SYNOPSYS®

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' business, projected business results, business objectives, acquisitions, products, technologies, business model, new markets, customer demand for our technology, and our planned stock repurchase activity. 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: uncertainty in the growth of the semiconductor and electronics industry; consolidation among our customers; continued uncertainty in the global economy; our ability to realize the potential financial or strategic benefits of acquisitions we complete; changes in accounting principles or standards; fluctuation of our operating results; our highly competitive industries and our ability to meet our customers' demand for innovative technology at lower costs; our ability to protect our proprietary technology; application of the actual consolidated GAAP tax rate, or our decision to change our non-GAAP normalized tax rate, as a result of a number of factors, including the actual geographic mix of revenue during the quarter and year, tax law changes, actions by government authorities, or judgment by management, based upon the status of pending audits and settlements, to increase or decrease an income tax asset or liability; investments of more resources in research and development than anticipated; risks and compliance obligations relating to the global nature of our operations; cybersecurity threats or other security breaches; liquidity requirements in our U.S. operations; claims that our products infringe on third-party intellectual property rights; product errors or defects; litigation; 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; evolving corporate governance and public disclosure regulations; the inherent limitations on the effectiveness of our controls and compliance programs; the impairment of our investment portfolio by the deterioration of capital markets and the change in the fair value of our non-qualified deferred compensation obligations; 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, 2015 and in its Form 10-Q for the fiscal quarter ended July 31, 2016 to be filed with the SEC. The information provided herein is as of August 17, 2016. Although this Webcast is expected to remain available on Synopsys' website through the date of the earnings results call for the fourth quarter of fiscal year 2016, its 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 2016 earnings release and financial supplement, each dated August 17, 2016 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 17, 2016.

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Good afternoon. I'm happy to report that we continue to execute very well. Our third quarter financial results were strong, and we're raising our targets for the full year. We delivered revenue of $615 million, with good growth across all product groups, most notably verification and IP; non-GAAP earnings per share were 76 cents; we completed our second accelerated share buyback of 2016, and have repurchased a total of $325 million this year; finally, we're raising our annual revenue, non-GAAP EPS, and operating cash flow guidance. Trac will discuss the financials in more detail.

In assessing the environment around us, we see continued volatility for semiconductor and systems companies, juxtaposed with intense pressure to conceive and deliver the next killer products. While the latest customer earnings results are better than originally anticipated, the forecast for 2016 semiconductor revenue remains sluggish, and actually worsened slightly over the past few months. Nonetheless, investments in EDA are robust, and Synopsys is both ideally positioned and executing well. Our commitment to customer success remains a key source of differentiation; our technology vision is focused on critical products with the highest impact; and, we balance short-term and long-term investments to drive sustainable EDA and new TAM growth and profitability.

While it's too early to talk about 2017 specifically, given the ongoing semiconductor volatility and lumpiness of our growing hardware revenue, I will say that we're optimistic about our business and long-term prospects, as we continue a track record of executing well in both good and challenging markets. In that context, I would like to thank our very dedicated employee team for their hard work and excellent execution in an extremely demanding environment!

Let me provide some highlights from the quarter in the context of the three customer groups we serve: semiconductor companies, system houses, and software developers in multiple industries.

In describing the state and path of semiconductors today, I like to use the word "rejuvenation." As semi companies reassess and strategize to drive the next generation of growth, they are restructuring their businesses and targeting investments to attack the emerging opportunity wave of "smart everything." For some, joining forces with another company is the chosen route. For others, it's to focus more tightly on their most differentiated areas of success. We've worked with a number of our customers through the consolidation process, and in numerous cases were successful in broadening the relationships. This quarter we saw some additional consolidations, and are confident in our ability to work with and support these in a constructive way. Regardless of economic challenges, investment in developing highly complex chips is a clear priority, with migration to advanced process nodes being a key strategy for our leading customers.

As a technology pioneer, we're known for our expertise, broad portfolio, engineering support, and track record of enabling these advanced designs. The cumulative number of FinFET designs continues to grow rapidly: nearly 15% in just the last quarter. And more than 95% of those designs rely on Synopsys digital tools.

At the other end of the technology spectrum, our TCAD products are also a differentiator for us. Used at the very beginning of process development, they enable customers to simulate and optimize key elements of the manufacturing process. This also provides us early access to critical models and information that give us a head start in our own product development.

In digital design, our fastest-ramping product ever, IC Compiler II, continues to proliferate. Orders in Q3 were the highest in five quarters; more than 90 percent of our installed base has at least one production project completed or in progress, with more than 200 production designs overall. At the Design Automation Conference in June, Infineon, Socionext, Samsung and Toshiba shared with a full house their successful deployment of IC Compiler II to significantly cut design cycle time, while achieving excellent quality of results.

In analog-mixed-signal, our newly introduced Custom Compiler product has come out of the gate with great promise. Intrigued by its innovative visually-assisted automation, which cuts important layout tasks from days to hours, customers are showing a high level of interest, and we're seeing some good initial adoption. At DAC, GSI, Samsung, and ST Micro shared their design challenge experiences, and how they've deployed Custom Compiler to improve their productivity. In addition, we announced support for Samsung foundry's 14nm FinFET process.

Also highlighted at DAC was the power of our EDA ecosystem. With a goal of ensuring our joint customers' success, Synopsys, TSMC and ARM hosted a popular event, highlighting our collaboration efforts to enable design of the latest processors on the latest FinFET technology nodes.

Let's now look at system houses, who either develop their own chips or buy them from others. They too are seeing great opportunities, as well as substantial challenges – whether at leading or established nodes. In particular, opportunities around virtual and augmented reality, big data, and digital intelligence are extremely promising. Simultaneously, relatively new and traditional companies, in verticals such as automotive and industrial, are already adopting these advanced technologies ranging all the way from silicon to software. The essence of the technical challenge – and promise? The intersection of hardware and software! With approximately 40% of our revenue coming from systems companies, and substantial investments around the next generation Silicon to Software continuum, Synopsys is well-equipped to engage on next-generation opportunities.

First, verification – the biggest design bottleneck today. A couple of years ago we introduced our Verification Continuum platform. It integrates all critical software and hardware technologies into an increasingly seamless and high-productivity solution. Positive customer reaction is leading to rapid adoption throughout the platform. At DAC, Qualcomm, ST, Samsung and Oracle spoke about their successes using the Verification Continuum. Q3 business results were strong for both software and hardware elements, and we're outpacing our competitors in terms of growth. Integration of the SpyGlass technology from Atrenta has taken our solution to a higher level of impact for customers. Both the technical and business results have been better than initially expected. Hardware verification showed strength again. We're now the fastest-growing emulation vendor in the industry, and also saw record orders of our HAPS physical prototyping solution. An excellent example of our customer success this quarter is NXP, which selected Synopsys as its primary SoC verification and emulation solution for its next-generation automotive, secure connectivity, and smart connected products.

Let me talk for a moment about automotive. Over the past couple of years, we've substantially grown our portfolio in this market segment – from design, to verification, to IP, to security, including excellent progress in automotive standards certification. We're beginning to see real momentum in this high-promise area. During the quarter, we announced enhancements to two of our virtual prototyping development kits, which are used by automotive OEMs and Tier 1 suppliers: One, models of Bosch IP to speed software development for Electronic Control Units. And two, a new model for Infineon's next-generation TriCore architecture. We also introduced a brand new test solution – TetraMAX II ATPG – which reduces costs and offers order-of-magnitude faster runtime. While broadly used for many applications, in the automotive context, TetraMAX II has already been certified for the stringent ISO 26262 automotive functional safety standard.

Moving to IP, we again saw very good demand across product lines, and continued to expand our portfolio to address ever-evolving market and product dynamics. At the leading edge of process technology, we won several important 10 and 7nm projects, a testament to the trust customers have in us as they tape out critical test chips containing our advanced IP. In Q3, we announced availability of the new USB 2.0 Type-C IP, cutting power and area for cost-sensitive and energy-efficient IoT edge applications, as well as the latest PCI Express 4.0 IP, targeting advanced data-intensive cloud computing applications. We also introduced our second generation embedded vision processor to strong demand, driven by emerging automotive, drone, surveillance and augmented reality applications.

Closing with our Software Integrity products: our third customer group, software developers, range from semis and systems, to enterprise companies in the financial, medical, industrial and energy segments. These developers face multi-faceted challenges – immense software complexity with the resulting product quality issues, and the potentially devastating financial and safety impact, triggered by security vulnerabilities. Software Integrity is an emerging, highly fragmented market, ripe for bringing multiple point tools together under a single, integrated umbrella. Similar to how we built our EDA and IP positions over the years, our goal is to build a coherent, highly differentiated, and productive platform which drives quality and security in software development. To that end, we are making good progress towards our comprehensive vision of "Software Sign-Off." During software code development, our solution enables detection and fixing of security vulnerabilities, quality defects, and compliance short-comings early in the development lifecycle. It also helps customers gain visibility into their software supply chain, thereby reducing risk inherent in third-party code. Having substantially strengthened our go-to-market approach and channel, we're beginning to see the number of large agreements grow, contract durations expand, international business improve, and renewals increase. While still early, these are good signs.

In summary: We delivered another excellent quarter, and are raising our full-year guidance; Our state-of-the-art technology and engineering support are key differentiators as we continue to drive excellent customer relationships; And we're seeing good progress as we invest in a promising, brand new TAM. Let me now turn the call over to Trac.

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Thanks, Aart. Good afternoon everyone. Through the first three quarters of the year, we've executed very well in a challenging semiconductor environment. As a result, we are raising our full-year guidance and again achieving our multi-year objective of driving high-single-digit non-GAAP EPS growth.

In Q3, we delivered double-digit revenue and non-GAAP earnings growth, and generated significant operating cash flow. In addition, we completed our $125 million ASR last week and year to date, we've bought back $325 million of stock.

Now to the numbers: As I talk through the results and targets, all comparisons will be year-over-year unless I specify otherwise.

Total revenue was $615 million, above our target range. We achieved double-digit growth across all product platforms, with particular strength in hardware. Upfront revenue slightly exceeded 10 percent. We anticipate more quarterly variability as our business evolves; however, we continue to expect an annual revenue model that is approximately 90 percent time-based.

Over 90 percent of Q3 revenue came from beginning-of-quarter backlog, and one customer accounted for more than 10 percent of revenue. The weighted average license duration was approximately 3.1 years, and we expect the full year average to be about 3 years.

Total GAAP costs and expenses were $538 million and total non-GAAP costs and expenses were $473 million. Non-GAAP operating margin was 23 percent for the quarter and 23.7 percent year to date.

GAAP earnings per share were 42 cents, and non-GAAP earnings per share were 76 cents – above our target range.

We generated $252 million of operating cash flow, driven by strong collections and business levels. We are again raising our 2016 operating cash flow target to a range of $525 to $545 million. We ended the quarter with cash, cash equivalents and short-term investments of $1.1 billion – with 12 percent onshore – and total debt of $278 million.

Last week we completed our $125 million ASR. Year to date, we've used over 80 percent of our free cash flow for buybacks. We have $175 million remaining on our current authorization.

Now to fourth quarter and fiscal 2016 guidance, which excludes the impact of any future acquisitions.

For Q4, the targets are:

- Revenue between $621 and $636 million;
- Total GAAP costs and expenses between $537 and $556 million;
- Total non-GAAP costs and expenses between $483 and $493 million;
- Other income between $0 and $2 million;
- A non-GAAP normalized tax rate of 19 percent;
- Outstanding shares between 152 and 155 million;
- GAAP earnings of 46 to 55 cents per share; and
- Non-GAAP earnings of 75 to 78 cents per share.

For 2016:

- Revenue of $2.41 to $2.425 billion, a growth rate of 7 ½ to 8 percent;
- Other income between $6 and $8 million;
- A non-GAAP normalized tax rate of 19 percent;
- Outstanding shares between 153 and 156 million;
- GAAP earnings of $1.72 to $1.81 per share;
- Non-GAAP earnings of $3.00 to $3.03 per share, a growth rate of 8 to 9 percent;
- Capital expenditures of approximately $70 million;
- And cash flow from operations of $525 to $545 million.

Finally, we've executed very well in a challenging environment and expect to deliver outstanding results in 2016. Growth is strong across all product platforms with better-than-expected hardware sales driving a good portion of the upside for the year. This does add more variability to the business, as customer requirements drive the timing of shipments and revenue, which is recognized upfront.

As we look to 2017, we are currently working on our budget and are assessing this year's hardware strength and how it will trend next year. Therefore, we would suggest that it is premature to change your 2017 estimates until we provide detailed guidance in November.

In summary, the entire Synopsys team has executed very well, our Q4 outlook is strong, and our 2016 targets are substantially better than they were at the start of the year. With that, I'll turn it over to the operator for questions.