

Marvell Technology Group

Investor Relations

FQ2' 2017 Earnings Update



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Safe Harbor: Forward-Looking Statements

This press release contains forward-looking statements within the meaning of the federal securities laws that involve risks and uncertainties, including: Marvell's expectations regarding its third quarter of fiscal 2017 financial outlook; and Marvell's 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 Chief Accounting Officer and Controller in a timely manner; 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 Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2016 as filed with the SEC on August 10, 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.

FQ2' 2017 Financial Results

Key Highlights from FQ2' 2017 Results

Revenue

- Revenue of \$626M, up 16% q/q
- Storage growth on higher HDD and SSD demand
- Networking up on improved enterprise demand
- Mobile & Wireless up on seasonal high end consumer product ramps

Non-GAAP EPS & Profitability

- EPS (diluted): \$0.18
- Gross margin: 54.6%
- Operating margin: 12.8%

Shareholder Capital Returns

- No share repurchases in FQ2'17

Source: Marvell

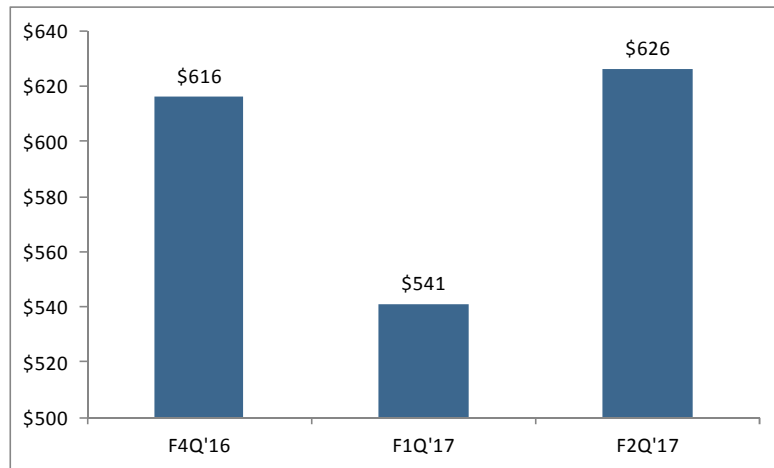
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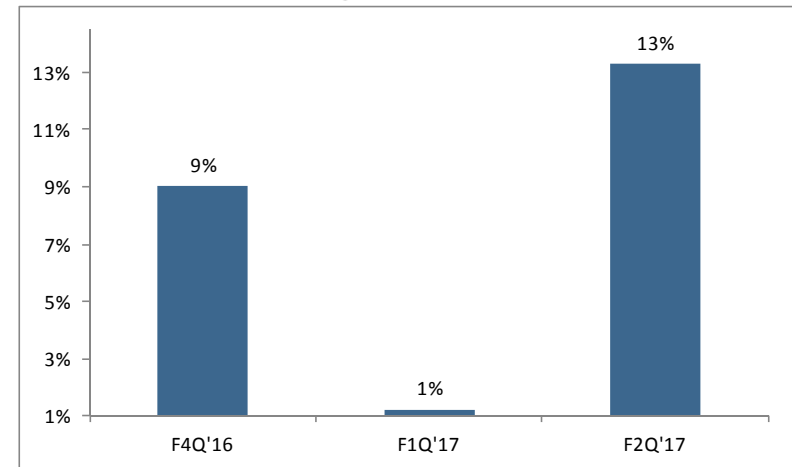
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FQ2' 2017 Financial Summary

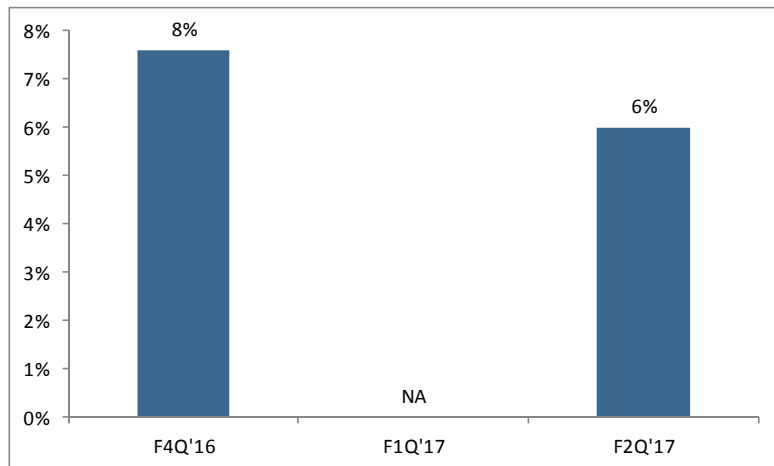
Revenue (\$M)



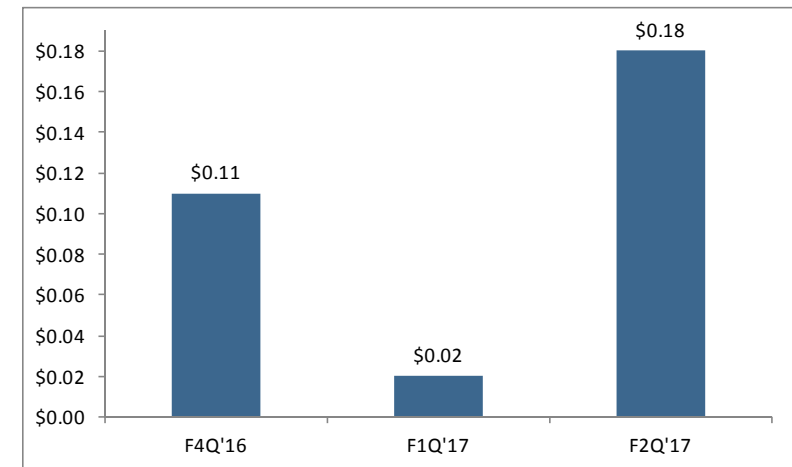
Non-GAAP Operating Margin (%)



FCF Margin (%)



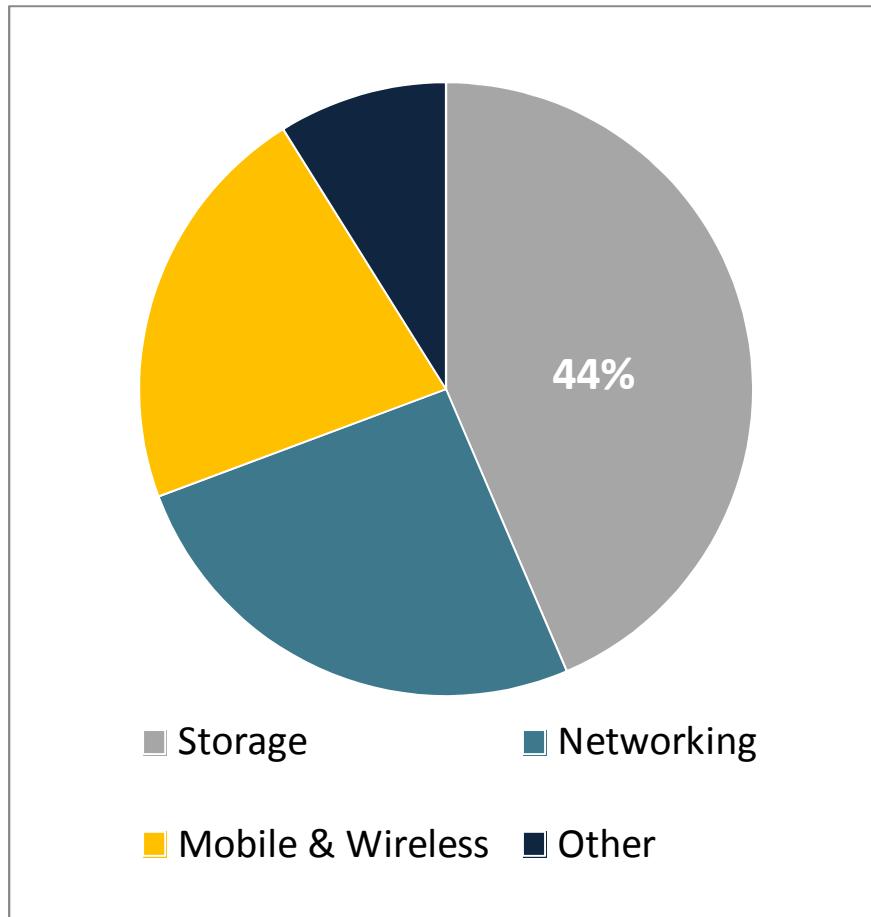
Non-GAAP Diluted EPS (\$)



Source: Marvell

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End Markets: Storage



FQ2 Highlights

- 44% of overall revenue
- Overall Storage revenue grew 13% q/q and decreased 10% y/y
- HDD grew on improved demand, inventory replenishment
- SSD grew on strong SATA and PCIe demand

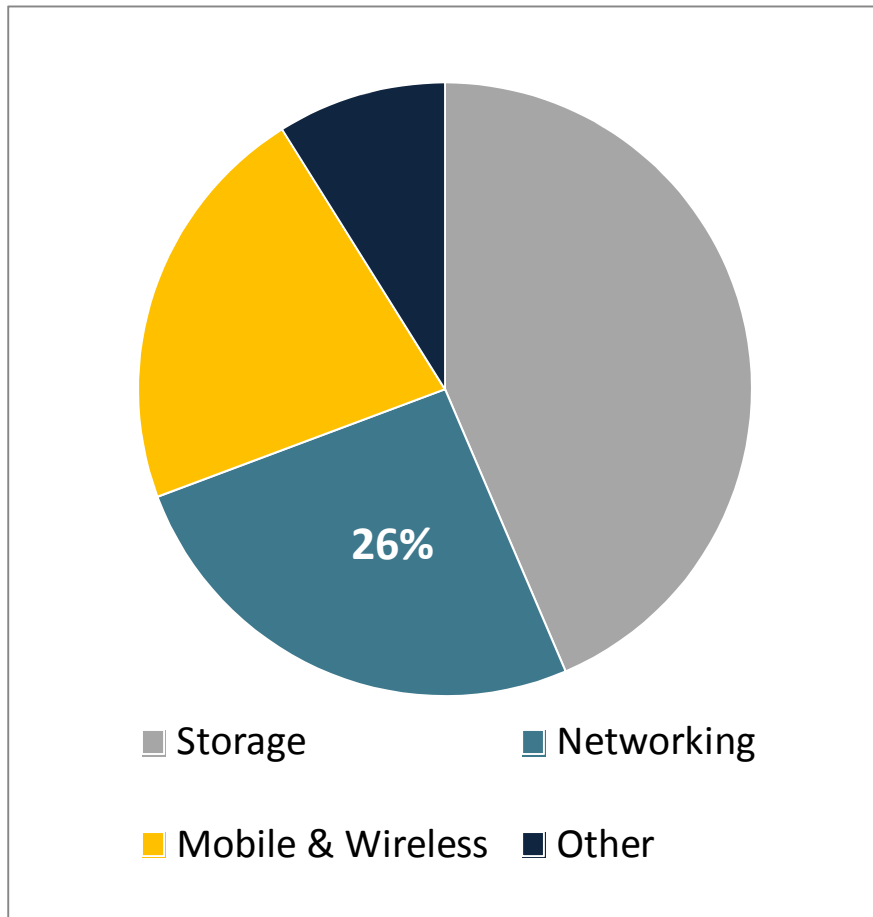
FQ3 Outlook

- Revenue expected to be up on continued HDD and SSD strength

Source: Marvell

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End Markets: Networking



FQ2 Highlights

- 26% of overall revenue
- Overall Networking grew 12% q/q and increased 17% y/y
- Revenue increased on continued enterprise demand strength

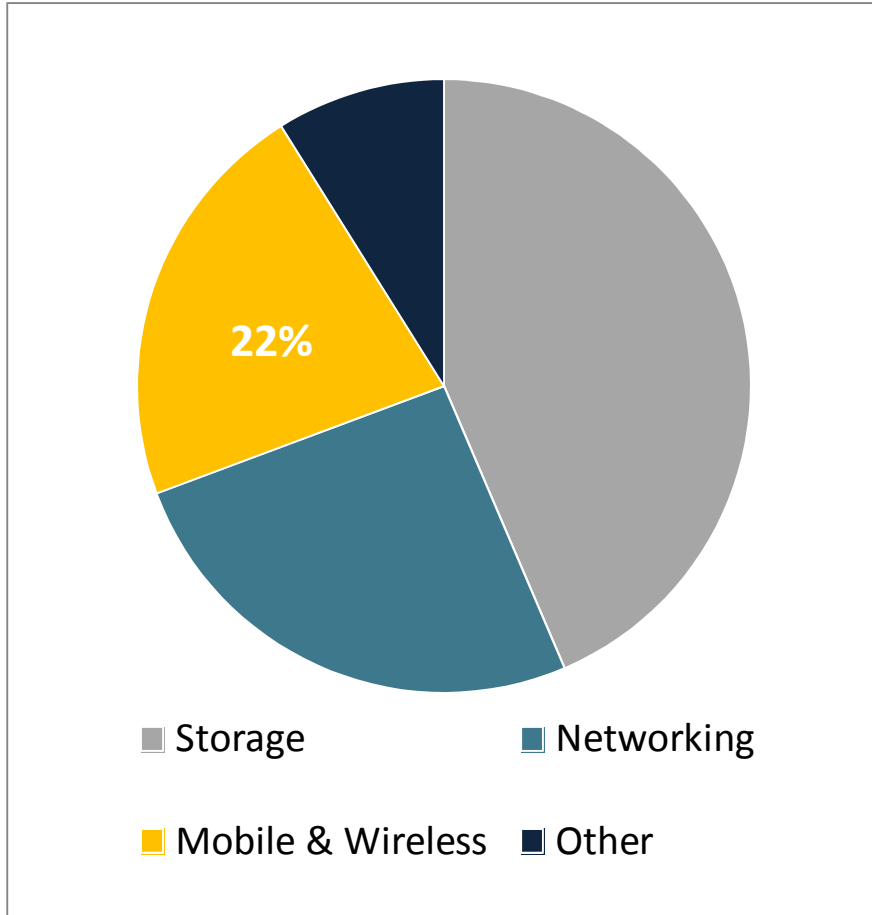
FQ3 Outlook

- Revenue expected to be down on softer enterprise demand following three straight quarters of growth

Source: Marvell

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End Markets: Mobile & Wireless



FQ2 Highlights

- 22% of overall revenue
- Mobile & Wireless grew 21% q/q and decreased 35% y/y
- Revenue up on strong seasonal high end consumer ramps

FQ3 Outlook

- Revenue expected to be down on lower high end consumer builds following sharp ramp in Q2

Source: Marvell

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FQ3' 2017 Financial Outlook

FQ3' 2017 Outlook

	FQ3' 2017 Outlook
Revenue	Flat to down 4% sequentially
Non-GAAP Gross Margin	53.0% +/- 100 bps
Non-GAAP Operating Expense	Approximately flat sequentially
Non-GAAP EPS (diluted)	\$0.08 to \$0.13
GAAP EPS (diluted)	\$0.03 to \$0.08

Source: Marvell

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Financial Statements

Unaudited Statement of Operations

(In thousands, except per share amounts)

	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17
Net revenue	\$ 930,136	\$ 857,452	\$ 724,288	\$ 710,492	\$ 674,890	\$ 616,158	\$ 540,822	\$ 626,404
Cost of goods sold	454,974	417,131	351,153	461,719	379,254	302,610	259,210	287,608
Gross profit (loss)	475,162	440,321	373,135	248,773	295,636	313,548	281,612	338,796
Operating expenses:								
Research and development	288,435	285,497	280,114	297,321	284,308	239,703	241,271	228,562
Selling and marketing	34,410	37,235	36,174	30,841	32,481	31,301	31,379	31,094
General and administrative	33,473	34,651	41,027	36,563	34,771	37,812	35,623	37,173
Carnegie Mellon University litigation settlement	-	-	-	654,667	-	-	-	-
Amortization and write-off of acquired intangible assets	3,304	3,100	2,568	2,568	3,150	2,462	2,461	2,461
Total operating expenses	359,622	360,483	359,883	1,021,960	354,710	311,278	310,734	299,290
Operating income (loss)	115,540	79,838	13,252	(773,187)	(59,074)	2,270	(29,122)	39,506
Interest and other income, net	4,764	4,382	5,167	6,790	4,644	1,084	1,488	6,284
Income before income (loss) taxes	120,304	84,220	18,419	(766,397)	(54,430)	3,354	(27,634)	45,790
Provision (benefit) for income taxes	5,000	2,527	4,329	5,543	3,320	(846)	(4,955)	(5,515)
Net income (loss)	\$ 115,304	\$ 81,693	\$ 14,090	\$ (771,940)	\$ (57,750)	\$ 4,200	\$ (22,679)	\$ 51,305
Net income (loss) per share - basic	0.22	0.16	0.03	(1.49)	(0.11)	0.01	(0.04)	0.10
Net income (loss) per share - diluted	0.22	0.16	0.03	(1.49)	(0.11)	0.01	(0.04)	0.10
Weighted average shares — basic	513,859	513,574	516,228	516,368	504,831	506,352	508,794	511,235
Weighted average shares — diluted	519,907	522,112	527,167	516,368	504,831	508,590	508,794	514,314

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	1,934	2,006	1,547	2,012	2,495	1,862	1,802	2,832
Research and development	24,198	25,590	24,781	27,808	22,573	23,630	24,396	28,581
Selling and marketing	2,855	3,069	2,577	2,707	2,608	3,214	2,942	3,315
General and administrative	5,307	7,298	4,316	4,147	3,789	3,713	(4,687)	2,468

Source: Marvell

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Unaudited Statement of Cash Flows

(In thousands)

	<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>	<u>Q2'17</u>
Cash flows from operating activities:								
Net income (loss)	\$ 115,304	\$ 81,693	\$ 14,090	\$ (771,940)	\$ (57,750)	\$ 4,200	\$ (22,679)	\$ 51,305
Adjustments to reconcile net income (loss) to net cash provided by operating activities:								
Depreciation and amortization	26,515	26,464	26,620	25,191	25,565	22,800	27,114	26,866
Share-based compensation	34,294	37,963	33,221	36,674	31,465	32,419	24,453	37,196
Amortization and write-off of acquired intangible assets	3,789	3,585	3,053	3,053	3,635	2,947	2,946	2,946
Other expense (income), net	(6,034)	(1,699)	(561)	2,282	4,205	7,885	1,361	589
Non-cash restructuring and other related charges	-	3,230	573	900	14,270	289	896	129
Excess tax benefits from share-based compensation	(2)	(67)	(18)	(7)	(2)	1	-	(5)
Changes in assets and liabilities:								
Accounts receivable	40,214	25,719	27,141	(23,907)	36,793	57,628	42,642	(68,025)
Inventories	37,506	48,247	(31,318)	12,903	39,457	69,544	13,598	(6,364)
Prepaid expenses and other assets	18,536	4,087	1,969	9,359	6,804	(35,245)	(15,693)	6,658
Accounts payable	(70,749)	(60,808)	17,125	(5,167)	(55,693)	(62,163)	19,922	20,437
Accrued liabilities and other non-current liabilities	(24,997)	(12,189)	(11,576)	19,634	3,958	(27,218)	(22,502)	(7,741)
Carnegie Mellon University accrued litigation settlement	-	-	-	733,557	1,158	1,285	(736,000)	-
Accrued employee compensation	19,101	1,910	(14,424)	(14,507)	14,295	(18,702)	7,152	(22,270)
Deferred income	(12,053)	(2,714)	(7,027)	(1,441)	(1,566)	(2,364)	(1,234)	17,561
Net cash provided by (used in) operating activities	<u>181,424</u>	<u>155,421</u>	<u>58,868</u>	<u>26,584</u>	<u>66,594</u>	<u>53,306</u>	<u>(658,024)</u>	<u>59,282</u>
Cash flows from investing activities:								
Purchases of available-for-sale securities	(448,526)	(344,023)	(392,900)	(173,465)	(356,465)	(133,215)	(93,365)	(110,358)
Sales and maturities of available-for-sale securities	205,685	248,215	247,495	222,295	356,409	477,301	370,059	116,506
Purchase of time deposits	-	-	-	-	-	-	(50,000)	(75,000)
Distribution from (investments in) privately-held-companies	(260)	-	-	208	(130)	(119)	-	-
Proceeds from sale of an investment in a privately-held company	13,220	-	-	-	-	-	-	-
Purchases of technology licenses	(5,105)	(1,910)	(3,606)	(2,071)	(980)	(1,579)	(4,050)	(3,995)
Purchases of property and equipment	(16,661)	(14,415)	(7,334)	(16,986)	(9,041)	(3,894)	(11,868)	(12,509)
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	<u>(251,647)</u>	<u>(112,133)</u>	<u>(166,585)</u>	<u>29,981</u>	<u>(200)</u>	<u>338,494</u>	<u>210,776</u>	<u>(85,356)</u>
Cash flows from financing activities:								
Repurchase of common stock	(43,774)	(21,188)	(20,273)	(175,311)	(65,291)	-	-	-
Proceeds from employee stock plans	2,934	41,049	13,013	44,161	2,174	21,369	315	244
Minimum tax withholding paid on behalf of employees for net share settlement	(663)	(908)	(22,310)	(697)	(869)	(482)	(15,270)	(112)
Dividend payment to shareholders	(30,867)	(30,942)	(30,910)	(31,194)	(30,270)	(30,447)	(30,461)	(30,675)
Payments on technology license obligations	(5,951)	(4,382)	(4,067)	(4,732)	(2,617)	(1,112)	(5,294)	(4,858)
Excess tax benefits from share-based compensation	2	67	18	7	2	(1)	-	5
Net cash provided by (used in) financing activities	<u>(78,319)</u>	<u>(16,304)</u>	<u>(64,529)</u>	<u>(167,766)</u>	<u>(96,871)</u>	<u>(10,673)</u>	<u>(50,710)</u>	<u>(35,396)</u>
Net increase (decrease) in cash and cash equivalents	(148,542)	26,984	(172,246)	(111,201)	(30,477)	381,127	(497,958)	(61,470)
Cash and cash equivalents at beginning of period	<u>1,332,535</u>	<u>1,183,993</u>	<u>1,210,977</u>	<u>1,038,731</u>	<u>927,530</u>	<u>897,053</u>	<u>1,278,180</u>	<u>780,222</u>
Cash and cash equivalents at end of period	<u>\$ 1,183,993</u>	<u>\$ 1,210,977</u>	<u>\$ 1,038,731</u>	<u>\$ 927,530</u>	<u>\$ 897,053</u>	<u>\$ 1,278,180</u>	<u>\$ 780,222</u>	<u>\$ 718,752</u>
Unaudited Supplemental Financial Information								
GAAP net cash provided by operating activities	\$ 181,424	\$ 155,421	\$ 58,868	\$ 26,584	\$ 66,594	\$ 53,306	\$ (658,024)	\$ 59,282
Purchases of technology licenses	(5,105)	(1,910)	(3,606)	(2,071)	(980)	(1,579)	(4,050)	(3,995)
Purchases of property and equipment	(16,661)	(14,415)	(7,334)	(16,986)	(9,041)	(3,894)	(11,868)	(12,509)
Payment on technology license obligations	(5,951)	(4,382)	(4,067)	(4,732)	(2,617)	(1,112)	(5,294)	(4,858)
Free cash flow	<u>\$ 153,707</u>	<u>\$ 134,714</u>	<u>\$ 43,861</u>	<u>\$ 2,795</u>	<u>\$ 53,956</u>	<u>\$ 46,721</u>	<u>\$ (679,236)</u>	<u>\$ 37,920</u>

Unaudited Balance Sheet (In thousands)

	<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>	<u>Q2'17</u>
Assets								
Current assets:								
Cash, cash equivalents, and short-term investments	\$ 2,402,778	\$ 2,529,555	\$ 2,500,915	\$ 2,337,647	\$ 2,303,752	\$ 2,282,749	\$ 1,615,240	\$ 1,624,009
Accounts receivable, net	445,050	420,955	393,814	417,721	380,928	323,300	280,658	348,683
Inventories	356,417	308,162	339,859	327,103	279,359	210,017	196,739	202,717
Prepaid expenses and other current assets	82,117	85,368	91,151	86,106	71,450	102,560	57,139	54,870
Total current assets	<u>3,286,362</u>	<u>3,344,040</u>	<u>3,325,739</u>	<u>3,168,577</u>	<u>3,035,489</u>	<u>2,918,626</u>	<u>2,149,776</u>	<u>2,230,279</u>
Property and equipment, net	343,101	340,639	325,754	322,262	309,647	299,540	283,584	274,774
Long-term investments	10,077	10,226	10,111	10,123	10,182	11,296	8,974	8,974
Goodwill and acquired intangible assets, net	2,064,228	2,060,643	2,057,590	2,054,537	2,050,902	2,047,955	2,045,009	2,042,063
Other non-current assets	145,039	128,839	122,855	110,457	100,304	164,710	169,778	160,586
Total assets	<u>\$ 5,848,807</u>	<u>\$ 5,884,387</u>	<u>\$ 5,842,049</u>	<u>\$ 5,665,956</u>	<u>\$ 5,506,524</u>	<u>\$ 5,442,127</u>	<u>\$ 4,657,121</u>	<u>\$ 4,716,676</u>
Liabilities and Shareholders' Equity								
Current liabilities:								
Accounts payable	\$ 341,431	\$ 282,899	\$ 297,050	\$ 289,023	\$ 236,675	\$ 180,372	\$ 193,697	\$ 212,950
Accrued liabilities	293,143	286,357	258,345	287,007	285,473	253,691	236,514	219,489
Carnegie Mellon University accrued litigation settlement	-	-	-	733,557	734,715	736,000	-	-
Deferred income	70,834	68,120	61,093	59,652	58,086	55,722	54,488	72,049
Total current liabilities	<u>705,408</u>	<u>637,376</u>	<u>616,488</u>	<u>1,369,239</u>	<u>1,314,949</u>	<u>1,225,785</u>	<u>484,699</u>	<u>504,488</u>
Other non-current liabilities	109,489	100,922	94,289	82,720	80,092	76,219	72,604	53,100
Total liabilities	<u>814,897</u>	<u>738,298</u>	<u>710,777</u>	<u>1,451,959</u>	<u>1,395,041</u>	<u>1,302,004</u>	<u>557,303</u>	<u>557,588</u>
Shareholders' equity:								
Common stock	3,042,422	3,100,578	3,102,809	2,990,026	2,976,436	3,029,936	3,039,754	3,076,601
Accumulated other comprehensive income (loss)	(2,964)	308	80	(1,278)	(2,182)	(795)	2,222	4,015
Retained earnings	1,994,452	2,045,203	2,028,383	1,225,249	1,137,229	1,110,982	1,057,842	1,078,472
Total shareholders' equity	<u>5,033,910</u>	<u>5,146,089</u>	<u>5,131,272</u>	<u>4,213,997</u>	<u>4,111,483</u>	<u>4,140,123</u>	<u>4,099,818</u>	<u>4,159,088</u>
Total liabilities and shareholders' equity	<u>\$ 5,848,807</u>	<u>\$ 5,884,387</u>	<u>\$ 5,842,049</u>	<u>\$ 5,665,956</u>	<u>\$ 5,506,524</u>	<u>\$ 5,442,127</u>	<u>\$ 4,657,121</u>	<u>\$ 4,716,676</u>
GAAP inventory turns	4.9	5.0	4.3	5.5	5.0	4.9	5.1	5.8
GAAP days in inventory	75	72	84	66	73	74	71	63

Source: Marvell

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

	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17
GAAP Net income (loss)	\$ 115,304	\$ 81,693	\$ 14,090	\$ (771,940)	\$ (57,750)	\$ 4,200	\$ (22,679)	\$ 51,305
(1) Cost of goods sold								
Share-based compensation	1,934	2,006	1,547	2,012	2,495	1,862	1,802	2,832
Restructuring and related charges	-	-	-	-	10,285	7	-	-
Amortization of acquired intangible assets	925	925	925	778	485	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	24,198	25,590	24,781	27,808	22,573	23,630	24,396	28,581
Restructuring and other exit related	88	67	-	11,680	31,806	3,703	813	(329)
Litigation matters	-	-	-	5,000	-	-	-	-
Other	-	-	-	134	894	3,485	(49)	174
(3) Selling and marketing:								
Share-based compensation	2,855	3,069	2,577	2,707	2,608	3,214	2,942	3,315
Restructuring and other exit related	-	-	-	-	1,899	118	(1)	27
Litigation settlement	1,600	-	-	-	-	-	-	-
Other	-	-	-	-	39	393	304	(71)
(4) General and administrative:								
Share-based compensation	5,307	7,298	4,316	4,147	3,789	3,713	(4,687)	2,468
Restructuring and other exit related	1,115	3,345	592	1,320	1,565	568	3,629	1,023
Litigation settlement	-	-	-	661,727	-	80	100	(115)
Other	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	3,100	2,568	2,568	3,150	2,462	2,461	2,461
(6) Provision for income taxes:								
Other	-	-	3,080	7,323	1,108	-	(1,071)	-
Non-GAAP Net income	\$ 154,950	\$ 130,857	\$ 71,078	\$ 39,402	\$ 29,005	\$ 54,507	\$ 9,331	\$ 92,156
Non-GAAP Operating income	\$ 155,186	\$ 129,002	\$ 67,160	\$ 30,832	\$ 26,573	\$ 52,577	\$ 3,959	\$ 80,357
GAAP Weighted average shares — diluted	519,907	522,112	527,167	516,368	504,831	508,590	508,794	514,314
Non-GAAP adjustment	12,905	10,688	7,993	16,574	13,674	9,978	12,465	12,139
Non-GAAP Weighted average shares — diluted	532,812	532,800	535,160	532,942	518,505	518,568	521,259	526,453

Source: Marvell

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