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 January 31, 2018 for the quarter ended December 30, 2017, 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.
Lip-Bu Tan, Chief Executive Officer

Good afternoon everyone and thank you for joining us today.

Through the execution of our System Design Enablement Strategy and delivery of our innovative solutions, Cadence delivered strong performance for our shareholders. John will go through our results in a few minutes.

The transition to the Data-Driven Economy, based on the creation, storage, transmission and analysis of data, is transforming virtually every industry and driving strong demand for semiconductors. It is being propelled by key technology waves including:

- mobile,
- cloud/datacenter,
- edge computing, and
- automotive

And machine learning is further transforming all of them.

We are well positioned for growth and value creation as we provide the solutions that fuel these technology waves.

Let me begin by highlighting our progress and successes during the year for several key vertical markets, starting with Cloud/Datacenter.

- High speed SERDES technology is essential for next generation hyperscale data centers. In Q4 we acquired nusemi, which is developing ultra-high-speed connectivity solutions and we are thrilled to have this very talented team on board.
- The trend of system houses building their own silicon continues with the chip design group at a premier hyperscale web services provider adopting our software and hardware solutions for 7-nanometer designs.
- As we reported in Q3, we are collaborating with Xilinx, ARM and TSMC to build the industry’s first test chip for Cache-Coherent Interconnect for Accelerators, or “C-6”, incorporating Cadence IP and using Cadence tools on the TSMC 7-nanometer FinFET process.

2017 was a year of rapid advancements for Automotive, and we made steady progress with our EDA, IP and Services solutions for this market.

- In Q4, we entered into a strategic relationship with a market-shaping auto maker that will include software, hardware, IP and services.
- Earlier in the year we signed a large design IP deal with a major customer in the automotive semiconductor sector.
- We had several key wins for our Safety, Test and Reliability EDA solutions, and
- Our IP business had great traction - Tensilica is now in two of the top three, and our Design IP is in four of the top five, automotive semiconductor companies.

The third vertical that I want to highlight is Aerospace and Defense.

- We have successfully built on our initial engagements with customers like GE Aviation and Northrop Grumman to further our footprint with both defense contractors and governmental agencies.
- During the year we strengthened our existing relationships and won new customers for software, hardware and services.

System Design Enablement also requires expanding our investments and partnerships to provide increasingly integrated system solutions for mutual customers.

- There is strong interest in our PSpice-Mathworks integrated solution, which bridges the system-level design and chip-board implementation domains. Early adopters include customers in the automotive, aerospace & defense, and medical segments.
• In Q4, we acquired **SFM Technology**, an innovative company that accelerates advanced ECAD-MCAD library creation and is an important step toward expanding our System Design Enablement strategy into **mechatronics**.

It was another strong year for **innovation**, which is at the heart of our success. We introduced 8 new products in 2017 and we have now introduced more than 20 significant products in the last three years.

**Now I will move on to product highlights for both Q4 and 2017.**

**Digital and signoff** revenue grew 10 percent for the year, driven by increasing proliferation with market-shaping customers and broadening adoption by other semi and system customers.

• **Broadcom** continued to increase its investment in our digital platform, which proliferated throughout many advanced node projects.

• During the year, a global marquee company, and a key IP partner, expanded and deepened their investments in Cadence technology, including our digital solutions.

• More than 100 customers have now deployed our digital and signoff products for advanced node designs.

• About 40 customers are using Cadence at the 7-nanometer node, and have taped out over 30 designs.

• Demonstrating the strength across our product line, we had 20 full flow wins for the year.

**IP** revenue grew 18 percent for the year as the outsourcing trend continues and our refined strategy drove strong results.

• We booked by far our largest ever design IP contract. The agreement includes a broad array of our design IP including DDR controllers and PCI Express.

• **Tensilica** had a strong quarter with increased royalties.

• **Tensilica**’s leadership in audio is leading to key wins in the smart speakers market, while adoption grows for our DSPs that are tuned for vision and neural networks.
Momentum continued to build for the new software products in our Verification Suite, but overall revenue was down 5 percent for the year due to hardware.

- In Q4, Xcelium, our new parallel logic simulator, added more than 25 new customers.
- More than 90 customers have now adopted Xcelium since its launch in February 2017.
- True to the lumpy nature of the hardware business, after a slow start to the year, Palladium and Protium ramped up in Q4 and we finished the year with a significant backlog of orders.
  - For the year we added 20 new Palladium Z1 customers, 10 of those in Q4.
  - Sales of the new Protium S1 FPGA-Based Prototyping System were strong as we added 15 new customers and had 9 repeat orders.
- JasperGold proliferation continued to accelerate. Nine of the top 10 semiconductor companies now use our formal verification solution, and we doubled the number of new customers in 2017.

For our custom and analog design solutions, newer market trends along with increasing design complexity drove strong demand for both our advanced node custom design and simulation solutions, leading to revenue growth of 11 percent for the year.

- Two of the top three memory companies have now adopted our Spectre XPS fast-spice simulator and characterization solutions.

**System interconnect and analysis** solutions grew 8 percent for the year, with growth across PCB implementation, IC packaging, and Sigtry power integrity analysis.

- The newly launched Virtuoso Design System Platform and Allegro DesignTrue DFM products have been very well received.
- Our power integrity solution was the key driver for our strong Sigtry results, with interest across multiple verticals.
Summary:

- Consistent execution and broad-based proliferation and adoption of our solutions drove excellent financial results for the fourth quarter and for our full fiscal year.
- Cadence, along with the semiconductor and EDA space, is benefitting from a number of technology waves centered on machine learning.
- The adoption of our digital and signoff solutions by market-shaping customers is broadening our reach and customer base.
- Our refined IP strategy led to strong mid-teens growth. We are excited about the acquisition of nusemi which we expect to add next-generation high-speed SERDES – critical, for modern cloud/datacenter applications.
- Momentum has continued for our custom and analog solutions as both large and small customers have been adding capacity.
- We are proud of what we accomplished in 2017 and excited about the opportunities ahead for 2018.
I’m very pleased to say that we met or exceeded our key operating metrics and delivered strong financial results for both the fourth quarter and fiscal year 2017.

**First I will go through the key results starting with the P&L.**

Total revenue was 502 million dollars for Q4, up 7 percent over the prior year period. For the year, revenue was 1.943 billion dollars, also up 7 percent year-over-year.

**Non-GAAP operating margin** was 30 percent for Q4 and 27.5 percent for 2017.

On a **GAAP** basis Cadence reported net income of 73 cents per share for fiscal 2017, and a net loss of 5 cents per share for Q4. These GAAP results reflect a total one-time charge of 92 million dollars, or 33 cents per share, on a provisional basis for U.S. tax reform, of which

- 67 million dollars, or 24 cents per share, was for the mandatory repatriation tax, and
- 25 million dollars, or 9 cents per share, was for the revaluation of our net deferred tax asset, resulting from the U.S. corporate tax rate reduction.

Please note that these provisional amounts may change as Cadence continues to evaluate the impact of the Tax Act.

**Non-GAAP net income per share** was $1.40 for the year, up 16 percent over 2016, and 39 cents for Q4, up 15 percent year-over-year.
Now turning to the balance sheet and cash flow.

- **Cash and short-term investments** were 693 million dollars at year-end, of which 80 percent was outside of the U.S.
- We had 735 million dollars of debt outstanding at quarter-end, which includes 85 million dollars that we drew down from our revolving credit facility during the quarter.
- **Operating cash flow** was 127 million dollars for Q4 and 471 million dollars for 2017.
- During Q4 we used 143 million dollars for acquisitions and repurchased 50 million dollars of Cadence shares.
- **DSOs** were 36 days.

Before I present the outlook for Q1 and fiscal 2018, I’d like to talk a little about the impact of U.S. Tax Reform and our transition to new revenue rules

First, the impact of US tax reform.

It has only been 40 days since the U.S. Tax Cuts and Jobs Act was signed into law. We’ve done a lot of work and we have a lot more to do, but as of today here is what I can tell you about its impact on Cadence:

- Based on our analysis of the act, our non-GAAP tax rate will fall from 23 percent to 16 percent for 2018.
- As mentioned earlier, in Q4 we recorded a 67 million dollar charge for the mandatory repatriation tax, and 25 million dollars for the revaluation of our net deferred tax asset, resulting from the U.S. corporate tax rate reduction.
- We do not expect a meaningful impact on cash used for taxes in 2018.
- We expect to repatriate international cash but, given the logistics involved, we are still determining the timing and amount of repatriation.
• In the first half of this year, we plan to review our overall tax position in light of the new tax act.
• As of now, that’s about as much as we can say about the impact of the new tax act, but we are continuing to work on it and we plan to provide further information in our Form 10-K when it is filed in a couple of weeks.

**Now I will discuss the changing revenue rules.**

Cadence has adopted the new revenue accounting standard known as ASC Topic 606 for fiscal 2018.

For ease of communication, over the course of the next few minutes, I plan to refer to the new revenue accounting standard simply as ‘the new revenue rules’ or ‘the new rules’ to contrast it with the former standard, ASC Topic 605, which I will refer to as ‘the old revenue rules’ or ‘the old rules’.

• The first thing to mention about our transition to the new revenue rules is there will be no impact to our cash flows, or to how we operate our business.
• The impact on our expense line is minimal, and the portion of our revenue recognized over time will remain approximately 90 percent under the new revenue rules, just as it was under the old revenue rules.
• However, there is a difference in our revenue guidance for 2018 under the old and new revenue rules, and I’ll explain now why this difference exists:
  o In the recast process on transition to the new revenue rules, some of our contracts that had upfront revenue recognition under the old rules shift to recognition over time, and some contracts that were recognized over time become upfront.
  o Cadence is using the modified retrospective transition method to adopt the new revenue rules.
  o Under this transition method, only a subset of orders are recast and recognized as revenue under the new revenue rules, specifically, those orders that were in our backlog at the end of 2017.
During this recast process, we expect to take approximately 3 percent of our backlog that would have primarily been recorded as revenue over the next two years under the old revenue rules, and include it immediately as an adjustment to our opening retained earnings on the balance sheet for 2018.

As a result, we estimate that our revenue under the new rules in 2018 will be approximately 2 percent lower than it would have been under the old rules.

We expect the difference between revenue under the new rules and old rules to gradually decline over time and be de minimis within two years.

- We will report revenue under both sets of rules for every quarter in 2018.
- Guidance for the year will be provided under both the new and old rules, while quarterly guidance will only be provided on the basis of the new rules.

Now I will provide our guidance:

For fiscal 2018:

- We expect revenue in the range of 2.015 to 2.055 billion dollars under the new revenue rules.
  - That range would be 2.055 to 2.095 billion dollars under the old rules, or growth of approximately 7 percent.
- We expect Non-GAAP operating margin of approximately 27 percent, under the new rules.
  - Adjusting for the difference in revenue, this implies a Non-GAAP operating margin of 28.4 percent under the old rules.
- GAAP EPS in the range of 80 to 90 cents, which would be 93 cents to $1.03 under the old rules.
- Non-GAAP EPS of $1.50 to $1.60, which would be $1.62 to $1.72 under the old rules.
- We further expect operating cash flow to be in the range of 480 to 530 million dollars, and
- We expect to repurchase Cadence common stock at the rate of 50 million dollars per quarter during 2018.
For Q1, our guidance based on the new revenue rules is as follows:

- Revenue in the range of 500 to 510 million dollars,
- Non-GAAP operating margin of approximately 26 percent
- GAAP EPS in the range of 20 to 22 cents, and
- Non-GAAP EPS in the range of 36 to 38 cents.
- We expect our DSOs for Q1 to be approximately 40 days.

You will find guidance for additional items in the CFO Commentary available on our website.

I want to leave you with the following points:

- Cadence had a strong finish to 2017 and we’re excited about our prospects for 2018
- We will continue to improve our operating profitability in 2018. Our guidance implies an operating margin of 28.4 percent for 2018 under the old rules which is up from the 27.5 percent we achieved in 2017, and
- I am delighted to finish 2017 with
  - 7 percent revenue growth for Q4,
  - 7 percent revenue growth for 2017, and
  - A projection for 7 percent revenue growth for 2018, on an apples to apples basis under the old revenue rules.

Q&A Session

Lip-Bu Tan, Chief Executive Officer

In closing,

- Through consistent execution and innovation, we are well positioned to build on the positive momentum of our System Design Enablement strategy to enable the Data Driven Economy.
- I would like to thank all of our shareholders, customers, partners, board of directors, and hardworking employees for their continued support.