Safe Harbor Statement

Please note that today’s discussion will contain forward-looking statements and that our actual results may differ materially from those expectations. For information on the factors that could cause a difference in our results, please refer to our filings with the Securities and Exchange Commission. These include Cadence’s most recent reports on Form 10-K and Form 10-Q, including the company’s future filings, and the cautionary comments regarding forward-looking statements in the earnings press release issued today.

In addition to the financial results prepared in accordance with Generally Accepted Accounting Principles, or GAAP, we will also present certain non-GAAP financial measures today. Cadence management believes that in addition to using GAAP results in evaluating our business, it can also be useful to review results using certain non-GAAP financial measures. Investors and potential investors are encouraged to review the reconciliation of non-GAAP financial measures with their most direct comparable GAAP financial results, which can be found in the quarterly earnings section of the investor relations portion of our website.

A copy of today’s press release dated April 20, 2020 for the quarter ended March 28, 2020, and related financial tables, and our CFO Commentary which was included in our 8-K filing today, can also be found in the investor relations portion of our website.
Prepared Remarks of Lip-Bu Tan, Chief Executive Officer

Good afternoon everyone and thank you for joining us today.

I am pleased to report that, in a difficult environment, Cadence achieved excellent financial results for the first quarter of 2020.

We are all going through truly unprecedented times and I hope that you and your families are safe and healthy. I will start by commenting on the rapidly evolving COVID-19 situation.

- Our first priority continues to be on ensuring the safety and well-being of our employees, customers and communities.
- At this time the vast majority of our global employee base is working from home and that transition has gone very smoothly.
- From a business continuity perspective, our infrastructure, collaboration platforms and tight communication have enabled us to maintain a high level of productivity, and our R&D innovation projects and customer deliverables continue to track well.
- Our sales and application engineering teams have also adapted well to this new work model and have continued engaging productively with customers on the business, training and support fronts.
- As I have stated earlier, there’s been a silicon renaissance in the industry, with strong design activity being driven by generational technology drivers such as 5G, AI, hyperscale computing and Industrial IoT.
- So far, even in the current environment, we do not see any slowdown in design activity, and I do believe this period to be an opportunity, especially for market-shaping customers to further invest in R&D and accelerate their innovation.
- Our business is predominantly tied to semiconductor R&D and in addition, our broadly diversified customer base, over $3.7 billion of backlog and highly ratable business model, all serve to highlight the resiliency of our business, particularly in challenging times.
After carefully assessing the situation, at this time, we feel comfortable reaffirming our revenue guidance for the year. In a few moments John will provide more details and commentary on our Q1 results and guidance for Q2 and the year.

Our Intelligent System Design strategy enables us to maximize these opportunities while tripling our TAM, through proliferation in our foundational Design Excellence segment, and expanding beyond EDA into System Innovation and Pervasive Intelligence.

Now let us look at some of our Design Excellence highlights for the quarter, starting with Digital & Signoff.

Our Cadence digital full flow, which has been proven through hundreds of advanced node tape-outs, was significantly enhanced to further optimize power, performance and area (or PPA) results across multiple application areas.

- The new full flow featuring our innovative iSpatial technology, which includes unified placement and physical optimization engines, plus machine learning capabilities, delivers up to 3X faster throughput and up to 20 percent improved PPA.
- The new full flow is being used by several leading customers and was endorsed by MediaTek and Samsung Electronics.
- Additional Digital & Signoff highlights for the quarter include:
  - A major Asian hyperscale company successfully used the Cadence digital full flow to tape-out a machine learning inferencing chip and is deploying the full flow at 7- and 5-nanometers,
  - A marquee Asian electronics systems company completed its first production Cadence digital full flow tapeout on a 5-nanometer low-power process, beating its power targets,
  - And a market-shaping semiconductor automotive customer committed to Cadence as its primary EDA vendor for digital design.
The Cadence Verification Suite wins in the market place because it delivers the best verification throughput, driven by its 4 “best in class” engines Xcelium, Jasper, Palladium, and Protium.

- In Q1 we had multiple Verification Suite wins across various verticals including cloud/data center, automotive, and networking.
- Our hardware family had a banner quarter, with the Palladium Z1 adding 4 new customers and 9 major expansions. Our Protium FPGA-based prototyping platform continued its strong momentum, adding 6 new customers and 6 repeat orders as the X1 is increasingly deployed in Palladium accounts.
- Protium X1’s strong momentum is a result of its unique differentiation in having a common front-end compiler with the Palladium Z1, while also providing superior performance and capacity scalability for early software development and hardware regressions.
- Both the Z1 and X1 platforms showed particular strength at hyperscale systems companies, in addition to momentum at market shaping semiconductor customers.

Our IP business delivered double digit revenue growth, as our compelling offerings continued to benefit from the ongoing IP outsourcing trend, with design wins and expansions at several top tier companies as well as at startups.

- Tensilica did particularly well and was adopted for multiple audio applications as well as by surveillance and mobile customers.
- In Design IP, there was strong demand for our DDR portfolio as well as our high-speed SerDes and PCIe IP, particularly in the datacenter, AI and high-performance computing segments.

Now I will highlight our progress in the System Innovation segment of our Intelligent System Design strategy.

- Earlier this year we completed the acquisitions of AWR and Integrand, and we have received very positive responses to the acquisitions from many of our partners and potential new customers. The integration is progressing well on all fronts and we are combining these technologies with our Virtuoso and Allegro platforms which will enable us to offer a comprehensive platform for designing high frequency RF millimeter wave products.
Our System Analysis tools carried forward their strong momentum into the new year and we now have more than 30 customers, including Renesas, Rohm, and Enflame. In addition to providing significantly better performance and capacity without compromising accuracy, Clarity and Celsius also provide a tighter integration with our flagship Virtuoso and Allegro design platforms.

With that I will now turn the call over to John to review the financial results and provide our updated outlook.

Prepared Remarks of John Wall, Senior Vice President and Chief Financial Officer

Thank you, Lip-Bu, and good afternoon everyone.

Let me begin with a few comments on the COVID-19 pandemic:

- Our first priority remains the health and safety of our employees, partners, and customers.
- And while some of our employees in China are already back working from our Cadence offices in the region, a vast majority of our global workforce are currently working in a remote environment.
- Our team continues to be very effective even though many are working from home. For this, we are very proud and very grateful.
- Even with the global disruption and uncertainty created by the COVID-19 pandemic, I am pleased to report we met, or exceeded, all, of our key operating metrics in Q1.

Now let’s review the key results for the first quarter, beginning with the P&L:

- Total revenue was $618 million,
- Non-GAAP operating margin was 32.2 percent,
- GAAP EPS was 44 cents, and
- Non-GAAP EPS was 60 cents.
Next, turning to the balance sheet and cash flow:

- In mid-March, we borrowed $350 million under our revolving credit facility as a precautionary measure to provide additional liquidity in light of the recent global economic uncertainty caused by the COVID-19 pandemic.
- As a result, at the end of the quarter, our cash balance totaled $946 million while the principal value of debt outstanding was $700 million,
- Operating cash flow for Q1 was $218 million,
- DSOs were 42 days, and
- During Q1 we repurchased $100 million of Cadence shares.

Before I provide our guidance for Q2 and fiscal 2020, I’d like to take a moment to address some points that I think are important to understanding the assumptions embedded in our outlook.

- Our guidance continues to assume that the export limitations that exist today for certain customers remain in place for all of 2020.
- The shelter-in-place orders that are in effect today as a result of the COVID-19 pandemic create some logistical challenges related to fulfilling some hardware and IP product orders, for which we recognize up-front revenue upon completion of delivery.
- At the low end of our revenue range for Q2, we are assuming that the government-mandated or recommended shelter-in-place orders in effect today will remain in place for the remainder of the quarter, and any hardware or IP products that we cannot deliver before the end of our Q2 will be delivered in the second half of the year.
- On the other hand, if, starting sometime in May, we can get sufficient physical access to complete hardware and IP deliveries, we expect to be closer to the high end of our revenue range for Q2.
- Assuming we have sufficient physical access to complete hardware and IP deliveries by the end of Q3, we do not expect any negative impact to our full year guidance from the delivery delays we are assuming for Q2.
For Q2, our guidance is as follows:

- Revenue in the range of $580 to $600 million,
- Non-GAAP operating margin of 30 percent,
- GAAP EPS in the range of 28 to 32 cents,
- Non-GAAP EPS in the range of 50 to 54 cents, and
- We expect to repurchase $75 million of Cadence shares.

For fiscal 2020, our guidance is as follows:

- Revenue in the range of $2.545 to $2.585 billion,
- Non-GAAP operating margin of 32 to 33 percent,
- GAAP EPS in the range of $1.58 to $1.68,
- Non-GAAP EPS in the range of $2.40 to $2.50,
- We expect operating cash flow to be in the range of $775 to $825 million, and
- We expect to use approximately 50 percent of our free cash flow to repurchase Cadence shares in 2020.

You will find guidance for additional items as well as further analysis in the CFO Commentary available on our website.

In summary, I am pleased with the results we delivered in Q1, and I have been impressed by the resilience of our business model and the agility, and capability, of our global team at Cadence to continue to operate so effectively in this environment.

The world is facing unprecedented times, and we are all deeply sympathetic to anyone who has been impacted by the COVID-19 pandemic. We are clearly all in this together, so I would like to close by thanking our customers, partners, and our hardworking employees for all that they do.

And with that, operator, we’ll now take questions.
Q&A Session

Prepared Closing Remarks of Lip-Bu Tan, Chief Executive Officer

Thank you all for joining us this afternoon.

- Our Intelligent System Design strategy is playing out very nicely as we benefit from new opportunities in Design Excellence, System Innovation and Pervasive Intelligence, and an expanded total addressable market.
- In this time of uncertainty, I am very impressed and proud of the dedication and commitment shown by our employees to continue innovating and delighting our customers.
- We are all in this together and I am convinced that we will collectively come out of this unfortunate situation stronger as a company and as a community.
- And lastly, on behalf of all our employees and our board of directors, we give our heartfelt thanks to the extremely brave and courageous health care workers and others on the front lines, who are tirelessly working to fight this pandemic.