$46,537	\$45,482	\$50,006	\$53,544	\$52,186
GAAP Gross Margin	46.7%	48.7%	47.3%	44.3%	46.2%	46.5%	44.2%	39.6%
Stock-Based Compensation	175	211	163	160	127	183	174	188
Amortization of Intangibles	2,088	2,088	2,088	2,089	1,663	814	813	814
Non-GAAP Gross Profit	\$44,753	\$50,588	\$55,364	\$48,786	\$47,272	\$51,003	\$54,531	\$53,188
Non-GAAP Gross Margin	49.2%	51.0%	49.3%	46.5%	48.1%	47.5%	45.0%	40.4%



# GAAP to Non-GAAP Reconciliation

## Q1 2015 – Q4 2016 Operating Expense and Net Income/(Loss)

(\$ in thousands, except per share amounts)

<b>Unaudited</b>	<b>Q1 2015</b>	<b>Q2 2015</b>	<b>Q3 2015</b>	<b>Q4 2015</b>	<b>Q1 2016</b>	<b>Q2 2016</b>	<b>Q3 2016</b>	<b>Q4 2016</b>
GAAP Operating Expenses	\$54,377	\$54,054	\$52,236	\$56,272	\$56,220	\$55,887	\$52,809	\$64,421
Stock-Based Compensation	(3,487)	(4,130)	(2,427)	(3,052)	(2,594)	(2,785)	(4,503)	(3,731)
Amortization of Intangibles	(2,552)	(2,552)	(2,552)	(2,552)	(1,701)	0	0	0
Acquisition-Related Costs	(190)	(52)	(106)	(24)	(275)	(76)	0	0
Non-GAAP Operating Expenses	\$48,148	\$47,320	\$47,151	\$50,644	\$51,650	\$53,026	\$48,306	\$60,690
GAAP Net Income/(Loss)	(\$11,930)	(\$5,779)	\$922	(\$9,546)	(\$10,729)	(\$5,826)	\$636	(\$11,483)
Stock-Based Compensation	3,662	4,341	2,590	3,212	2,721	2,968	4,677	3,919
Amortization of Intangibles	4,640	4,640	4,640	4,641	3,364	814	813	814
Acquisition-Related Costs	190	52	106	24	275	76	0	0
Non-GAAP Net Income/(Loss)	(\$3,438)	\$3,254	\$8,258	(\$1,669)	(\$4,369)	(\$1,968)	\$6,126	(\$6,750)
Basic Shares	51,732	51,950	51,756	50,578	48,591	48,371	48,773	49,146
Diluted Shares	51,732	52,455	52,016	50,578	48,591	48,371	49,309	49,146
GAAP Income/(Loss) per share	(\$0.23)	(\$0.11)	\$0.02	(\$0.19)	(\$0.22)	(\$0.12)	\$0.01	(\$0.23)
Stock-Based Compensation	0.07	0.08	0.05	0.06	0.06	0.06	0.09	0.08
Amortization of Intangibles	0.09	0.09	0.09	0.09	0.07	0.02	0.02	0.02
Acquisition-Related Costs	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00
Non-GAAP Income/(Loss) per share	(\$0.07)	\$0.06	\$0.16	(\$0.03)	(\$0.09)	(\$0.04)	\$0.12	(\$0.14)



# GAAP to Non-GAAP Reconciliation

## 2012 – 2016 Gross Margin, Operating Expenses and EPS

(\$ in thousands, except percentages and per share amounts)

<b>Unaudited</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
GAAP Gross Margin	41.7%	44.7%	44.3%	46.7%	43.9%
Stock-Based Compensation	0.4%	0.4%	0.3%	0.2%	0.1%
Amortization of Intangibles	2.3%	2.2%	2.1%	2.1%	0.9%
Non-GAAP Gross Margin	44.4%	47.3%	46.7%	49.0%	44.9%
GAAP Operating Expenses	\$166,600	\$189,527	\$198,173	\$216,939	\$229,337
Stock-Based Compensation	16,004	18,453	14,897	13,096	13,613
Amortization of Intangibles	10,208	10,208	10,208	10,208	1,701
Acquisition-Related Costs	1,401	—	978	372	351
Non-GAAP Operating Expenses	\$138,987	\$160,866	\$172,090	\$193,263	\$213,672
GAAP Loss per Share	(\$0.59)	(\$0.35)	(\$0.41)	(\$0.51)	(\$0.56)
Stock-Based Compensation	0.36	0.39	0.31	0.27	0.29
Amortization of Intangibles	0.37	0.37	0.36	0.36	0.12
Acquisition-Related Costs	0.03	0.00	0.02	0.01	0.01
Utilization of Inventory Credit	0.00	(0.03)	0.00	0.00	0.00
Gain on Bargain Purchase	(0.02)	0.00	0.00	0.00	0.00
Non-GAAP Income/(Loss) per Diluted Share	\$0.15	\$0.39	\$0.29	\$0.12	(\$0.14)





# GAAP to Non-GAAP Reconciliation

## Q1 2017 Operating Performance Outlook

(\$ in thousands, except percentages and per share amounts)

<b>Outlook</b>	<b>Three Months Ending April 1, 2017</b>
GAAP Gross Margin	29.3% - 33.2%
Stock-Based Compensation	0.02%
Amortization of Intangibles	0.71% - 0.74%
Non-GAAP Gross Margin	30.0 – 34.0%
GAAP Operating Expenses	\$ 64,919 - \$ 66,919
Stock-Based Compensation	(3,919)
Amortization of Intangibles	(0)
Non-GAAP Operating Expenses	\$61,000 - \$63,000
GAAP net loss per diluted share	(\$0.67) – (\$0.59)
Stock-Based Compensation	0.08
Amortization of Intangibles	0.02
Non-GAAP net loss per diluted share	(\$0.57) – (\$0.49)



# GAAP to Non-GAAP Reconciliation

## 2017 Net Loss Outlook

<b>Outlook</b>	<b>Twelve Months Ending December 31, 2017</b>
Estimated per common share adjustments for:	
Stock-Based Compensation	\$0.32
Amortization of Intangibles	0.02
<b>Total GAAP to non-GAAP net loss per common share adjustments</b>	<b>\$0.34</b>



# Occam Litigation Expense and Settlement Recovery

Q1 2015 – Q3 2016

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Total
Occam Litigation (Expense)/Recovery (\$M)	(\$1.7M)	(\$0.1M)	(\$0.6M)	(\$0.8M)	(\$3.4M)	(\$2.8M)	\$4.5M	(\$5.0M)
Per share impact	(\$0.03)	(\$0.00)	(\$0.01)	(\$0.02)	(\$0.07)	(\$0.06)	\$0.09	(\$0.10)



