Marvell Technology Group Ltd

Third Quarter of Fiscal Year 2020
December 3, 2019

Discussion of Non-GAAP Financial Measures

Non-GAAP financial measures exclude the effect of share-based compensation expense, amortization of the inventory fair value adjustment associated with the Aquantia acquisition, amortization of acquired intangible assets, acquisition and divestiture-related costs, restructuring and other related charges, resolution of legal matters, 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 third 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)

	February 3, 2018	May 5, 2018	August 4, 2018	November 3, 2018	February 2, 2019	May 4, 2019	August 3, 2019	November 2, 2019
Assets								
Current assets:								
Cash and cash equivalents	$ 888,482	$ 1,167,258	$ 498,659	$ 610,261	$ 582,410	$ 571,893	$ 573,496	$ 438,369
Short-term investments	952,790	712,053	25,000	—	—	—	—	—
Accounts receivable, net	280,395	329,650	443,276	453,775	493,122	470,347	452,746	495,216
Inventories	170,039	169,556	473,429	376,210	276,005	260,981	240,421	308,299
Prepaid expenses and other current assets	41,482	38,868	72,388	49,230	43,721	39,711	37,069	43,789
Assets held for sale	30,767	30,707	31,182	30,745	—	—	597,675	600,893
Total current assets	2,363,955	2,448,092	1,543,934	1,520,221	1,395,258	1,342,932	1,901,407	1,886,566
Property and equipment, net	202,222	213,656	327,645	313,113	318,978	326,599	319,761	316,214
Goodwill	1,993,310	1,993,310	5,497,608	5,499,145	5,494,505	5,494,505	4,933,719	5,161,312
Acquired intangible assets, net	—	—	2,718,061	2,639,370	2,560,682	2,480,942	2,399,975	2,500,215
Other non-current assets	148,800	209,261	275,598	260,176	247,329	403,240	426,278	438,955
Total assets	$ 4,708,287	$ 4,864,319	$ 10,362,846	$ 10,232,025	$ 10,016,752	$ 10,048,218	$ 9,981,140	$ 10,303,262
Liabilities and Shareholders' Equity								
Current liabilities:								
Accounts payable	$ 145,236	$ 157,043	$ 196,297	$ 209,562	$ 185,362	$ 191,249	$ 211,422	$ 212,955
Accrued liabilities	86,958	180,117	277,098	302,095	330,594	333,680	312,987	305,827
Accrued employee compensation	127,711	105,601	127,381	141,602	115,925	122,441	90,659	130,062
Deferred income	61,237	1,880	3,511	2,947	4,915	—	—	—
Liabilities held for sale	—	—	3,935	—	—	—	5,604	5,610
Total current liabilities	421,142	444,641	608,222	656,206	636,796	647,370	620,672	654,454
Long-term debt	—	—	1,878,617	1,805,734	1,732,699	1,684,281	1,685,359	2,036,441
Non-current income taxes payable	56,976	56,606	52,438	53,862	59,221	56,621	49,881	48,136
Deferred tax liabilities	52,204	52,292	114,312	108,016	246,252	250,137	242,957	214,492
Other non-current liabilities	36,552	25,269	44,191	32,928	35,374	179,677	178,459	183,921
Total liabilities	566,874	578,808	2,697,780	2,656,746	2,710,342	2,818,086	2,777,328	3,137,444
Shareholders' equity:								
Common shares	991	1,000	1,316	1,314	1,317	1,323	1,334	1,341
Additional paid-in-capital	2,733,292	2,744,478	6,153,890	6,157,283	6,188,598	6,200,231	6,271,120	6,355,723
Accumulated other comprehensive income (loss)	(2,322)	(2,404)	—	—	—	—	—	37
Retained earnings	1,409,452	1,542,437	1,509,860	1,416,682	1,116,495	1,028,578	931,358	808,717
Total shareholders' equity	4,141,413	4,285,511	7,665,066	7,575,279	7,306,410	7,230,132	7,203,812	7,165,818
Total liabilities and shareholders' equity	$ 4,708,287	$ 4,864,319	$ 10,362,846	$ 10,232,025	$ 10,016,752	$ 10,048,218	$ 9,981,140	$ 10,303,262
GAAP inventory turns	5.7	5.4	2.4	5.0	6.1	4.6	5.1	4.2
GAAP days in inventory	64	67	152	73	60	79	71	87

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

	February 3, 2018	May 5, 2018	August 4, 2018	November 3, 2018	February 2, 2019	May 4, 2019	August 3, 2019	November 2, 2019
Net revenue	$ 615,409	$ 604,631	$ 665,310	$ 851,051	$ 744,799	$ 662,452	$ 656,568	$ 662,470
Cost of goods sold	241,927	228,938	288,200	467,464	422,797	301,024	305,866	322,403
Gross profit	373,482	375,693	377,110	383,587	322,002	361,428	350,702	340,067
Operating expenses:								
Research and development	180,000	176,734	216,285	264,888	256,102	266,867	266,354	267,781
Selling, general and administrative	68,291	72,313	133,701	112,178	106,168	110,005	113,990	118,993
Litigation settlement	74,385	—	—	—	—	—	—	—
Restructuring related charges (gain)	(3,205)	1,567	35,415	27,031	12,740	5,682	16,586	14,802
Total operating expenses	319,471	250,614	385,401	404,097	375,010	382,554	396,930	401,576
Operating income	54,011	125,079	(8,291)	(20,510)	(53,008)	(21,126)	(46,228)	(61,509)
Interest income	5,738	6,069	3,575	1,046	1,236	1,268	1,077	1,092
Interest expense	(292)	(244)	(15,795)	(22,370)	(21,953)	(21,203)	(20,531)	(21,241)
Other income (loss), net	(658)	1,471	(2,701)	(2,628)	4,377	(116)	(2,197)	689
Interest and other income (loss), net	4,788	7,296	(14,921)	(23,952)	(16,340)	(20,051)	(21,651)	(19,460)
Income before income taxes	58,799	132,375	(23,212)	(44,462)	(69,348)	(41,177)	(67,879)	(80,969)
Provision (benefit) for income taxes	10,036	3,763	(29,971)	9,305	191,350	7,273	(10,548)	1,532
Net income(loss)	$ 48,763	$ 128,612	$ 6,759	$ (53,767)	$ (260,698)	$ (48,450)	$ (57,331)	$ (82,501)
Net income (loss) per share - Basic	$ 0.10	$ 0.26	$ 0.01	$ (0.08)	$ (0.40)	$ (0.07)	$ (0.09)	$ (0.12)
Net income (loss) per share - Diluted	$ 0.10	$ 0.25	$ 0.01	$ (0.08)	$ (0.40)	$ (0.07)	$ (0.09)	$ (0.12)
Weighted average shares - Basic	493,663	497,335	552,238	657,519	657,835	658,963	663,603	668,178
Weighted average shares - Diluted	506,197	508,716	562,149	657,519	657,835	658,963	663,603	668,178
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	$ 1,662	$ 1,905	$ 4,748	$ 2,429	$ 2,942	$ 2,926	$ 3,662	$ 3,990
Research and development	13,053	14,285	26,859	34,960	32,658	39,477	40,492	42,997
Selling, general and administrative	6,662	7,662	41,816	12,851	14,980	16,195	19,522	20,378
Total share-based compensation	$ 21,377	$ 23,852	$ 73,423	$ 50,240	$ 50,580	$ 58,598	$ 63,676	$ 67,365

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

	February 3, 2018	May 5, 2018	August 4, 2018	November 3, 2018	February 2, 2019	May 4, 2019	August 3, 2019	November 2, 2019
Cash flows from operating activities:								
Net income (loss)	$ 48,763	$ 128,612	$ 6,759	$ (53,767)	$ (260,698)	$ (48,450)	$ (57,331)	$ (82,501)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:								
Depreciation and amortization	20,918	20,343	26,754	39,259	37,627	44,298	41,941	40,508
Share-based compensation	21,377	23,852	59,392	50,240	50,580	58,598	63,676	66,762
Amortization of acquired intangible assets	358	—	25,939	78,691	78,688	79,740	80,967	92,760
Amortization of inventory fair value adjustment associated with acquisition of Cavium/ Aquantia	—	—	22,933	102,842	97,597	—	—	3,316
Amortization of deferred debt issuance costs and debt discounts	—	—	7,073	2,217	2,064	1,681	1,178	1,181
Restructuring related impairment charges (gain)	(4,159)	—	1,993	9,888	(12,081)	3,816	6,281	6,146
Other expense, net	115	891	2,740	1,771	344	1,436	580	2,574
Deferred income taxes	17,027	824	(22,238)	(6,261)	146,322	4,356	(1,982)	(10,275)
Changes in assets and liabilities:								
Accounts receivable	85,719	(47,393)	(1,356)	(10,948)	(39,347)	22,775	17,601	(32,002)
Inventories	3,878	2,680	4,186	(5,007)	2,489	15,848	(7,174)	(39,276)
Prepaid expenses and other assets	(627)	(14,108)	(5,396)	7,630	189	8,004	(15,997)	(3,046)
Accounts payable	(36,700)	14,744	(15,015)	22,531	(28,753)	(1,873)	24,370	8,304
Accrued liabilities and other non-current liabilities	(21,898)	21,236	(32,468)	40,255	55,329	(30,929)	(49,188)	(26,141)
Accrued employee compensation	(1,324)	(22,110)	(19,429)	20,617	(25,677)	6,516	(31,782)	37,193
Deferred income	(13,706)	(797)	68	(564)	1,968	—	—	—
Net cash provided by operating activities	119,741	128,774	61,935	299,394	106,641	165,816	73,140	65,503
Cash flows from investing activities:								
Purchases of available-for-sale securities	(162,607)	(13,457)	(1,499)	—	—	—	—	—
Sales of available-for-sale securities	22,671	70,273	553,623	—	—	—	—	18,832
Maturities of available-for-sale securities	120,639	128,820	59,165	—	—	—	—	—
Purchases of time deposits	(75,000)	(25,000)	—	—	—	—	—	—
Maturities of time deposits	75,000	75,000	75,000	25,000	—	—	—	—
Purchases of technology licenses	(1,331)	(360)	(903)	(9,918)	(359)	(1,484)	(38)	(414)
Purchases of property and equipment	(13,395)	(13,588)	(20,801)	(12,646)	(28,886)	(19,183)	(23,010)	(20,742)
Proceeds from sales of property and equipment	10,571	—	—	595	42,707	—	—	—
Cash payment for acquisition, net of cash and cash equivalents acquired	—	—	(2,649,465)	—	—	—	—	(477,579)
Other, net	—	(4,989)	1,462	(4,602)	2,275	(342)	(47)	(1,404)

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

	February 3, 2018	May 5, 2018	August 4, 2018	November 3, 2018	February 2, 2019	May 4, 2019	August 3, 2019	November 2, 2019
Net cash provided by (used in) investing activities	(23,452)	216,699	(1,983,418)	(1,571)	15,737	(21,009)	(23,095)	(481,307)
Cash flows from financing activities:								
Repurchases of common stock	—	—	—	(53,969)	(50,005)	(48,022)	(16,250)	—
Proceeds from employee stock plans	42,878	11,055	33,525	16,192	40,189	31,084	50,230	21,795
Tax withholding paid on behalf of employees for net share settlement	(905)	(23,893)	(12,883)	(8,915)	(9,248)	(28,758)	(32,884)	(19,220)
Dividend payment to shareholders	(29,695)	(29,798)	(39,383)	(39,411)	(39,489)	(39,467)	(39,889)	(40,140)
Payments on technology license obligations	(5,806)	(20,461)	(9,017)	(23,003)	(16,676)	(15,268)	(13,056)	(28,889)
Proceeds from issuance of debt	—	—	1,892,605	—	—	—	—	350,000
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, net	—	—	—	—	—	(4,893)	3,407	(2,869)
Net cash provided by (used in) financing activities	(7,906)	(66,697)	1,252,884	(186,221)	(150,229)	(155,324)	(48,442)	280,677
Net increase (decrease) in cash and cash equivalents	88,383	278,776	(668,599)	111,602	(27,851)	(10,517)	1,603	(135,127)
Cash and cash equivalents at beginning of period	800,099	888,482	1,167,258	498,659	610,261	582,410	571,893	573,496
Cash and cash equivalents at end of period	$ 888,482	$ 1,167,258	$ 498,659	$ 610,261	$ 582,410	$ 571,893	$ 573,496	$ 438,369

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

	February 3, 2018	May 5, 2018	August 4, 2018	November 3, 2018	February 2, 2019	May 4, 2019	August 3, 2019	November 2, 2019
GAAP Net income (loss)	$ 48,763	$ 128,612	$ 6,759	$ (53,767)	$ (260,698)	$ (48,450)	$ (57,331)	$ (82,501)
(1) Cost of goods sold								
Share-based compensation	1,662	1,905	4,748	2,429	2,942	2,926	3,662	3,990
Amortization of acquired intangible assets	—	—	18,984	57,594	57,591	59,906	61,132	72,146
Other costs of goods sold	8,000	—	22,933	105,841	97,598	450	—	4,758
(2) Research and development:								
Share-based compensation	13,053	14,285	26,859	34,960	32,658	39,477	40,492	42,997
Other operating expenses	—	—	301	455	220	12	5,042	668
(3) Selling, general and administrative:								
Share-based compensation	6,662	7,662	41,816	12,851	14,980	16,195	19,522	20,378
Amortization of acquired intangible assets	358	—	6,955	21,098	21,097	19,834	19,835	20,614
Other operating expenses	10,579	15,252	27,928	10,767	7,172	6,557	15,634	18,827
(4) Restructuring and other exit related costs in Operating Expense	(3,205)	1,567	35,415	27,031	12,740	5,682	16,585	14,802
(5) Luna settlement and related charges in Operating Expense	74,385	—	—	—	—	—	—	—
(6) Interest and other (income) loss, net								
Restructuring related items	1,355	(1,512)	(121)	1,491	157	(338)	75	(946)
Write-off of debt issuance costs	—	—	6,104	850	782	458	—	—
Gain on sale of intellectual property	—	—	—	—	(3,500)	—	—	—
Deal costs	—	—	—	—	—	—	1,009	496
(7) Provision for income taxes:								
Tax-related adjustments	3,170	(3,098)	(36,720)	55	184,348	2,324	(15,728)	(3,773)
Non-GAAP Net income from continuing operations	**$ 164,782**	**$ 164,673**	**$ 161,961**	**$ 221,655**	**$ 168,087**	**$ 105,033**	**$ 109,929**	**$ 112,456**
Non-GAAP Operating income	**$ 165,505**	**$ 165,750**	**$ 177,648**	**$ 252,516**	**$ 193,990**	**$ 129,913**	**$ 135,676**	**$ 137,671**

Marvell believes that the presentation of non-GAAP financial measures provides important supplemental information to management and investors regarding financial and business trends relating to its financial condition and results of operations. 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, the information provided by GAAP financial measures. 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. Marvell has chosen to provide this information to investors to enable them to perform comparisons of operating results in a manner similar to how Marvell analyzes its operating results internally. Management also believes that these non-GAAP financial measures may be used to facilitate comparisons of Marvell's results with that of other companies in its industry.

Quarterly Revenue Trend

(in thousands)

	Q1 2018 Apr 29, 2017	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	Q2 2020 Aug 03, 2019	Q3 2020 Nov 02, 2019
Networking[1]	$ 220,906	$ 245,821	$ 253,159	$ 241,611	$ 244,228	$ 283,330	$ 398,424	$ 387,457	$ 341,344	$ 329,605	$ 329,962
Storage[2]	303,808	311,501	315,338	323,718	317,069	335,764	406,822	317,042	278,667	274,905	287,708
Core	524,714	557,322	568,497	565,329	561,297	619,094	805,246	704,499	620,011	604,510	617,670
Other[3]	47,995	47,428	47,805	50,080	43,334	46,216	45,805	40,300	42,441	52,058	44,800
Total	**$ 572,709**	**$ 604,750**	**$ 616,302**	**$ 615,409**	**$ 604,631**	**$ 665,310**	**$ 851,051**	**$ 744,799**	**$ 662,452**	**$ 656,568**	**$ 662,470**

% of Total	Q1 2018 Apr 29, 2017	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	Q2 2020 Aug 03, 2019	Q3 2020 Nov 02, 2019
Networking[1]	39%	41%	41%	39%	40%	43%	47%	52%	52%	50%	50%
Storage[2]	53%	52%	51%	53%	52%	50%	48%	43%	42%	42%	43%
Core	92%	93%	92%	92%	92%	93%	95%	95%	94%	92%	93%
Other[3]	8%	7%	8%	8%	8%	7%	5%	5%	6%	8%	7%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

(1) Networking products are comprised primarily of Ethernet Switches, Ethernet Transceivers, Ethernet NICs, Embedded Communications Processors, Automotive Ethernet, Security Adapters and Processors as well as WiFi Connectivity Products. In addition, this grouping includes a few legacy product lines in which we no longer invest, but will generate revenue for several years.

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

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