

Marvell Technology (MRVL)

\$34.61 (As of 06/02/20)

Price Target (6-12 Months): **\$36.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/07/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: F

Momentum: B

Summary

Strong demand for its networking products from the datacenter and 5G infrastructure end markets drove Marvell's fiscal Q1 results. Strong supply-chain execution enabled the company to address the strong demand from cloud datacenters for its Smart NICs and security adapters. Moreover, the wireless infrastructure business grew sequentially. Also, Marvell's recent acquisitions of Avera and Aquantia are boosting the top line. Further, Marvell expects the storage business to start recovering from coronavirus impacts on the supply chain in the near term. However, seasonal weakness and supply-chain impairments in the storage business due to the coronavirus outbreak were headwinds. Also, the U.S. government's export restriction on certain Chinese customers is likely to continue to be an overhang on the top line.

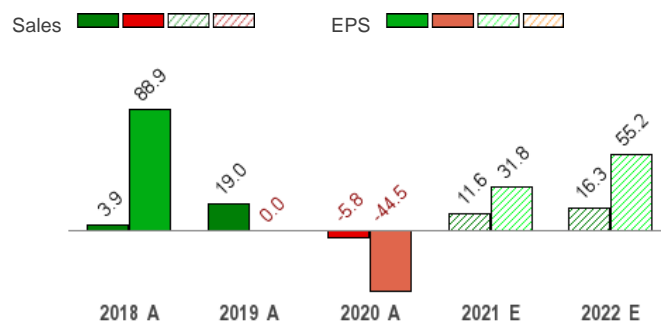
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$35.68 - \$16.45
20 Day Average Volume (sh)	10,418,910
Market Cap	\$23.0 B
YTD Price Change	30.3%
Beta	1.08
Dividend / Div Yld	\$0.24 / 0.7%
Industry	Semiconductor - Communications
Zacks Industry Rank	Top 18% (46 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	28.6%
Last Sales Surprise	2.3%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	09/03/2020
Earnings ESP	9.1%
P/E TTM	50.9
P/E F1	39.8
PEG F1	5.5
P/S TTM	8.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	805 E	850 E	913 E	919 E	3,502 E
2021	694 A	721 E	773 E	821 E	3,012 E
2020	662 A	657 A	662 A	718 A	2,699 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.28 E	\$0.32 E	\$0.38 E	\$0.37 E	\$1.35 E
2021	\$0.18 A	\$0.17 E	\$0.24 E	\$0.30 E	\$0.87 E
2020	\$0.16 A	\$0.16 A	\$0.17 A	\$0.17 A	\$0.66 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/02/2020. The reports text is as of 06/03/2020.

Overview

California-based Marvell Technology is a fabless designer, developer and marketer of analog, mixed-signal and digital signal processing integrated circuits. The company operates in Bermuda, China, Germany, Japan, Korea, Taiwan, the United Kingdom, and the United States.

The acquisition of Cavium in July 2018 helped Marvell enhance its product portfolio and access to newer markets. Before the Cavium acquisition, Marvell was mainly known as the leading suppliers of chips for hard disk drives (HDD) used in PCs. Cavium was specialized in offering software compatible processors that enable functionality in data center applications and network connectivity for server and switches.

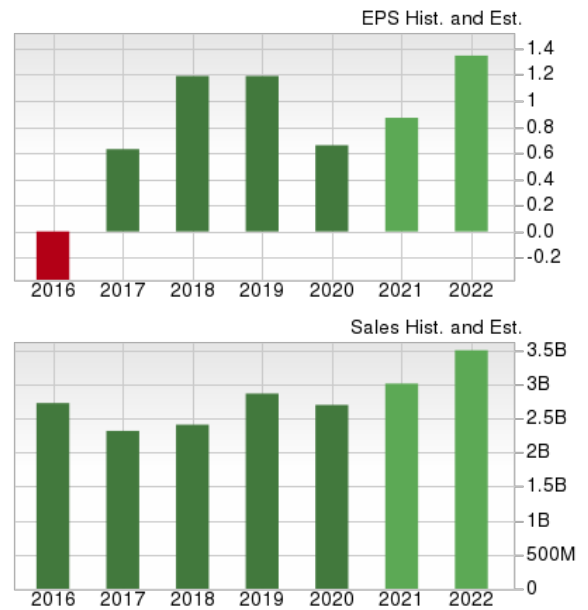
Therefore, the acquisition helped Marvell expanding its capabilities in the networking market and capture significant market share in the fast-growing data-center space. The strategy also helped Marvell in countering declining chips demand in HDDs due to a weaker PC market. Additionally, the move might put Marvell in a stronger competitive position in the coming years.

Marvell specializes in highly integrated System-on-a-Chip (SoC) and System-in-a-Package (SiP) devices based primarily on ARM designs and sells to both enterprise and consumer customers. It has a significant number of patents in design, software and reference platforms to its credit.

The company's product line includes application processors, controllers, switches, communications and networking processors and technologies, as well as other SoCs for printers and smart home products. These serve two broad end markets — storage and networking.

Marvell has three reportable segments — Storage, Networking, and Others. In fiscal 2020, revenues from storage made up 42% of total revenues and networking, 51%. The remaining 7% of revenues came from Others (Printing Solutions Application Processors, Communication Processors, and others).

End Customers such as Western Digital, Toshiba and Seagate each accounted for less than 10%, of Marvell's consolidated fiscal 2020 revenues.



Reasons To Buy:

- ▲ Marvell is a promising player in the solid state drive (SSD) controllers market. The storage market is seeing a steady increase in demand, given fast-growing data volume, especially the exponential growth in unstructured data.
- ▲ Being a fabless company, it does not have to own or operate foundries for the production of silicon. Instead, it works with independent merchant foundries and chip assemblers for the manufacturing of products. Marvell's customers are original equipment manufacturers ("OEM's") and original design manufacturers, both of which design and manufacture end market devices. This benefits the company with superior manufacturing capability, scalability, as well as flexibility to develop complex SoC and SiP devices that offer superior technology and services at competitive prices. It also frees up resources for research and development (R&D) activity that would otherwise have been locked up in capital assets. This approach permits the company to focus more on the designing, developing and marketing side, which reduces operational and financial risk.
- ▲ Marvell has initiated restructuring activities to boost operational efficiency. It is concentrating on high-growth markets like IoT. Research firm IDC quoted the Wall Street Journal that the market could nearly triple, going ahead. In 2014, the global IoT market was worth \$655.8 billion and might hit \$1.7 trillion by 2020. In its recent report, Bain predicts the global IoT market will grow to about \$520 billion in 2021, more than doubling the 2017 value of \$235 billion. Marvell's efforts to capitalize on the emerging opportunities are encouraging. We believe that these initiatives will provide the company with adequate growth opportunities in the long run.
- ▲ Marvell expects strong growth in 5G-related revenues in the second half of fiscal 2021, driven by continued deployment in Korea and the beginning of higher 5G adoption in Japan and other countries. This makes us optimistic about the company's prospects.
- ▲ Marvell can be considered as a below-average leveraged company as its current total debt to total capital ratio of 0.14 is significantly lower than the industry average of 0.22. The company significantly reduced its long-term debt in the fourth quarter of fiscal 2020 to \$1.44 billion from \$2.04 billion as of Oct 31, 2019, and remained flat as of Apr 30, 2020. Though its low cash balance in comparison with its debt is concerning, the company's strong cash-flow generation capabilities have helped it serve financial obligations efficiently. As of Apr 30, 2020, Marvell had cash and equivalents of \$647.6 million and generated \$176 million of adjusted cash flow from operations in the first quarter of fiscal 2021. Moreover, its times interest earned ratio of 10.3X compares favorably with the industry average of -2.1. This signifies the company's ability to generate enough operating income to meet its financial obligations without any problems.
- ▲ Marvell's strong operating and free cash flows have helped it return cash through regular quarterly dividend payment and share repurchases. In fiscal 2020, the company generated \$360 million of operating cash flow and \$714 million of adjusted free cash flow. During the fiscal it distributed \$160 million in dividend payments and bought back \$364 million worth of its common stocks. In fiscal 2020, the company generated operating and free cash flows of \$360 million and \$714 million, respectively. Share repurchases and dividend payments are good way of returning cash to investors while boosting the company's earnings. The company's ability to generate solid free cash flow is expected to help it sustain current share repurchases and dividend payout level, at least in the near-term.

We believe solid demand for Marvell's 4G LTE products and increasing 5G adoptions across countries could be a growth driver.

Reasons To Sell:

- ▼ We believe global business disruptions due to the rapidly-spreading coronavirus could hurt Marvell's financials in the near run. It is believed the semiconductor industry has remained resilient of the coronavirus impact so far due to substantial chip inventory available in the supply chain. However, if the coronavirus stays for a longer period, it will affect the supply chain as well as demand. The coronavirus could impact the production of electronic manufacturing companies, thereby affecting demand for semiconductor chips and equipment.
- ▼ In the High Definition (HD) storage drive market, Broadcom is Marvell's main competitor as these two are the primary SoC (system on a chip) suppliers. Also, NXP Semiconductors, QUALCOMM and Texas Instruments offer various components to the market, making us increasingly cautious about growth prospect of Marvell Technology.
- ▼ Marvell depends on some big customers for a substantial portion of its net revenues. Marvell faces customer concentration risk as revenues from its top three customers accounted for approximately 33% of total revenue in fiscal 2019, which is significant. The loss of any customer may reduce orders, thereby impacting revenues and operating results.
- ▼ A substantial portion of the company's sales is derived from outside the U.S. During fiscal 2020, 2019 and 2018 approximately 90%, 85% and 95% respectively, of total revenue was garnered in currencies other than the U.S. dollar. This exposes the company to exchange rate fluctuations and counterparty default risk. Thus, an economic condition, which impacts foreign currency exchange rates, does result in transaction exposure, which leads to profit fluctuation.
- ▼ The oversupply in the NAND market which is leading to the loss of value of the SSD market, is a concern for the company. This trend is expected to continue for sometime now, which might be an overhang on its storage business. Impact of the export restrictions and accounting for the customer factory transition is expected to be an overhang on storage revenues.

Global business disruptions due to the rapidly-spreading coronavirus and economic weaknesses across the European and Asian regions are major headwinds.

Last Earnings Report

Marvell's Q1 Earnings & Revenues Surpass Estimates

Marvell reported first-quarter fiscal 2021 non-GAAP earnings of 18 cents, which surpassed the Zacks Consensus Estimate by 28.6%. However, it declined 12.5% from the year-ago quarter.

Marvell's revenues of \$694 million also outpaced the consensus mark of \$678 million. Moreover, the figure increased 4.7% year over year. Strong demand for its networking products from the datacenter and 5G infrastructure end markets drove the results.

However, seasonal weakness and supply-chain impairments in the storage business due to the coronavirus outbreak were headwinds.

Quarter Details

In the end markets, storage revenues (37% of total revenues) fell 7% year over year to \$259 million. The decline was mainly due to multiple manufacturing facilities in Southeast Asia coming under new shelter-in-place orders in connection with COVID-19. This negatively impacted the production of fiber channel adapters and hard disk drives.

However, Marvell's SSD business remained resilient and grew sequentially, driven by higher shipments into datacenter applications.

The networking business (57%) revenues rose 15% year over year to \$393.9 million, driven by strong supply-chain execution, which enabled the company to address the strong demand from cloud datacenters for its Smart NICs and security adapters. Moreover, the wireless infrastructure business grew sequentially.

Other product revenues (6%) during the fiscal first quarter decreased 3% on a year-over-year basis to \$44.5 million.

Margins

Marvell's non-GAAP gross profit was \$435.6 million, up 2.6% on a year-over-year basis. However, non-GAAP gross margin contracted 130 basis points (bps) to 62.8%.

Non-GAAP operating expenses increased 1.7% year over year to \$299.7 million. Non-GAAP operating margin remained flat year over year at 19.6%.

Balance Sheet

Marvell exited the quarter with cash and cash equivalents of \$667.5 million compared with \$647.6 million in the previous quarter.

The company's long-term debt totaled \$1.44 billion. Cash from operating activities amounted to \$175.6 million compared with \$55.8 million in the prior quarter.

During the quarter, Marvell returned \$60 million to shareholders through \$25 million in share repurchases and dividend payouts of around \$40 million.

Guidance

Marvell's guidance for the second quarter of fiscal 2021 takes into account the U.S. government's export restriction on certain Chinese customers. The company temporarily widened the guidance range for revenues due to the uncertainties associated with coronavirus.

The company projects second-quarter fiscal 2021 revenues of \$720 million (up or down up to 5%). The Zacks Consensus Estimate for revenues stands at \$688.43 million, suggesting growth of 4.85% from the year-ago quarter's reported figure.

Non-GAAP earnings per share are expected between 17 cents and 23 cents. The consensus mark of 14 cents indicates a 12.5% year-over-year decline.

Networking revenues for the second quarter are expected to witness low-single-digit growth sequentially, driven by 5G wireless infrastructure deployments.

Marvell also expects the storage business to start recovering from coronavirus impacts on the supply chain in the fiscal second quarter, although it anticipates the business to fully bounce back in the fiscal third quarter. Initial shipments of custom SSD controllers for system-level applications have started in the fiscal second quarter, which is encouraging. Storage revenues are expected to grow 10% sequentially in the fiscal second quarter.

Management expects Avera to contribute \$300 million to revenues for fiscal 2021. Moreover, Avera is expected to bring an additional \$4 billion to Marvell's addressable market across the datacenter, carrier, enterprise and automotive end markets.

In the third quarter of fiscal 2021, based on recent bookings and firm backlog position, Marvell expects its 5G business to continue to ramp up strongly.

Quarter Ending **04/2020**

Report Date	May 28, 2020
Sales Surprise	2.34%
EPS Surprise	28.57%
Quarterly EPS	0.18
Annual EPS (TTM)	0.68

Recent News

On Apr 16, Marvell announced that its QLogic Fibre Channel and FastLinQ Ethernet adapter solutions will enable NVMe over Fabrics (NVMe-oF) technology in VMwarevSphere 7.0, displaying its continued efforts to strengthen its end-to-end Ethernet storage capabilities.

On Mar 9, Marvell announced the dual 400GbE PHY transceiver with 100GbE serial electrical I/O capabilities, designed for secured high-density optical infrastructure.

On Feb 25, 2020, Marvell launched a new powerful processor for 5G wireless network – OCTEON Fusion processors built on the OCTEON TX2 platform.

On Feb 4, 2020, Marvell launched dual 400GbE MACsec PHY transceiver with 256-bit encryption and Class C compliant precision time protocol timestamping for data center and 5G infrastructure.

On Dec 6, 2019, Marvell announced completing the divestiture of its WiFi Connectivity business to NXP Semiconductors.

On Dec 3, Marvell announced that NVIDIA's GPU support on its ThunderX suite of Arm-based server processors is now available. The parallel processing capabilities of NVIDIA GPUs will greatly complement the computational performance and memory bandwidth of Marvell's 64-bit Armv8-A based server processor, ThunderX2, providing a powerful energy-efficient exascale computing.

On the same day, Marvell and NXP Semiconductors jointly announced that they have received all necessary regulatory approvals for NXP's acquisition of Marvell's Wi-Fi business.

On Nov 5, Marvell completed the acquisition of the Application Specific Integrated Circuit (ASIC) business of GLOBALFOUNDRIES, Avera Semiconductor, for approximately \$600 million. The acquisition will allow Marvell to offer a complete range of semiconductor solutions, including 5G, data center, enterprise and automotive applications.

Valuation

Marvell's shares have increased 30.3% year to date while they have jumped 47.8% over the trailing 12 months. Stocks in the Zacks sub-industry have increased 29% while the Zacks Computer & Technology sector is up 6.1% in the year-to-date period. Over the past year, while the Zacks sub-industry has increased 47.6%, the sector gained 26.1%.

The S&P 500 Index has plunged 4.4% year to date while has gained 9.9% in the past year.

The stock is currently trading at 34.29X forward 12-month earnings, which compares with 50.83X for the Zacks sub-industry, 24.7X for the Zacks sector and 22.3X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 90.66X and as low as 11.46X, with a 5-year median of 23.18X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$36 price target reflects 36X forward 12-months earnings.

The table below shows summary valuation data for MRVL

Valuation Multiples - MRVL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	34.29	50.83	24.7	22.3
	5-Year High	90.66	50.83	24.7	22.3
	5-Year Low	11.46	13.63	16.72	15.23
	5-Year Median	23.18	23.29	19.26	17.49
P/S F12M	Current	4.8	4.16	3.75	3.47
	5-Year High	6.43	4.96	3.75	3.47
	5-Year Low	1.41	1.50	2.32	2.53
	5-Year Median	3.36	2.71	3.11	3.02
EV/Sales TTM	Current	5.99	5.13	3.31	2.47
	5-Year High	7.60	5.64	4.44	3.46
	5-Year Low	0.57	0.90	2.57	2.16
	5-Year Median	3.08	2.70	3.55	2.83

As of 06/02/2020

Industry Analysis Zacks Industry Rank: Top 18% (46 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Broadcom Inc. (AVGO)	Neutral	3
Cirrus Logic, Inc. (CRUS)	Neutral	3
NVIDIA Corporation (NVDA)	Neutral	2
QUALCOMM Incorporated (QCOM)	Neutral	4
Silicon Motion Technology Corporation (SIMO)	Neutral	2
STMicroelectronics N.V. (STM)	Neutral	3
Texas Instruments Incorporated (TXN)	Neutral	3
Xilinx, Inc. (XLNX)	Neutral	3

Industry Comparison Industry: Semiconductor - Communications				Industry Peers		
	MRVL	X Industry	S&P 500	AVGO	QCOM	SIMO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	4	2
VGM Score	D	-	-	B	A	B
Market Cap	23.03 B	6.14 B	22.11 B	119.16 B	95.20 B	1.65 B
# of Analysts	12	7	14	12	9	5
Dividend Yield	0.69%	0.19%	1.93%	4.36%	2.93%	3.08%
Value Score	D	-	-	C	B	C
Cash/Price	0.03	0.18	0.06	0.06	0.11	0.21
EV/EBITDA	16.19	17.39	12.69	16.37	10.16	10.39
PEG Ratio	5.64	5.99	2.98	1.19	1.26	2.03
Price/Book (P/B)	2.70	2.70	3.07	4.89	31.26	2.92
Price/Cash Flow (P/CF)	28.74	18.89	11.86	8.77	20.28	21.01
P/E (F1)	41.15	31.27	21.79	13.79	23.24	14.19
Price/Sales (P/S)	8.43	3.49	2.29	5.26	3.85	3.32
Earnings Yield	2.51%	3.45%	4.39%	7.25%	4.30%	7.05%
Debt/Equity	0.17	0.12	0.76	1.74	4.42	0.00
Cash Flow (\$/share)	1.20	1.20	7.01	33.97	4.17	2.15
Growth Score	F	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	8.65%	21.02%	10.87%	25.01%	-8.67%	3.16%
Proj. EPS Growth (F1/F0)	31.82%	147.37%	-10.74%	1.50%	2.86%	22.15%
Curr. Cash Flow Growth	-24.70%	-17.76%	5.48%	8.07%	-22.34%	-44.00%
Hist. Cash Flow Growth (3-5 yrs)	6.05%	9.15%	8.55%	48.32%	-10.62%	8.52%
Current Ratio	2.14	2.95	1.29	1.56	1.57	4.53
Debt/Capital	14.43%	10.26%	44.75%	63.52%	81.54%	0.00%
Net Margin	55.66%	13.46%	10.59%	11.64%	16.36%	16.56%
Return on Equity	2.82%	4.04%	16.29%	32.46%	69.92%	14.75%
Sales/Assets	0.26	0.61	0.55	0.31	0.75	0.71
Proj. Sales Growth (F1/F0)	11.61%	0.00%	-2.67%	3.90%	-14.43%	20.45%
Momentum Score	B	-	-	B	B	B
Daily Price Chg	4.94%	2.73%	0.99%	2.78%	6.15%	2.29%
1 Week Price Chg	8.26%	4.46%	4.60%	5.28%	2.77%	-1.08%
4 Week Price Chg	31.75%	12.59%	9.15%	12.53%	9.02%	6.27%
12 Week Price Chg	49.12%	23.70%	4.65%	13.37%	7.28%	18.17%
52 Week Price Chg	47.78%	47.78%	-0.30%	12.18%	23.64%	14.59%
20 Day Average Volume	10,418,910	287,711	2,486,038	1,997,734	9,672,715	428,374
(F1) EPS Est 1 week change	1.12%	0.00%	0.00%	0.94%	0.00%	0.00%
(F1) EPS Est 4 week change	0.22%	5.07%	-0.33%	0.94%	0.00%	1.15%
(F1) EPS Est 12 week change	-10.69%	-14.82%	-16.13%	-10.00%	-16.30%	5.99%
(Q1) EPS Est Mthly Chg	62.91%	2.38%	-0.55%	2.29%	0.00%	1.04%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	F
Momentum Score	B
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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