

# Marvell Technology Group

Investor Relations

FQ4' 2016 and FY2016 Earnings Update



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# Safe Harbor: Forward-Looking Statements

This presentation contains forward-looking statements within the meaning of the federal securities laws that involve risks and uncertainties, including: its use of non-GAAP financial measures as important supplemental information. Words such as “anticipates,” “expects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “can,” “will” 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 permanent Chief Financial Officer and Chief Accounting Officer and Controller in a timely manner; Marvell’s ability to regain compliance with its SEC reporting obligations within the time of the exemption granted by NASDAQ; 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 latest Annual Report on Form 10-K for the year ended January 31, 2015 and its latest Quarterly Report on Form 10-Q for the quarter ended May 2, 2015 as filed with the SEC on June 4, 2015, 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.

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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 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](http://www.marvell.com).

**Slide 3**

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**MA3**

Mary Ahern, 7/19/2016

# FQ4' 2016 and FY2016 Financial Results

# Key Highlights from FY2016 Results

## Revenue

- FY16 revenue of \$2.7B, down 26% over FY15 (down 24% ex-Mobile Handsets)
- Storage decline due to soft HDD and SSD demand
- Mobile & Wireless down on shutdown of mobile handset business
- Networking down on soft demand for Marvell products

## Non-GAAP EPS & Profitability

- EPS (diluted): \$0.37
- Gross margin: 49.1%
- Operating margin: 7%
- FCF margin: 5%

## Shareholder Capital Returns

- Repurchased 19.7 million shares of stock for \$261 million
- Total FY16 dividend payment of \$122 million

Source: Marvell

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# Key Highlights from FQ4' 2016 Results

## Revenue

- Revenue of \$616M, down 9% q/q
- Storage increase on stronger HDD demand partially offset by slight SSD decline
- Mobile & Wireless mobile handset exit
- Networking up on broad-based demand improvement

## Non-GAAP EPS & Profitability

- EPS (diluted): \$0.11
- Gross margin: 51.9%
- Operating margin: 9%
- FCF margin: 7.6%

## Shareholder Capital Returns

- No share repurchases in FQ4'16
- Quarterly payment of \$30 million in dividends or 6 cents per share

Source: Marvell

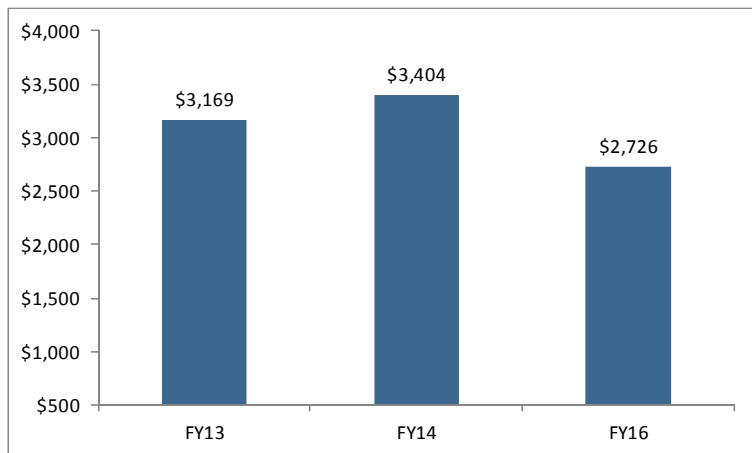
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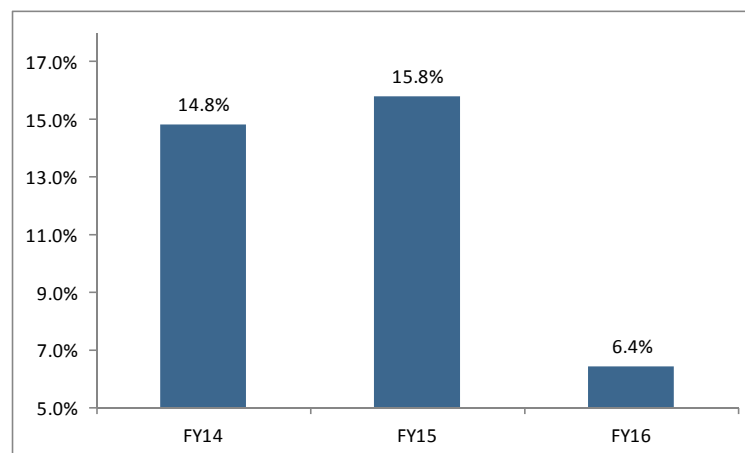
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# FY2016 Financial Summary

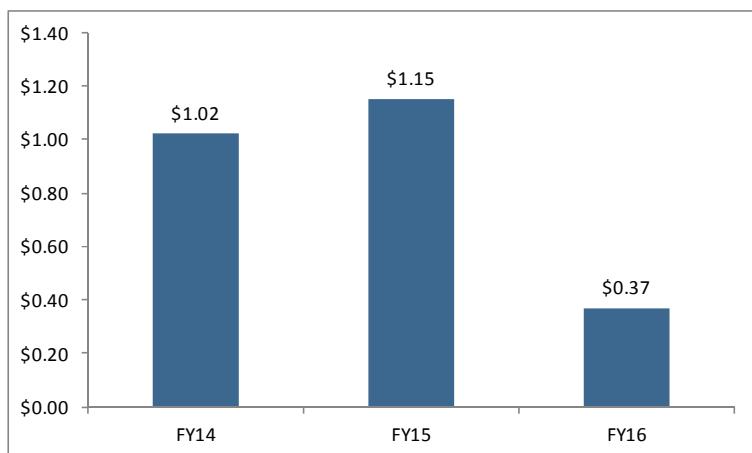
### FY Revenue (\$M)



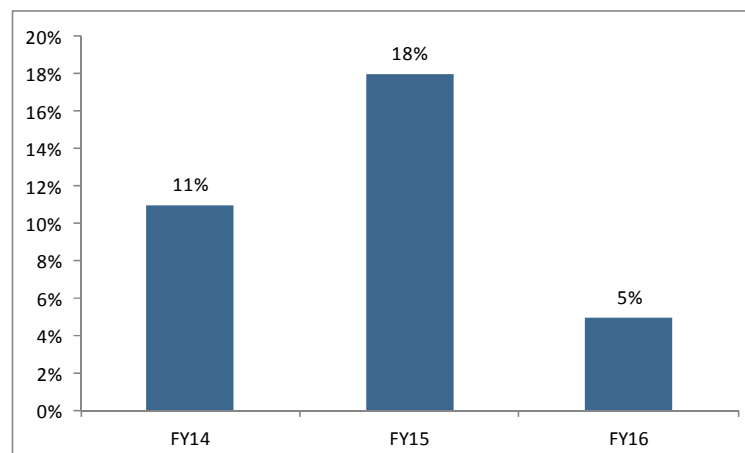
### FY Non-GAAP Operating Margin (%)



### FY Non-GAAP Diluted EPS (\$)



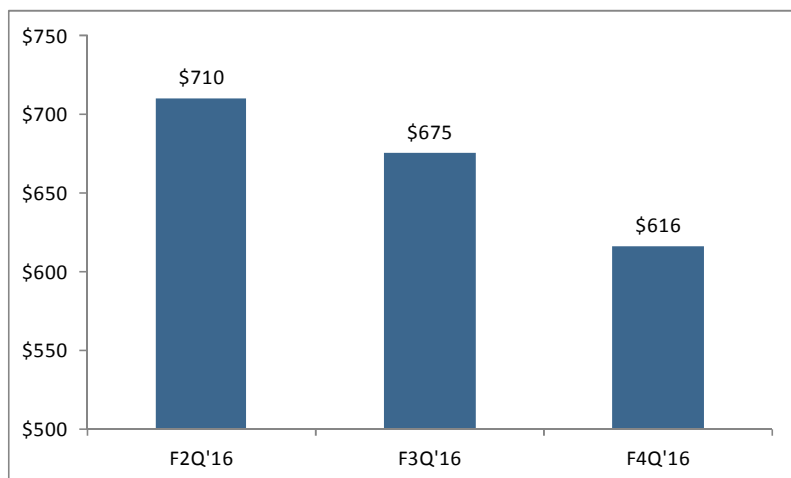
### FY FCF Margin (%)



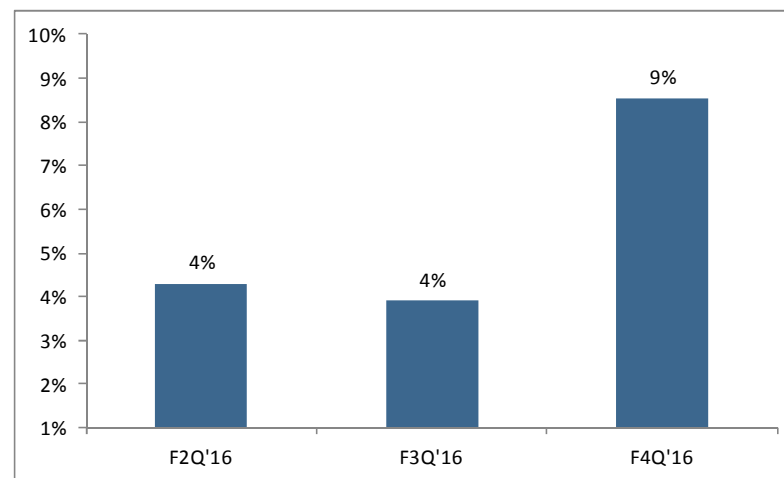


# FQ4' 2016 Financial Summary

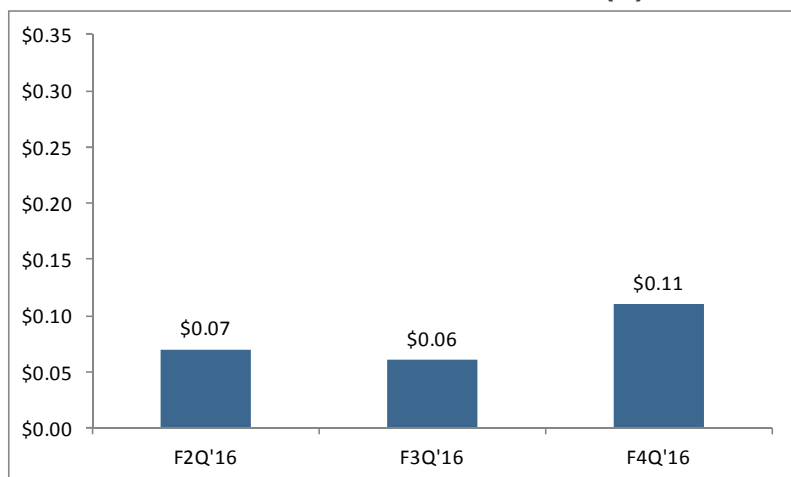
## Revenue (\$M)



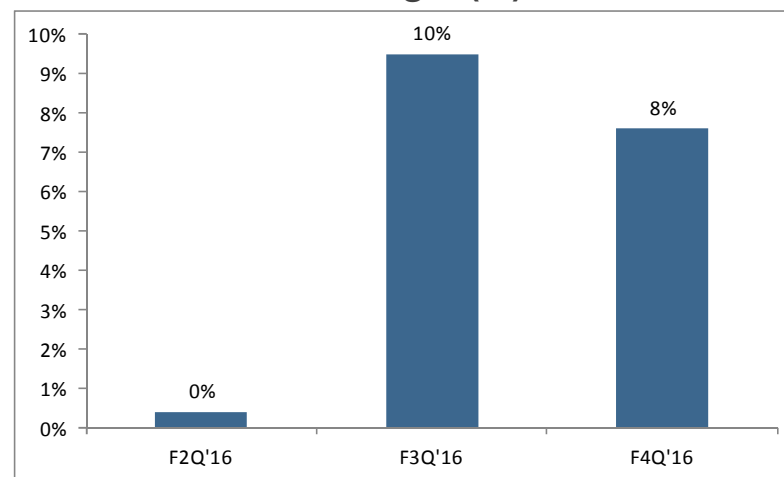
## Non-GAAP Operating Margin (%)



## Non-GAAP Diluted EPS (\$)



## FCF Margin (%)



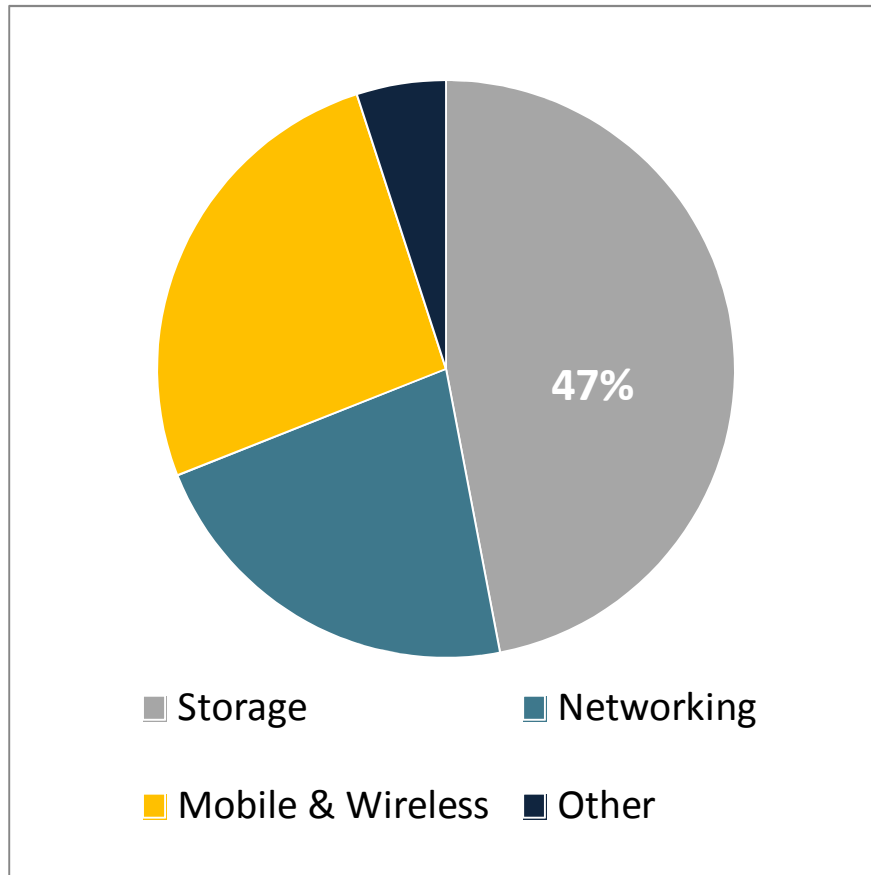
Source: Marvell

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# End Market Summary: FQ1-FQ4'2016

	Q1F16		Q2F16		Q3F16		Q4F16		FY2016	
	QQ %	% of Revenue	QQ %	% of Revenue	QQ %	% of Revenue	QQ %	% of Revenue	YY%	% of Revenue
<b>Storage</b>	-20%	48%	-12%	43%	-16%	38%	12%	47%	-31%	44%
<b>Networking</b>	-7%	21%	-8%	19%	-8%	19%	8%	22%	-18%	20%
<b>Mobile &amp; Wireless</b>	-13%	25%	17%	30%	14%	35%	-34%	26%	-27%	29%
<b>Other</b>	-16%	6%	20%	8%	-10%	8%	-37%	5%	-14%	7%
<b>Total Marvell</b>	-16%		-2%		-5%		-9%		-26%	

# End Markets: Storage



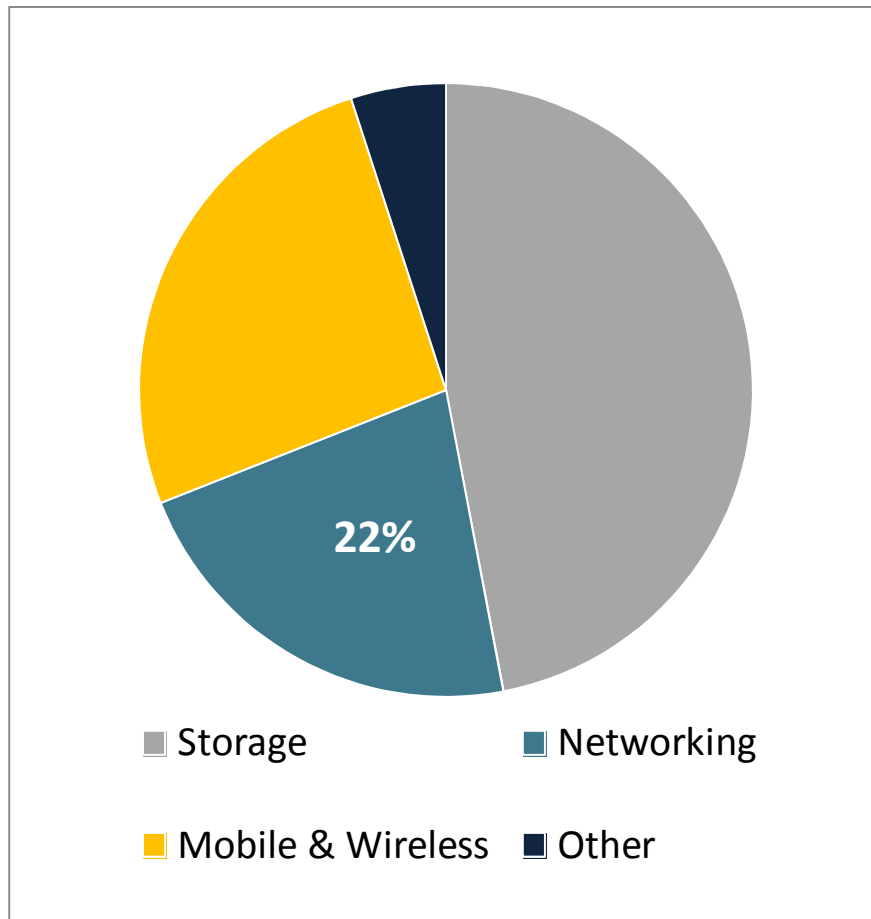
## FQ4 Highlights

- 47% of overall revenue
- Overall Storage revenue grew 12% q/q and decreased 33% y/y
- HDD increase on better HDD OEM demand
- SSD slightly weaker

Source: Marvell

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# End Markets: Networking



## FQ4 Highlights

- 22% of overall revenue
- Overall Networking grew 8% q/q and decreased 15% y/y
- Revenue increased on broad-based demand strength

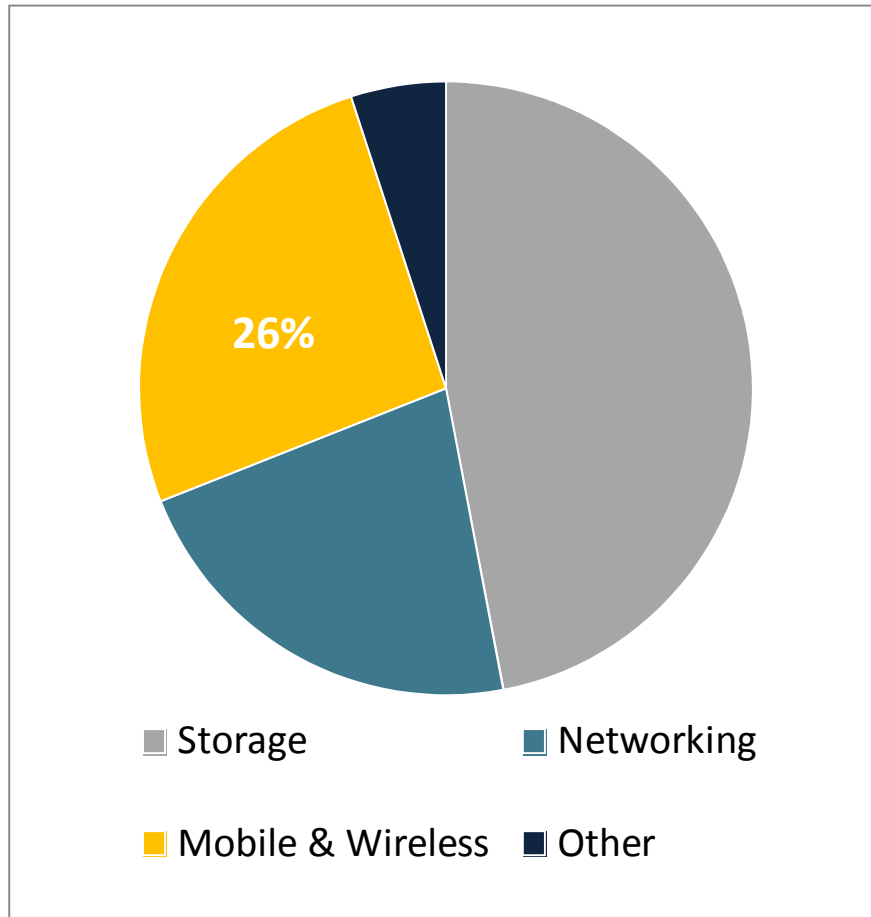
Source: Marvell

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# End Markets: Mobile & Wireless



## FQ4 Highlights

- 26% of overall revenue
- Mobile & Wireless declined 34% q/q and decreased 23% y/y
- Mobile revenue down on mobile handset exit
- Wireless connectivity seasonally down

Source: Marvell

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# Financial Statements

# Unaudited Statement of Operations

## (In thousands, except per share amounts)

	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16
Net revenue	\$ 957,830	\$ 961,545	\$ 930,136	\$ 857,452	\$ 724,288	\$ 710,492	\$ 674,890	\$ 616,158
Cost of goods sold	493,860	477,741	454,974	417,131	351,153	461,719	379,254	302,610
Gross profit (loss)	463,970	483,804	475,162	440,321	373,135	248,773	295,636	313,548
Operating expenses:								
Research and development	295,363	294,764	288,435	285,497	280,114	297,321	284,308	239,703
Selling and marketing	38,358	33,949	34,410	37,235	36,174	30,841	32,481	31,301
General and administrative	30,573	31,333	33,473	34,651	41,027	36,563	34,771	37,812
Carnegie Mellon University litigation settlement	-	-	-	-	-	654,667	-	-
Amortization and write-off of acquired intangible assets	6,689	3,304	3,304	3,100	2,568	2,568	3,150	2,462
Total operating expenses	370,983	363,350	359,622	360,483	359,883	1,021,960	354,710	311,278
Operating income (loss)	92,987	120,454	115,540	79,838	13,252	(773,187)	(59,074)	2,270
Interest and other income, net	1,925	12,263	4,764	4,382	5,167	6,790	4,644	1,084
Income before income (loss) taxes	94,912	132,717	120,304	84,220	18,419	(766,397)	(54,430)	3,354
Provision (benefit) for income taxes	(4,567)	(6,153)	5,000	2,527	4,329	5,543	3,320	(846)
Net income (loss)	\$ 99,479	\$ 138,870	\$ 115,304	\$ 81,693	\$ 14,090	\$ (771,940)	\$ (57,750)	\$ 4,200
Net income (loss) per share - basic	0.20	0.27	0.22	0.16	0.03	(1.49)	(0.11)	0.01
Net income (loss) per share - diluted	0.19	0.27	0.22	0.16	0.03	(1.49)	(0.11)	0.01
Weighted average shares — basic	505,105	511,821	513,859	513,574	516,228	516,368	504,831	506,352
Weighted average shares — diluted	520,751	520,269	519,907	522,112	527,167	516,368	504,831	508,590

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	2,299	1,733	1,934	2,006	1,547	2,012	2,495	1,861
Research and development	20,368	24,276	24,198	25,590	24,781	27,807	22,573	23,631
Selling and marketing	2,928	2,617	2,855	3,069	2,577	2,707	2,608	3,214
General and administrative	4,374	6,394	5,307	7,298	4,316	4,148	3,789	3,713

Source: Marvell

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# Unaudited Statement of Cash Flows

## (In thousands)

	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16
<b>Cash flows from operating activities:</b>								
Net income (loss)	\$ 99,479	\$ 138,870	\$ 115,304	\$ 81,693	\$ 14,090	\$ (771,940)	\$ (57,750)	\$ 4,200
Adjustments to reconcile net income (loss) to net cash provided by operating activities:								
Depreciation and amortization	27,006	26,263	26,515	26,464	26,620	25,191	25,565	22,800
Share-based compensation	29,969	35,020	34,294	37,963	33,221	36,674	31,465	32,419
Amortization and write-off of acquired intangible assets	7,174	3,789	3,789	3,585	3,053	3,053	3,635	2,947
Other expense (income), net	1,470	(7,596)	(6,034)	(1,699)	(561)	2,283	4,205	7,885
Non-cash restructuring and other related charges	-	-	-	3,230	573	900	14,270	289
Excess tax benefits from share-based compensation	(44)	(32)	(2)	(67)	(18)	(7)	(2)	1
Changes in assets and liabilities:								
Accounts receivable	(63,578)	33,419	40,214	25,719	27,141	(23,907)	36,793	57,628
Inventories	(3,105)	(43,194)	37,506	48,247	(31,318)	12,903	39,457	69,544
Prepaid expenses and other assets	(2,161)	(24,996)	18,536	4,087	1,969	9,358	6,804	(35,245)
Accounts payable	85,128	2,558	(70,749)	(60,808)	17,125	(5,167)	(55,693)	(62,163)
Accrued liabilities and other non-current liabilities	(7,134)	10,096	(24,997)	(12,189)	(11,576)	19,634	3,958	(27,218)
Carnegie Mellon University accrued litigation settlement	-	-	-	-	-	733,557	1,158	1,285
Accrued employee compensation	30,001	(7,451)	19,101	1,910	(14,424)	(14,507)	14,295	(18,702)
Deferred income	30,932	(9,792)	(12,053)	(2,714)	(7,027)	(1,441)	(1,566)	(2,364)
Net cash provided by operating activities	235,137	156,954	181,424	155,421	58,868	26,584	66,594	53,306
<b>Cash flows from investing activities:</b>								
Purchases of available-for-sale securities	(181,889)	(153,881)	(448,526)	(344,023)	(392,900)	(173,465)	(356,465)	(133,215)
Sales and maturities of available-for-sale securities	182,311	190,099	205,685	248,215	247,495	222,295	356,409	477,301
Net proceeds from sale of a product line	-	-	-	-	-	-	-	-
Distribution from (investments in) privately-held-companies	(441)	-	(260)	-	-	208	(130)	(119)
Proceeds from sale of an investment in a privately-held company	-	-	13,220	-	-	-	-	-
Purchases of technology licenses	(8,111)	(1,298)	(5,105)	(1,910)	(3,606)	(2,071)	(980)	(1,579)
Purchases of property and equipment	(16,131)	(15,823)	(16,661)	(14,415)	(7,334)	(16,986)	(9,041)	(3,894)
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	(24,261)	19,097	(251,647)	(112,133)	(166,585)	29,981	(200)	338,494
<b>Cash flows from financing activities:</b>								
Repurchase of common stock	-	-	(43,774)	(21,188)	(20,273)	(175,311)	(65,291)	0
Proceeds from employee stock plans	19,092	49,282	2,934	41,049	13,013	44,161	2,174	21,369
Minimum tax withholding paid on behalf of employees for net share settlement	(24,286)	(637)	(663)	(908)	(22,310)	(697)	(869)	(482)
Dividend payment to shareholders	(30,172)	(30,820)	(30,867)	(30,942)	(30,910)	(31,194)	(30,270)	(30,447)
Payments on technology license obligations	-	(2,677)	(5,951)	(4,382)	(4,067)	(4,732)	(2,617)	(1,112)
Excess tax benefits from share-based compensation	44	32	2	67	18	7	2	(1)
Net cash provided by (used in) financing activities	(35,322)	15,180	(78,319)	(16,304)	(64,529)	(167,766)	(96,871)	(10,673)
Net increase (decrease) in cash and cash equivalents	175,554	191,231	(148,542)	26,984	(172,246)	(111,201)	(30,477)	381,127
Cash and cash equivalents at beginning of period	965,750	1,141,304	1,332,535	1,183,993	1,210,977	1,038,731	927,530	897,053
Cash and cash equivalents at end of period	\$ 1,141,304	\$ 1,332,535	\$ 1,183,993	\$ 1,210,977	\$ 1,038,731	\$ 927,530	\$ 897,053	\$ 1,278,180
<b>Unaudited Supplemental Financial Information</b>								
GAAP net cash provided by operating activities	\$ 235,137	\$ 156,954	\$ 181,424	\$ 155,421	\$ 58,868	\$ 26,584	\$ 66,594	\$ 53,306
Purchases of technology licenses	(8,111)	(1,298)	(5,105)	(1,910)	(3,606)	(2,071)	(980)	(1,579)
Purchases of property and equipment	(16,131)	(15,823)	(16,661)	(14,415)	(7,334)	(16,986)	(9,041)	(3,894)
Payment on technology license obligations	-	(2,677)	(5,951)	(4,382)	(4,067)	(4,732)	(2,617)	(1,112)
Free cash flow	\$ 210,895	\$ 137,156	\$ 153,707	\$ 134,714	\$ 43,861	\$ 2,795	\$ 53,956	\$ 46,721



# Unaudited Balance Sheet

## (In thousands)

	<u>Q1'15</u>	<u>Q2'15</u>	<u>Q3'15</u>	<u>Q4'15</u>	<u>Q1'16</u>	<u>Q2'16</u>	<u>Q3'16</u>	<u>Q4'16</u>
<b>Assets</b>								
Current assets:								
Cash, cash equivalents, and short-term investments	\$ 2,146,445	\$ 2,300,004	\$ 2,402,778	\$ 2,529,555	\$ 2,500,915	\$ 2,337,647	\$ 2,303,752	\$ 2,282,749
Accounts receivable, net	517,074	498,484	445,050	420,955	393,814	417,721	380,928	323,300
Inventories	350,649	393,957	356,417	308,162	339,859	327,103	279,359	210,017
Prepaid expenses and other current assets	72,815	96,561	82,117	85,368	91,151	86,106	71,450	102,560
Total current assets	3,086,983	3,289,006	3,286,362	3,344,040	3,325,739	3,168,577	3,035,489	2,918,626
Property and equipment, net	349,321	344,836	343,101	340,639	325,754	322,262	309,647	299,540
Long-term investments	13,456	13,422	10,077	10,226	10,111	10,123	10,182	11,296
Goodwill and acquired intangible assets, net	2,071,806	2,068,017	2,064,228	2,060,643	2,057,590	2,054,537	2,050,902	2,047,955
Other non-current assets	161,406	150,413	145,039	128,839	122,855	110,457	100,304	164,710
Total assets	<u>\$ 5,682,972</u>	<u>\$ 5,865,694</u>	<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>
<b>Liabilities and Shareholders' Equity</b>								
Current liabilities:								
Accounts payable	\$ 409,005	\$ 415,718	\$ 341,431	\$ 282,899	\$ 297,050	\$ 289,023	\$ 236,675	\$ 180,372
Accrued liabilities	288,076	293,378	293,143	286,357	258,345	287,007	285,473	253,691
Carnegie Mellon University accrued litigation settlement	-	-	-	-	-	733,557	734,715	736,000
Deferred income	92,679	82,887	70,834	68,120	61,093	59,652	58,086	55,722
Total current liabilities	789,760	791,983	705,408	637,376	616,488	1,369,239	1,314,949	1,225,785
Other non-current liabilities	123,725	112,177	109,489	100,922	94,289	82,720	80,092	76,219
Total liabilities	<u>913,485</u>	<u>904,160</u>	<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>
Shareholders' equity:								
Common stock	2,967,113	3,050,892	3,042,422	3,100,578	3,102,809	2,990,026	2,976,436	3,029,936
Accumulated other comprehensive income (loss)	409	627	(2,964)	308	80	(1,278)	(2,182)	(795)
Retained earnings	1,801,965	1,910,015	1,994,452	2,045,203	2,028,383	1,225,249	1,137,229	1,110,982
Total shareholders' equity	4,769,487	4,961,534	5,033,910	5,146,089	5,131,272	4,213,997	4,111,483	4,140,123
Total liabilities and shareholders' equity	<u>\$ 5,682,972</u>	<u>\$ 5,865,694</u>	<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>
GAAP inventory turns	5.7	5.1	4.9	5.0	4.3	5.5	5.0	4.9
GAAP days in inventory	64	71	75	72	84	66	73	74

Source: Marvell

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

	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16
GAAP Net income (loss)	\$ 99,479	\$ 138,870	\$ 115,304	\$ 81,693	\$ 14,090	\$ (771,940)	\$ (57,750)	\$ 4,200
(1) Cost of goods sold								
Share-based compensation	2,299	1,733	1,934	2,006	1,547	2,012	2,495	1,861
Restructuring and related charges	-	-	-	-	-	-	10,285	7
Amortization of acquired intangible assets	925	925	925	925	925	778	485	485
Litigation settlement	-	-	(3,998)	-	(1,700)	81,390	1,158	3,711
Other	-	-	-	1,000	-	-	-	-
(2) Research and development:								
Share-based compensation	20,368	24,276	24,198	25,590	24,781	27,807	22,573	23,631
Acquisition related costs	-	-	-	-	-	-	-	-
Restructuring and other exit related	4,682	412	88	67	-	11,680	31,806	3,703
Litigation matters	-	-	-	-	-	5,000	-	-
Other	-	-	-	-	-	134	894	3,485
(3) Selling and marketing:								
Share-based compensation	2,928	2,617	2,855	3,069	2,577	2,707	2,608	3,214
Restructuring and other exit related	48	(48)	-	-	-	-	1,899	118
Litigation settlement	-	-	1,600	-	-	-	-	-
Other	-	-	-	-	-	-	39	393
(4) General and administrative:								
Share-based compensation	4,374	6,394	5,307	7,298	4,316	4,148	3,789	3,713
Acquisition related costs	-	-	-	-	-	-	-	-
Restructuring and other exit related	358	371	1,115	3,345	592	1,320	1,565	568
Litigation settlement	2,000	475	-	-	-	661,727	-	80
Other	-	2,155	2,318	2,764	18,302	2,748	2,901	2,876
(5) Other operating costs and expenses:								
Amortization and write-off of acquired intangible assets	6,689	3,304	3,304	3,100	2,568	2,568	3,150	2,462
(6) Gain from sale of a product line:	-	-	-	-	-	-	-	-
(7) Provision for income taxes:								
Other	-	-	-	-	3,080	7,323	1,108	-
<b>Non-GAAP Net income</b>	<b>\$ 144,150</b>	<b>\$ 181,484</b>	<b>\$ 154,950</b>	<b>\$ 130,857</b>	<b>\$ 71,078</b>	<b>\$ 39,402</b>	<b>\$ 29,005</b>	<b>\$ 54,507</b>
<b>Non-GAAP Operating income</b>	<b>\$ 137,658</b>	<b>\$ 163,068</b>	<b>\$ 155,186</b>	<b>\$ 129,002</b>	<b>\$ 67,160</b>	<b>\$ 30,832</b>	<b>\$ 26,573</b>	<b>\$ 52,577</b>
GAAP Weighted average shares — diluted	520,751	520,269	519,907	522,112	527,167	516,368	504,831	508,590
Non-GAAP adjustment	9,625	13,201	12,905	10,688	7,993	16,574	13,674	9,978
<b>Non-GAAP Weighted average shares — diluted</b>	<b>530,376</b>	<b>533,470</b>	<b>532,812</b>	<b>532,800</b>	<b>535,160</b>	<b>532,942</b>	<b>518,505</b>	<b>518,568</b>

Source: Marvell

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