



These prepared remarks contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Any statements that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements include, but are not limited to, statements regarding Synopsys' short-term and long-term financial targets, expectations and objectives, business objectives and outlook, future acquisitions, customer demand, strategies related to our products and technology, our planned stock repurchase activity, our expected tax rate, the expected impact resulting from our adoption of Accounting Standard Topic 606, and the expected impact of the recent U.S. government action on Synopsys' fiscal 2019 results. These statements involve known and unknown risks, uncertainties and other factors that could cause our actual results, time frames or achievements to differ materially from those expressed or implied in our forward-looking statements. Accordingly, we caution stockholders and prospective investors not to place undue reliance on these statements. Such risks, uncertainties and factors include, but are not limited to: additional administrative, legislative or regulatory action by the U.S. or foreign governments, such as the imposition of additional tariffs or export restrictions, which could further interfere with our ability to provide products and services in certain countries; the response by current or potential customers and their willingness to purchase products and services from us in the future; uncertainty in the growth of the semiconductor and electronics industries; consolidation among our customers and our dependence on a relatively small number of large customers; uncertainty in the global economy; fluctuation of our operating results; increased variability in our revenue due to the adoption of ASC 606, including the resulting increase in recognizing upfront revenue as a percentage of total revenue; our highly competitive industries and our ability to meet our customers' demand for innovative technology at lower costs; risks and compliance obligations relating to the global nature of our operations; cybersecurity threats or other security breaches; our ability to protect our proprietary technology; our ability to realize the potential financial or strategic benefits of acquisitions we complete; our ability to carry out our new product and technology initiatives; investment of more resources in research and development than anticipated; increased risks resulting from an increase in sales of our hardware products, including increased variability in upfront revenue; changes in accounting principles or standards; changes in our effective tax rate; liquidity requirements in our U.S. operations; claims that our products infringe on third-party intellectual property rights; litigation; product errors or defects; the ability to obtain licenses to third-party software and intellectual property on reasonable terms or at all; the ability to timely recruit and retain senior management and key employees; the inherent limitations on the effectiveness of our controls and compliance programs; the impairment of our investment portfolio by the deterioration of capital markets; the accuracy of certain assumptions, judgments and estimates that affect amounts reported in our financial statements; and the impact of catastrophic events. More information on potential risks, uncertainties and other factors that could affect Synopsys' results is included in filings it makes with the Securities and Exchange Commission from time to time, including in the sections entitled "Risk Factors" in its Annual Report on Form 10-K for the fiscal year ended October 31, 2018 and in its latest Quarterly Report on Form 10-Q. The information provided herein is as of August 21, 2019. Although these Prepared Remarks are expected to remain available on Synopsys' website through the date of the earnings results call for the fourth quarter of fiscal year 2019, their continued availability through such date does not mean that Synopsys is reaffirming or confirming its continued validity. Synopsys undertakes no duty, and does not intend to update any forward-looking statement, whether as a result of new information, future events or otherwise, unless required by law.

These prepared remarks also contain non-GAAP financial measures as defined by the Securities and Exchange Commission in Regulation G. Reconciliations of the non-GAAP financial measures to their comparable GAAP measures are included in the third quarter fiscal year 2019 earnings release and financial supplement, each dated August 21, 2019, and available on Synopsys' website at [www.synopsys.com](http://www.synopsys.com). Additional information about such reconciliations can be found in Synopsys' Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 21, 2019.

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Good afternoon.

I'm happy to report that Synopsys continues to execute very well and delivered excellent Q3 results. Revenue, non-GAAP earnings, and cash flow were all ahead of plan. As a result of Q3 overachievement and broad-based strength, we're raising guidance for the fiscal year.

These achievements reflect our increased momentum, evident in visibly strong results and outlook, product differentiation and technical strength, and demand for advanced solutions throughout our business. We're progressing rapidly on our journey towards \$4B and beyond, while increasing value with operating margin expansion already visible in our bottom-line results.

Before I discuss the broader landscape, let me say a few words about the U.S.-China situation. The government's "entities ban" has affected our revenue somewhat. However, even assuming the ban remains in place for the rest of the fiscal year, we're raising our targets. Given the sensitivity for our customers, we'll refrain from making any further comments.

We're confident in our outlook despite the geopolitical and economic backdrop, as global design activity and customer engagements are thriving. AI, Automotive, 5G, IoT, Cloud and the proliferation of Smart Everything are not only growing segments, but are also very competitive, thus requiring the advanced solutions that Synopsys has to offer. After five years of substantial investments, our product platforms are the strongest they've ever been, putting us in an ideal position to benefit from the dynamic market trends.

Notably, our new EDA products are winning share, with competitive displacements at leading systems and semiconductor companies. We also had a record quarter with our broad portfolio of IP building blocks. Our IP offering is highly differentiated in driving time-to-market advantages for customers ranging from the largest market-making companies to fast-growing AI start-ups. While investing heavily in both EDA and IP, we've also diversified our business and customer base into the high-growth Software Security TAM. Our products and services are increasingly mission-critical for the massive amounts of software that permeates our everyday lives. Our Software Integrity business is now at 10% of overall Synopsys revenue, is profitable, and continues to scale well.

We've accomplished all of this while beating our financial objectives and raising our near-term and long-term financial ambitions. Building on our track record and the stability of our recurring revenue model, we're delivering significant margin expansion and solid double-digit earnings growth.

From the perspective of our product platforms, let me provide some highlights from the quarter, beginning with EDA. As a result of our intense multi-year innovation push in digital design, including new game-changing products and major updates, our technology is winning benchmarks and driving increased competitive displacements, especially at advanced nodes. This is evident in our results, as revenue growth for digital has accelerated.

In particular, Fusion Compiler continues the strong momentum that began with its launch in November. It has won all head-to-head benchmarks completed to date with consistently better quality-of-results and runtime across multiple applications, be it: mobile, 5G, high-performance computing, data servers, automotive, AI, networking or graphics.

We've had several breakthrough competitive wins at noteworthy leading semiconductor companies, including a significant competitive adoption at a leading U.S.-based mobile 5G company. We also won a decisive benchmark at a very large Taiwanese semiconductor company, and achieved a win for 5nm Arm-based hypercomputing designs at a new, well-funded European customer. Also in Q3, the internal IP core group of an international mobile company standardized on Fusion Compiler for all CPU and GPU designs at current and upcoming advanced nodes. A U.S. large-cap systems company has selected Fusion Compiler as its primary platform for digital implementation. Finally, a premier U.S. semiconductor company is aggressively expanding deployment of Fusion Compiler for its mission-critical programs representing more than 95% of its business.

Turning to custom design, Synopsys is gaining share, bolstered by 30+% revenue growth for Custom Compiler over the last four quarters. Our expansion is fueled by key wins in the 5G, AI and server chip markets, including a tier-1 North American server company; We've also begun multiple full-flow competitive displacements, including at traditional analog customers, and during the quarter, we won yet another major contract at a large U.S. high-speed communication chip maker. These wins are a result of powerful innovations that are driving 3-5X productivity benefits, especially for advanced node designs, and a unique technical advantage by partnering with our world-class mixed-signal IP team.

Moving now to our Verification Continuum platform, where our early vision and technology strength have led to our #1 market segment position. Verification software growth is strong, reflecting the impact of tight integration of the fastest simulation with static and debug engines on the market. Contributing substantially to this growth are large, influential cloud hyperscalers in North America – notable evidence of the power of our solution.

Hardware verification is strong as well. For the third year in a row, we stand as the #1 provider in hardware verification overall, as well as in the emulation and FPGA-based prototyping sub-categories.

By delivering the fastest, highest-capacity, and lowest cost-of-ownership solutions, we're the preferred choice for complex hardware/software designs. Hardware-based systems have broad-based appeal: from large processor companies to market-leading systems houses to emerging companies optimizing their software on hardware that is still in development.

In addition to high secular market demand, we are winning important design slots, and customer adoptions continue to grow substantially. In the first three quarters of this year alone, we added 32 new customers and had 74 repeat orders. This significant broad-based growth has offset a year-over-year decline in hardware revenue from our largest emulation customer, driven by the timing of product shipments. We expect that total hardware revenue this fiscal year will match or even exceed the banner results from last year!

Now to IP, where strong market demand and our unmatched portfolio are driving double-digit growth. Q3 was a record quarter, including the largest single IP order in our history with a prominent U.S. semiconductor company. We expect to deliver a record year as well.

We see especially strong momentum in interface IP – where we are 4-to-5 times larger than our nearest competitor – along with memory and logic IP, where we also lead the market. We're proud of our long, positive track record of providing early availability of high-quality IP at the key manufacturing processes. This commitment to vital technologies has driven our ongoing success from one IP generation to the next. As an example: our USB titles alone passed \$1 billion in cumulative bookings this quarter!

Cloud computing – particularly AI accelerators and hyperscale data centers – is driving substantial growth. Market makers in North America, Europe and Asia-Pacific are adopting IP across our portfolio at a rapid pace. Also strong are processors, particularly machine learning and AI engines for Embedded Vision, driven by top semi and systems companies.

After significant investments to enhance our portfolio for automotive reliability and safety standards, we achieved another important milestone with ISO 9001 certification of our IP Quality Management System, setting the foundation for further growth. Finally, we saw continued strong momentum in mobile, with multi-million-dollar agreements at multiple global leaders.

Which brings me to Software Integrity, where the combination of rapidly growing market needs and our wide-ranging and evolving portfolio are driving approximately 20% growth this year. We not only offer the broadest portfolio of tools and services, we're moving to the next level of impact and ease-of-adoption with our new Polaris Software Integrity Platform. Announced in Q2, it's a cloud-based platform with a compelling integration roadmap for continual roll-outs over the next 18 months. Polaris is drawing positive and growing interest from a wide range of customers: building on the first adoption by a Fortune 500 insurance company in May, we received several new orders in Q3 from customers ranging from financial services to networking to a highly recognized beverage company.

The acquisitions and integration of Black Duck and Cigital have been essential in building the leadership position we have today, as recognized by Gartner and Forrester. Addressing fundamental code quality and security, analyzing and flagging suspect open-source code, and engaging with enterprise customers both technology-up and management-down are enabling high-level strategic relationships.

Renewal rates are up, and we continue to see longer-duration, multi-million-dollar agreements. Building off the current base of more than \$300 million in revenue and increasing profitability, we're enthusiastic about the long-term potential of this business.

In summary, strong execution delivered excellent Q3 results, and we're raising our annual revenue, non-GAAP earnings, and cash flow guidance. Design activity continues unabated. Our product platforms are the strongest they've ever been, and they're driving technology wins and competitive displacements.

Finally, a sincere thank-you to our employees for their continued commitment to our customers, and to the long-term success of our company.

With that, I'll turn it over to Trac.

Thanks, Aart.

Good afternoon everyone.

In Q3 we executed another strong quarter, delivering record results for revenue, non-GAAP earnings, and operating cash flow. We also implemented a \$100 million buyback, bringing our total repurchases for the year to \$229 million.

Further, we continued to expand operating margins, and expect to deliver nearly 300 basis points of expansion for the year, reaching approximately 25% non-GAAP operating margin at the midpoint of guidance.

We are on-track for another outstanding year, reflecting the strength of the first three quarters and a robust outlook that I will provide shortly.

First, I'll review our Q3 results. All comparisons are year-over-year unless otherwise stated:

We generated consolidated total revenue of \$853 million, or 9% growth, with broad-based strength across both our segments. Semiconductor & System Design revenue was \$769 million, while Software Integrity revenue was \$84 million.

This quarter, our Semiconductor & System Design segment was bolstered by strong customer demand and the timing of customer pull-downs of our IP products.

EDA software continues to perform very well within the Semiconductor & System Design segment, although EDA hardware revenue declined year-over-year against a strong Q3 in 2018. Despite quarterly hardware variability, we do expect our total hardware business for the year to meet or exceed last year's record results.

Consolidated total GAAP costs and expenses were \$725 million, which includes approximately \$19 million in restructuring costs as we work to optimize our resource allocation for sustainable long-term growth. Total non-GAAP costs and expenses were \$636 million, resulting in a non-GAAP operating margin of approximately 25.4%.

At the segment level, adjusted operating margins were 27.0% for Semiconductor & System Design, and 10.5% for Software Integrity. Note that certain operating expenses, such as stock-based compensation, amortization of intangibles, and other expenses that are managed at the consolidated level, have not been allocated to our segments.

GAAP earnings per share were 65 cents, and non-GAAP earnings per share were \$1.18.

Turning to cash, operating cash flow was \$370 million, and we ended the quarter with a cash balance of \$687 million, and total debt of \$142 million.

Now to our targets, which exclude any revenue in Q4 from companies currently on the government's Entity List. For fiscal year 2019:

- Revenue of \$3.34 to \$3.37 billion;
- Total GAAP costs and expenses between \$2.82 and \$2.852 billion;
- Total non-GAAP costs and expenses between \$2.512 and \$2.532 billion;
- Resulting in a non-GAAP operating margin at the midpoint of approximately 25%;
- Other income and expenses between minus \$4 million and minus \$2 million;
- A non-GAAP normalized tax rate of 16%;
- Outstanding shares between 153 and 156 million;
- GAAP earnings of \$3.11 to \$3.24 per share;
- Non-GAAP earnings of \$4.52 to \$4.57 per share;
- Cash flow from operations of approximately \$750 million;
- And capital expenditures of approximately \$230 million, as \$40 million in spending was shifted to fiscal 2020 due to project timing.

Now to the targets for the fourth quarter:

- Revenue between \$830 and \$860 million;
- Total GAAP costs and expenses between \$701 and \$733 million;
- Total non-GAAP costs and expenses between \$630 and \$650 million;
- Other income and expenses between minus \$2 million and zero;
- A non-GAAP normalized tax rate of 16%;
- Outstanding shares between 153 and 156 million;
- GAAP earnings of 69 to 82 cents per share; and
- Non-GAAP earnings of \$1.10 to \$1.15 per share.

To conclude, our execution through three quarters demonstrates our ability to pursue growth in a variety of macroeconomic conditions, while maintaining focus on our longer-term operating objectives.

We continue to execute very well, both financially and operationally. We are significantly exceeding our beginning-of-year objectives, with high-single-digit revenue growth, substantial operating margin expansion, and solid double-digit EPS growth, and we've continued to return a large portion of our free cash flow to shareholders in the form of buybacks.

With the power of our portfolio and business model, we are confident in our ability to deliver sustainable long-term shareholder value.

And with that, I'll turn it over to the operator for questions.