

Marvell Technology Group Ltd

First Quarter of Fiscal Year 2020

May 30, 2019

Forward-Looking Statements under the Private Securities Litigation Reform Act of 1995

This press release contains forward-looking statements within the meaning of the federal securities laws that involve risks and uncertainties. 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: the risk that the proposed acquisitions of Aquantia, Corp. and the Application Specific Integrated Circuit (ASIC) business of GLOBALFOUNDRIES and the divestiture of Marvell's Wi-Fi Connectivity business to NXP (collectively, the “Transactions”) will not be completed; the risk that the company may not realize the anticipated benefits of the Transactions; the effect of the consummation of the Transactions on the company's business relationships, operating results, and business generally; potential difficulties in employee retention as a result of the Transactions; the ability of Marvell to successfully integrate operations and product lines related to the acquisitions; the ability of Marvell to implement its plans, forecasts, and other expectations with respect to the Transactions and realize the anticipated synergies and cost savings in the time frame anticipated or at all; the risk of downturns in the highly cyclical semiconductor industry; Marvell's dependence upon the storage and networking markets, which are highly cyclical and intensely competitive; the outcome of pending or future litigation and legal and regulatory proceedings; Marvell's dependence on a small number of customers; severe financial hardship or bankruptcy of one or more of Marvell's major customers; Marvell's ability to define, design and develop products for the 5G market; Marvell's ability to market its 5G products to Tier 1 infrastructure customers; Marvell's ability and the ability of its customers to successfully compete in the markets in which it serves; Marvell's reliance on independent foundries and subcontractors for the manufacture, assembly and testing of its products; Marvell's ability and its customers' ability to develop new and enhanced products and the adoption of those products in the market; decreases in gross margin and results of operations in the future due to a number of factors; Marvell's ability to estimate customer demand and future sales accurately; Marvell's ability to scale its operations in response to changes in demand for existing or new products and services; the impact of international conflict and economic volatility in either domestic or foreign markets; the effects of transitioning to smaller geometry process technologies; the risks associated with manufacturing and selling products and customers' products outside of the United States; risks associated with acquisition and consolidation activity in the semiconductor industry; the impact of any change in the income tax laws in jurisdictions where Marvell operates and the loss of any beneficial tax treatment that Marvell currently enjoys; the effects of any other potential acquisitions, divestitures or investments; Marvell's ability to protect its intellectual property; the impact and costs associated with changes in international financial and regulatory conditions; Marvell's maintenance of an effective system of internal controls; 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-K for the fiscal year ended February 2, 2019 as filed with the SEC on March 28, 2019, 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.

Discussion of Non-GAAP Financial Measures

Non-GAAP financial measures exclude the effect of share-based compensation expense, amortization of the inventory fair value step up, amortization and write-off of acquired intangible assets, acquisition-related costs, restructuring and other related charges, litigation settlement, and certain expenses and benefits that are driven primarily by discrete events that management does not consider to be directly related to Marvell's core business.

Marvell uses a non-GAAP tax rate to compute the non-GAAP tax provision. This non-GAAP tax rate is based on Marvell's estimated annual GAAP income tax forecast, adjusted to account for items excluded from GAAP income in calculating Marvell's non-GAAP income, as well as the effects of significant non-recurring and period specific tax items which vary in size and frequency. Marvell's non-GAAP tax rate is determined on an annual basis and may be adjusted during the year to take into account events that may materially affect the non-GAAP tax rate such as tax law changes; significant changes in Marvell's geographic mix of revenue and expenses; or changes to Marvell's corporate structure. For the first quarter of fiscal 2020, a non-GAAP tax rate of 4.5% has been applied to the non-GAAP financial results.

Marvell believes that the presentation of non-GAAP financial measures provide important supplemental information to management and investors regarding financial and business trends relating to Marvell's financial condition and results of operations. While Marvell uses non-GAAP financial measures as a tool to enhance its understanding of certain aspects of its financial performance, Marvell does not consider these measures to be a substitute for, or superior to, financial measures calculated in accordance with GAAP. Consistent with this approach, Marvell believes that disclosing non-GAAP financial measures to the readers of its financial statements provides such readers with useful supplemental data that, while not a substitute for GAAP financial measures, allows for greater transparency in the review of its financial and operational performance.

Discussion of Non-GAAP Financial Measures (continued)

Externally, management believes that investors may find Marvell's non-GAAP financial measures useful in their assessment of Marvell's operating performance and the valuation of Marvell. Internally, Marvell's non-GAAP financial measures are used in the following areas:

- Management's evaluation of Marvell's operating performance;
- Management's establishment of internal operating budgets;
- Management's performance comparisons with internal forecasts and targeted business models; and
- Management's determination of the achievement and measurement of certain performance-based equity awards (adjustments may vary from award to award).

Non-GAAP financial measures have limitations in that they do not reflect all of the costs associated with the operations of Marvell's business as determined in accordance with GAAP. As a result, you should not consider these measures in isolation or as a substitute for analysis of Marvell's results as reported under GAAP. Marvell expects to continue to incur expenses similar to the non-GAAP adjustments described above, and exclusion of these items from Marvell's non-GAAP net income should not be construed as an inference that these costs are unusual, infrequent or non-recurring.

Marvell Technology Group Ltd.
Unaudited Condensed Consolidated Balance Sheets
(In thousands)

	July 29, 2017	October 28, 2017	February 3, 2018	May 5, 2018	August 4, 2018	November 3, 2018	February 2, 2019	May 4, 2019
Assets								
Current assets:								
Cash and cash equivalents	\$ 630,501	\$ 800,099	\$ 888,482	\$ 1,167,258	\$ 498,659	\$ 610,261	\$ 582,410	\$ 571,893
Short-term investments	943,006	931,976	952,790	712,053	25,000	—	—	—
Accounts receivable, net	371,697	366,114	280,395	329,650	443,276	453,775	493,122	470,347
Inventories	175,355	173,741	170,039	169,556	473,429	376,210	276,005	260,981
Prepaid expenses and other current assets	46,491	49,920	41,482	38,868	72,388	49,230	43,721	39,711
Assets held for sale	41,896	36,571	30,767	30,707	31,182	30,745	—	—
Total current assets	<u>2,208,946</u>	<u>2,358,421</u>	<u>2,363,955</u>	<u>2,448,092</u>	<u>1,543,934</u>	<u>1,520,221</u>	<u>1,395,258</u>	<u>1,342,932</u>
Property and equipment, net	235,354	198,173	202,222	213,656	327,645	313,113	318,978	326,599
Goodwill	1,993,310	1,993,310	1,993,310	1,993,310	5,497,608	5,499,145	5,494,505	5,494,505
Acquired intangible assets, net	1,433	358	—	—	2,718,061	2,639,370	2,560,682	2,480,942
Other non-current assets	148,407	131,942	148,800	209,261	275,598	260,176	247,329	403,240
Total assets	<u>\$ 4,587,450</u>	<u>\$ 4,682,204</u>	<u>\$ 4,708,287</u>	<u>\$ 4,864,319</u>	<u>\$ 10,362,846</u>	<u>\$ 10,232,025</u>	<u>\$ 10,016,752</u>	<u>\$ 10,048,218</u>
Liabilities and Shareholders' Equity								
Current liabilities:								
Accounts payable	\$ 153,862	\$ 166,096	\$ 145,236	\$ 157,043	\$ 196,297	\$ 209,562	\$ 185,362	\$ 191,249
Accrued liabilities	106,351	108,007	86,958	180,117	277,098	302,095	330,594	333,680
Accrued employee compensation	131,272	129,035	127,711	105,601	127,381	141,602	115,925	122,441
Deferred income	70,063	74,943	61,237	1,880	3,511	2,947	4,915	—
Liabilities held for sale	1,015	—	—	—	3,935	—	—	—
Total current liabilities	<u>462,563</u>	<u>478,081</u>	<u>421,142</u>	<u>444,641</u>	<u>608,222</u>	<u>656,206</u>	<u>636,796</u>	<u>647,370</u>
Long-term debt	—	—	—	—	1,878,617	1,805,734	1,732,699	1,684,281
Non-current income taxes payable	55,714	56,641	56,976	56,606	52,438	53,862	59,221	56,621
Deferred tax liabilities	52,593	51,129	52,204	52,292	114,312	108,016	246,252	250,137
Other non-current liabilities	42,483	35,404	36,552	25,269	44,191	32,928	35,374	179,677
Total liabilities	<u>613,353</u>	<u>621,255</u>	<u>566,874</u>	<u>578,808</u>	<u>2,697,780</u>	<u>2,656,746</u>	<u>2,710,342</u>	<u>2,818,086</u>
Shareholders' equity:								
Common stock	991	982	991	1,000	1,316	1,314	1,317	1,323
Additional paid-in-capital	2,752,541	2,669,775	2,733,292	2,744,478	6,153,890	6,157,283	6,188,598	6,200,231
Accumulated other comprehensive income (loss)	899	(192)	(2,322)	(2,404)	—	—	—	—
Retained earnings	1,219,666	1,390,384	1,409,452	1,542,437	1,509,860	1,416,682	1,116,495	1,028,578
Total shareholders' equity	<u>3,974,097</u>	<u>4,060,949</u>	<u>4,141,413</u>	<u>4,285,511</u>	<u>7,665,066</u>	<u>7,575,279</u>	<u>7,306,410</u>	<u>7,230,132</u>
Total liabilities and shareholders' equity	<u>\$ 4,587,450</u>	<u>\$ 4,682,204</u>	<u>\$ 4,708,287</u>	<u>\$ 4,864,319</u>	<u>\$ 10,362,846</u>	<u>\$ 10,232,025</u>	<u>\$ 10,016,752</u>	<u>\$ 10,048,218</u>
GAAP inventory turns	5.5	5.5	5.7	5.4	2.4	5.0	6.1	4.6
GAAP days in inventory	66	66	64	67	152	73	60	79

Marvell Technology Group Ltd.
Unaudited Consolidated Statements of Operations
(In thousands, except per share amounts)

	July 29, 2017	October 28, 2017	February 3, 2018	May 5, 2018	August 4, 2018	November 3, 2018	February 2, 2019	May 4, 2019
Net revenue	\$ 604,750	\$ 616,302	\$ 615,409	\$ 604,631	\$ 665,310	\$ 851,051	\$ 744,799	\$ 662,452
Cost of goods sold	239,572	238,533	241,927	228,938	288,200	467,464	422,797	301,024
Gross profit	<u>365,178</u>	<u>377,769</u>	<u>373,482</u>	<u>375,693</u>	<u>377,110</u>	<u>383,587</u>	<u>322,002</u>	<u>361,428</u>
Operating expenses:								
Research and development	180,871	165,477	180,000	176,734	216,285	264,888	256,102	266,867
Selling, general and administrative	55,659	59,112	68,291	72,313	133,701	112,178	106,168	110,005
Litigation settlement	—	—	74,385	—	—	—	—	—
Restructuring related charges (gain)	4,285	3,284	(3,205)	1,567	35,415	27,031	12,740	5,682
Total operating expenses	<u>240,815</u>	<u>227,873</u>	<u>319,471</u>	<u>250,614</u>	<u>385,401</u>	<u>404,097</u>	<u>375,010</u>	<u>382,554</u>
Operating income	124,363	149,896	54,011	125,079	(8,291)	(20,510)	(53,008)	(21,126)
Interest income	3,830	4,301	5,738	6,069	3,575	1,046	1,236	1,268
Interest expense	(80)	(262)	(292)	(244)	(15,795)	(22,370)	(21,953)	(21,203)
Other income (loss), net	3,438	2,161	(658)	1,471	(2,701)	(2,628)	4,377	(116)
Interest and other income (loss), net	<u>7,188</u>	<u>6,200</u>	<u>4,788</u>	<u>7,296</u>	<u>(14,921)</u>	<u>(23,952)</u>	<u>(16,340)</u>	<u>(20,051)</u>
Income before income taxes	131,551	156,096	58,799	132,375	(23,212)	(44,462)	(69,348)	(41,177)
Provision (benefit) for income taxes	(3,899)	6,759	10,036	3,763	(29,971)	9,305	191,350	7,273
Net income(loss)	135,450	149,337	48,763	128,612	6,759	(53,767)	(260,698)	(48,450)
Income (loss) from discontinued operations, net of tax	29,809	50,851	—	—	—	—	—	—
Net income (loss)	<u>\$ 165,259</u>	<u>\$ 200,188</u>	<u>\$ 48,763</u>	<u>\$ 128,612</u>	<u>\$ 6,759</u>	<u>\$ (53,767)</u>	<u>\$ (260,698)</u>	<u>\$ (48,450)</u>
Net income (loss) per share - Basic:								
Continuing operations	\$ 0.27	\$ 0.30	\$ 0.10	\$ 0.26	\$ 0.01	\$ (0.08)	\$ (0.40)	\$ (0.07)
Discontinued operations	\$ 0.06	\$ 0.11	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Net income (loss) per share - Basic	\$ 0.33	\$ 0.41	\$ 0.10	\$ 0.26	\$ 0.01	\$ (0.08)	\$ (0.40)	\$ (0.07)
Net income (loss) per share - Diluted:								
Continuing operations	\$ 0.26	\$ 0.30	\$ 0.10	\$ 0.25	\$ 0.01	\$ (0.08)	\$ (0.40)	\$ (0.07)
Discontinued operations	\$ 0.06	\$ 0.10	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Net income (loss) per share - Diluted	\$ 0.32	\$ 0.40	\$ 0.10	\$ 0.25	\$ 0.01	\$ (0.08)	\$ (0.40)	\$ (0.07)
Weighted average shares - Basic	500,817	494,096	493,663	497,335	552,238	657,519	657,835	658,963
Weighted average shares - Diluted	510,309	504,903	506,197	508,716	562,149	657,519	657,835	658,963

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	\$ 1,810	\$ 1,747	\$ 1,662	\$ 1,905	\$ 4,748	\$ 2,429	\$ 2,942	\$ 2,926
Research and development	12,371	12,713	13,053	14,285	26,859	34,960	32,658	39,477
Selling, general and administrative	7,186	6,179	6,662	7,662	41,816	12,851	14,980	16,195
Total share-based compensation	<u>\$ 21,367</u>	<u>\$ 20,639</u>	<u>\$ 21,377</u>	<u>\$ 23,852</u>	<u>\$ 73,423</u>	<u>\$ 50,240</u>	<u>\$ 50,580</u>	<u>\$ 58,598</u>

Marvell Technology Group Ltd.
Unaudited Condensed Consolidated Statements of Cash Flows
(In thousands)

	July 29, 2017	October 28, 2017	February 3, 2018	May 5, 2018	August 4, 2018	November 3, 2018	February 2, 2019	May 4, 2019
Purchases of time deposits	(75,000)	(75,000)	(75,000)	(25,000)	—	—	—	—
Maturities of time deposits	75,000	75,000	75,000	75,000	75,000	25,000	—	—
Purchases of technology licenses	(608)	(3,555)	(1,331)	(360)	(903)	(9,918)	(359)	(1,484)
Purchases of property and equipment	(4,803)	(10,613)	(13,395)	(13,588)	(20,801)	(12,646)	(28,886)	(19,183)
Proceeds from sales of property and equipment	1,054	249	10,571	—	212	595	42,707	—
Cash payment for acquisition of Cavium, net of cash and cash equivalents acquired	—	—	—	—	(2,649,465)	—	—	—
Net proceeds from sale of discontinued operations	41,976	93,735	—	—	—	—	—	—
Net proceeds (payments) from sale of business	—	2,402	—	—	1,250	(4,602)	—	—
Other	2,388	3,701	—	(4,989)	—	—	2,275	(342)
Net cash provided by (used in) investing activities	<u>(12,491)</u>	<u>92,801</u>	<u>(23,452)</u>	<u>216,699</u>	<u>(1,983,418)</u>	<u>(1,571)</u>	<u>15,737</u>	<u>(21,009)</u>
Cash flows from financing activities:								
Repurchases of common stock	(221,265)	(140,017)	—	—	—	(53,969)	(50,005)	(48,022)
Proceeds from employee stock plans	77,872	39,614	42,878	11,055	33,525	16,192	40,189	31,084
Tax withholding paid on behalf of employees for net share settlement	(3,005)	(1,120)	(905)	(23,893)	(12,883)	(8,915)	(9,248)	(28,758)
Dividend payment to shareholders	(30,095)	(29,470)	(29,695)	(29,798)	(39,383)	(39,411)	(39,489)	(39,467)
Payments on technology license obligations	(7,481)	(8,401)	(5,806)	(20,461)	(9,017)	(23,003)	(16,676)	(15,268)
Excess tax benefits from share-based compensation	—	—	—	—	—	—	—	—
Proceeds from issuance of debt	—	—	—	—	1,892,605	—	—	—
Principal payments of debt	—	—	—	—	(606,128)	(75,000)	(75,000)	(50,000)
Payment of equity and debt financing costs	—	—	(14,378)	(3,600)	(5,835)	(2,115)	—	—
Other	—	—	—	—	—	—	—	(4,893)
Net cash provided by (used in) financing activities	<u>(183,974)</u>	<u>(139,394)</u>	<u>(7,906)</u>	<u>(66,697)</u>	<u>1,252,884</u>	<u>(186,221)</u>	<u>(150,229)</u>	<u>(155,324)</u>
Net increase (decrease) in cash and cash equivalents	(95,461)	169,598	88,383	278,776	(668,599)	111,602	(27,851)	(10,517)
Cash and cash equivalents at beginning of period	725,962	630,501	800,099	888,482	1,167,258	498,659	610,261	582,410
Cash and cash equivalents at end of period	<u>\$ 630,501</u>	<u>\$ 800,099</u>	<u>\$ 888,482</u>	<u>\$ 1,167,258</u>	<u>\$ 498,659</u>	<u>\$ 610,261</u>	<u>\$ 582,410</u>	<u>\$ 571,893</u>

Marvell Technology Group Ltd.
Unaudited Reconciliations from GAAP to Non-GAAP
(In thousands, except per share amounts)

	July 29, 2017	October 28, 2017	February 3, 2018	May 5, 2018	August 4, 2018	November 3, 2018	February 2, 2019	May 4, 2019
GAAP Net income (loss)	\$ 165,259	\$ 200,188	\$ 48,763	\$ 128,612	\$ 6,759	\$ (53,767)	\$ (260,698)	\$ (48,450)
Less: Income from discontinued operations	29,809	50,851	—	—	—	—	—	—
GAAP Net income (loss) from continuing operations	135,450	149,337	48,763	128,612	6,759	(53,767)	(260,698)	(48,450)
(1) Cost of goods sold								
Share-based compensation	1,810	1,747	1,662	1,905	4,748	2,429	2,942	2,926
Amortization of acquired intangible assets	—	—	—	—	18,984	57,594	57,591	59,906
Other costs of goods sold	3,000	—	8,000	—	22,933	105,841	97,598	450
(2) Research and development:								
Share-based compensation	12,371	12,713	13,053	14,285	26,859	34,960	32,658	39,477
Other operating expenses	1,790	(268)	—	—	301	455	220	12
(3) Selling, general and administrative:								
Share-based compensation	7,186	6,179	6,662	7,662	41,816	12,851	14,980	16,195
Amortization of acquired intangible assets	1,065	1,076	358	—	6,955	21,098	21,097	19,834
Other operating expenses	(103)	388	10,579	15,252	27,928	10,767	7,172	6,557
(4) Restructuring and other exit related costs in Operating Expense	4,285	3,284	(3,205)	1,567	35,415	27,031	12,740	5,682
(5) Luna settlement and related charges in Operating Expense	—	—	74,385	—	—	—	—	—
(6) Interest and other (income) loss, net								
Restructuring related items	(3,085)	(2,286)	1,355	(1,512)	(121)	1,491	157	(338)
Write-off of debt issuance costs	—	—	—	—	6,104	850	782	458
Gain on sale of intellectual property	—	—	—	—	—	—	(3,500)	—
(7) Provision for income taxes:								
Tax-related adjustments	(10,298)	(398)	3,170	(3,098)	(36,720)	55	184,348	2,324
Non-GAAP Net income from continuing operations	\$ 153,471	\$ 171,772	\$ 164,782	\$ 164,673	\$ 161,961	\$ 221,655	\$ 168,087	\$ 105,033
Non-GAAP Operating income	\$ 155,767	\$ 175,015	\$ 165,505	\$ 165,750	\$ 177,648	\$ 252,516	\$ 193,990	\$ 129,913

Quarterly Revenue Trend

(in thousands)

	Q2 2018 Jul 29, 2017	Q3 2018 Oct 28, 2017	Q4 2018 Feb 03, 2018	Q1 2019 May 05, 2018	Q2 2019 Aug 04, 2018	Q3 2019 Nov 03, 2018	Q4 2019 Feb 02, 2019	Q1 2020 May 04, 2019
Storage ¹	\$ 311,501	\$ 315,338	\$ 323,718	\$ 317,069	\$ 335,764	\$ 406,822	\$ 317,042	\$ 278,667
Networking ²	245,821	253,159	241,611	244,228	283,330	398,424	387,457	341,344
Core	557,322	568,497	565,329	561,297	619,094	805,246	704,499	620,011
Other ³	47,428	47,805	50,080	43,334	46,216	45,805	40,300	42,441
Total	\$ 604,750	\$ 616,302	\$ 615,409	\$ 604,631	\$ 665,310	\$ 851,051	\$ 744,799	\$ 662,452

% of Total	Q2 2018 Jul 29, 2017	Q3 2018 Oct 28, 2017	Q4 2018 Feb 03, 2018	Q1 2019 May 05, 2018	Q2 2019 Aug 04, 2018	Q3 2019 Nov 03, 2018	Q4 2019 Feb 02, 2019	Q1 2020 May 04, 2019
Storage ¹	52%	51%	53%	52%	50%	48%	43%	42%
Networking ²	41%	41%	39%	40%	43%	47%	52%	52%
Core	93%	92%	92%	92%	93%	95%	95%	94%
Other ³	7%	8%	8%	8%	7%	5%	5%	6%
Total	100%	100%	100%	100%	100%	100%	100%	100%

(1) Storage products are comprised primarily of HDD and SSD Controllers, Fibre Channel Adapters, and Data Center Storage Solutions.

(2) Networking products are comprised primarily of Ethernet Switches, Ethernet Transceivers, Ethernet NICs, Embedded Communications and Infrastructure Processors, Automotive Ethernet, Security Adapters and Processors as well as WiFi solutions including WiFi only, WiFi/Bluetooth combos and WiFi Microcontroller combos. In addition, this grouping includes a few legacy product lines in which we no longer invest, but will generate revenue for several years.

(3) Other products are comprised primarily of Printer Solutions, Application Processors, and others.