

CADENCE DESIGN SYSTEMS, INC.**Third Quarter 2016 Financial Results Conference Call****Remarks of Lip-Bu Tan, President and Chief Executive Officer, and
Geoff Ribar, Senior Vice President and Chief Financial Officer****October 24, 2016****2:00 P.M. Pacific****Remarks of Alan Lindstrom, Group Director of Investor Relations****Safe Harbor Statement**

Thank you operator, and welcome everyone to our third quarter 2016 earnings conference call. With me today are Lip-Bu Tan, President and CEO, and Geoff Ribar, Senior Vice President and CFO.

The webcast of this call can be accessed through our website cadence.com and will be archived through December 16, 2016.

A copy of today's prepared remarks will also be available on our website at the conclusion of today's call.

Before we start I want to call your attention to our CFO Commentary which was included in our 8-K filing today and is available on our Investor Relations website at cadence.com. The CFO Commentary should be referenced with both today's conference call remarks and the earnings press release issued today.

Next, 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 measure 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.

Additionally, a copy of today's press release dated October 24, 2016 for the quarter ended October 1, 2016, and related financial tables, can also be found in the investor relations portion of our website.

Now I'll turn the call over to Lip-Bu.

Remarks of Lip-Bu Tan, President and Chief Executive Officer

Good afternoon everyone and thank you for joining us today.

We were pleased by our results for the third quarter, as Cadence continues to execute on the **System Design Enablement** strategy.

For the third quarter:

- Revenue was \$446 million,
- Non-GAAP operating margin was 26 percent,
- Non-GAAP EPS was 30 cents, and
- Operating cash flow was \$84 million.

Let me start with the environment today. Semiconductor business conditions continue to be mixed with some sectors performing better than others. Favorable trends include cloud and datacenter, automotive, artificial intelligence, and video.

While semiconductor consolidation has not had a material impact on our business this year, it may present challenges over the next few years.

And at the same time, our relentless focus on innovation, execution, and helping our customers succeed is driving our momentum in the marketplace, and our opportunities continue to grow with systems companies.

Which leads me to our **System Design Enablement – or “SDE” – strategy**. SDE opens up additional growth opportunities, as it takes us beyond a horizontal focus on semiconductors and moves us to a systems company focus on end-market products and vertical market segments, thus increasing our customer base.

One important SDE trend is the adoption of our market leading IC packaging solutions for applications in which the IC package is becoming a primary system integration platform.

In Q3, we expanded our business with **BAE Systems**, including system-level integration using our **IC Packaging solution** and with significant adoption of our Innovus and Genus Digital IC design flow for SoC design.

And we delivered a comprehensive system design solution for TSMC's advanced wafer-level Integrated Fan-Out packaging technology, known as InFO. TSMC awarded Cadence with a Partner-of-the-Year award for development of this solution.

Our **System Design and Verification** group delivers a holistic verification suite of connected solutions that are based on strong core engines and optimized for total verification throughput which include Palladium for emulation, Incisive for simulation, and JasperGold for formal verification.

In Q3, Palladium Z1 continued its strong momentum adding 9 new customers. Continuing with the SDE theme, 5 of the new Palladium customers were systems companies including a major aerospace company. **Mobileye** adopted the Palladium Z1 for development of automotive vision technology for ADAS applications, and **Fujitsu** adopted Palladium Z1 for the development of its ARM v8-based Post-K supercomputer, the next generation flagship supercomputer in Japan.

Overall, verification is especially critical in automotive applications, and to that end in Q3 we expanded our business with **Infineon** in the area of automotive functional safety.

Our **digital and signoff** products continued to gain momentum with the Top-20 semiconductor companies.

- Overall we had 6 full digital flow wins in Q3.
- A global systems company is deploying our Innovus implementation solution for advanced node designs, and
- A market-shaping semiconductor company, pleased with the performance of our digital solutions, exercised the growth option in its contract to begin proliferation across its design groups.
- Tempus, our timing signoff solution, now has nearly 150 customers with rapid growth in mixed-signal timing signoff.
- The number of 10-nanometer tape-outs with our solutions is growing rapidly, and we worked closely with TSMC to certify our implementation and signoff tools, and integrated flow, for 7-nanometer designs.

Next I will move on to **IP**, which is a strategic business for us and a key component of the SDE strategy.

First I will discuss our strategy, and then provide highlights for the quarter.

- During the quarter we completed our review of our IP business strategy.
- The result of the review is that we significantly increased our focus on:
 - Standardized, off-the-shelf IP,
 - Certain strategic vertical markets, and
 - The most advanced process nodes.

While deemphasizing more customized IP.

- IP remains an important business for us. The IP market opportunity is strong as the outsourcing trend continues, thus creating opportunities for future growth.
- We are confident that these refinements will drive sustainable and scalable growth, and we expect our IP business to return to modest sequential growth for Q4.

We had some great **IP** product highlights for Q3.

- Virtual and augmented reality are exciting new technologies that I am watching closely. The Tensilica architecture provides unmatched performance and power efficiency of this type of application.
 - I am thrilled that our Tensilica processors are at the heart of the holographic processing unit in **Microsoft**'s HoloLens AR headset, using 24 Tensilica Xtensa cores.
- Cadence has worked closely with TSMC to develop some of the first design IP offerings for the 7-nanometer process, offering early access to protocols that are optimized for mobile and high performance computing applications.
- We have already delivered 7-nanometer DDR IP to a top-tier Asia-Pacific customer.
- We also introduced a broad portfolio of interface and memory design IP solutions for automotive applications using TSMC's 16-nanometer FinFET Compact process.
- Cadence delivered the first design IP for MIPI SoundWire Version 1.1 for high quality audio solutions and demonstrated interoperability with **Realtek**.

So now in summary:

- We are executing on our strategies and Cadence delivered good operating results for Q3;
- Interest in the Palladium Z1 remains strong with adoption by 9 new customers in Q3;
- Our digital and sign-off solutions maintained their momentum with market-shaping customers;
- We completed the review of our IP business strategy and with our new focus we expect the business to return to modest sequential growth in Q4;
- Our IC packaging solutions are growing in importance as a key component of System Design Enablement; and
- We won 4 TSMC Partner-of-the-Year awards for collaboration on both 7-nanometer mobile and high performance computing design flows; InFO IC packaging solution; and our analog/mixed-signal IP.

Now I will turn the call over to Geoff to review the financial results, and provide our outlook.

Remarks of Geoff Ribar, Senior Vice President and Chief Financial Officer

Thanks Lip-Bu, and good afternoon everyone.

Execution was good in Q3 with key operating metrics meeting, or beating our expectations:

- Total revenue was 446 million dollars, in-line with our expectations.
- Non-GAAP operating margin was 26 percent.
- GAAP net income per share was 23 cents.
- Non-GAAP net income per share was 30 cents.
- Operating cash flow was 84 million dollars, and
- We repurchased 9.6 million shares of stock for 240 million dollars – over 3 percent of shares outstanding at the end of the prior quarter.

Also note that:

- Weighted average contract life was 2.5 years.
- The recurring bookings and revenue mix has remained at approximately 90 percent over the past year.
- DSO were 34 days, down 1 day from Q2.
 - Due to an increase in hardware leases driven by strong hardware sales, DSO have increased by 6 days and long-term receivable have increased by 13 million dollars over Q3 2015.

Financial Outlook

Now let's turn to our outlook.

There are no changes to our fiscal 2016 outlook for the **midpoints** for bookings, revenue, operating margin, EPS or cash flow.

- We have narrowed the ranges on bookings, revenue and EPS.

We expect:

- Bookings in the range of 2.03 to 2.07 billion dollars, which equates to 8 percent growth at the midpoint.
- Revenue in the range of 1.81 to 1.82 billion dollars, which would be 7 percent growth at the midpoint.
- Non-GAAP operating margin of approximately 26 percent.
- GAAP EPS in the range of 74 to 76 cents.
- Non-GAAP EPS of \$1.19 to \$1.21, and
- Operating cash flow in the range of 380 to 420 million dollars.

And for Q4 we expect:

- Revenue in the range of 463 to 473 million dollars.
- Non-GAAP operating margin of approximately 27 percent.
- GAAP EPS in the range of 18 to 20 cents, and
- Non-GAAP EPS in the range of 32 to 34 cents.
- Approximately 90 percent of revenue is expected to come from beginning backlog.

Also note that we are launching a voluntary retirement program in Q4 and we have included estimated costs of 12 million dollars in our GAAP outlook.

You will find guidance for additional items in the CFO Commentary.

So with that, operator, we'll now take questions.

Remarks of Lip-Bu Tan, President and Chief Executive Officer

In closing, we are continuing to innovate and deliver System Design Enablement solutions to our customers, and we look forward to continuing to execute on our strategies to create value for our shareholders. I want to thank all of our hardworking employees, shareholders, customers, and partners for their continued support that makes this possible.

Thank you all for joining us this afternoon.