These prepared remarks contain forward-looking statements, including, but not limited to, statements regarding Synopsys' short-term and long-term financial targets, expectations and objectives; business outlook, opportunities and strategies; customer demand and market expansion; strategies related to our products and technology; our planned product releases and capabilities; industry growth rates; software trends; planned acquisitions and buybacks; our expected tax rate; the expected impact of U.S. and foreign government action on our financial results; and the expected impact of the COVID-19 pandemic. These statements involve 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. Such risks, uncertainties and factors include, but are not limited to: risks from the effect of the COVID-19 pandemic and the associated economic downturn on our business, operations and financial condition; 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; risks and compliance obligations relating to the global nature of our operations as well as actions by the U.S. or foreign governments, such as measures in response to the COVID-19 pandemic or the imposition of additional tariffs or export restrictions; macroeconomic conditions and 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; and more. Additional 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, 2019 and in its latest Quarterly Report on Form 10-Q. The information provided herein is as of August 19, 2020. Although these Prepared Remarks are expected to remain available on Synopsys' website through the date of the earnings results call for the fourth quarter and fiscal year 2020, 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 2020 earnings release and financial supplement, each dated August 19, 2020, and available on Synopsys' website at 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 19, 2020.

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Good afternoon.

Synopsys continues to execute very well and delivered record revenue, non-GAAP earnings and cash flow in the third quarter. Revenue was $964 million, with GAAP earnings per share of $1.62, non-GAAP earnings of $1.74, and $399 million of operating cash flow. Revenue growth was strong across all product groups and geographies. Orders were greater than our internal plan, with particular strength in EDA software. We also continued to make excellent progress on our margin expansion goals.

As a result of this overachievement and broad-based strength, we are raising fiscal 2020 revenue, operating margin, non-GAAP earnings and cash flow targets. Trac will discuss the financials in more detail.

Our excellent results and confidence reflect product differentiation and technical strength, bolstered by an intense, multi-year innovation push, and high demand for our advanced solutions. We're progressing rapidly towards crossing the $4B revenue milestone, while simultaneously increasing bottom line value through continued operating margin expansion.

Even as the world navigates through the pandemic, a slowing economy, and geopolitical uncertainty, the market in which we operate remains robust. Global design activity and customer engagements are flourishing, driven by unrelenting complexity of chip and system design, under both fabless and vertically integrated strategies. Growing segments such as AI, 5G, high-performance compute, cloud, and the proliferation of Smart Everything are especially strong for Synopsys.

As a result of extensive technology investments, our product platforms are the best they've ever been. Take AI, for example: In addition to being a leading provider to this market, we, ourselves, apply AI and machine learning throughout our portfolio. The results are excellent! Our new DSO.ai product announced last quarter is just the latest example of machine-learning directly benefitting our customers' time-to-market.

With that backdrop, let me provide some highlights from the quarter, beginning with EDA. We delivered double-digit revenue growth, driven by both design and verification software.

In digital design, our intense multi-year innovation push is bearing fruit, with accelerated product adoption and revenue growth across our Fusion Design Platform. Most notably, our Fusion Compiler product continues to win benchmarks, and drive increased competitive displacements that solidify plan-of-record status. When we announced this ground-breaking new solution about eighteen months ago, we expected it to be highly differentiating and deliver great results. Quarter by quarter, this has proven to be true, as customers are consistently realizing the best results with lowest runtime. Consequently, the adoption rate in production design is accelerating, especially in new projects and for the most advanced process nodes that require this high level of integration.

In this quarter alone, we literally saw a doubling of tape-outs! Proliferation momentum is broad across many different markets, ranging from: very large global semis specializing in automotive and communications chips; to promising AI startups; and notably, a microprocessor leader, who is expanding Fusion Compiler usage as plan-of-record across next-generation projects.

The fusion vision and impact extend well beyond Fusion Compiler. For example, our industry-gold-standard signoff, which is used in approximately 95% of all advanced designs today, is highly integrated with Fusion Compiler and throughout the entire flow.

Another dimension of continuous innovation is cloud enablement. Our collaboration with industry leaders Microsoft and TSMC has delivered cloud-enabled signoff products, showing dramatically higher throughput and 2X savings on cloud computing resources.

Let me now turn to custom design, which again grew by double digits. We continue to secure full flow competitive displacements, with multiple high-profile, advanced customers choosing Synopsys. Panasonic, for example, adopted our full-flow custom design platform for its analog, mixed-signal, and RF designs. We also have a record number of new evaluations underway. These include several traditional analog companies, as well as the advanced node customers we have historically been close to.

Moving now to our Verification Continuum platform, where significant technology innovation sustains our market-share leadership.

Verification software growth continues unabated, reflecting tight integration of the fastest engines on the market, infused with multi-core, machine learning, and cloud technologies. Contributing substantially to this growth are large, influential cloud hyperscalers and global systems companies. The power of VCS' performance and throughput also led to key competitive displacements in the AI and security IP verticals.

Hardware-based verification continues to perform well. Differentiated by unmatched speed, high reliability, easy installation and maintenance, and lower cost of ownership, we're the solution of choice for complex hardware/software designs.

In Q3 alone, we continued to broaden our customer base, adding 11 new hardware customers and more than 25 repeat orders, ranging from the largest systems and semiconductor companies in the world, to high-impact AI chip designers, hyperscalers, and automotive suppliers. One example is Fuji Xerox, where our ZeBu emulation accelerated development of an advanced multifunction printer chip by two months. We expect to deliver another strong year for hardware.

Be it in design or in verification, the completeness and strength of our EDA portfolio is key to many important ecosystem partnerships and collaborations. During the quarter, we extended our strategic teamwork with Arm to help accelerate design and verification of Arm-based designs for our mutual customers. Also, Synopsys was selected as a prime contractor for the government's DARPA "Automatic Implementation of Secure Silicon" program. Synopsys will collaborate with researchers from commercial, academic and defense leaders to increase security of the semiconductor supply chain.

Now to IP, which again delivered outstanding results with record revenue in the quarter, contributing to what we expect will be another year of excellent growth. Our success is driven by high market demand and an unrivaled portfolio. Specifically, Synopsys has: the broadest set of critical IP for today's most dynamic verticals, a long-standing track record of high reliability and quality, and early availability of titles at the key advanced manufacturing processes.

This quarter, we saw especially strong momentum in both interface and foundation IP. Bolstering our market-leading interface portfolio, we introduced the industry's first complete USB4 IP solution, production-ready for advanced 5nm processes. With a record orders quarter, we also further extended our lead in foundation IP – which includes critical embedded memories and advanced logic libraries.

In the automotive space, which continues its design investments even during the current revenue downturn, our years of investment are driving continued success with our ARC processors.

Perhaps the hottest vertical in the current Covid era is high-performance compute. Widespread work-from-home environments mean greater need for huge amounts of servers, GPUs, AI accelerators, data centers and enterprise storage. For Synopsys, it drives significant IP demand for protocols such as PCI Express, 112G Ethernet and DDR.

Nvidia, for example, selected our advanced DDR PHY IP for its high-performance cloud computing networking chips for multiple processes, including 7nm. We had multiple design wins for our new 112G high-speed SerDes offerings. And meanwhile, we taped out our full IP portfolio for high-performance compute in the 5nm process.

Which brings me to Software Integrity, which delivered double-digit revenue growth in the quarter. Orders remained softer than plan, as we navigate Covid-related delays and our ongoing field adjustments.

Our long-term value proposition and market opportunity are very compelling. The need for security and quality testing is high, as the impact of a breach is immense. The breadth and roadmap of our portfolio are well-suited for evolving DevSecOps requirements: we have the broadest portfolio of key products that we are integrating onto a cloud-native platform, while our strategic consulting services are an important differentiator to enable high-level, value-added engagements.

This business has grown to roughly $350 million in annual revenue, with expanding profitability. As we've mentioned for the past several quarters, our ambition is to now scale to our next objective of $500 million to $1 billion. We've made good progress, ramping up consulting sales and support to better serve large enterprise companies, and upgrading our systems to enable faster, more nimble engagements.

In Q3, we saw an increasing number of customers who want to move from a disparate collection of individual tools to vendors who can deliver multiple products. We signed nine new Polaris Platform agreements this quarter; and we saw customers replacing incumbent point tools. For example, an expanded agreement with a large U.S. software provider and a new engagement with a global hospitality company.

Two weeks ago, we also welcomed a new general manager, Jason Schmitt, to help drive the business to the next level of impact. In his 20-plus years of security industry experience, Jason has scaled or managed sizeable security businesses, both inside a large organization and most recently as CEO of a successful startup. Jason has hit the ground running and has begun to implement his 90-day plan. Our team is eager to move into this next phase.

As we head into the final quarter of this eventful year, we are already planning for next year and beyond. A key element of that planning is another announcement we made today – we are promoting Sassine Ghazi to Chief Operating Officer.

As most of you know, Sassine has led the Design Group for the past three-and-a-half years. During that time, he has made a great impact on our innovation focus and capabilities – accelerating development of market-changing new products that are now seeing excellent momentum and revenue growth.

With experience that spans R&D, customer support, sales management and corporate leadership, he is the right person – at the right time – with the right team – to help solidify and increase our momentum even more.

With accelerated innovation across the board, complemented by execution excellence, we look forward to growing Synopsys well beyond $4 billion in revenue, while further expanding profitability.

In summary, our compelling new products and strong execution resulted in outstanding, and record, third quarter results. We are raising our annual guidance for revenue, operating margin, non-GAAP earnings per share, and operating cash flow. Design activity is robust and expected to remain so for the foreseeable future. The momentum of our technology innovation is palpable, and resonating very well with customers. And, we are well-on-track to reaching the financial objectives we communicated last year.

We thank all our employees for an outstanding quarter under challenging global conditions.

Trac will now highlight the financial perspective.

Thanks, Aart. Good afternoon everyone.

Q3 was an outstanding quarter, with record revenue, non-GAAP earnings, and cash flow. Orders were ahead of plan and business growth was very strong.

Our ongoing success reflects robust end-market demand, technology strength and momentum, and our focused execution. In addition, our solid financial foundation of nearly 90% recurring revenue and sizable non-cancellable backlog positions us well for variability in the environment around us.

These dynamics provide us with the confidence to raise guidance for the full year.

Now to our third quarter results. All comparisons are year-over-year, unless otherwise stated.

We generated total revenue of $964 million, with double-digit growth in each of our product groups and strength across all geographies. Semiconductor & System Design segment revenue was $871 million, an increase of 13%, while Software Integrity segment revenue was $93 million, up 12%.

Total GAAP costs and expenses were $754 million, and total non-GAAP costs and expenses were $641 million, resulting in a non-GAAP operating margin of 33.6%. By segment, adjusted operating margin was 35.4% for Semiconductor & System Design and 15.8% for Software Integrity.

As expected, margins are higher in the second half of the year due to the quarterly profile of revenue. Based on our top-line overachievement and ongoing expense management, we now expect a non-GAAP operating margin of approximately 28% for the year.

Wrapping up the income statement, GAAP earnings per share were $1.62, and non-GAAP earnings per share were $1.74.

Turning to cash, we generated a record $399 million in operating cash flow. Our balance sheet is very strong. We ended the quarter with a cash balance of $1.05 billion, and total debt of $131 million.

Now to guidance, which continues to assume that the current Entity List restrictions remain in place for the remainder of the year.

For fiscal year 2020, our targets are:

- Revenue of $3.66 to $3.69 billion;
- Total GAAP costs and expenses between $3.04 and $3.06 billion;
- Total non-GAAP costs and expenses between $2.645 and $2.655 billion;
- Resulting in a non-GAAP operating margin of approximately 28%;
- GAAP earnings of $4.10 to $4.21 per share;
- Non-GAAP earnings of $5.48 to $5.53 per share;
- Cash flow from operations of approximately $900 million;
- And capital expenditures of approximately $170 million.

Now to the targets for the fourth quarter:

- Revenue between $1 and $1.03 billion;

- Total GAAP costs and expenses between $802 and $822 million;
- Total non-GAAP costs and expenses between $717 and $727 million;
- GAAP earnings of $1.10 to $1.21 per share; and
- Non-GAAP earnings of $1.51 to $1.56 per share.

Based on our strong outlook for the year, I realize there will be questions about 2021. Over the last two years, we've expanded operating margin by six points through a combination of strong revenue growth and excellent expense management. Having said that, there are some one-time expense savings this year that we need to contemplate and factor into our 2021 outlook. Therefore, we would suggest that it's premature to update your 2021 estimates at this time. As is our normal practice, we're in the process of finalizing our budget and will provide our outlook when we report in early December.

I will, however, reiterate our general multi-year objectives: high-single-digit revenue growth, non-GAAP operating margin expansion to the high 20s in 2021 and the 30% range longer-term, double-digit non-GAAP earnings growth, and strong cash flow.

In conclusion, we delivered a record quarter across our key metrics. Based on our strong results year-to-date, and our solid outlook for Q4, we are raising our targets for the year. Finally, I'd like to thank our team for their commitment to our business and customers during these unusual and often trying times.

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