

CADENCE REPORTS SECOND QUARTER 2016

CADENCE DESIGN SYSTEMS, INC.

CFO COMMENTARY

July 25, 2016

Q2 2016 Key Takeaways

- Good financial results with revenue and profitability meeting expectations.
- Strong Palladium[®] Z1 sales contributed to record hardware revenue.
- Repurchased 10.0 million shares of stock for \$240 million, representing approximately 3% of shares outstanding.
- Maintained 2016 outlook midpoints for revenue, bookings, operating margin and operating cash flow.

FY 2016 Outlook

- Revenue: \$1.800 - \$1.830 billion.
- GAAP operating margin: approximately 15%.
- Non-GAAP operating margin: approximately 26%.
- GAAP EPS: \$0.70 - \$0.76.
- Non-GAAP EPS \$1.17 - \$1.23.
- Operating cash flow: \$380 - \$420 million.

Q3 2016 Outlook

- Revenue : \$440 - \$450 million.
- GAAP operating margin: approximately 15%.
- Non-GAAP operating margin: approximately 25%.
- GAAP EPS: \$0.17 - \$0.19.
- Non-GAAP EPS: \$0.27 - \$0.29.

Financial Results Webcast

Our Q2 2016 financial results webcast will begin July 25, 2016 at 2:00 p.m. (Pacific) / 5:00 p.m. (Eastern). The webcast may be accessed at www.cadence.com/cadence/investor_relations.

An archive of the webcast will be available on July 25, 2016 until 5:00 p.m. (Pacific) / 8:00 p.m. (Eastern) on September 16, 2016.

Q2 2016 KEY METRICS

- Revenue \$453 million, +9% y/y.
- GAAP operating margin 15%.
- Non-GAAP operating margin 25%.
- GAAP EPS \$0.17.
- Non-GAAP EPS \$0.29, +7% y/y.
- Operating cash flow \$80 million.
- Cash and short-term Investments \$704 million.
- Total debt \$700 million.
- DSO 35 days, up 3 days.

Fiscal Year 2016 Financial Outlook

	FY 2015A	Previous FY 2016E	Current FY 2016E
Total Bookings (\$ Billion)	\$1.902	\$2.000 - \$2.100	\$2.020 - \$2.080
Y/Y Growth	7%	5% - 10%	6% - 9%
Average Contract Life (Years)	2.58	2.4 - 2.6	~2.6
Recurring Revenue	>90%	>90%	>90%
Total Revenue (\$ Billion)	\$1.702	\$1.790 - \$1.840	\$1.800 - \$1.830
Y/Y Growth	8%	5% - 8%	6% - 8%
Revenue from Beginning Backlog	~70%	~70%	~70%
GAAP Operating Margin	16.8%	~16%	~15%
Non-GAAP Operating Margin	26.7%	~26%	~26%
Non-GAAP Other Income & Exp (\$ Million)	\$(12.3)	(\$24) - (\$15)	(\$20) - (\$14)
Non-GAAP Tax Rate	23%	23%	23%
Weighted Average Diluted Shares Outstanding (Million)	312.3	283 - 297	288 - 294
GAAP EPS	\$0.81	\$0.71 - \$0.81	\$0.70 - \$0.76
Non-GAAP EPS	\$1.09	\$1.15 - \$1.25	\$1.17 - \$1.23
Y/Y Growth	16%	6% - 15%	7% - 13%
Cash Flow from Operations (\$ Million)	\$378.2	\$380 - \$420	\$380 - \$420
DSO	35	30 - 35	30 - 35
Capital Expenditures (\$ Million)	\$44.8	~\$50	~\$50

Third Quarter 2016 Financial Outlook

	Q3 2015A	Q2 2016A	Current Q3 2016E
Total Revenue (\$ Million)	\$433.8	\$453.0	\$440 - \$450
Q/Q Growth	4%	1%	(3%) - (1%)
Y/Y Growth	8%	9%	1% - 4%
GAAP Operating Margin	18%	15%	~15%
Non-GAAP Operating Margin	27%	25%	~25%
GAAP EPS	\$0.25	\$0.17	\$0.17 - \$0.19
Non-GAAP EPS	\$0.28	\$0.29	\$0.27 - \$0.29
Q/Q Growth	4%	4%	(7%) - 0%
Y/Y Growth	8%	7%	(4%) - 4%

Second Quarter Financial Results

Revenue

(In Thousands)	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Product & Maintenance	\$384,951	\$396,867	\$413,489	\$411,744	\$419,963
Services	30,932	36,896	27,590	36,118	33,058
Total Revenue	\$415,883	\$433,763	\$441,079	\$447,862	\$453,021
Y/Y Growth	10%	8%	4%	9%	9%

Revenue Mix by Geography

(% of Total Revenue)	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Americas	48%	48%	48%	49%	47%
Asia	23%	25%	25%	22%	24%
Europe, Middle East and Africa	20%	18%	17%	19%	20%
Japan	9%	9%	10%	10%	9%
Total	100%	100%	100%	100%	100%

Revenue Mix by Product Group

(% of Total Revenue)	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Functional Verification	21%	23%	25%	26%	27%
Digital IC Design and Signoff	29%	28%	28%	30%	27%
Custom IC Design	27%	26%	25%	25%	26%
System Interconnect and Analysis	11%	10%	10%	9%	10%
IP	12%	13%	12%	10%	10%
Total	100%	100%	100%	100%	100%

Contract Duration

(Years)	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Weighted Average Contract Life	2.4	2.4	2.8	2.7	2.7

- Expect approximately 2.6 years for 2016.

Total Costs and Expenses

(In Thousands)	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Total GAAP Costs & Expenses	\$339,479	\$355,862	\$359,239	\$389,826	\$386,115
Y/Y Growth	(1)%	3%	3%	8%	14%
Total Non-GAAP Costs & Expenses	\$300,332	\$316,208	\$315,319	\$333,444	\$338,201
Y/Y Growth	4%	9%	4%	6%	13%

Operating Margin

	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
GAAP Operating Margin	18.4%	18.0%	18.6%	13.0%	14.8%
Non-GAAP Operating Margin	27.8%	27.1%	28.5%	25.5%	25.3%

Earnings Per Share

	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
GAAP Net Income Per Share	\$0.19	\$0.25	\$0.26	\$0.17	\$0.17
Y/Y Growth	138%	108%	24%	42%	(11)%
Non-GAAP Net Income Per Share	\$0.27	\$0.28	\$0.31	\$0.28	\$0.29
Y/Y Growth	29%	8%	15%	22%	7%

Total DSO

	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
DSO	29	28	35	32	35

- Our DSO target for 2016 is 30 - 35 days.

Balance Sheet and Cash Review

Cash Flow from Operating Activities

<i>(In Thousands)</i>	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Net Cash from Operating Activities	\$121,754	\$86,907	\$122,851	\$83,191	\$80,366

Capital Expenditures

<i>(In Thousands)</i>	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Capital Expenditures	\$16,547	\$10,026	\$10,715	\$12,116	\$16,171

- Capital expenditures for 2016 are expected to be approximately \$50 million.

Cash and Short-Term Investments

<i>(In Thousands)</i>	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Cash and Short-Term Investments	\$744,411	\$711,195	\$711,184	\$906,717	\$704,318

- Approximately 34 percent of our cash and short-term investments were in the U.S. at quarter-end.

Stock Repurchase

<i>(In Thousands, Except Share Price)</i>	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Share Repurchase	\$56,279	\$120,059	\$120,054	\$240,000	\$240,100
Number of Shares	2,887	5,856	5,510	11,556	10,026
Average Share Price	\$19.49	\$20.50	\$21.79	\$20.77	\$23.95

- Since Q3 of 2015, under current repurchase program, Cadence has repurchased a total of 32.9 million shares for \$720 million, representing approximately 11% of shares outstanding.

Employees

	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Headcount	6,405	6,567	6,664	6,786	6,945

- Headcount increased by 159 positions from Q1 to Q2 due to hiring in R&D and the acquisition of Rocketick Technologies Ltd.

Forward Looking Statements

The statements in this CFO Commentary contain forward-looking statements based on current expectations or beliefs and preliminary assumptions about future events that are subject to factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties and other factors, many of which are outside Cadence's control, including, among others: (i) Cadence's ability to compete successfully in the electronic design automation product and the commercial electronic design and methodology services industries; (ii) the success of Cadence's efforts to improve operational efficiency and growth; (iii) the mix of products and services sold and the timing of significant orders for Cadence's products; (iv) change in customer demands, including those resulting from consolidation among Cadence's customers and the possibility that the restructurings and other efforts to improve operational efficiency of Cadence's customers could result in delays in purchases of Cadence's products and services; (v) economic and industry conditions in regions in which Cadence does business; (vi) fluctuations in rates of exchange between the U.S. dollar and the currencies of other countries in which Cadence does business; (vii) capital expenditure requirements, legislative or regulatory requirements, interest rates and Cadence's ability to access capital and debt markets; (viii) the acquisition of other companies or technologies or the failure to successfully integrate and operate these companies or technologies Cadence acquires, including the potential inability to retain customers, key employees or vendors; (ix) the effects of Cadence's efforts to improve operational efficiency in its business, including strategic, customer and supplier relationships, and its ability to retain key employees; (x) events that affect the reserves or settlement assumptions Cadence may take from time to time with respect to accounts receivable, taxes, litigation or other matters; and (xi) the effects of any litigation or other proceedings to which Cadence is or may become a party.

For a detailed discussion of these and other cautionary statements related to Cadence's business, please refer to Cadence's filings with the U.S. Securities and Exchange Commission, which include Cadence's most recent reports on Form 10-K and Form 10-Q, including Cadence's future filings.

GAAP to Non-GAAP Reconciliation

Non-GAAP financial measures should not be considered as a substitute for or superior to measures of financial performance prepared in accordance with GAAP. Investors are encouraged to review the reconciliation of non-GAAP financial measures contained within this CFO Commentary with their most directly comparable GAAP financial results. Investors are also encouraged to look at the GAAP results as the best measure of financial performance. See our earnings press release issued today for further discussion of our non-GAAP financial measures, as well as the reconciliation provided in the Appendix to this CFO Commentary.

Cadence's management uses non-GAAP net income because it excludes items that are generally not directly related to the performance of the company's core business operations and therefore provides supplemental information to Cadence's management and investors regarding the performance of the business operations, facilitates comparisons to the historical operating results and allows the review of Cadence's business from the same perspective as Cadence's management, including forecasting and budgeting.

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APPENDIX

Reconciliation of GAAP to Non-GAAP Financial Measures (Unaudited)

Reconciliation of GAAP Total Expenses to Non-GAAP Total Expenses

<i>(In Thousands)</i>	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
GAAP total costs and expenses	\$339,479	\$355,862	\$359,239	\$389,826	\$386,115
Reconciling items to non-GAAP total costs & expenses					
Amortization of acquired intangibles	(16,224)	(15,794)	(15,826)	(16,443)	(15,083)
Stock-based compensation expense	(21,703)	(24,117)	(24,660)	(24,632)	(25,356)
Non-qualified deferred compensation (expenses) credits	(37)	1,508	(575)	83	(359)
Restructuring and other (charges) credits	498	(303)	(347)	(14,586)	74
Acquisition and integration-related costs	(1,681)	(948)	(1,596)	(804)	(7,190)
Special charges *	—	—	(916)	—	—
Non-GAAP total costs and expenses†	<u>\$300,332</u>	<u>\$316,208</u>	<u>\$315,319</u>	<u>\$333,444</u>	<u>\$338,201</u>

† The non-GAAP measures presented in the table above should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.

* Comprised of executive severance costs.

Reconciliation of GAAP Operating Margin as Percent of Total Revenue to Non-GAAP Operating Margin as Percent of Total Revenue

	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Forecast Q3 2016
GAAP operating margin as percent of total revenue	18%	18%	19%	13%	15%	~15%
Reconciling items to non-GAAP operating margin as a percent of total revenue						
Amortization of acquired intangibles	4%	4%	4%	4%	3%	3%
Stock-based compensation expense	5%	5%	6%	6%	6%	7%
Non-qualified deferred compensation expenses (credits)	0%	0%	0%	0%	0%	0%
Restructuring and other charges (credits)	0%	0%	0%	3%	0%	0%
Acquisition and integration-related costs	1%	0%	0%	0%	1%	0%
Special charges *	0%	0%	0%	0%	0%	0%
Non-GAAP operating margin as percent of total revenue†	<u>28%</u>	<u>27%</u>	<u>29%</u>	<u>26%</u>	<u>25%</u>	<u>~25%</u>

† The non-GAAP measures presented in the table above should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.

* Comprised of executive severance costs.

	2014	2015	Forecast 2016
GAAP operating margin as percent of total revenue	13%	17%	~15%
Reconciling items to non-GAAP operating margin as a percent of total revenue			
Amortization of acquired intangibles	4%	4%	3%
Stock-based compensation expense	5%	5%	6%
Non-qualified deferred compensation expenses (credits)	0%	0%	0%
Restructuring and other charges	0%	0%	1%
Acquisition and integration-related costs	2%	1%	1%
Special charges *	1%	0%	0%
Non-GAAP operating margin as percent of total revenue†	<u>25%</u>	<u>27%</u>	<u>~26%</u>

† The non-GAAP measures presented in the table above should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.

* Comprised of costs related to a voluntary retirement program and executive severance costs.

Reconciliation of GAAP Diluted Net Income Per Share to Non-GAAP Diluted Net Income Per Share

<i>(In Thousands, Except Per Share Data)</i>	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Forecast Q3 2016
Diluted net income per share on a GAAP basis	\$0.19	\$0.25	\$0.26	\$0.17	\$0.17	\$0.17 - \$0.19
Amortization of acquired intangibles	0.05	0.05	0.05	0.05	0.05	0.05
Stock-based compensation expense	0.07	0.08	0.08	0.08	0.09	0.10
Non-qualified deferred compensation expenses (credits)	—	(0.01)	—	—	—	—
Restructuring and other charges (credits)	—	—	—	0.05	—	—
Acquisition and integration-related costs	—	—	0.01	—	0.02	—
Special charges *	—	—	—	—	—	—
Amortization of debt discount on convertible notes	0.01	—	—	—	—	—
Other income or expense related to investments and non-qualified deferred compensation plan assets **	—	—	—	(0.01)	—	—
Income tax effect of non-GAAP adjustments	(0.05)	(0.09)	(0.09)	(0.06)	(0.04)	(0.05)
Diluted net income per share on a non-GAAP basis †	<u>\$0.27</u>	<u>\$0.28</u>	<u>\$0.31</u>	<u>\$0.28</u>	<u>\$0.29</u>	<u>\$0.27 - \$0.29</u>
Shares used in calculation of diluted net income per share - GAAP ***	313,665	313,186	310,512	303,434	295,201	
Shares used in calculation of diluted net income per share - non-GAAP ***	313,665	313,186	310,512	303,434	295,201	

† The non-GAAP measures presented in the table above should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.

* Comprised of executive severance costs.

** Includes, as applicable, equity in losses or income from investments, write-down of investments, gains or losses on non-qualified deferred compensation plan assets recorded in other income or expense.

*** Shares used in the calculation of GAAP net income per share are expected to be the same as shares used in the calculation of non-GAAP net income per share, except when the company reports a GAAP net loss and non-GAAP net income, or GAAP net income and a non-GAAP net loss.

Reconciliation of GAAP Diluted Net Income Per Share to Non-GAAP Diluted Net Income Per Share

<i>(In Thousands, Except Per Share Data)</i>	2012	2013	2014	2015	Forecast 2016
Diluted net income per share on a GAAP basis	\$1.57	\$0.56	\$0.52	\$0.81	\$0.70 - \$0.76
Amortization of acquired intangibles	0.10	0.15	0.20	0.21	0.21
Stock-based compensation expense	0.17	0.23	0.27	0.30	0.38
Non-qualified deferred compensation expenses (credits)	0.02	0.01	0.01	—	—
Restructuring and other charges	—	0.06	0.03	0.01	0.05
Acquisition and integration-related costs	0.03	0.11	0.08	0.03	0.04
Special charges *	—	—	0.04	—	—
Amortization of debt discount on convertible notes	0.07	0.08	0.06	0.02	—
Other income or expense related to investments and non-qualified deferred compensation plan assets **	(0.02)	(0.02)	(0.01)	(0.01)	(0.01)
Income tax benefit due to a release of an uncertain tax position	—	(0.11)	—	—	—
Income tax benefit of valuation allowance release	(0.78)	—	—	—	—
Income tax benefit of State of California settlement	(0.13)	—	—	—	—
Acquisition-related income tax benefit	(0.05)	—	—	—	—
Income tax effect of non-GAAP adjustments	(0.21)	(0.21)	(0.26)	(0.28)	(0.20)
Diluted net income per share on a non-GAAP basis †	\$0.77	\$0.86	\$0.94	\$1.09	\$1.17 - \$1.23
Shares used in calculation of diluted net income per share - GAAP ***	280,667	294,564	306,775	312,302	
Shares used in calculation of diluted net income per share - non-GAAP ***	280,667	294,564	306,775	312,302	

† The non-GAAP measures presented in the table above should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.

* Comprised of costs related to a voluntary retirement program and executive severance costs.

** Includes, as applicable, equity in losses or income from investments, write-down of investments, gains or losses on non-qualified deferred compensation plan assets recorded in other income or expense.

*** Shares used in the calculation of GAAP net income per share are expected to be the same as shares used in the calculation of non-GAAP net income per share, except when the company reports a GAAP net loss and non-GAAP net income, or GAAP net income and a non-GAAP net loss.

Reconciliation of GAAP Total Other Income and Expense to Non-GAAP Total Other Income and Expense

(In Millions)	FY 2015A	Previous FY 2016E	Current FY 2016E
GAAP total other income and expense	\$(17.8)	\$(21) - \$(12)	\$(17) - \$(11)
Reconciling items to non-GAAP total income and expense			
Other income or expense related to investments and non-qualified deferred compensation plan assets*	(2.0)	(3)	(3)
Amortization of debt discount on convertible notes	7.5	—	—
Non-GAAP total other income and expense†	<u>\$(12.3)</u>	<u>\$(24) - \$(15)</u>	<u>\$(20) - \$(14)</u>

† The non-GAAP measures presented in the table above should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.

* Includes, as applicable, equity in losses or income from investments, write-down of investments, gains or losses on non-qualified deferred compensation plan assets recorded in other income or expense.