

Marvell Technology Group

Fiscal 2017 Fourth Quarter Results

March 2, 2017



MARVELL

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: Marvell's expectations regarding its first quarter of fiscal 2018 financial outlook; and Marvell's use of Non-GAAP financial measures as important supplemental information. 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: adverse impacts of litigation or regulatory activities; Marvell's ability to implement its restructuring in a timely manner; the amount and timing of anticipated charges associated with the restructuring; Marvell's ability to increase its operational efficiency and decrease its operating expenses to the anticipated level; its ability to divest certain non-strategic businesses within the anticipated timeframes and with the anticipated cost savings; actions that may be taken by Marvell as a result of the Audit Committee's investigation; Marvell's ability to compete in products and prices in an intensely competitive industry; Marvell's reliance on the hard disk drive 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; severe financial hardship or bankruptcy of one or more of Marvell's major customers; 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; risks associated with acquisition and consolidation activity in the semiconductor industry; 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-Q for the fiscal quarter ended October 29, 2016 as filed with the SEC on December 6, 2016, 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.

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.

Discontinued Operations

The Company's financial results for prior periods presented herein have been recast to reflect certain businesses that were classified as discontinued operations during the fourth quarter of fiscal year 2017.

FQ4' 2017 Financial Results

Fiscal 2017 Fourth Quarter Financial Highlights

- **Net Revenue of \$571M - above the midpoint of our guidance range**
- **GAAP gross margin of 57.3%, Non-GAAP gross margin of 57.6%**
- **GAAP net loss of \$77M from continuing operations, Non-GAAP net income from continuing operations of \$114M**
- **GAAP diluted loss per share of \$0.15 from continuing operations, Non-GAAP diluted earnings per share from continuing operations of \$0.22, above high end of our guidance range**
- **Returned \$155M cash to shareholders, \$30M in dividends and \$125M in stock repurchase**

Source: Marvell

Fiscal 2017 Fourth Quarter Business Highlights

Storage

- Storage revenue grew 8% year-over-year driven by better than expected HDD demand and the ramp of SSD business
- SSD controller revenue accounts for greater than 20% of total storage revenue

Networking

- Networking revenue grew 13% year-over-year driven by new product revenue ramp in enterprise & SMB markets
- Production ramps of 10G switch and embedded processor design wins

Wireless Connectivity

- Wireless connectivity revenue was down 19% year-over-year, driven by the decline of mobile WiFi revenue
- Completed the transition to ramp down WiFi revenue in mobile platform

Source: Marvell

Quarterly Revenue Trend

% of Total	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	FY16	FY17
Storage ¹	49%	45%	40%	48%	47%	46%	53%	54%	45%	50%
Networking ²	20%	19%	19%	22%	27%	26%	23%	26%	20%	25%
Wireless Connectivity ³	15%	19%	19%	13%	14%	15%	14%	12%	17%	14%
Other ⁴	16%	17%	22%	17%	12%	13%	10%	8%	18%	11%
Total Revenue (\$M)										
Total Revenue ⁵	\$710	\$688	\$649	\$603	\$519	\$601	\$626	\$571	\$2,649	\$2,318

(1) Storage products are comprised primarily of HDD, SSD Controllers and Enterprise Storage Solutions.

(2) Networking products are comprised primarily of Ethernet Switches, Ethernet Transceivers, Embedded ARM Processors and Automotive Ethernet, as well as a few legacy product lines in which we no longer invest, but will generate a long tail of revenue for several years.

(3) Wireless Connectivity products are comprised primarily of WiFi solutions including WiFi only, WiFi/Bluetooth combos and WiFi Microcontroller combos.

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

(5) Excludes the revenue of certain non-strategic businesses that were classified as discontinued operations.

FQ1' 2018 Financial Outlook

FQ1' 2018 Outlook

	GAAP from Continuing Operations	Non-GAAP from Continuing Operations
Revenue	\$570M +/- 2%	\$570M +/- 2%
Gross Margin	~ 59.0%	~ 59.0%
Operating Expense	\$250M to \$265M	\$220M to \$225M
Earnings per diluted share	\$0.12 to \$0.18	\$0.19 to \$0.23

Source: Marvell

Financial Schedules

Unaudited Statement of Operations

(In thousands, except per share amounts)

	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17
Net revenue	\$ 709,563	\$ 687,923	\$ 649,217	\$ 602,513	\$ 519,383	\$ 600,799	\$ 626,092	\$ 571,400
Cost of goods sold	341,136	446,003	363,090	292,288	244,354	272,977	268,313	243,883
Gross profit (loss)	368,427	241,920	286,127	310,225	275,029	327,822	357,779	327,517
Operating expenses:								
Research and development	264,102	281,692	270,551	225,577	227,354	214,122	209,905	228,669
Selling and marketing	35,095	29,753	31,416	29,849	30,094	29,826	29,237	29,154
General and administrative	40,863	36,383	34,592	37,566	35,399	36,916	28,754	80,347
Carnegie Mellon University litigation settlement	-	654,667	-	-	-	-	-	-
Amortization and write-off of acquired intangible assets	2,405	2,406	2,987	2,300	2,298	2,299	2,299	1,480
Total operating expenses	342,465	1,004,901	339,546	295,292	295,145	283,163	270,195	339,650
Operating income (loss)	25,962	(762,981)	(53,419)	14,933	(20,116)	44,659	87,584	(12,133)
Interest and other income, net	5,167	6,790	4,644	1,084	1,488	6,284	5,470	3,780
Income (loss) from continuing operations before income taxes	31,129	(756,191)	(48,775)	16,017	(18,628)	50,943	93,054	(8,353)
Provision (benefit) for income taxes	4,017	5,293	3,181	(1,156)	(5,357)	(5,745)	15,600	68,524
Income (loss) from continuing operations	27,112	(761,484)	(51,956)	17,173	(13,271)	56,688	77,454	(76,877)
Loss from discontinued operations, net of tax	(13,022)	(10,456)	(5,794)	(12,973)	(9,408)	(5,383)	(4,838)	(3,214)
Net income (loss)	\$ 14,090	\$ (771,940)	\$ (57,750)	\$ 4,200	\$ (22,679)	\$ 51,305	\$ 72,616	\$ (80,091)
Net income (loss) per share - Basic:								
Continuing operations	\$ 0.05	(1.47)	(0.10)	0.03	(0.03)	0.11	0.15	(0.15)
Discontinued operations	(0.02)	(0.02)	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)	(0.01)
Net income (loss) per share - basic	\$ 0.03	\$ (1.49)	\$ (0.11)	\$ 0.01	\$ (0.04)	\$ 0.10	\$ 0.14	\$ (0.16)
Net income (loss) per share - Diluted:								
Continuing operations	0.05	(1.47)	(0.10)	0.03	(0.03)	0.11	0.15	(0.15)
Discontinued operations	(0.02)	(0.02)	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)	(0.01)
Net income (loss) per share - diluted	\$ 0.03	\$ (1.49)	\$ (0.11)	\$ 0.01	\$ (0.04)	\$ 0.10	\$ 0.14	\$ (0.16)
Weighted average shares — basic	516,228	516,368	504,831	506,352	508,794	511,235	511,090	507,834
Weighted average shares — diluted	527,167	516,368	504,831	508,590	508,794	514,314	522,091	507,834

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	1,510	1,985	2,466	1,826	1,784	2,720	2,189	1,641
Research and development	23,335	26,078	20,917	21,724	22,376	25,923	18,039	11,798
Selling and marketing	2,406	2,496	2,391	2,949	2,716	3,069	2,725	1,733
General and administrative	4,296	4,121	3,769	3,692	(4,696)	2,448	3,062	7,233

Unaudited Statement of Cash Flows

(In thousands)

	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17
Cash flows from operating activities:								
Net income (loss)	\$ 14,090	\$ (771,940)	\$ (57,750)	\$ 4,200	\$ (22,679)	\$ 51,305	\$ 72,616	\$ (80,091)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:								
Depreciation and amortization	26,620	25,191	25,565	22,800	27,114	26,866	27,188	26,683
Share-based compensation	33,221	36,674	31,465	32,419	24,453	37,196	28,263	24,058
Amortization and write-off of acquired intangible assets	3,053	3,053	3,635	2,947	2,946	2,946	2,784	1,965
Other expense (income), net	(561)	2,282	4,205	7,885	1,361	589	(930)	(1,013)
Impairment of long-lived assets and restructuring related charges	573	900	14,270	289	896	129	1,056	50,500
Excess tax benefits from share-based compensation	(18)	(7)	(2)	1	-	(5)	(5)	(27)
Changes in assets and liabilities:								
Accounts receivable	27,141	(23,907)	36,793	57,628	42,642	(68,025)	(13,512)	26,811
Inventories	(31,318)	12,903	39,457	69,544	13,598	(6,364)	3,710	18,381
Prepaid expenses and other assets	1,969	9,359	6,804	(35,245)	(15,693)	6,658	6,457	12,300
Accounts payable	17,125	(5,167)	(55,693)	(62,163)	19,922	20,437	(29,818)	(38,694)
Accrued liabilities and other non-current liabilities	(11,576)	19,634	3,958	(27,218)	(22,502)	(7,741)	6,508	64,238
Carnegie Mellon University accrued litigation settlement	-	733,557	1,158	1,285	(736,000)	-	-	-
Accrued employee compensation	(14,424)	(14,507)	14,295	(18,702)	7,152	(22,270)	25,537	7,597
Deferred income	(7,027)	(1,441)	(1,566)	(2,364)	(1,234)	17,561	(8,393)	6,138
Net cash provided by (used in) operating activities	58,868	26,584	66,594	53,306	(658,024)	59,282	121,461	118,846
Cash flows from investing activities:								
Purchases of available-for-sale securities	(392,900)	(173,465)	(356,465)	(133,215)	(93,365)	(110,358)	(140,087)	(146,046)
Sales and maturities of available-for-sale securities	247,495	222,295	356,409	477,301	370,059	116,506	170,472	199,217
Purchase of time deposits	-	-	-	-	(50,000)	(75,000)	(75,000)	(75,000)
Maturities of time deposits	-	-	-	-	-	-	50,000	75,000
Distribution from (investments in) privately-held-companies	-	208	(130)	(119)	-	-	274	(258)
Purchases of technology licenses	(3,606)	(2,071)	(980)	(1,579)	(4,050)	(3,995)	(394)	(1,870)
Purchases of property and equipment	(7,334)	(16,986)	(9,041)	(3,894)	(11,868)	(12,509)	(13,347)	(6,786)
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	(166,585)	29,981	(200)	338,494	210,776	(85,356)	(8,082)	44,257
Cash flows from financing activities:								
Repurchase of common stock	(20,273)	(175,311)	(65,291)	-	-	-	(56,531)	(125,033)
Proceeds from employee stock plans	13,013	44,161	2,174	21,369	315	244	11,277	62,383
Minimum tax withholding paid on behalf of employees for net share settlement	(22,310)	(697)	(869)	(482)	(15,270)	(112)	(899)	(402)
Dividend payment to shareholders	(30,910)	(31,194)	(30,270)	(30,447)	(30,461)	(30,675)	(30,699)	(30,457)
Payments on technology license obligations	(4,067)	(4,732)	(2,617)	(1,112)	(5,294)	(4,858)	(3,696)	(7,117)
Excess tax benefits from share-based compensation	18	7	2	(1)	-	5	5	27
Net cash provided by (used in) financing activities	(64,529)	(167,766)	(96,871)	(10,673)	(50,710)	(35,396)	(80,543)	(100,599)
Net increase (decrease) in cash and cash equivalents	(172,246)	(111,201)	(30,477)	381,127	(497,958)	(61,470)	32,836	62,504
Cash and cash equivalents at beginning of period	1,210,977	1,038,731	927,530	897,053	1,278,180	780,222	718,752	751,588
Cash and cash equivalents at end of period	\$ 1,038,731	\$ 927,530	\$ 897,053	\$ 1,278,180	\$ 780,222	\$ 718,752	\$ 751,588	\$ 814,092
Unaudited Supplemental Financial Information								
GAAP net cash provided by operating activities	\$ 58,868	\$ 26,584	\$ 66,594	\$ 53,306	\$ (658,024)	\$ 59,282	\$ 121,461	\$ 118,846
Purchases of technology licenses	(3,606)	(2,071)	(980)	(1,579)	(4,050)	(3,995)	(394)	(1,870)
Purchases of property and equipment	(7,334)	(16,986)	(9,041)	(3,894)	(11,868)	(12,509)	(13,347)	(6,786)
Payment on technology license obligations	(4,067)	(4,732)	(2,617)	(1,112)	(5,294)	(4,858)	(3,696)	(7,117)
Free cash flow	\$ 43,861	\$ 2,795	\$ 53,956	\$ 46,721	\$ (679,236)	\$ 37,920	\$ 104,024	\$ 103,073

Source: Marvell

Unaudited Balance Sheet

(In thousands)

	<u>Q1'16</u>	<u>Q2'16</u>	<u>Q3'16</u>	<u>Q4'16</u>	<u>Q1'17</u>	<u>Q2'17</u>	<u>Q3'17</u>	<u>Q4'17</u>
Assets								
Current assets:								
Cash, cash equivalents, and short-term investments	\$ 2,500,915	\$ 2,337,647	\$ 2,303,752	\$ 2,282,749	\$ 1,615,240	\$ 1,624,009	\$ 1,650,372	\$ 1,668,360
Accounts receivable, net	393,814	417,721	380,928	323,300	280,658	348,683	362,195	335,384
Inventories	325,011	311,060	266,278	200,958	186,692	188,505	189,576	171,969
Prepaid expenses and other current assets	91,151	86,106	71,450	102,560	57,139	54,870	49,731	58,771
Current assets held for sale	53,001	53,118	49,114	45,095	46,546	50,734	45,694	45,846
Total current assets	3,363,892	3,205,652	3,071,522	2,954,662	2,186,275	2,266,801	2,297,568	2,280,330
Property and equipment, net	323,193	319,909	307,612	296,778	281,133	271,450	262,066	243,397
Long-term investments	10,111	10,123	10,182	11,296	8,974	8,974	8,974	4,615
Goodwill and acquired intangible assets, net	2,023,056	2,020,650	2,017,661	2,015,360	2,013,061	2,010,762	2,008,464	2,006,984
Other non-current assets	121,797	109,622	99,547	164,031	167,678	158,689	177,374	113,324
Total assets	<u>\$ 5,842,049</u>	<u>\$ 5,665,956</u>	<u>\$ 5,506,524</u>	<u>\$ 5,442,127</u>	<u>\$ 4,657,121</u>	<u>\$ 4,716,676</u>	<u>\$ 4,754,446</u>	<u>\$ 4,648,650</u>
Liabilities and Shareholders' Equity								
Current liabilities:								
Accounts payable	\$ 297,050	\$ 289,023	\$ 236,675	\$ 180,372	\$ 193,697	\$ 212,950	\$ 183,252	\$ 143,484
Accrued liabilities	258,345	287,007	285,473	253,691	236,514	219,489	256,339	283,138
Carnegie Mellon University accrued litigation settlement	-	733,557	734,715	736,000	-	-	-	-
Deferred income	59,023	58,416	57,090	53,973	52,926	70,212	62,066	68,124
Current liabilities held for sale	2,070	1,236	996	1,749	1,562	1,837	1,590	1,670
Total current liabilities	616,488	1,369,239	1,314,949	1,225,785	484,699	504,488	503,247	496,416
Other non-current liabilities	94,289	82,720	80,092	76,219	72,604	53,100	70,705	124,583
Total liabilities	710,777	1,451,959	1,395,041	1,302,004	557,303	557,588	573,952	620,999
Shareholders' equity:								
Common stock	3,102,809	2,990,026	2,976,436	3,029,936	3,039,754	3,076,601	3,058,552	3,017,787
Accumulated other comprehensive income (loss)	80	(1,278)	(2,182)	(795)	2,222	4,015	1,553	23
Retained earnings	2,028,383	1,225,249	1,137,229	1,110,982	1,057,842	1,078,472	1,120,389	1,009,841
Total shareholders' equity	5,131,272	4,213,997	4,111,483	4,140,123	4,099,818	4,159,088	4,180,494	4,027,651
Total liabilities and shareholders' equity	<u>\$ 5,842,049</u>	<u>\$ 5,665,956</u>	<u>\$ 5,506,524</u>	<u>\$ 5,442,127</u>	<u>\$ 4,657,121</u>	<u>\$ 4,716,676</u>	<u>\$ 4,754,446</u>	<u>\$ 4,648,650</u>
GAAP inventory turns	5.3	5.6	5.0	5.0	5.0	5.8	5.7	5.4
GAAP days in inventory	69	65	72	73	72	63	64	67

Unaudited GAAP to Non-GAAP Reconciliations

(In thousands, except per share amounts)

	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17
GAAP Net income (loss)	\$ 14,090	\$ (771,940)	\$ (57,750)	\$ 4,200	\$ (22,679)	\$ 51,305	\$ 72,616	\$ (80,091)
Net loss from discontinued operations	13,022	10,456	5,794	12,973	9,408	5,383	4,838	3,214
GAAP net income (loss) from continuing operations	27,112	(761,484)	(51,956)	17,173	(13,271)	56,688	77,454	(76,877)
(1) Cost of goods sold								
Share-based compensation	1,510	1,985	2,466	1,826	1,784	2,720	2,189	1,641
Restructuring and related charges	-	-	10,285	7	-	-	-	-
Amortization of acquired intangible assets	440	293	-	-	-	-	-	-
Other costs of goods sold	(1,700)	81,390	1,158	3,710	-	-	-	-
(2) Research and development:								
Share-based compensation	23,335	26,078	20,917	21,724	22,376	25,923	18,039	11,798
Restructuring and other exit related	-	11,680	31,806	3,703	813	(329)	1,056	47,112
Other operating expenses	-	5,134	894	3,486	(49)	174	-	299
(3) Selling and marketing:								
Share-based compensation	2,406	2,496	2,391	2,949	2,716	3,069	2,725	1,733
Restructuring and other exit related	-	-	1,899	118	-	27	-	2,467
Other operating expenses	-	-	39	393	304	(72)	-	16
(4) General and administrative:								
Share-based compensation	4,296	4,121	3,769	3,692	(4,696)	2,448	3,062	7,233
Restructuring and other exit related	592	1,320	1,565	568	3,628	1,023	108	49,281
CMU Litigation settlement	-	654,667	-	-	-	-	-	-
Other operating expenses	18,302	9,808	2,901	2,957	987	(115)	-	-
(5) Other operating costs and expenses:								
Amortization and write-off of acquired intangible assets	2,405	2,406	2,987	2,300	2,298	2,299	2,299	1,480
(6) Provision for income taxes:								
Other operating expense	3,080	7,323	1,108	-	(1,071)	-	-	67,989
Non-GAAP Net income from continuing operations	\$ 81,778	\$ 47,217	\$ 32,229	\$ 64,606	\$ 15,819	\$ 93,855	\$ 106,932	\$ 114,172
Non-GAAP Operating income from continuing operations	\$ 77,548	\$ 38,397	\$ 29,658	\$ 62,366	\$ 10,045	\$ 81,826	\$ 117,062	\$ 110,927
GAAP Weighted average shares — diluted	527,167	516,368	504,831	508,590	508,794	514,314	522,091	507,834
Non-GAAP adjustment	7,993	16,574	13,674	9,978	13,569	12,139	9,740	20,307
Non-GAAP Weighted average shares — diluted	535,160	532,942	518,505	518,568	522,363	526,453	531,831	528,141

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.

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