

**CADENCE DESIGN SYSTEMS, INC.**  
**Second Quarter 2020 Financial Results Conference Call**  
**Prepared Remarks of Lip-Bu Tan, Chief Executive Officer**  
**John Wall, Senior Vice President and Chief Financial Officer**

**July 20, 2020**  
**2:00 PM Pacific**

**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 July 20, 2020 for the quarter ended June 27, 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 very pleased to report that in an environment of continued uncertainty, we achieved excellent financial results for the second quarter of 2020. We exceeded our financial outlook on all key metrics, as the team successfully navigated through challenges posed by the pandemic.

In view of the continuing, strong broad-based demand for our innovative solutions, combined with a robust design environment, we are raising our financial outlook for the year. John will provide more detail on our Q3 and annual financial outlook shortly.

We are all going through unprecedented times, and I hope that you and your families are staying safe and healthy. In this environment, our top priority continues to be ensuring the safety and well-being of our employees, customers and communities.

- Our employee base has adapted well to working from home, which appears to be the new normal, at least for the foreseeable future.
- Our R&D and customer deliverables are tracking well, and our Sales and Application Engineering teams continue to engage effectively with our customers.
- We are increasing our investment in infrastructure and collaboration platforms in order to maintain a high level of employee productivity.

Fueled by generational drivers such as 5G, AI and hyperscale computing, the data centric revolution is accelerating semiconductor demand and design activity.

As a result, we are seeing widespread demand for our EDA software, IP and hardware solutions, and our Intelligent System Design strategy has us very well positioned to benefit from these trends.

Now, let's look at some of our **Design Excellence** highlights for the quarter:

- We deepened our partnership with **Renesas** to accelerate their innovation, through a wide-ranging expansion of our EDA and hardware solutions.
- Our new **digital full flow** with the innovative **iSpatial** technology continued its momentum with 10 new full flow wins during the quarter.
- We expanded our partnership with **Micron** through a broader proliferation of our EDA solutions, including the deployment of our **digital full flow** for the development of their next generation products.
- Cadence collaborated with **TSMC** and **Microsoft**, to enable customers to accelerate design timing signoff, using Cadence signoff solutions in TSMC technology on Microsoft Azure.

Our **Cadence Verification Suite** delivers the best verification throughput, and had several wins across the mobile, networking and medical verticals:

- We deepened our relationship with a leading medical technology company as they expanded usage of our Verification Suite, digital, and custom analog solutions.
- Our **Xcelium** simulator has been steadily proliferating, with multiple migrations from competitive simulators underway.
- We had another outstanding hardware quarter, with the compelling value proposition of the integrated **Z1** and **X1** combination being increasingly attractive to customers.
- The **Palladium Z1** emulator with its unique custom chip based architecture, continued to win new customers and significantly expand capacity at existing key customers.
- Our **Protium X1** prototyping platform has ramped strongly, based on its differentiated ability to provide very fast bring-up time and high performance.

The growth of **analog, mixed signal, and RF** designs is driving the need for high performance and accurate circuit simulation:

- Our massively parallel **Spectre X circuit simulator** continued proliferating at multiple customers like **Skyworks**, and won several competitive displacements, including at a market shaping hyperscaler.

Q2 was an especially strong quarter for our **IP business** as it again delivered double digit revenue growth:

- Our refined strategy of focusing on Star IP at the most advanced nodes continues to pay off. Robust demand continued for **high speed SerDes** and **DDR IP**, and Tensilica had particular strength in Hi-Fi True Wireless Stereo and vision applications, as well as strong royalties.

Our **System Innovation** segment executed very well, delivering double-digit revenue growth:

- Several market shaping customers across multiple verticals, have successfully used our 2.5D and 3D IC advanced packaging solutions on production designs.
- Integration of **AWR** and **Integrand is progressing well, with the teams working on** developing a comprehensive high frequency RF platform. Business momentum was strong, and AWR added six new customers in Q2.
- Our new **System Analysis** tools continue to gain momentum, with over 125 engagements underway, multiple new wins, and expansions at several existing customers.
- New **Clarity** customers included a market-shaping hyperscaler, and new Celsius customers included **ASUSTEK**.

**Now, I want to take a moment and talk about inequality and racial intolerance – these significant societal issues that have led to heartbreaking events over the past few months, are very close to my heart:**

- At Cadence, embracing diversity and fostering inclusion are key tenets of our culture, and we believe that by being open to different views and perspectives, we learn from one another and together, become stronger as a team.
- We have several related initiatives underway, including training, pay equity, community donations, recruiting, and career advancement support, among others.
- We are committed to treating each other with respect and dignity, and are proud to take a stand against racism, prejudice, intolerance, and violence.

And now I will turn it over to John.

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

Thanks Lip-Bu, and good afternoon everyone.

### **I am pleased with our results for Q2 and updated outlook for fiscal 2020.**

- For Q2, we exceeded all of our key financial metrics for the quarter.
- Back in April, we were expecting that some Q2 revenue might shift to Q3, in part due to the pandemic related challenges that we thought would delay a number of our Q2 IP deliveries and Hardware installations into July and Q3.
- On reflection, business was stronger than we expected, and our team adapted well to the delivery challenges presented by the **COVID-19 pandemic**.
- Ultimately, those anticipated delivery challenges didn't have the impact to our Q2 results that we originally feared.
- As with last quarter, our recurring revenue model gives us strong visibility into revenue for the remainder of fiscal 2020.
- Based on our experience in Q2, we are much less concerned about our ability to substantially overcome any Hardware and IP delivery challenges caused by the pandemic, and we've factored that experience into our estimate of how much of our second half revenue we expect to record in Q3 and Q4.
- I will share more on the assumptions embedded in our outlook in a moment... but first...

### **Let's go through the key results for the second quarter, starting with the P&L:**

- Total revenue was **\$638 million**,
- Non-GAAP operating margin was approximately **35 percent**,
- GAAP EPS was **47 cents**, and
- Non-GAAP EPS was **66 cents**.

**Next, turning to the balance sheet and cash flow:**

- Our **cash balance was approximately \$1.2 billion** while the principal value of **debt outstanding** was **\$700 million**,
- **Operating cash flow** for Q2 was **\$345 million**,
- **DSOs** were **45 days**, and
- During Q2 we **repurchased \$75 million** of Cadence shares.

**Before I provide our updated outlook for fiscal 2020, and what we expect for Q3, I'd like to take a moment to share the assumptions embedded in our outlook.**

- Our outlook continues to assume that the **export limitations** that exist today for certain customers remain in place for all of 2020.
- Our outlook also assumes that the **COVID-19 pandemic** will remain a challenge for the remainder of the year.
- As a result, we have taken steps to prepare our workforce to work from home for longer, and we are anticipating that a number of our smaller customers will experience liquidity challenges that will likely result in some of those customers being unable to meet their contractual payment commitments.
- We have taken the precaution of pausing revenue recognition on bookings from customers where we believe there is significant uncertainty surrounding our ability to collect payments.
- The financial impact of non-payment on those accounts has already been factored into our outlook for the remainder of the year.

**And with that, our updated outlook for fiscal 2020 is as follows:**

- Revenue in the range of **\$2.585 to \$2.615 billion**,
- Non-GAAP operating margin of **approximately 33 percent**,
- GAAP EPS in the range of **\$1.84 to \$1.90**,
- Non-GAAP EPS in the range of **\$2.50 to \$2.56**,
- We expect operating cash flow to be in the range of **\$810 to \$840 million**, and

- We expect to use approximately **50 percent** of our free cash flow to repurchase Cadence shares in **2020**.

**And here is how much of our annual outlook that we currently expect to record in Q3:**

- Revenue in the range of **\$630 to \$650 million**,
- Non-GAAP operating margin of approximately **32 percent**,
- GAAP EPS in the range of **49 to 51 cents**,
- Non-GAAP EPS in the range of **59 to 61 cents**, and
- We expect to repurchase **\$75 million** of Cadence shares.

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

**In summary**, Cadence delivered another quarter of strong revenue growth and expanding profitability, and we're pleased to raise our outlook for the year.

- Before the pandemic, Cadence operated from around 50 sites across the globe; we are now effectively operating from a distributed network of more than 8,000 homes.
- We are blessed to have many strong leaders, located across the world, and I am very impressed and thankful for how our employees are not only rising to the challenge, but positively thriving as they remain intensely focused on delivering successful outcomes for our customers and partners.
- Finally, I would like to close by thanking our customers, partners, and our hardworking employees for all that they do, and I'd like to remind them all, that their health and safety continues to be our first priority.

**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.
- I am very impressed and proud of the dedication and commitment shown by our employees to continue innovating and delighting our customers, especially during these uncertain times.
- 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 continue to work tirelessly to fight this pandemic.