

MARVELL TECHNOLOGY GROUP LTD
Form 10-Q
September 12, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended August 4, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 000-30877

Marvell Technology Group Ltd.

(Exact name of registrant as specified in its charter)

Bermuda 77-0481679

(State or other jurisdiction of (I.R.S. Employer incorporation or organization) Identification No.)

Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda

(441) 296-6395

(Address of principal executive offices, Zip Code and registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of common shares of the registrant outstanding as of September 5, 2018 was 658.4 million shares.

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

MARVELL TECHNOLOGY GROUP LTD.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value per share)

	August 4, 2018	February 3, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$498,659	\$888,482
Short-term investments	25,000	952,790
Accounts receivable, net	443,276	280,395
Inventories	473,429	170,039
Prepaid expenses and other current assets	72,388	41,482
Assets held for sale	31,182	30,767
Total current assets	1,543,934	2,363,955
Property and equipment, net	327,645	202,222
Goodwill	5,497,608	1,993,310
Acquired intangible assets, net	2,718,061	—
Other non-current assets	275,598	148,800
Total assets	\$10,362,846	\$4,708,287
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$196,297	\$145,236
Accrued liabilities	277,098	86,958
Accrued employee compensation	127,381	127,711
Deferred income	3,511	61,237
Liabilities held for sale	3,935	—
Total current liabilities	608,222	421,142
Long-term debt	1,878,617	—
Non-current income taxes payable	52,438	56,976
Deferred tax liabilities	114,312	52,204
Other non-current liabilities	44,191	36,552
Total liabilities	2,697,780	566,874
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Common shares, \$0.002 par value	1,316	991
Additional paid-in capital	6,153,890	2,733,292
Accumulated other comprehensive loss	—	(2,322)
Retained earnings	1,509,860	1,409,452
Total shareholders' equity	7,665,066	4,141,413
Total liabilities and shareholders' equity	\$10,362,846	\$4,708,287
See accompanying notes to unaudited condensed consolidated financial statements		

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MARVELL TECHNOLOGY GROUP LTD.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Net revenue	\$665,310	\$604,750	\$1,269,941	\$1,177,459
Cost of goods sold	288,200	239,572	517,138	466,770
Gross profit	377,110	365,178	752,803	710,689
Operating expenses:				
Research and development	216,285	180,871	393,019	368,967
Selling, general and administrative	133,701	55,659	206,014	110,763
Restructuring related charges	35,415	4,285	36,982	5,171
Total operating expenses	385,401	240,815	636,015	484,901
Operating income (loss) from continuing operations	(8,291)	124,363	116,788	225,788
Interest income	3,575	3,830	9,644	7,342
Interest expense	(15,795)	(80)	(16,039)	(131)
Other income (loss), net	(2,701)	3,438	(1,230)	3,310
Interest and other income (loss), net	(14,921)	7,188	(7,625)	10,521
Income (loss) from continuing operations before income taxes	(23,212)	131,551	109,163	236,309
Provision (benefit) for income taxes	(29,971)	(3,899)	(26,208)	1,267
Income from continuing operations, net of tax	6,759	135,450	135,371	235,042
Income from discontinued operations, net of tax	—	29,809	—	36,838
Net income	\$6,759	\$165,259	\$135,371	\$271,880
Net income per share - Basic:				
Continuing operations	\$0.01	\$0.27	\$0.26	\$0.47
Discontinued operations	\$—	\$0.06	\$—	\$0.07
Net income per share - Basic	\$0.01	\$0.33	\$0.26	\$0.54
Net income per share - Diluted:				
Continuing operations	\$0.01	\$0.26	\$0.25	\$0.46
Discontinued operations	\$—	\$0.06	\$—	\$0.07
Net income per share - Diluted	\$0.01	\$0.32	\$0.25	\$0.53
Weighted average shares:				
Basic	552,238	500,817	524,787	502,303
Diluted	562,149	510,309	535,433	513,951
Cash dividends declared per share	\$0.06	\$0.06	\$0.12	\$0.12

See accompanying notes to unaudited condensed consolidated financial statements

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MARVELL TECHNOLOGY GROUP LTD.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Net income	\$6,759	\$165,259	\$135,371	\$271,880
Other comprehensive income (loss), net of tax:				
Net change in unrealized gain (loss) on marketable securities	2,404	556	2,322	(117)
Net change in unrealized gain (loss) on cash flow hedges	—	(765)	—	993
Net change in pension liability	—	1,272	—	—
Other comprehensive income, net of tax	2,404	1,063	2,322	876
Comprehensive income, net of tax	\$9,163	\$166,322	\$137,693	\$272,756
See accompanying notes to unaudited condensed consolidated financial statements				

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MARVELL TECHNOLOGY GROUP LTD.
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In thousands)

	Six Months Ended	
	August 4, 2018	July 29, 2017
Cash flows from operating activities:		
Net income	\$ 135,371	\$ 271,880
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	47,097	41,186
Share-based compensation	83,244	46,439
Amortization and write-off of acquired intangible assets	25,939	2,136
Amortization of inventory fair value adjustment associated with acquisition of Cavium	22,933	—
Amortization of deferred debt issuance costs and debt discounts	7,073	—
Restructuring related impairment charges (gain)	1,993	(446)
Gain from investment in privately-held company	(1,100)	(750)
Amortization of premium/discount on available-for-sale securities	624	803
Other non-cash expense (income), net	4,227	(1,423)
Deferred income taxes	(21,414)	2,791
Gain on sale of property and equipment	(120)	(283)
Gain on sale of discontinued operations	—	(42,187)
Gain on sale of business	—	(5,254)
Changes in assets and liabilities:		
Accounts receivable	(48,749)	(36,313)
Inventories	6,866	(14,712)
Prepaid expenses and other assets	(19,504)	7,854
Accounts payable	(271)	3,968
Accrued liabilities and other non-current liabilities	(11,232)	(33,418)
Accrued employee compensation	(41,539)	(8,375)
Deferred income	(729)	1,284
Net cash provided by operating activities	190,709	235,180
Cash flows from investing activities:		
Purchases of available-for-sale securities	(14,956)	(376,227)
Sales of available-for-sale securities	623,896	116,700
Maturities of available-for-sale securities	187,985	169,612
Return of investment from privately-held companies	—	2,388
Purchases of time deposits	(25,000)	(150,000)
Maturities of time deposits	150,000	150,000
Purchases of technology licenses	(1,263)	(1,701)
Purchases of property and equipment	(34,389)	(14,544)
Proceeds from sales of property and equipment	223	1,739
Cash payment for acquisition of Cavium, net of cash and cash equivalents acquired	(2,649,465)	—
Net proceeds from sale of discontinued operations	—	72,205
Net proceeds from sale of business		