Marvell Technology Group Ltd

Fourth Quarter of Fiscal Year 2020
March 4, 2020

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 and Avera acquisitions, 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 fourth 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. The exclusion of the above items from our GAAP financial metrics does not necessarily mean that these costs are unusual or infrequent.

Marvell Technology Group Ltd.

Unaudited Condensed Consolidated Balance Sheets

(In thousands)

	May 5, 2018	August 4, 2018	November 3, 2018	February 2, 2019	May 4, 2019	August 3, 2019	November 2, 2019	February 1, 2020
Assets								
Current assets:								
Cash and cash equivalents	$ 1,167,258	$ 498,659	$ 610,261	$ 582,410	$ 571,893	$ 573,496	$ 438,369	$ 647,604
Short-term investments	712,053	25,000	—	—	—	—	—	—
Accounts receivable, net	329,650	443,276	453,775	493,122	470,347	452,746	495,216	492,346
Inventories	169,556	473,429	376,210	276,005	260,981	240,421	308,299	322,980
Prepaid expenses and other current assets	38,868	72,388	49,230	43,721	39,711	37,069	43,789	74,567
Assets held for sale	30,707	31,182	30,745	—	—	597,675	600,893	—
Total current assets	2,448,092	1,543,934	1,520,221	1,395,258	1,342,932	1,901,407	1,886,566	1,537,497
Property and equipment, net	213,656	327,645	313,113	318,978	326,599	319,761	316,214	357,092
Goodwill	1,993,310	5,497,608	5,499,145	5,494,505	5,494,505	4,933,719	5,161,312	5,337,405
Acquired intangible assets, net	—	2,718,061	2,639,370	2,560,682	2,480,942	2,399,975	2,500,215	2,764,600
Deferred tax assets	19,897	19,795	18,325	12,460	11,989	9,789	14,192	639,791
Other non-current assets	189,364	255,803	241,851	234,869	391,251	416,489	424,763	496,850
Total assets	$ 4,864,319	$ 10,362,846	$ 10,232,025	$ 10,016,752	$10,048,218	$ 9,981,140	$ 10,303,262	$ 11,133,235
Liabilities and Shareholders' Equity								
Current liabilities:								
Accounts payable	$ 157,043	$ 196,297	$ 209,562	$ 185,362	$ 191,249	$ 211,422	$ 212,955	$ 213,747
Accrued liabilities	180,117	277,098	302,095	330,594	333,680	312,987	305,827	346,639
Accrued employee compensation	105,601	127,381	141,602	115,925	122,441	90,659	130,062	149,780
Deferred income	1,880	3,511	2,947	4,915	—	—	—	—
Liabilities held for sale	—	3,935	—	—	—	5,604	5,610	—
Total current liabilities	444,641	608,222	656,206	636,796	647,370	620,672	654,454	710,166
Long-term debt	—	1,878,617	1,805,734	1,732,699	1,684,281	1,685,359	2,036,441	1,439,024
Deferred tax liabilities	52,292	114,312	108,016	246,252	250,137	242,957	214,492	31,233
Other non-current liabilities	81,875	96,629	86,790	94,595	236,298	228,340	232,057	274,232
Total liabilities	578,808	2,697,780	2,656,746	2,710,342	2,818,086	2,777,328	3,137,444	2,454,655
Shareholders' equity:								
Common stock	1,000	1,316	1,314	1,317	1,323	1,334	1,341	1,328
Additional paid-in-capital	2,744,478	6,153,890	6,157,283	6,188,598	6,200,231	6,271,120	6,355,723	6,135,939
Accumulated other comprehensive income (loss)	(2,404)	—	—	—	—	—	37	—
Retained earnings	1,542,437	1,509,860	1,416,682	1,116,495	1,028,578	931,358	808,717	2,541,313
Total shareholders' equity	4,285,511	7,665,066	7,575,279	7,306,410	7,230,132	7,203,812	7,165,818	8,678,580

Total liabilities and shareholders' equity	$ 4,864,319	$ 10,362,846	$ 10,232,025	$ 10,016,752	$10,048,218	$ 9,981,140	$ 10,303,262	$ 11,133,235
GAAP inventory turns	5.4	2.4	5.0	6.1	4.6	5.1	4.2	5.1
GAAP days in inventory	67	152	73	60	79	71	87	71

Marvell Technology Group Ltd.

Unaudited Consolidated Statements of Operations

(In thousands, except per share amounts)

	May 5, 2018	August 4, 2018	November 3, 2018	February 2, 2019	May 4, 2019	August 3, 2019	November 2, 2019	February 1, 2020
Net revenue	$ 604,631	$ 665,310	$ 851,051	$ 744,799	$ 662,452	$ 656,568	$ 662,470	$ 717,671
Cost of goods sold	228,938	288,200	467,464	422,797	301,024	305,866	322,403	412,927
Gross profit	375,693	377,110	383,587	322,002	361,428	350,702	340,067	304,744
Operating expenses:								
Research and development	176,734	216,285	264,888	256,102	266,867	266,354	267,781	279,389
Selling, general and administrative	72,313	133,701	112,178	106,168	110,005	113,990	118,993	121,592
Restructuring related charges	1,567	35,415	27,031	12,740	5,682	16,586	14,802	18,258
Total operating expenses	250,614	385,401	404,097	375,010	382,554	396,930	401,576	419,239
Operating income (loss)	125,079	(8,291)	(20,510)	(53,008)	(21,126)	(46,228)	(61,509)	(114,495)
Interest income	6,069	3,575	1,046	1,236	1,268	1,077	1,092	1,379
Interest expense	(244)	(15,795)	(22,370)	(21,953)	(21,203)	(20,531)	(21,241)	(22,656)
Other income (loss), net	1,471	(2,701)	(2,628)	4,377	(116)	(2,197)	689	1,124,179
Interest and other income (loss), net	7,296	(14,921)	(23,952)	(16,340)	(20,051)	(21,651)	(19,460)	1,102,902
Income (loss) before income taxes	132,375	(23,212)	(44,462)	(69,348)	(41,177)	(67,879)	(80,969)	988,407
Provision (benefit) for income taxes	3,763	(29,971)	9,305	191,350	7,273	(10,548)	1,532	(784,266)
Net income (loss)	$ 128,612	$ 6,759	$ (53,767)	$ (260,698)	$ (48,450)	$ (57,331)	$ (82,501)	$ 1,772,673
Net income (loss) per share - Basic	$ 0.26	$ 0.01	$ (0.08)	$ (0.40)	$ (0.07)	$ (0.09)	$ (0.12)	$ 2.66
Net income (loss) per share - Diluted	$ 0.25	$ 0.01	$ (0.08)	$ (0.40)	$ (0.07)	$ (0.09)	$ (0.12)	$ 2.62
Weighted average shares - Basic	497,335	552,238	657,519	657,835	658,963	663,603	668,178	665,562
Weighted average shares - Diluted	508,716	562,149	657,519	657,835	658,963	663,603	668,178	675,700
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	$ 1,905	$ 4,748	$ 2,429	$ 2,942	$ 2,926	$ 3,662	$ 3,990	$ 3,181
Research and development	14,285	26,859	34,960	32,658	39,477	40,492	42,997	34,088
Selling, general and administrative	7,662	41,816	12,851	14,980	16,195	19,522	20,378	15,901
Total share-based compensation	$ 23,852	$ 73,423	$ 50,240	$ 50,580	$ 58,598	$ 63,676	$ 67,365	$ 53,170

Marvell Technology Group Ltd.

Unaudited Condensed Consolidated Statements of Cash Flows

(In thousands)

	May 5, 2018	August 4, 2018	November 3, 2018	February 2, 2019	May 4, 2019	August 3, 2019	November 2, 2019	February 1, 2020
Cash flows from operating activities:								
Net income (loss)	$ 128,612	$ 6,759	$ (53,767)	$ (260,698)	$ (48,450)	$ (57,331)	$ (82,501)	$ 1,772,673
Adjustments to reconcile net income (loss) to net cash provided by operating activities:								
Depreciation and amortization	20,343	26,754	39,259	37,627	38,654	37,926	36,082	43,996
Share-based compensation	23,852	59,392	50,240	50,580	58,598	63,676	66,762	53,171
Amortization of acquired intangible assets	—	25,939	78,691	78,688	79,740	80,967	92,760	114,615
Amortization of inventory fair value adjustment associated with acquisitions	—	22,933	102,842	97,597	—	—	3,316	52,510
Amortization of deferred debt issuance costs and debt discounts	—	7,073	2,217	2,064	1,681	1,178	1,181	2,723
Restructuring related impairment charges (gain)	—	1,993	9,888	(12,081)	3,816	6,281	6,146	1,328
Deferred income taxes	824	(22,238)	(6,261)	146,322	4,356	(1,982)	(10,275)	(777,257)
Loss (gain) on sale of business	—	—	1,592	—	—	1,009	505	(1,123,223)
Other expense, net	891	2,740	179	344	7,080	3,586	6,495	9,287
Changes in assets and liabilities:								
Accounts receivable	(47,393)	(1,356)	(10,948)	(39,347)	22,775	17,601	(32,002)	2,870
Inventories	2,680	4,186	(5,007)	2,489	15,848	(7,174)	(39,276)	43,361
Prepaid expenses and other assets	(14,108)	(5,396)	7,630	189	8,004	(15,997)	(3,046)	(43,099)
Accounts payable	14,744	(15,015)	22,531	(28,753)	(1,873)	24,370	8,304	(29,143)
Accrued liabilities and other non-current liabilities	20,439	(32,400)	39,691	57,297	(30,929)	(49,188)	(26,141)	(76,635)
Accrued employee compensation	(22,110)	(19,429)	20,617	(25,677)	6,516	(31,782)	37,193	8,661
Net cash provided by operating activities	128,774	61,935	299,394	106,641	165,816	73,140	65,503	55,838
Cash flows from investing activities:								
Purchases of available-for-sale securities	(13,457)	(1,499)	—	—	—	—	—	—
Sales of available-for-sale securities	70,273	553,623	—	—	—	—	18,832	—
Maturities of available-for-sale securities	128,820	59,165	—	—	—	—	—	—
Purchases of time deposits	(25,000)	—	—	—	—	—	—	—
Maturities of time deposits	75,000	75,000	25,000	—	—	—	—	—
Purchases of technology licenses	(360)	(903)	(9,918)	(359)	(1,484)	(38)	(414)	(2,776)
Purchases of property and equipment	(13,588)	(20,801)	(12,646)	(28,886)	(19,183)	(23,010)	(20,742)	(18,986)
Proceeds from sales of property and equipment	—	—	595	42,707	216	231	84	89
Cash payment for acquisitions, net of cash and cash equivalents acquired	—	(2,649,465)	—	—	—	—	(477,579)	(593,500)

Marvell Technology Group Ltd.

Unaudited Condensed Consolidated Statements of Cash Flows

(In thousands)

Net proceeds (payments) from sale of business	—	1,250	(4,602)	—	—	(390)	(662)	1,699,835
Other, net	(4,989)	212	—	2,275	(558)	112	(826)	(405)
Net cash provided by (used in) investing activities	216,699	(1,983,418)	(1,571)	15,737	(21,009)	(23,095)	(481,307)	1,084,257
Cash flows from financing activities:								
Repurchases of common stock	—	—	(53,969)	(50,005)	(48,022)	(16,250)	—	(300,000)
Proceeds from employee stock plans	11,055	33,525	16,192	40,189	31,084	50,230	21,795	44,167
Tax withholding paid on behalf of employees for net share settlement	(23,893)	(12,883)	(8,915)	(9,248)	(28,758)	(32,884)	(19,220)	(17,440)
Dividend payment to shareholders	(29,798)	(39,383)	(39,411)	(39,489)	(39,467)	(39,889)	(40,140)	(40,077)
Payments on technology license obligations	(20,461)	(9,017)	(23,003)	(16,676)	(15,268)	(13,056)	(28,889)	(15,053)
Proceeds from issuance of debt	—	1,892,605	—	—	—	—	350,000	600,000
Principal payments of debt	—	(606,128)	(75,000)	(75,000)	(50,000)	—	—	(1,200,000)
Payment of equity and debt financing costs	(3,600)	(5,835)	(2,115)	—	—	—	—	—
Other, net	—	—	—	—	(4,893)	3,407	(2,869)	(2,457)
Net cash provided by (used in) financing activities	(66,697)	1,252,884	(186,221)	(150,229)	(155,324)	(48,442)	280,677	(930,860)
Net increase (decrease) in cash and cash equivalents	278,776	(668,599)	111,602	(27,851)	(10,517)	1,603	(135,127)	209,235
Cash and cash equivalents at beginning of period	888,482	1,167,258	498,659	610,261	582,410	571,893	573,496	438,369
Cash and cash equivalents at end of period	$ 1,167,258	$ 498,659	$ 610,261	$ 582,410	$ 571,893	$ 573,496	$ 438,369	$ 647,604

Marvell Technology Group Ltd.

Unaudited Reconciliations from GAAP to Non-GAAP

(In thousands, except per share amounts)

	May 5, 2018	August 4, 2018	November 3, 2018	February 2, 2019	May 4, 2019	August 3, 2019	November 2, 2019	February 1, 2020
GAAP Net income (loss)	$ 128,612	$ 6,759	$ (53,767)	$ (260,698)	$ (48,450)	$ (57,331)	$ (82,501)	$ 1,772,673
(1) Cost of goods sold								
Share-based compensation	1,905	4,748	2,429	2,942	2,926	3,662	3,990	3,181
Amortization of acquired intangible assets	—	18,984	57,594	57,591	59,906	61,132	72,146	86,383
Other costs of goods sold	—	22,933	105,841	97,598	450	—	4,758	52,510
(2) Research and development:								
Share-based compensation	14,285	26,859	34,960	32,658	39,477	40,492	42,997	34,088
Other operating expenses	—	301	455	220	12	5,042	668	1,203
(3) Selling, general and administrative:								
Share-based compensation	7,662	41,816	12,851	14,980	16,195	19,522	20,378	15,901
Amortization of acquired intangible assets	—	6,955	21,098	21,097	19,834	19,835	20,614	28,232
Other operating expenses	15,252	27,928	10,767	7,172	6,557	15,634	18,827	15,418
(4) Restructuring and other exit related costs in Operating Expense	1,567	35,415	27,031	12,740	5,682	16,586	14,802	18,258
(5) Interest and other (income) loss, net								
Restructuring related items	(1,512)	(121)	1,491	157	(338)	75	(946)	(1,122,988)
Write-off of debt issuance costs	—	6,104	850	782	458	—	—	1,621
Gain on sale of intellectual property	—	—	—	(3,500)	—	—	—	—
Deal Costs	—	—	—	—	—	1,009	496	—
(6) Provision (benefit) for income taxes:								
Tax-related adjustments	(3,098)	(36,720)	55	184,348	2,324	(15,728)	(3,773)	(789,761)
Non-GAAP Net income from continuing operations	**$ 164,673**	**$ 161,961**	**$ 221,655**	**$ 168,087**	**$ 105,033**	**$ 109,930**	**$ 112,456**	**$ 116,719**
Non-GAAP Operating income	**$ 165,750**	**$ 177,648**	**$ 252,516**	**$ 193,990**	**$ 129,913**	**$ 135,677**	**$ 137,671**	**$ 140,679**

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 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	Q4 2020 Feb 01, 2020
Networking[1]	$ 244,228	$ 283,330	$ 398,424	$ 387,457	$ 341,344	$ 329,605	$ 329,962	$ 376,724
Storage[2]	317,069	335,764	406,822	317,042	278,667	274,905	287,708	296,486
Total Core	561,297	619,094	805,246	704,499	620,011	604,510	617,670	673,210
Other[3]	43,334	46,216	45,805	40,300	42,441	52,058	44,800	44,461
Total Revenue	**$ 604,631**	**$ 665,310**	**$ 851,051**	**$ 744,799**	**$ 662,452**	**$ 656,568**	**$ 662,470**	**$ 717,671**

% of Total	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	Q4 2020 Feb 01, 2020
Networking[1]	40%	43%	47%	52%	52%	50%	50%	52%
Storage[2]	52%	50%	48%	43%	42%	42%	43%	41%
Total Core	92%	93%	95%	95%	94%	92%	93%	93%
Other[3]	8%	7%	5%	5%	6%	8%	7%	7%
Total Revenue	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

(1) Networking products are comprised primarily of Ethernet Solutions, Embedded Processors and Custom ASICs.
(2) Storage products are comprised primarily of Storage Controllers and Fibre Channel Adapters.
(3) Other products are comprised primarily of Printer Solutions, Application Processors and others.