

# Marvell Technology Group

Investor Relations

FQ4' 2014 Earnings Update



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# Safe Harbor: Forward-Looking Statements

All statements included in these slides, other than statements or characterizations of historical fact, are forward-looking statements within the meaning of the federal securities laws, including the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, guidance regarding our future financial outlook including revenue, gross margin, R&D expense, SG&A expense, other income/expense, tax expense and EPS for the first quarter of fiscal 2015; payment and timing of a quarterly dividend; and expectations in each of the end markets we serve (Mobile & Wireless; Storage; and Networking). These forward-looking statements are not guarantees of results and should not be considered as an indication of future performance. Actual events or results may differ materially from those described in these slides due to a number risk and uncertainties including, among others, our reliance on a few customers for a significant portion of our revenue; costs and liabilities relating to current and future litigation; our 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 our products are incorporated; our ability to compete in products and prices in an intensely competitive industry; uncertainty in the worldwide economic conditions; our ability to recruit and retain skilled personnel; our ability to generate cash flows; and other risks detailed in our SEC filings from time to time. For other factors that could cause our results to vary from expectations, we refer you to our Form 10-Q for the quarter ended November 2, 2013 and subsequent filings with the SEC, which discuss some of the important risk factors that could contribute to such differences or otherwise affect our business, results of operations and financial condition. We undertake no obligation to revise or update publicly any forward-looking statement to reflect future events or circumstances, including the financial outlook for the first quarter of fiscal 2015 contained herein.

The payment of future quarterly cash dividends on Marvell's common shares is subject to, among other things, the best interests of our shareholders, our results of operations, cash balances and future cash requirements, financial condition, statutory requirements of Bermuda law, and other factors that our board of directors may deem relevant.

The financial outlook contained herein does not include the potential impact of future share repurchases, pending litigation matters, business combinations, asset acquisitions or other investments that may be completed after February 20, 2014. Our financial outlook for the first quarter of fiscal 2015 is based on expectations, assumptions and estimates that we believe are reasonable, and is subject to a wide range of business risks and uncertainties, many of which are beyond our control. The financial outlook contained herein should not be regarded as representations by us that the estimated results will be achieved or are indicative of future results.

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# 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, amortization and write-off of acquired intangible assets, acquisition-related costs, restructuring and other exit related costs, and certain one-time expenses or benefits. We believe that the presentation of non-GAAP financial measures provide 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).

# FQ4' 2014 Financial Results

# Key Highlights from FQ4' 2014 Results

## Revenue

- Revenue of \$932M, approximately flat from FQ3
- Better than expected demand in Storage and Networking
- Customer product launch delays in Mobile
- Seasonal decline in Wireless connectivity

## Non-GAAP EPS & Profitability

- EPS (diluted): \$0.29
- Gross margin: 50%
- Operating margin: 16%
- FCF margin: 9%

## Shareholder Capital Returns

- Quarterly payment of \$30 million in dividends or 6 cents per share

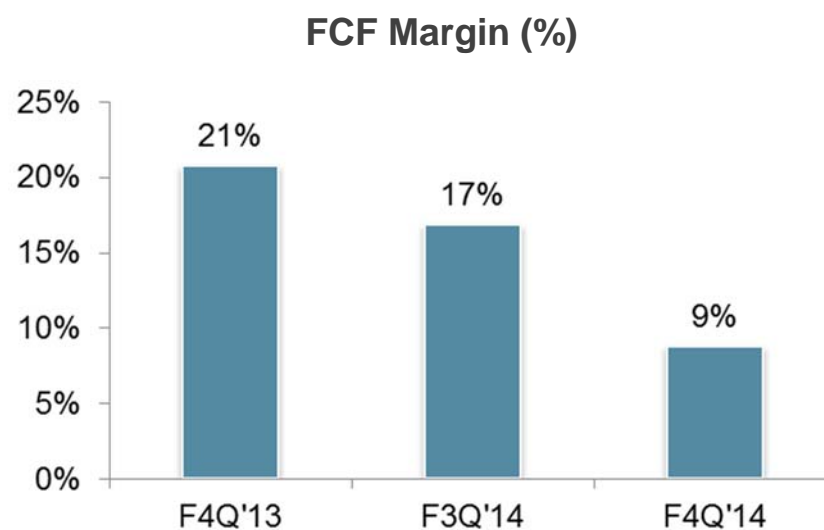
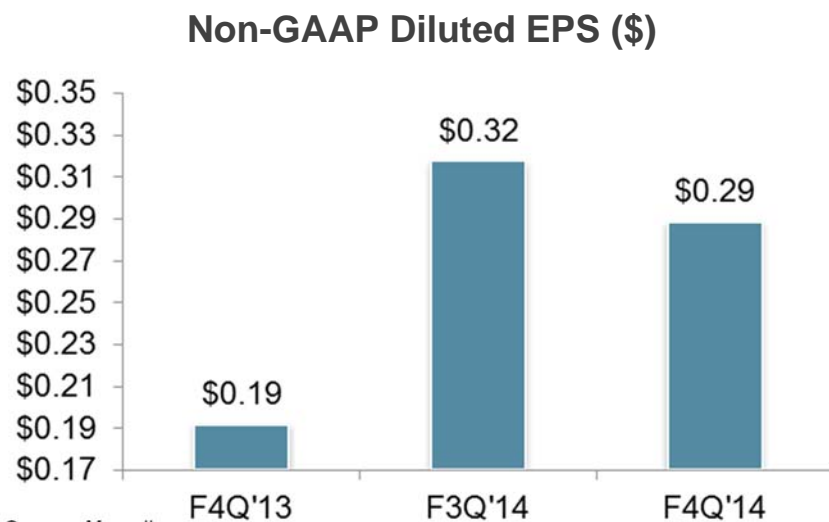
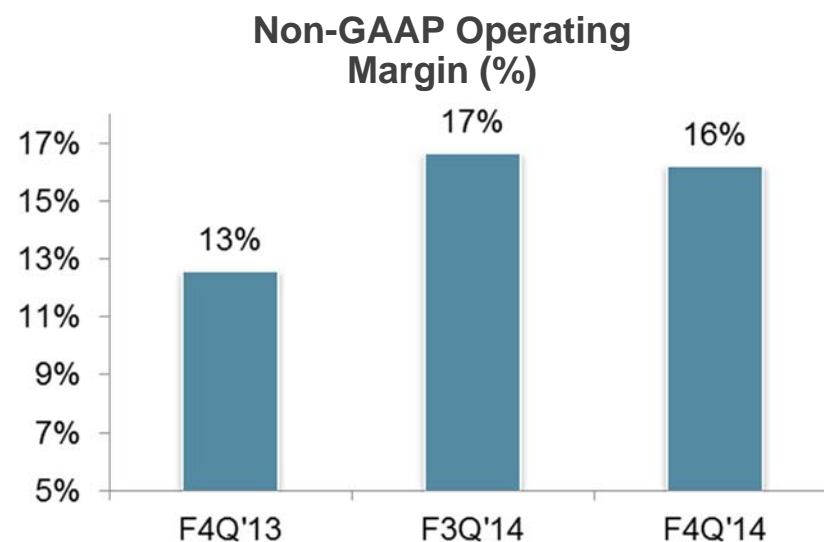
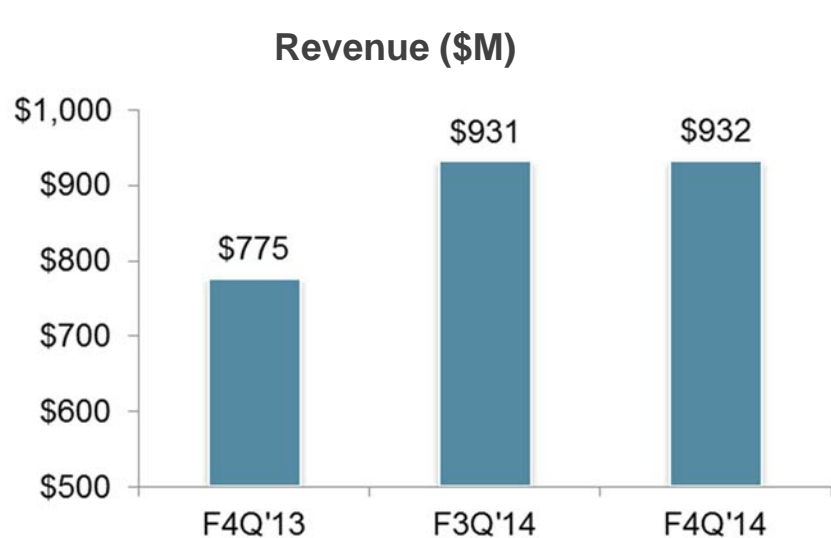
Source: Marvell

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# FQ4' 2014 Financial Summary



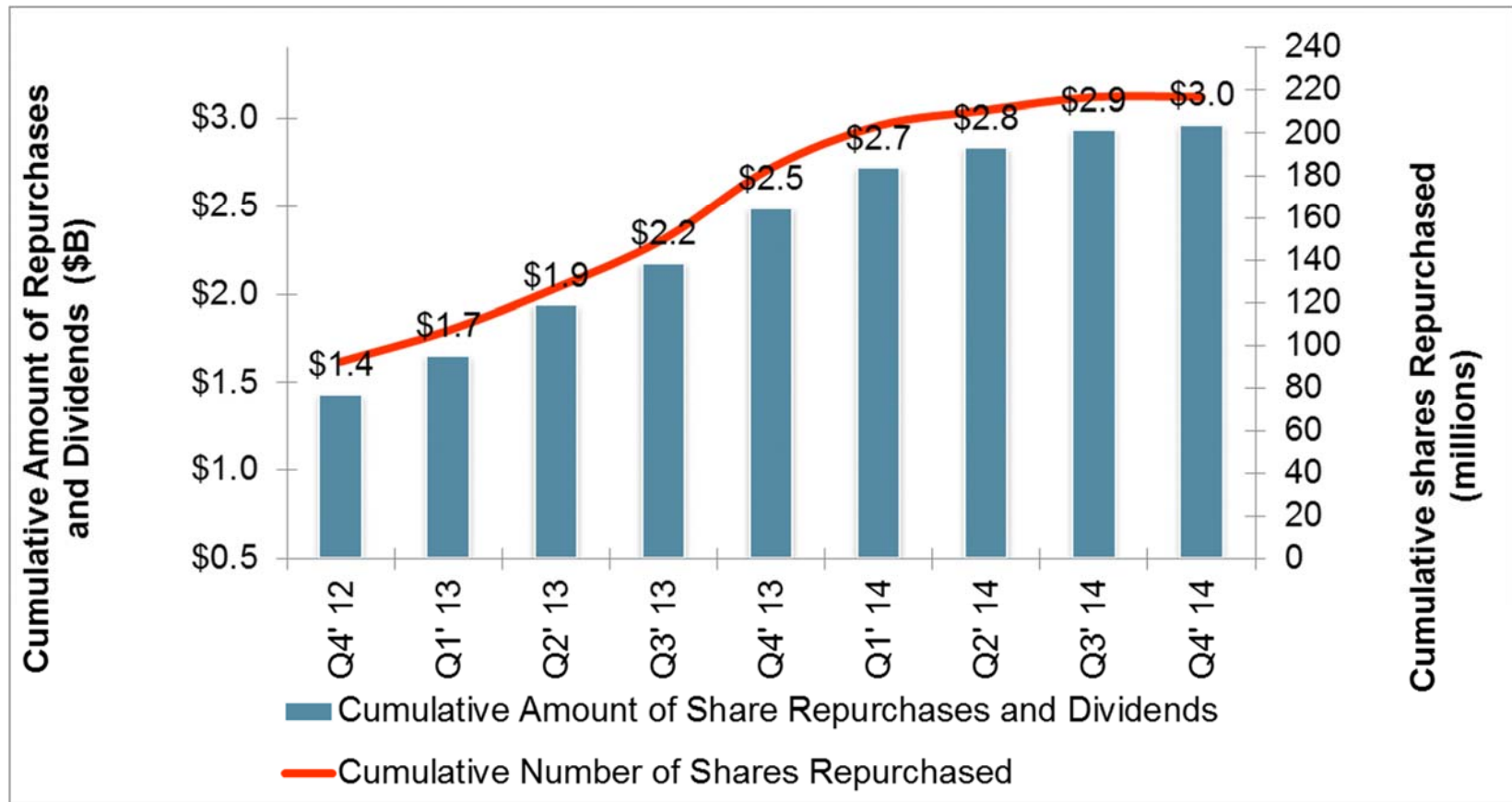
Source: Marvell

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# Return of Capital



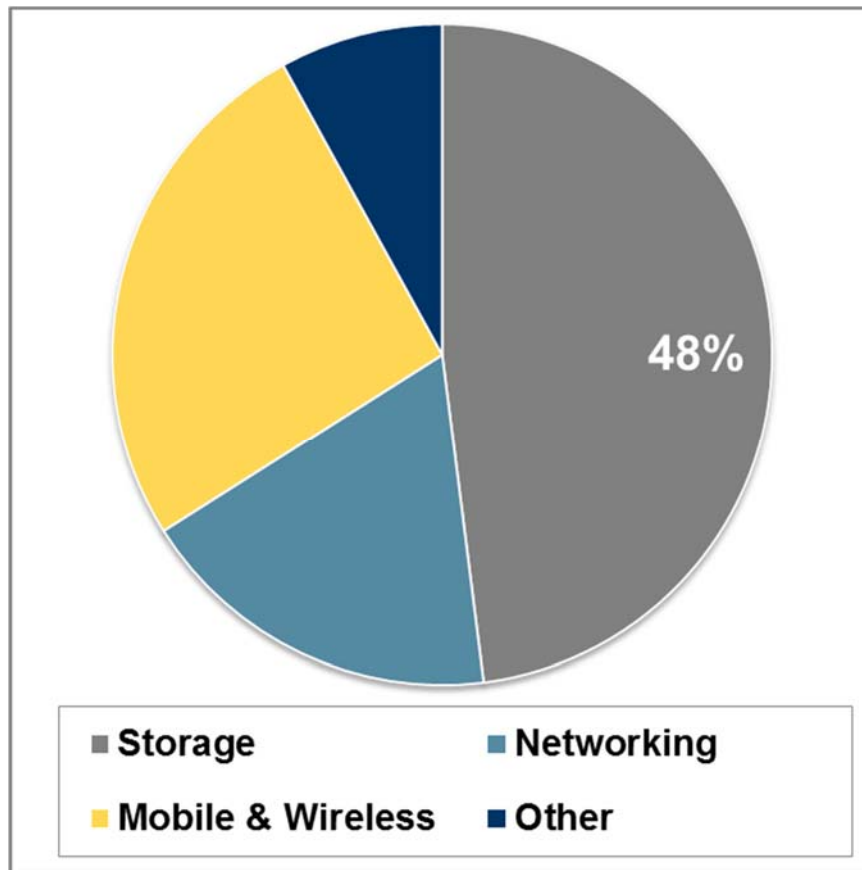
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# End Markets: Storage



## FQ4 Highlights

- 48% of overall revenue
- Overall Storage growth of +3% q/q and +15% y/y
- Better than expected demand from HDD customers before Chinese New Year
- Continued share gains in HDDs within enterprise
- Better than expected demand for SSDs from multiple Tier 1 OEMs

## FQ1 Expectations

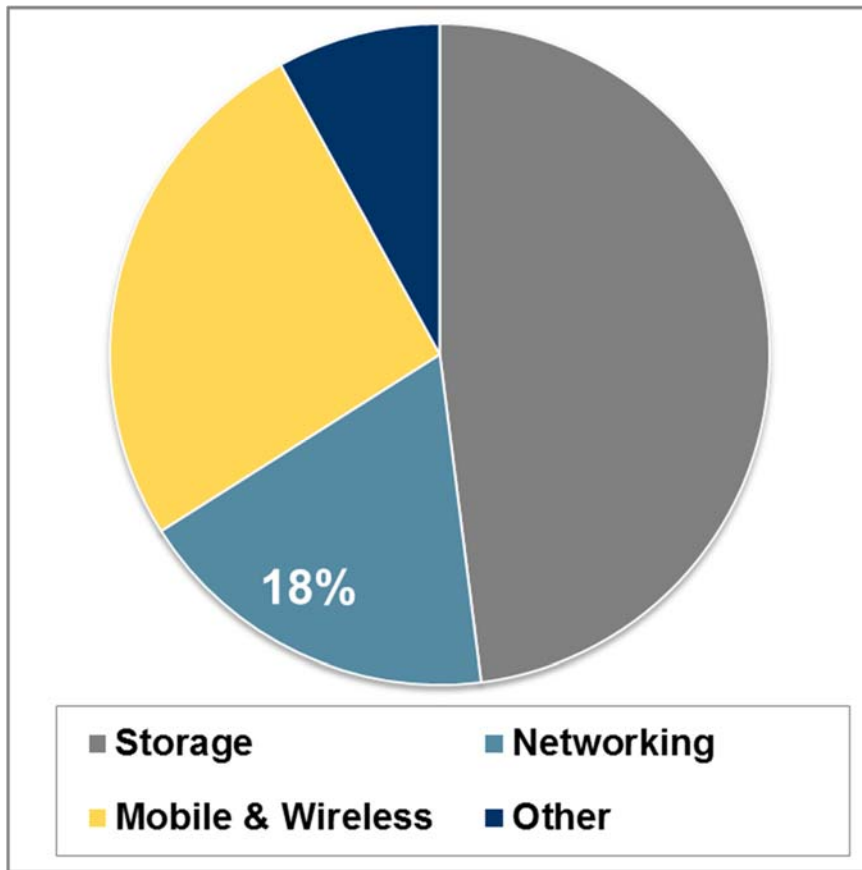
- Seasonal revenue decline of mid- to high-single digit percentage sequentially

Source: Marvell

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# End Markets: Networking



## FQ4 Highlights

- 18% of overall revenue
- Overall Networking growth of +5% q/q and a decline of -5% y/y
- Growth driven by enterprise and service provider customers
- Double digit sequential growth for Xelerated NPU products
- Strong growth for Armada SoC products for the NAS market

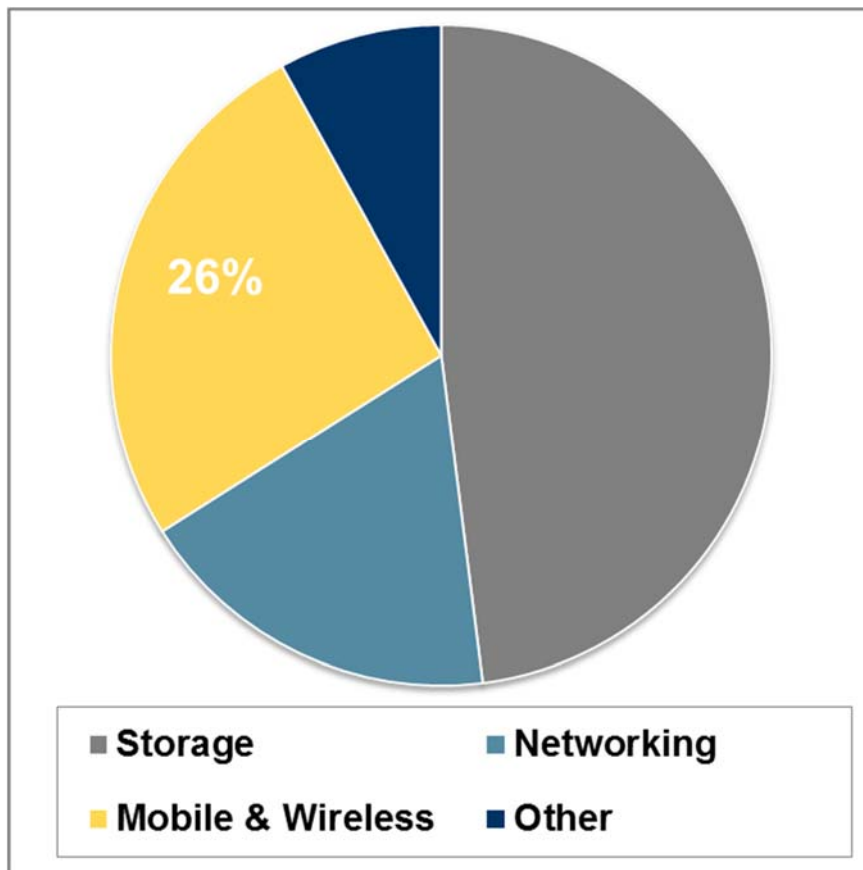
## FQ1 Expectations

- Revenue of flat relative to prior quarter

Source: Marvell

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# End Markets: Mobile & Wireless



Source: Marvell

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## FQ4 Highlights

- 26% of overall revenue
- Overall Mobile and Wireless decline of -14% q/q and an increase of +39% y/y
- 3G platforms in full volume production at multiple customers
- Product launch delays from mobile customers in Q4
- Doubled LTE revenue in Q4
- AT&T LTE certification complete
- Seasonal decline in Wireless connectivity

## FQ1 Expectations

- Revenue decline of low-single digit percentage sequentially
- Seasonal decline in non-mobile connectivity offsetting growth in mobile
- Strong growth in LTE revenue and shipments

# FQ1' 2015 Financial Outlook

# FQ1' 2015 Outlook

	FQ1' 2015 Outlook
Revenue	\$870 to \$910 million
Non-GAAP Gross Margin	50% +/- 100 bps
Non-GAAP Operating Expense	\$330 million +/- \$10 million
Non-GAAP R&D Expense	\$270 million
Non-GAAP SG&A Expense	\$60 million
Other Income / (Expense)	\$1 million
Tax Expense	\$1 million
Non-GAAP EPS (diluted)	\$0.22 +/- \$0.02
GAAP EPS (diluted)	\$0.14 +/- \$0.02

Source: Marvell

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# Financial Statements

# Unaudited Statement of Operations

## (In thousands, except per share amounts)

	Q1'13	Q2'13	Q3'13	Q4'13	Q1'14	Q2'14	Q3'14	Q4'14
Net revenue	\$ 796,351	\$ 816,104	\$ 780,881	\$ 775,294	\$ 734,369	\$ 807,056	\$ 931,226	\$ 931,749
Cost of goods sold	366,322	381,839	374,503	370,833	335,438	386,059	464,981	467,752
Gross profit	430,029	434,265	406,378	404,461	398,931	420,997	466,245	463,997
Operating expenses:								
Research and development	255,970	264,175	263,615	273,685	279,052	292,642	296,291	288,900
Selling and marketing	40,066	41,034	38,398	42,319	39,989	38,548	37,496	36,665
General and administrative	25,705	25,718	24,514	32,577	26,323	27,192	26,589	26,367
Amortization and write-off of acquired intangible assets	14,355	13,023	13,054	12,268	10,686	10,638	10,645	11,956
Total operating expenses	336,096	343,950	339,581	360,849	356,050	369,020	371,021	363,888
Operating income	93,933	90,315	66,797	43,612	42,881	51,977	95,224	100,109
Interest and other income, net	1,057	5,864	2,387	6,225	3,160	8,253	1,536	12,617
Income before income taxes	94,990	96,179	69,184	49,837	46,041	60,230	96,760	112,726
Provision (benefit) for income taxes	447	3,105	368	(315)	(7,168)	(1,596)	(6,396)	6,097
Net income	\$ 94,543	\$ 93,074	\$ 68,816	\$ 50,152	\$ 53,209	\$ 61,826	\$ 103,156	\$ 106,629
Net income per share - basic	0.16	0.17	0.12	0.10	0.11	0.13	0.21	0.21
Net income per share - diluted	0.16	0.16	0.12	0.09	0.11	0.12	0.21	0.21
Weighted average shares — basic	580,024	562,362	553,049	525,804	502,180	494,293	491,979	497,620
Weighted average shares — diluted	594,739	570,325	559,348	528,082	505,387	500,625	501,189	510,449

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	2,123	1,775	1,944	2,300	1,867	1,868	2,531	2,597
Research and development	17,174	22,413	22,565	24,997	23,279	28,982	30,084	27,087
Selling and marketing	3,036	3,458	3,101	3,683	3,392	3,648	3,738	3,162
General and administrative	4,859	5,582	2,764	5,506	4,975	6,593	6,848	5,222

Source: Marvell

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# Unaudited Statement of Cash Flows

## (In thousands)

	<u>Q1'13</u>	<u>Q2'13</u>	<u>Q3'13</u>	<u>Q4'13</u>	<u>Q1'14</u>	<u>Q2'14</u>	<u>Q3'14</u>	<u>Q4'14</u>
<b>Cash flows from operating activities:</b>								
Net income	\$ 94,543	\$ 93,074	\$ 68,816	\$ 50,152	\$ 53,209	\$ 61,826	\$ 103,156	\$ 106,629
Adjustments to reconcile net income to net cash provided by operating activities:								
Depreciation and amortization	21,199	21,285	22,317	26,227	24,966	25,697	25,913	26,029
Share-based compensation	27,192	33,228	30,374	36,486	33,513	41,091	43,201	38,068
Amortization and write-off of acquired intangible assets	14,355	13,023	13,054	12,268	10,686	10,638	10,645	12,184
Other expense, net	2,903	2,272	1,260	957	2,523	1,816	1,655	2,184
Gain from sale of a product line	-	-	-	-	-	-	-	(6,975)
Excess tax benefits from share-based compensation	(41)	(3)	(5)	(9)	(7)	(25)	(10)	22
Changes in assets and liabilities:								
Accounts receivable	(10,119)	26,610	16,002	44,532	(40,112)	(60,524)	(35,855)	13,233
Inventories	201	7,832	21,601	73,468	(20,123)	(64,170)	(45,157)	32,262
Prepaid expenses and other assets	4,242	11,393	358	(15,861)	6,802	12,503	(4,293)	8,365
Accounts payable	21,249	6,288	(54,674)	2,833	28,936	54,933	44,442	(88,520)
Accrued liabilities and other non-current liabilities	18,143	(4,204)	(3,653)	(2,272)	(20,081)	(13,013)	12,584	1,383
Accrued employee compensation	(648)	(24,033)	29,509	(24,878)	4,423	(471)	10,013	(19,752)
Deferred income	5,454	2,427	(8,382)	692	(880)	16,195	10,905	(24,623)
Net cash provided by operating activities	<u>198,673</u>	<u>189,192</u>	<u>136,577</u>	<u>204,595</u>	<u>83,855</u>	<u>86,496</u>	<u>177,199</u>	<u>100,489</u>
<b>Cash flows from investing activities:</b>								
Purchases of available-for-sale securities	(421,652)	(225,255)	(558,457)	(338,538)	(306,838)	(164,631)	(220,280)	(146,143)
Sales and maturities of available-for-sale securities	558,777	322,532	436,435	517,911	335,771	162,909	346,826	149,533
Net proceeds from sale of a product line	-	-	-	-	-	-	-	6,306
Investments in privately-held-companies	(5,000)	(750)	-	(3,000)	-	(750)	(1,119)	-
Cash paid for acquisitions, net	-	-	(1,000)	-	(2,551)	-	-	-
Purchases of technology licenses	(2,045)	(4,407)	(4,235)	(24,315)	(5,860)	(1,750)	(6,383)	(3,654)
Purchases of property and equipment	(18,904)	(10,830)	(19,356)	(19,096)	(20,080)	(18,981)	(14,222)	(13,310)
Net cash (used in) provided by investing activities	<u>111,176</u>	<u>81,290</u>	<u>(146,613)</u>	<u>132,962</u>	<u>442</u>	<u>(23,203)</u>	<u>104,822</u>	<u>(7,268)</u>
<b>Cash flows from financing activities:</b>								
Repurchase of common stock	(223,157)	(250,327)	(202,987)	(260,464)	(216,694)	(88,114)	(71,477)	-
Proceeds from employee stock plans	17,803	39,526	8,915	38,692	19,805	53,316	24,155	107,686
Minimum tax withholding paid on behalf of employees for net share settlement	(8,879)	(598)	(345)	(277)	(9,378)	(510)	(518)	(466)
Dividend payment to shareholders	-	(33,537)	(33,476)	(31,748)	(30,253)	(29,791)	(29,516)	(29,889)
Payments on technology license obligations	-	-	-	-	(5,317)	(984)	-	(1,110)
Excess tax benefits from share-based compensation	41	3	5	9	7	25	10	(22)
Net cash (used in) provided by financing activities	<u>(214,192)</u>	<u>(244,933)</u>	<u>(227,888)</u>	<u>(253,788)</u>	<u>(241,830)</u>	<u>(66,058)</u>	<u>(77,346)</u>	<u>76,199</u>
Net increase (decrease) in cash and cash equivalents	95,657	25,549	(237,924)	83,769	(157,533)	(2,765)	204,675	169,420
Cash and cash equivalents at beginning of period	<u>784,902</u>	<u>880,559</u>	<u>906,108</u>	<u>668,184</u>	<u>751,953</u>	<u>594,420</u>	<u>591,655</u>	<u>796,330</u>
Cash and cash equivalents at end of period	<u>\$ 880,559</u>	<u>\$ 906,108</u>	<u>\$ 668,184</u>	<u>\$ 751,953</u>	<u>\$ 594,420</u>	<u>\$ 591,655</u>	<u>\$ 796,330</u>	<u>\$ 965,750</u>

# Unaudited Balance Sheet

## (In thousands)

	Q1'13	Q2'13	Q3'13	Q4'13	Q1'14	Q2'14	Q3'14	Q4'14
<b>Assets</b>								
Current assets:								
Cash, cash equivalents, and short-term investments	\$ 2,202,681	\$ 2,134,193	\$ 2,016,799	\$ 1,918,990	\$ 1,732,643	\$ 1,726,198	\$ 1,804,068	\$ 1,969,405
Accounts receivable, net	417,382	390,772	374,770	330,238	370,350	430,874	466,729	453,496
Inventories	353,387	345,712	323,997	250,420	270,652	335,320	380,412	347,861
Prepaid expenses and other current assets	68,176	58,904	62,264	85,698	79,269	66,238	66,450	68,458
Total current assets	3,041,626	2,929,581	2,777,830	2,585,346	2,452,914	2,558,630	2,717,659	2,839,220
Property and equipment, net	368,077	366,935	362,297	372,971	370,634	363,486	358,150	356,165
Long-term investments	23,215	18,103	18,103	16,769	16,550	16,299	16,158	16,279
Goodwill and acquired intangible assets, net	2,159,141	2,146,118	2,134,061	2,121,793	2,114,893	2,104,255	2,093,610	2,078,980
Other non-current assets	126,466	123,815	133,663	164,885	166,176	161,574	162,379	160,366
Total assets	<u>\$ 5,718,525</u>	<u>\$ 5,584,552</u>	<u>\$ 5,425,954</u>	<u>\$ 5,261,764</u>	<u>\$ 5,121,167</u>	<u>\$ 5,204,244</u>	<u>\$ 5,347,956</u>	<u>\$ 5,451,010</u>
<b>Liabilities and Shareholders' Equity</b>								
Current liabilities:								
Accounts payable	\$ 323,392	\$ 335,100	\$ 291,366	\$ 286,552	\$ 307,393	\$ 355,164	\$ 400,403	\$ 316,389
Accrued liabilities	244,739	223,508	249,645	261,186	246,432	242,953	270,199	263,670
Deferred income	65,413	67,840	59,458	60,150	59,270	75,465	86,370	61,747
Total current liabilities	633,544	626,448	600,469	607,888	613,095	673,582	756,972	641,806
Other non-current liabilities	162,451	154,990	149,191	169,281	155,631	138,152	127,765	123,794
Total liabilities	795,995	781,438	749,660	777,169	768,726	811,734	884,737	765,600
Shareholders' equity:								
Common stock	3,496,707	3,318,693	3,154,536	2,946,660	2,790,522	2,802,304	2,797,744	2,942,655
Accumulated other comprehensive income (loss)	2,317	1,378	3,375	1,148	2,176	(1,572)	57	597
Retained earnings	1,423,506	1,483,043	1,518,383	1,536,787	1,559,743	1,591,778	1,665,418	1,742,158
Total shareholders' equity	4,922,530	4,803,114	4,676,294	4,484,595	4,352,441	4,392,510	4,463,219	4,685,410
Total liabilities and shareholders' equity	<u>\$ 5,718,525</u>	<u>\$ 5,584,552</u>	<u>\$ 5,425,954</u>	<u>\$ 5,261,764</u>	<u>\$ 5,121,167</u>	<u>\$ 5,204,244</u>	<u>\$ 5,347,956</u>	<u>\$ 5,451,010</u>

Source: Marvell

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

	<u>Q1'13</u>	<u>Q2'13</u>	<u>Q3'13</u>	<u>Q4'13</u>	<u>Q1'14</u>	<u>Q2'14</u>	<u>Q3'14</u>	<u>Q4'14</u>
GAAP Net income	\$ 94,543	\$ 93,074	\$ 68,816	\$ 50,152	\$ 53,209	\$ 61,826	\$ 103,156	\$ 106,629
(1) Cost of goods sold								
Share-based compensation	2,123	1,775	1,944	2,300	1,867	1,868	2,531	2,597
Acquisition related costs	1,929	1,054	-	-	-	-	-	-
Amortization of acquired intangible assets	-	-	-	-	-	-	-	228
Legal/Tax related matters	-	-	-	5,698	-	4,728	-	-
(2) Research and development:								
Share-based compensation	17,174	22,413	22,565	24,997	23,279	28,982	30,084	27,087
Acquisition related costs	442	466	458	262	400	(1,135)	414	116
Restructuring and other exit related	2	42	2	1	-	-	4,613	829
Legal/Tax related matters	-	-	-	(690)	-	-	-	-
(3) Selling and marketing:								
Share-based compensation	3,036	3,458	3,101	3,683	3,392	3,648	3,738	3,162
Acquisition related costs	46	50	57	14	45	34	-	-
Restructuring and other exit related	(7)	7	(3)	-	-	-	795	-
(4) General and administrative:								
Share-based compensation	4,859	5,582	2,764	5,506	4,975	6,593	6,848	5,222
Acquisition related costs	39	7	8	19	20	20	19	5
Restructuring and other exit related	120	810	130	153	228	178	527	118
Legal/Tax related matters	-	250	-	-	-	500	-	-
(5) Other operating costs and expenses:								
Amortization and write-off of acquired intangible assets	14,355	13,023	13,054	12,268	10,686	10,638	10,645	11,956
(6) Gain from sale of a product line:	-	-	-	-	-	-	-	(6,975)
<b>Non-GAAP Net income</b>	<b><u>\$ 138,661</u></b>	<b><u>\$ 142,011</u></b>	<b><u>\$ 112,896</u></b>	<b><u>\$ 104,363</u></b>	<b><u>\$ 98,101</u></b>	<b><u>\$ 117,880</u></b>	<b><u>\$ 163,370</u></b>	<b><u>\$ 150,974</u></b>
<b>Non-GAAP Operating income</b>	<b><u>\$ 138,051</u></b>	<b><u>\$ 139,252</u></b>	<b><u>\$ 110,877</u></b>	<b><u>\$ 97,823</u></b>	<b><u>\$ 87,773</u></b>	<b><u>\$ 108,031</u></b>	<b><u>\$ 155,438</u></b>	<b><u>\$ 151,429</u></b>
GAAP Weighted average shares — diluted	594,739	570,325	559,348	528,082	505,387	500,625	501,189	510,449
Non-GAAP adjustment	10,814	16,302	18,452	16,196	17,094	15,021	13,014	12,932
<b>Non-GAAP Weighted average shares — diluted</b>	<b><u>605,553</u></b>	<b><u>586,627</u></b>	<b><u>577,800</u></b>	<b><u>544,278</u></b>	<b><u>522,481</u></b>	<b><u>515,646</u></b>	<b><u>514,203</u></b>	<b><u>523,381</u></b>

Source: Marvell

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