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 19, 2020 for the quarter ended September 26, 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 Cadence achieved outstanding financial results for the third quarter of 2020.

- We exceeded our financial outlook on all key metrics, as the Cadence team continues to successfully navigate through challenges posed by the pandemic.
- We also raised our guidance for the year. John will provide more details in a moment.

The data centric revolution led by AI, data analytics and hyperscale computing continues to fuel strong semiconductor and system design activity and our Intelligent System Design strategy uniquely positions us to enable our customers to accelerate their innovation.

Now let’s move on to the major highlights for the third quarter.

Design Excellence is the foundational layer of our strategy and includes our Core EDA chip design solutions and IP portfolio.

- We significantly deepened our partnership with a global marquee customer, through a wide-ranging expansion of our EDA software and hardware portfolio. This customer is now accelerating the proliferation of our digital full flow across their design teams.
- Momentum continued for our digital & signoff solutions with 9 full-flow wins, and a market shaping auto maker taped out their highly innovative and complex 7-nanometer design using our digital full flow.
- Our Verification Suite comprised of best in class core engines across simulation, formal analysis, emulation and prototyping, is particularly well suited to address our customers mounting verification challenges.
- Hardware had its highest-ever revenue quarter, with Palladium Z1 and Protium X1 continuing to get new design wins and significant expansions, particularly at AI and hyperscaler customers.
- We introduced Xcelium ML, which uses machine learning to improve the regression throughput of our premier logic simulator by up to 5X.
- On the IP front, the top vertical end-markets for our Design IP products in the quarter were hyperscale, enterprise and automotive, with a major hyperscaler adopting our PCIe and high bandwidth memory IP for use in 3-nanometer designs.
- **Tensilica** had strong royalties and wins for true wireless stereo and functional safety applications and was adopted by an automotive company for ADAS.

In **System Innovation**, I’m very excited by the strong momentum of our new system products, both organically developed, as well as those we obtained through the AWR and Integrand acquisitions earlier this year.

- Earlier this month, we expanded our System Analysis portfolio with the addition of the Clarity 3D Transient Solver that delivers up to 10x faster system level EMI simulation. C**larity** and C**elsius** continued to ramp nicely with broadening adoption, particularly in verticals such as AI, mobile and hyperscale segments.
- Systems companies like **Teradyne** and **Rockley Photonics** are deploying our Clarity EM simulator for production use.
- In the 5G/millimeter wave area, integration of our AWR and Integrand acquisitions continues smoothly, and the business is tracking ahead of our internal expectations.
- In Q3, we added more than 15 new customers in end markets that included 5G, automotive and aerospace & defense.
- Cadence has a long successful history in advanced packaging, which has become a linchpin technology for many systems companies, particularly automotive and hyperscalers, to deliver complex system level chip designs. In Q3, our innovative Allegro technology was used by a market shaping auto maker for their wafer level system packaging needs.

Now let’s turn it over to John to go through the results in more detail and to update our outlook.
Prepared Remarks of John Wall, Senior Vice President and CFO

Thanks Lip-Bu, and good afternoon everyone.

I am pleased to report we exceeded all of our key financial metrics for the quarter.

We had a strong revenue quarter in China, as a result of better than expected hardware and IP sales in the region. This was the main driver of the improvement in our profitability for the quarter, contributing approximately 2% to our Non-GAAP operating margin.

Looking at the key results for the third quarter, starting with the P&L:

- Total revenue was $667 million,
- Non-GAAP operating margin was approximately 36 percent,
- GAAP EPS was 58 cents, and
- Non-GAAP EPS was 70 cents.

Next, turning to the balance sheet and cash flow:

- Our cash balance was approximately $1.3 billion while the principal value of debt outstanding was $700 million,
- Operating cash flow for Q3 was $207 million,
- DSOs were 41 days, and
- During Q3 we repurchased $75 million of Cadence shares.

Before I provide our updated outlook for the remainder of fiscal 2020, I’d like to take a moment to share the assumptions embedded in our outlook.

- Fiscal 2020 is a 53-week year, and the extra week will add approximately $45 million dollars of revenue to Q4.
- We have seen higher than expected levels of hardware and IP sales activity in China during Q3, and we have assumed this will continue into the middle of Q4.
- As a result, our outlook includes approximately $40 million for this increased level of hardware and IP sales activity in the second half.
You will recall that we had removed $70 million of bookings from our backlog at the end of Q2 due to COVID-19 related customer credit risk. The credit situation slightly improved during Q3, and we revised that estimate down to $58 million.

And as usual, our outlook continues to assume that the export limitations that exist today for certain customers remain in place for the remainder of 2020.

Embedding the aforementioned assumptions, our updated outlook for Q4 is as follows:

- Revenue in the range of $720 to $740 million,
- Non-GAAP operating margin of 34 to 35 percent,
- GAAP EPS in the range of 48 to 52 cents,
- Non-GAAP EPS in the range of 72 to 76 cents, and
- We expect to repurchase $130 million of Cadence shares.

And for fiscal 2020, that means we now expect:

- Revenue in the range of $2.643 to $2.663 billion,
- Non-GAAP operating margin of 34 to 35 percent,
- GAAP EPS in the range of $1.97 to $2.01,
- Non-GAAP EPS in the range of $2.68 to $2.72,
- We expect operating cash flow to be in the range of $840 to $870 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, Cadence delivered another quarter of strong revenue growth and expanding profitability, and naturally I’m pleased by this quarter’s results, but we always recommend that you shouldn’t focus too much on the results of any single quarter.

What I’m most pleased about is:

- The improvement in our 3-year revenue growth CAGR
- The fact that our team continues to operate very effectively during a pandemic, and
• We’re on track to achieve greater than 50% non-GAAP incremental margin for the fourth year running.

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 continue 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’m very delighted to share that Cadence has been recognized by FORTUNE and the Great Place to Work Institute as one of the World’s Best Workplaces, for a fifth time. This recognition is a result of our employees’ commitment and dedication to innovation, to delighting our customers, and to taking care of our communities and each other.

• And lastly, on behalf of all our employees and our Board of Directors, we give our heartfelt thanks to all those on the front lines, who continue to work tirelessly to fight this pandemic.

Thank you all for joining us this afternoon.