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 October 21, 2019 for the quarter ended June 28, 2019, 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 Cadence achieved excellent operating results for the third quarter of 2019, delivering 9 percent year-over-year revenue growth.

- Based on our strong execution and the strength of our technology and business, we are again raising our outlook for the year.
- Given the uncertainty of the ongoing trade situation with China, our outlook assumes current export limitations remain in place for the rest of the year.
- John will provide more details on our outlook shortly.

While global economic and geopolitical uncertainty continues, long term trends such as AI, 5G, cloud and IoT continue to drive strong design activity. The move to domain specific computing and system companies building custom silicon, as well as a host of innovative silicon startups, are all pushing the technology envelope and driving a need for high performance, low power computing; high bandwidth connectivity; and high-density storage.

Our **Intelligent System Design** strategy positions us well to maximize the resulting opportunities, through building out our portfolio and providing more capabilities and value to our customers.

The foundation of our strategy is the **Design Excellence** segment, which is comprised of our core EDA and IP business and I will now provide some of the key quarterly highlights in this area.

A key element of our approach has been to closely collaborate with our ecosystem partners and to focus on market shaping customers. In Q3 we deepened our partnership with **Samsung** through a comprehensive agreement across our digital, custom and verification product portfolio.

Earlier this year we had reported a breakthrough, wide ranging win with a **marquee U.S. semiconductor company**. I am particularly pleased that we augmented that partnership with our largest ever IP order, that included our Tensilica processor family and our design IP portfolio,
including ultra-high-speed SerDes.

And at its recent Open Innovation Platform event, TSMC recognized Cadence with 4 Partner of the Year Awards, including an award for Joint development of 6-nanometer design infrastructure and one for Joint Delivery of Cloud-Based Productivity Solution.

Our Cadence Cloud portfolio has great momentum, with over 50 customers using our solutions in the cloud.

- Cadence cloud-ready products, and close collaboration with our cloud infrastructure and foundry partners, are enabling our customers to realize meaningful scalability, performance and flexibility benefits from using the cloud.
- Our CloudBurst model is used for hybrid cloud environments, where customers want to augment their on-prem capacity, with burst capacity from the public cloud to address peak load.

Continuing strong proliferation of our Digital and Signoff solutions, especially with market shaping customers at the most advanced nodes, has driven share gains and double-digit year-to-date revenue growth.

- In addition to numerous 7-nanometer tape-outs, there are more than 15 customer engagements at 5- and 3-nanometer using our digital flow.
- MediaTek has deployed our digital full flow in production for their 7-nanometer designs.
- At Mellanox, a leader in data connectivity solutions, Innovus replaced the incumbent solution for all of their production 7-nanometer designs.
- We also had a digital full flow competitive win for 7-nanometer design with a leading Japanese imaging company.
- Uhnder used Cadence's digital full flow, which is based on common engines and includes Genus, Innovus, Tempus, and Pegasus, to achieve the best quality of results and fastest convergence on their highly innovative, and completely integrated, first digital automotive Radar-on-Chip.
Next, I will discuss highlights of our System Design and Verification solutions.

- Our Palladium Z1 emulator, and the recently introduced Protium X1 FPGA-based prototyping platform, now provide a comprehensive solution across IP and SoC verification, hardware/software regressions, and early software development.
- Growing system design complexity and the high cost of failure continues to drive strong demand for the Palladium Z1. In Q3 the Z1 added 8 new customers and had 8 key expansions.
- Rounding out our hardware family is the Protium X1, which is a perfect complement to the Palladium Z1, and I am excited by the strong customer interest in Protium X1.
- A global marquee customer significantly expanded their existing hardware footprint with additional Z1 capacity and Protium X1 as well, making it one of the largest hardware orders ever for Cadence.
- We had several full Verification Suite wins in Q3 including a major customer in Asia and an automotive semiconductor company in EMEA.

In IP, our focused strategy and strong portfolio have enabled us to benefit from the continuing IP outsourcing trend. In Q3, we had our best ever quarter for IP with year-over-year revenue growth exceeding 20 percent.

- It was an especially strong quarter for our Tensilica products with additional wins in audio, imaging and computer vision, and machine learning.

On the System Innovation segment of our Intelligent System Design strategy, we introduced the Celsius Thermal Solver, which joins the Clarity 3D EM Solver in our growing suite of system analysis products.

- Celsius is the industry’s first complete electro-thermal co-simulation solution for electronic systems from ICs to physical enclosures.
  - Based on a proven, massively parallel architecture that delivers up to 10X faster performance with full accuracy, Celsius enables design teams to mitigate thermal issues at an early stage, thereby reducing system development iterations.
  - Bosch and Arm have both endorsed this exciting new product and we are in the midst of
early discussions with several other customers.

- **Clarity**, which was announced earlier this year, continued its strong momentum with four competitive wins during the quarter, and more than thirty active customer engagements underway.

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**

Thanks Lip-Bu, and good afternoon everyone.

I am pleased to report we met or exceeded all of our key operating metrics in Q3. As a result of continuing robust demand for our solutions and strong execution across our business, we are increasing our outlook for fiscal 2019.

Before we get into the Q3 results, I would like to take a moment and talk about the ongoing trade uncertainties.

- With more companies recently added to the Entity List, the situation remains fluid and we will continue to closely monitor it.
- For the purpose of providing guidance for 2019, we’ve assumed that the current export limitations remain in effect, and the Entity List remains unchanged for the remainder of the year.

**Now, let’s go through the key results for the third quarter, starting with the P&L:**

- Total revenue was $580 million, up 9% year-over-year
- Non-GAAP operating margin was 31.7 percent.
- GAAP EPS was 36 cents, and
- Non-GAAP EPS was 54 cents.
Next, turning to the balance sheet and cash flow.

- At the end of the quarter, cash totaled $655 million while the principal value of debt outstanding was $350 million.
- Operating cash flow for Q3 was $139 million.
- DSOs were 43 days, and
- During Q3 we repurchased $75 million of Cadence shares.

Now, I will provide our updated guidance.

For Q4, we expect the following results:

- Revenue in the range of $590 to $600 million,
- Non-GAAP operating margin of approximately 30 percent,
- GAAP EPS in the range of 33 to 35 cents,
- Non-GAAP EPS in the range of 52 to 54 cents, and
- We expect to repurchase $75 million of Cadence shares.

As a result, our updated guidance for fiscal 2019 is as follows:

- Revenue in the range of $2.327 to $2.337 billion.
- Non-GAAP operating margin of 31.5 to 32 percent.
- GAAP EPS in the range of $1.50 to $1.52.
- Non-GAAP EPS in the range of $2.18 to $2.20, and
- Operating cash flow in the range of $700 to $740 million.

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 our execution in an uncertain environment.

- Our strong, dependable results reflect the broad diversity of our global customer base;
- We remain focused on driving growth of our core business, highlighted by the proliferation of our digital full flow; and
• We continue to invest in growth opportunities with market shaping customers, and new product areas.

In closing, I would like to thank our customers, partners, and of course our employees for their continued support.

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.

• The next phase of our strategy, Intelligent System Design, brings new opportunities in Design Excellence, System Innovation and Pervasive Intelligence, and an expanded total addressable market.

• We are capitalizing on multiple technology trends and further proliferating our solutions with a broader base of customers.

• And in closing, I would like to thank all our shareholders, customers and partners, the board of directors and our hardworking employees for their continued support.