

# Marvell Technology Group

Investor Relations

FQ1' 2017 Earnings Update



**MARVELL**

---

# Safe Harbor: Forward-Looking Statements

This presentation contains forward-looking statements within the meaning of the federal securities laws that involve risks and uncertainties, including: its use of non-GAAP financial measures as important supplemental information. Words such as “anticipates,” “expects,” “intends,” “plans,” “projects,” “believes,” “seeks,” “estimates,” “can,” “may,” “will,” “would” and similar expressions identify such forward-looking statements. These statements are not guarantees of results and should not be considered as an indication of future activity or future performance. Actual events or results may differ materially from those described in this press release due to a number of risks and uncertainties, including, but not limited to: actions that may be taken by Marvell as a result of the Audit Committee’s investigation; adverse impacts of litigation or regulatory activities; Marvell’s ability to hire a permanent Chief Financial Officer and Chief Accounting Officer and Controller in a timely manner; Marvell’s ability to regain compliance with its SEC reporting obligations within the time of the exemption granted by NASDAQ; Marvell’s ability to compete in products and prices in an intensely competitive industry; Marvell’s reliance on the hard disk drive and mobile and wireless markets, which are highly cyclical and intensely competitive; costs and liabilities relating to current and future litigation; Marvell’s reliance on a few customers for a significant portion of its revenue; Marvell’s ability to develop and introduce new and enhanced products in a timely and cost effective manner and the adoption of those products in the market; seasonality in sales of consumer devices in which Marvell’s products are incorporated; uncertainty in the worldwide economic conditions; risks associated with manufacturing and selling a majority of Marvell’s products and Marvell’s customers’ products outside of the United States; and other risks detailed in Marvell’s SEC filings from time to time. For other factors that could cause Marvell’s results to vary from expectations, please see the risk factors identified in Marvell’s latest Annual Report on Form 10-K for the fiscal year ended January 30, 2016 as filed with the SEC on July 21, 2016, and other factors detailed from time to time in Marvell’s filings with the SEC. Marvell undertakes no obligation to revise or update publicly any forward-looking statements.

# Use of Non-GAAP Financial Measures

These slides provide financial measures on a U.S. GAAP as well as a non-GAAP basis. These non-GAAP results exclude the effect of share-based compensation expense, amortization and write-off of acquired intangible assets, acquisition-related costs, restructuring and other related charges, and certain one-time expenses or benefits, including but not limited to, certain litigation settlements. We believe that the presentation of non-GAAP financial measures provides important supplemental information to management and investors regarding financial and business trends relating to our financial condition and results of operations. While we use non-GAAP financial measures as a tool to enhance our understanding of certain aspects of our financial performance, we do not consider these measures to be a substitute for, or superior to, the information provided by GAAP financial measures. A reconciliation in accordance with SEC Regulation G for the non-GAAP financial measures used in these slides is available in the financial statements section to this presentation and/or in the Investor Relations section of our website at [www.marvell.com](http://www.marvell.com).

# FQ1' 2017 Financial Results

# Key Highlights from FQ1' 2017 Results

## Revenue

- Revenue of \$541M, down 12% q/q
- Storage decline on lower HDD industry TAM partially offset by SSD growth
- Networking up on improved enterprise/datacenter demand
- Mobile & Wireless down on mobile handset exit

## Non-GAAP EPS & Profitability

- EPS (diluted): \$0.01
- Gross margin: 52.5%
- Operating margin: 1%

## Shareholder Capital Returns

- No share repurchases in FQ1'17
- Quarterly payment of \$30 million in dividends or 6 cents per share

Source: Marvell

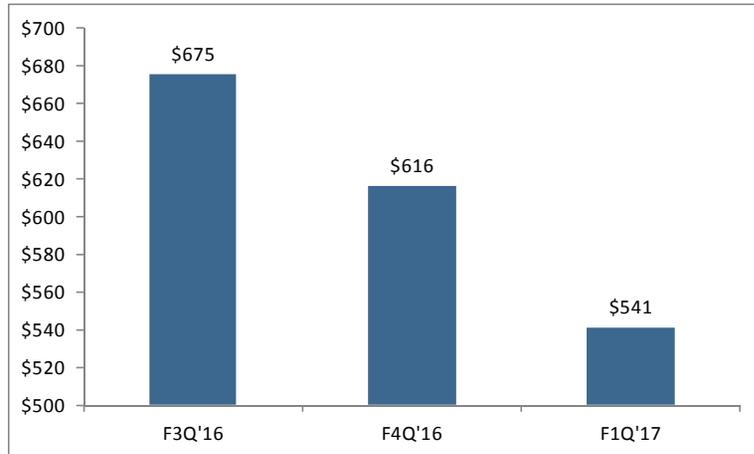
**MARVELL**

Marvell Confidential © 2016. All rights reserved.

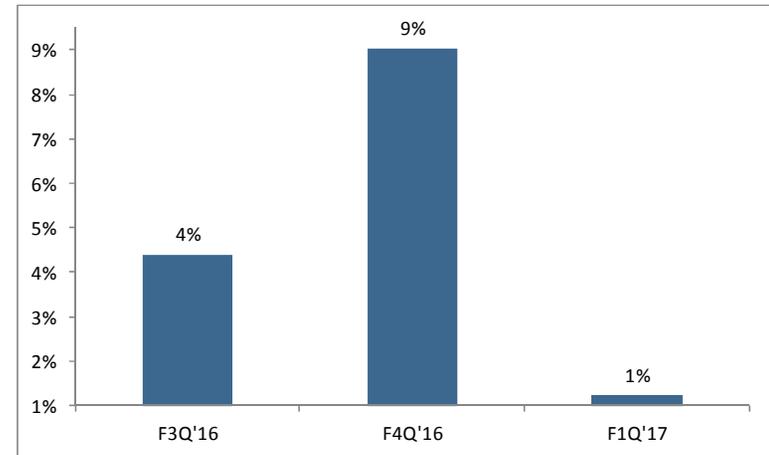
5

# FQ1' 2017 Financial Summary

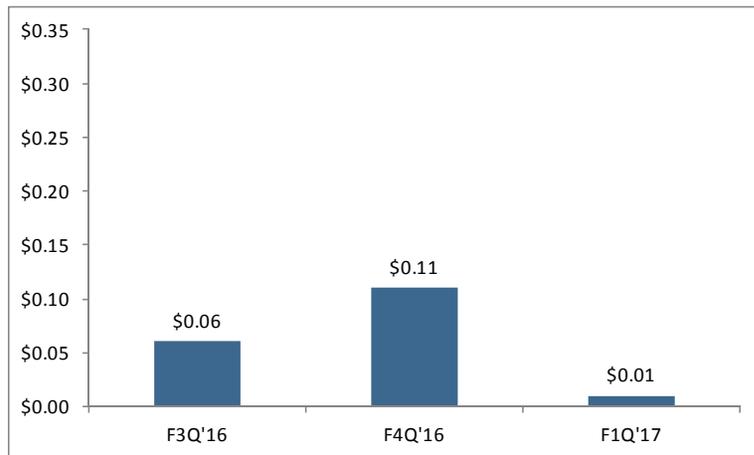
Revenue (\$M)



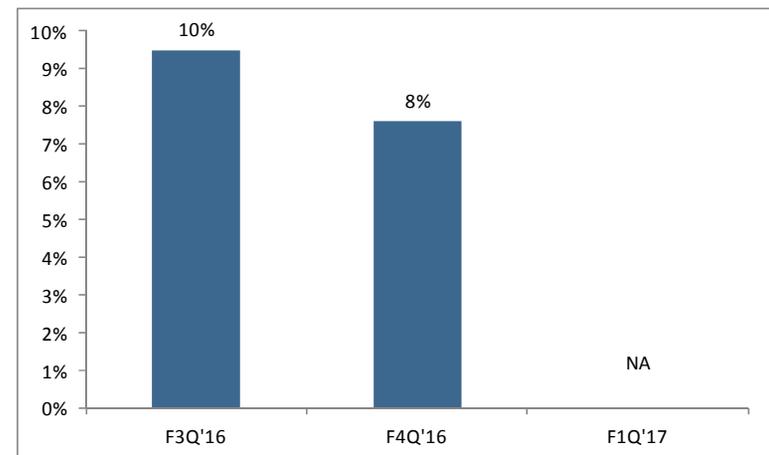
Non-GAAP Operating Margin (%)



Non-GAAP Diluted EPS (\$)



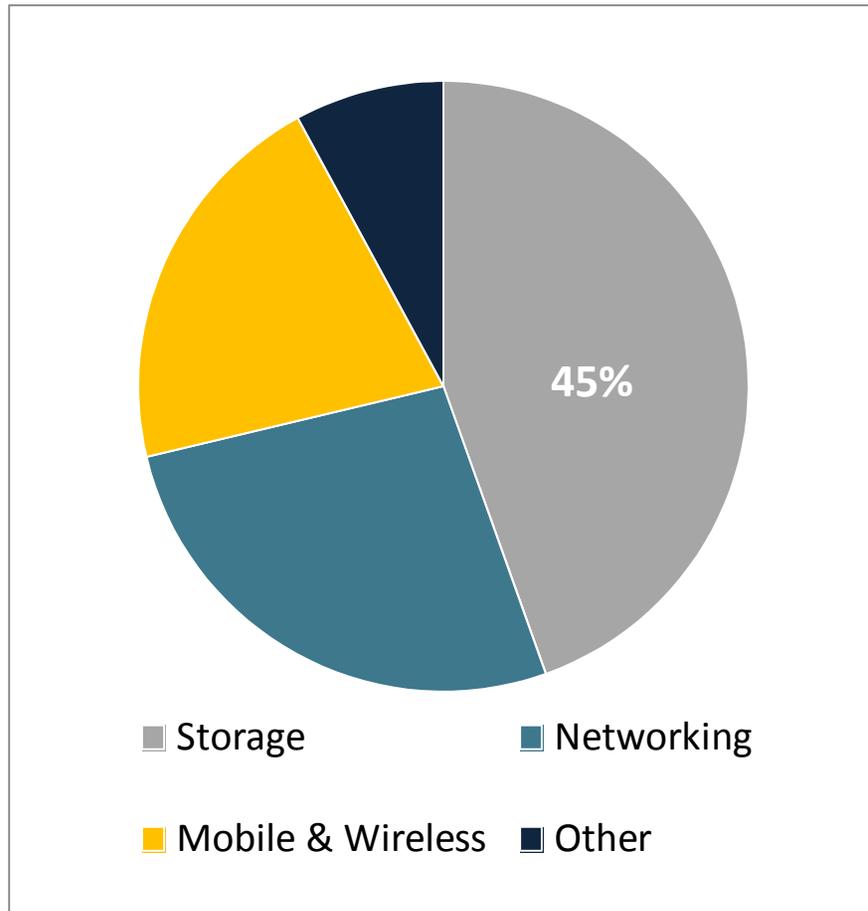
FCF Margin (%)



Source: Marvell

**MARVELL**

# End Markets: Storage



## FQ1 Highlights

- 45% of overall revenue
- Overall Storage revenue declined 16% q/q and decreased 30% y/y
- HDD down on HDD TAM decline
- SSD grew sequentially on demand recovery

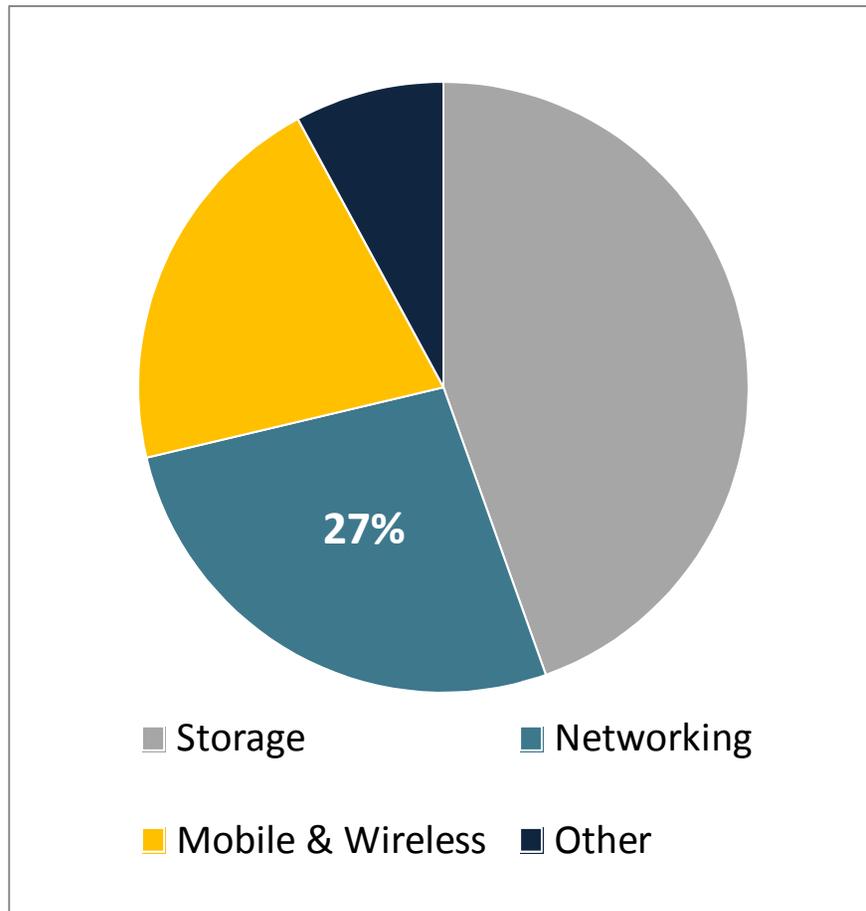
Source: Marvell

**MARVELL**

Marvell Confidential © 2016. All rights reserved.

7

# End Markets: Networking



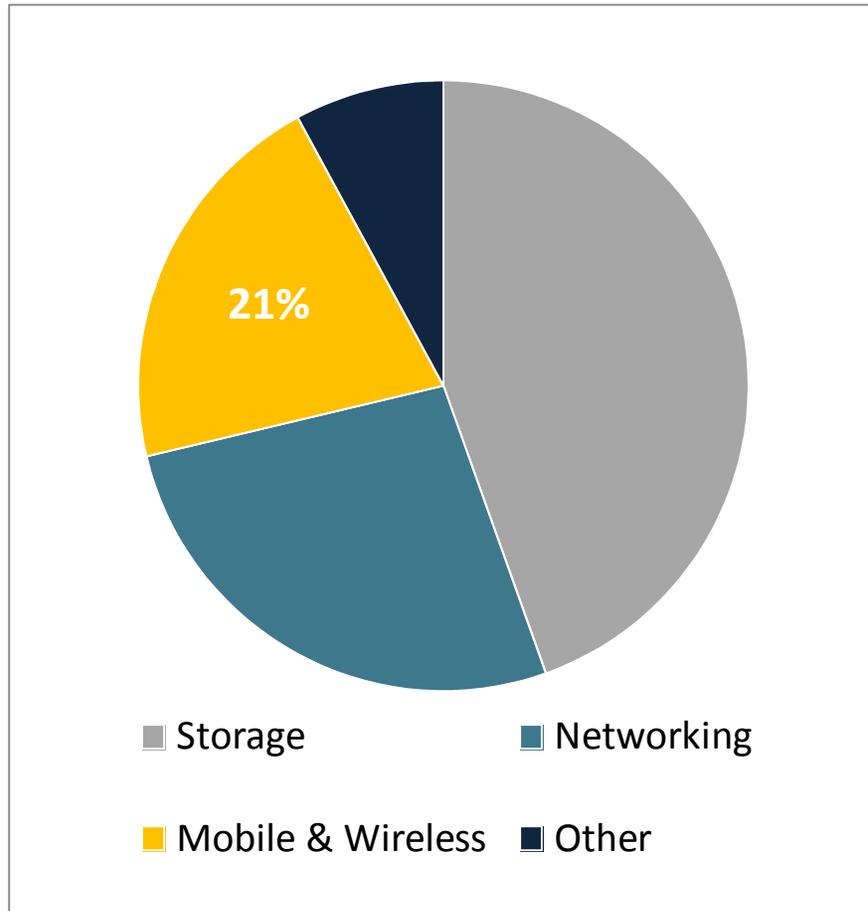
## FQ1 Highlights

- 27% of overall revenue
- Overall Networking grew 5% q/q and decreased 4% y/y
- Revenue increased improved enterprise/datacenter demand

Source: Marvell

**MARVELL**

# End Markets: Mobile & Wireless



## FQ1 Highlights

- 21% of overall revenue
- Mobile & Wireless declined 29% q/q and decreased 37% y/y
- Total M&W revenue down on mobile handset exit

Source: Marvell

**MARVELL**

Marvell Confidential © 2016. All rights reserved.

9

# FQ2' 2017 Financial Outlook

# FQ2' 2017 Outlook

	FQ2' 2017 Outlook
Revenue	\$625 to \$635 million
Non-GAAP Gross Margin	53.0% +/- 100 bps
Non-GAAP Operating Expense	\$270 million to \$280 million
Non-GAAP EPS (diluted)	\$0.11 +/- \$0.01
GAAP EPS (diluted)	\$0.04 +/- \$0.01

Source: Marvell

**MARVELL**

Marvell Confidential © 2016. All rights reserved.

11

# Financial Statements

# Unaudited Statement of Operations

## (In thousands, except per share amounts)

	<u>Q2'15</u>	<u>Q3'15</u>	<u>Q4'15</u>	<u>Q1'16</u>	<u>Q2'16</u>	<u>Q3'16</u>	<u>Q4'16</u>	<u>Q1'17</u>
Net revenue	\$ 961,545	\$ 930,136	\$ 857,452	\$ 724,288	\$ 710,492	\$ 674,890	\$ 616,158	\$ 540,822
Cost of goods sold	477,741	454,974	417,131	351,153	461,719	379,254	302,610	259,210
Gross profit (loss)	483,804	475,162	440,321	373,135	248,773	295,636	313,548	281,612
Operating expenses:								
Research and development	294,764	288,435	285,497	280,114	297,321	284,308	239,703	241,271
Selling and marketing	33,949	34,410	37,235	36,174	30,841	32,481	31,301	31,379
General and administrative	31,333	33,473	34,651	41,027	36,563	34,771	37,812	35,623
Carnegie Mellon University litigation settlement	-	-	-	-	654,667	-	-	-
Amortization and write-off of acquired intangible assets	3,304	3,304	3,100	2,568	2,568	3,150	2,462	2,461
Total operating expenses	<u>363,350</u>	<u>359,622</u>	<u>360,483</u>	<u>359,883</u>	<u>1,021,960</u>	<u>354,710</u>	<u>311,278</u>	<u>310,734</u>
Operating income (loss)	120,454	115,540	79,838	13,252	(773,187)	(59,074)	2,270	(29,122)
Interest and other income, net	12,263	4,764	4,382	5,167	6,790	4,644	1,084	1,488
Income before income (loss) taxes	132,717	120,304	84,220	18,419	(766,397)	(54,430)	3,354	(27,634)
Provision (benefit) for income taxes	(6,153)	5,000	2,527	4,329	5,543	3,320	(846)	(4,955)
Net income (loss)	<u>\$ 138,870</u>	<u>\$ 115,304</u>	<u>\$ 81,693</u>	<u>\$ 14,090</u>	<u>\$ (771,940)</u>	<u>\$ (57,750)</u>	<u>\$ 4,200</u>	<u>\$ (22,679)</u>
Net income (loss) per share - basic	<u>0.27</u>	<u>0.22</u>	<u>0.16</u>	<u>0.03</u>	<u>(1.49)</u>	<u>(0.11)</u>	<u>0.01</u>	<u>(0.04)</u>
Net income (loss) per share - diluted	<u>0.27</u>	<u>0.22</u>	<u>0.16</u>	<u>0.03</u>	<u>(1.49)</u>	<u>(0.11)</u>	<u>0.01</u>	<u>(0.04)</u>
Weighted average shares — basic	<u>511,821</u>	<u>513,859</u>	<u>513,574</u>	<u>516,228</u>	<u>516,368</u>	<u>504,831</u>	<u>506,352</u>	<u>508,794</u>
Weighted average shares — diluted	<u>520,269</u>	<u>519,907</u>	<u>522,112</u>	<u>527,167</u>	<u>516,368</u>	<u>504,831</u>	<u>508,590</u>	<u>508,794</u>

The following table presents details of total share-based compensation expense included in each functional line item in the unaudited condensed consolidated statements of income above:

Cost of goods sold	1,733	1,934	2,006	1,547	2,012	2,495	1,862	1,802
Research and development	24,276	24,198	25,590	24,781	27,808	22,573	23,630	24,396
Selling and marketing	2,617	2,855	3,069	2,577	2,707	2,608	3,214	2,942
General and administrative	6,394	5,307	7,298	4,316	4,147	3,789	3,713	2,165

Source: Marvell

**MARVELL**

# Unaudited Statement of Cash Flows (In thousands)

	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17
<b>Cash flows from operating activities:</b>								
Net income (loss)	\$ 138,870	\$ 115,304	\$ 81,693	\$ 14,090	\$ (771,940)	\$ (57,750)	\$ 4,200	\$ (22,679)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:								
Depreciation and amortization	26,263	26,515	26,464	26,620	25,191	25,565	22,800	21,788
Share-based compensation	35,020	34,294	37,963	33,221	36,674	31,465	32,419	24,453
Amortization and write-off of acquired intangible assets	3,789	3,789	3,585	3,053	3,053	3,635	2,947	2,946
Facilities impairment								
Other expense (income), net	(7,596)	(6,034)	(1,699)	(561)	2,283	4,205	7,885	1,361
Non-cash restructuring and other related charges	-	-	3,230	573	900	14,270	289	896
Excess tax benefits from share-based compensation	(32)	(2)	(67)	(18)	(7)	(2)	1	-
(Gain) on equity investment								
Changes in assets and liabilities:								
Restricted cash								
Accounts receivable	33,419	40,214	25,719	27,141	(23,907)	36,793	57,628	42,642
Inventories	(43,194)	37,506	48,247	(31,318)	12,903	39,457	69,544	13,598
Prepaid expenses and other assets	(24,996)	18,536	4,087	1,969	9,358	6,804	(35,245)	38,056
Accounts payable	2,558	(70,749)	(60,808)	17,125	(5,167)	(55,693)	(62,163)	19,922
Accrued liabilities and other non-current liabilities	10,096	(24,997)	(12,189)	(11,576)	19,634	3,958	(27,218)	(22,502)
Carnegie Mellon University accrued litigation settlement	-	-	-	-	733,557	1,158	1,285	(736,000)
Accrued employee compensation	(7,451)	19,101	1,910	(14,424)	(14,507)	14,295	(18,702)	7,152
Deferred income	(9,792)	(12,053)	(2,714)	(7,027)	(1,441)	(1,566)	(2,364)	(1,234)
Net cash provided by operating activities	156,954	181,424	155,421	58,868	26,584	66,594	53,306	(609,601)
<b>Cash flows from investing activities:</b>								
Purchases of available-for-sale securities	(153,881)	(448,526)	(344,023)	(392,900)	(173,465)	(356,465)	(133,215)	(93,365)
Sales and maturities of available-for-sale securities	190,099	205,685	248,215	247,495	222,295	356,409	477,301	316,310
Purchase of time deposits	-	-	-	-	-	-	-	(50,000)
Net proceeds from sale of a product line	-	-	-	-	-	-	-	-
Distribution from (investments in) privately-held-companies	-	(260)	-	-	208	(130)	(119)	-
Cash paid for acquisitions, net	-	-	-	-	-	-	-	-
Proceeds from sale of an investment in a privately-held company	-	13,220	-	-	-	-	-	-
Purchases of technology licenses	(1,298)	(5,105)	(1,910)	(3,606)	(2,071)	(980)	(1,579)	(4,050)
Purchases of property and equipment	(15,823)	(16,661)	(14,415)	(7,334)	(16,986)	(9,041)	(3,894)	(6,542)
Purchase of equipment previously leased	-	-	-	(10,240)	-	-	-	-
Net proceeds from sale of equipment held for sale	-	-	-	-	-	10,007	-	-
Net cash provided by (used in) investing activities	19,097	(251,647)	(112,133)	(166,585)	29,981	(200)	338,494	162,353
<b>Cash flows from financing activities:</b>								
Repurchase of common stock	-	(43,774)	(21,188)	(20,273)	(175,311)	(65,291)	-	-
Proceeds from employee stock plans	49,282	2,934	41,049	13,013	44,161	2,174	21,369	315
Minimum tax withholding paid on behalf of employees for net share settlement	(637)	(663)	(908)	(22,310)	(697)	(869)	(482)	(15,270)
Dividend payment to shareholders	(30,820)	(30,867)	(30,942)	(30,910)	(31,194)	(30,270)	(30,447)	(30,461)
Payments on technology license obligations	(2,677)	(5,951)	(4,382)	(4,067)	(4,732)	(2,617)	(1,112)	(5,294)
Excess tax benefits from share-based compensation	32	2	67	18	7	2	(1)	-
Net cash provided by (used in) financing activities	15,180	(78,319)	(16,304)	(64,529)	(167,766)	(96,871)	(10,673)	(50,710)
Net increase (decrease) in cash and cash equivalents	191,231	(148,542)	26,984	(172,246)	(111,201)	(30,477)	381,127	(497,958)
Cash and cash equivalents at beginning of period	1,141,304	1,332,535	1,183,993	1,210,977	1,038,731	927,530	897,053	1,278,180
Cash and cash equivalents at end of period	\$ 1,332,535	\$ 1,183,993	\$ 1,210,977	\$ 1,038,731	\$ 927,530	\$ 897,053	\$ 1,278,180	\$ 780,222
<b>Unaudited Supplemental Financial Information</b>								
GAAP net cash provided by operating activities	\$ 156,954	\$ 181,424	\$ 155,421	\$ 58,868	\$ 26,584	\$ 66,594	\$ 53,306	\$ (609,601)
Purchases of technology licenses	(1,298)	(5,105)	(1,910)	(3,606)	(2,071)	(980)	(1,579)	(4,050)
Purchases of property and equipment	(15,823)	(16,661)	(14,415)	(7,334)	(16,986)	(9,041)	(3,894)	(6,542)
Payment on technology license obligations	(2,677)	(5,951)	(4,382)	(4,067)	(4,732)	(2,617)	(1,112)	(5,294)
Free cash flow	\$ 137,156	\$ 153,707	\$ 134,714	\$ 43,861	\$ 2,795	\$ 53,956	\$ 46,721	\$ (625,487)

# Unaudited Balance Sheet

## (In thousands)

	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17
<b>Assets</b>									
Current assets:									
Cash, cash equivalents, and short-term investments	\$ 2,146,445	\$ 2,300,004	\$ 2,402,778	\$ 2,529,555	\$ 2,500,915	\$ 2,337,647	\$ 2,303,752	\$ 2,282,749	\$ 1,615,240
Accounts receivable, net	517,074	498,484	445,050	420,955	393,814	417,721	380,928	323,300	280,658
Inventories	350,649	393,957	356,417	308,162	339,859	327,103	279,359	210,017	196,739
Prepaid expenses and other current assets	72,815	96,561	82,117	85,368	91,151	86,106	71,450	102,560	57,139
Total current assets	3,086,983	3,289,006	3,286,362	3,344,040	3,325,739	3,168,577	3,035,489	2,918,626	2,149,776
Property and equipment, net	349,321	344,836	343,101	340,639	325,754	322,262	309,647	299,540	283,584
Long-term investments	13,456	13,422	10,077	10,226	10,111	10,123	10,182	11,296	8,974
Goodwill and acquired intangible assets, net	2,071,806	2,068,017	2,064,228	2,060,643	2,057,590	2,054,537	2,050,902	2,047,955	2,045,009
Other non-current assets	161,406	150,413	145,039	128,839	122,855	110,457	100,304	164,710	169,778
Total assets	\$ 5,682,972	\$ 5,865,694	\$ 5,848,807	\$ 5,884,387	\$ 5,842,049	\$ 5,665,956	\$ 5,506,524	\$ 5,442,127	\$ 4,657,121
<b>Liabilities and Shareholders' Equity</b>									
Current liabilities:									
Accounts payable	\$ 409,005	\$ 415,718	\$ 341,431	\$ 282,899	\$ 297,050	\$ 289,023	\$ 236,675	\$ 180,372	\$ 193,697
Accrued liabilities	288,076	293,378	293,143	286,357	258,345	287,007	285,473	253,691	236,514
Carnegie Mellon University accrued litigation settlement	-	-	-	-	-	733,557	734,715	736,000	-
Deferred income	92,679	82,887	70,834	68,120	61,093	59,652	58,086	55,722	54,488
Total current liabilities	789,760	791,983	705,408	637,376	616,488	1,369,239	1,314,949	1,225,785	484,699
Other non-current liabilities	123,725	112,177	109,489	100,922	94,289	82,720	80,092	76,219	72,604
Total liabilities	913,485	904,160	814,897	738,298	710,777	1,451,959	1,395,041	1,302,004	557,303
Shareholders' equity:									
Common stock	2,967,113	3,050,892	3,042,422	3,100,578	3,102,809	2,990,026	2,976,436	3,029,936	3,039,754
Accumulated other comprehensive income (loss)	409	627	(2,964)	308	80	(1,278)	(2,182)	(795)	2,222
Retained earnings	1,801,965	1,910,015	1,994,452	2,045,203	2,028,383	1,225,249	1,137,229	1,110,982	1,057,842
Total shareholders' equity	4,769,487	4,961,534	5,033,910	5,146,089	5,131,272	4,213,997	4,111,483	4,140,123	4,099,818
Total liabilities and shareholders' equity	\$ 5,682,972	\$ 5,865,694	\$ 5,848,807	\$ 5,884,387	\$ 5,842,049	\$ 5,665,956	\$ 5,506,524	\$ 5,442,127	\$ 4,657,121
GAAP inventory turns	5.7	5.1	4.9	5.0	4.3	5.5	5.0	4.9	5.1
GAAP days in inventory	64	71	75	72	84	66	73	74	71

Source: Marvell

**MARVELL**

# Unaudited GAAP to Non-GAAP Reconciliations (In thousands, except per share amounts)

	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17
GAAP Net income (loss)	\$ 138,870	\$ 115,304	\$ 81,693	\$ 14,090	\$ (771,940)	\$ (57,750)	\$ 4,200	\$ (22,679)
(1) Cost of goods sold								
Share-based compensation	1,733	1,934	2,006	1,547	2,012	2,495	1,862	1,802
Restructuring and related charges	-	-	-	-	-	10,285	7	-
Amortization of acquired intangible assets	925	925	925	925	778	485	485	485
Litigation settlement	-	(3,998)	-	(1,700)	81,390	1,158	3,711	-
Other	-	-	1,000	-	-	-	-	-
(2) Research and development:								
Share-based compensation	24,276	24,198	25,590	24,781	27,808	22,573	23,630	24,396
Adjustment of payroll related liabilities initially recorded in connection with historic stock option granting practices	-	-	-	-	-	-	-	-
Acquisition related costs	-	-	-	-	-	-	-	-
Restructuring and other exit related	412	88	67	-	11,680	31,806	3,703	813
Litigation matters	-	-	-	-	5,000	-	-	-
Other	-	-	-	-	134	894	3,485	(49)
(3) Selling and marketing:								
Share-based compensation	2,617	2,855	3,069	2,577	2,707	2,608	3,214	2,942
Adjustment of payroll related liabilities initially recorded in connection with historic stock option granting practices	-	-	-	-	-	-	-	-
Restructuring and other exit related	(48)	-	-	-	-	1,899	118	(1)
Litigation settlement	-	1,600	-	-	-	-	-	-
Other	-	-	-	-	-	39	393	304
(4) General and administrative:								
Share-based compensation	6,394	5,307	7,298	4,316	4,147	3,789	3,713	(4,687)
Adjustment of payroll related liabilities initially recorded in connection with historic stock option granting practices	-	-	-	-	-	-	-	-
Acquisition related costs	-	-	-	-	-	-	-	-
Restructuring and other exit related	371	1,115	3,345	592	1,320	1,565	568	3,629
Litigation settlement	475	-	-	-	661,727	-	80	100
Other	2,155	2,318	2,764	18,302	2,748	2,901	2,876	886
(5) Other operating costs and expenses:								
Amortization and write-off of acquired intangible assets	3,304	3,304	3,100	2,568	2,568	3,150	2,462	2,461
(6) Gain from sale of a product line:	-	-	-	-	-	-	-	-
(7) Provision for income taxes:								
Other	-	-	-	3,080	7,323	1,108	-	(3,884)
<b>Non-GAAP Net income</b>	<b>\$ 181,484</b>	<b>\$ 154,950</b>	<b>\$ 130,857</b>	<b>\$ 71,078</b>	<b>\$ 39,402</b>	<b>\$ 29,005</b>	<b>\$ 54,507</b>	<b>\$ 6,518</b>
<b>Non-GAAP Operating income</b>	<b>\$ 163,068</b>	<b>\$ 155,186</b>	<b>\$ 129,002</b>	<b>\$ 67,160</b>	<b>\$ 30,832</b>	<b>\$ 26,573</b>	<b>\$ 52,577</b>	<b>\$ 3,959</b>
GAAP Weighted average shares — diluted	520,269	519,907	522,112	527,167	516,368	504,831	508,590	508,794
Non-GAAP adjustment	13,201	12,905	10,688	7,993	16,574	13,674	9,978	12,465
<b>Non-GAAP Weighted average shares — diluted</b>	<b>533,470</b>	<b>532,812</b>	<b>532,800</b>	<b>535,160</b>	<b>532,942</b>	<b>518,505</b>	<b>518,568</b>	<b>521,259</b>

Source: Marvell

**MARVELL**

Marvell Confidential © 2016. All rights reserved.

16

**MARVELL**

**MARVELL**

---