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; 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 carry out our new product and technology initiatives; our ability to protect our proprietary technology; changes in accounting principles or standards; 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; changes in our GAAP or non-GAAP tax rate; liquidity requirements in our U.S. operations; claims that our products infringe on third-party intellectual property rights; litigation; product errors or defects; increased risks resulting from an increase in sales of our hardware products; 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, 2016 and in its Quarterly Report on Form 10-Q for the fiscal quarter ended January 31, 2017 to be filed with the SEC. The information provided herein is as of February 15, 2017. Although this Webcast is expected to remain available on Synopsys' website through the date of the earnings results call for the second quarter of fiscal year 2017, 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 first quarter of fiscal year 2017 earnings release and financial supplement, each dated February 15, 2017 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 February 15, 2017.

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Good afternoon and thank you for joining us. Q1 was an excellent start to the year, as we delivered solid double-digit growth in both revenue and earnings. Revenue was $653 million, notably above our target range. Non-GAAP earnings per share came in at 94 cents. We are raising annual revenue, earnings per share, and operating cash flow guidance, reflecting our confidence in our outlook. In addition, we continued to return capital to shareholders with a $100 million share repurchase; Trac will discuss the financials in more detail.

The market that we serve through our three customer segments of Semiconductors, Systems and Software developers remains mostly unchanged since last quarter. In semiconductors, analyst predictions are more positive than in past quarters, reflecting the investments going into the early products in the Internet of Things, machine learning, automotive, augmented and virtual reality, networking infrastructure, and the continually growing need for more compute power in the cloud. Fundamentally, though, the dynamics have not materially changed, as companies continue to prioritize aggressive adoption of advanced silicon and state-of-the-art design, while being mindful of their need to control costs.

The consolidation drive to combine forces in order to better attack certain markets or more effectively utilize resources is likely to continue. Many of these consolidations have worked their way through the system, and while they are a headwind, Synopsys has fared well. The technology leadership and completeness of our solutions, combined with unwavering support, has made us a highly valued partner. In fact, the strength of our design, verification and IP platforms positions us well with customers readying themselves for their next wave of growth.

Moving to systems companies, which represent about 40% of our revenue, the intersection of hardware and software is at the core of both their needs and our ability to deliver value. It's hard to overstate the promise and the challenges brought by the new applications that are emerging as the age of 'smart everything' is taking shape. Helping our customers de-risk as they bring all the pieces together has now become our joint challenge. This is precisely where Synopsys excels. Our broad portfolio, proficiency and problem-solving experience, reaching from Silicon to Software, continues to increase in value as the challenges grow more and more multi-dimensional.

Our third customer segment – software developers across many industries – is a growing differentiator for Synopsys. The expansion of interconnected devices – with immense software content and complexity – brings with it the need to find security and quality vulnerabilities early in the development process. Fixing issues by sending out a stream of software patches is now untenable with systems that touch human life, society's infrastructure, all the way to high-value industrial and financial systems. Our growing portfolio of software security and quality products and services is gaining attention in market segments that, only a few years ago, we would never have touched, ranging from embedded to enterprise.

Now to some Q1 product highlights spanning from Silicon to Software. Through our most advanced design tools, we are well-known for supporting adoption of 16, 14, 10, and 7nm FinFET technology. With our advanced lithography and TCAD platform, we are also well engaged in the development and research of 5, 3, and 2nm nodes. For example, we teamed up with IIT Bombay to announce an important extension of our Sentaurus TCAD for FinFET reliability modeling at 7nm, 5nm and below. Meanwhile, adoption of advanced design with our tools continues unabated. Of the 300 FinFET designs completed to date, Synopsys was relied on for more than 95% of those chips. Significantly, 55 of the 56 tape-outs at 10nm and below were completed using Synopsys.

Overall, our digital design platform, which is centered around synthesis, place and route, and sign-off, continues to make great strides. First, our leading synthesis franchise around Design Compiler, which benefits from an extraordinarily strong and broad usage base, is seeing a rapid succession of technology advances and runtime improvements, including in its ability to deal with advanced test requirements. Second, our state-of-the-art Place and Route offering around IC Compiler II is benefiting from very rapid adoption, including 19 of the 20 top semiconductor companies; Better and better results and solidity by honing the product on more than 250 production designs covering now over 25 different foundry processes; And as a result, we are seeing notable successes in head-to-head benchmarks and customer engagements. And third, the strength of our gold-standard sign-off franchise. In addition to a continuing drumbeat of technical improvements, the strong correlation between the design and sign-off tools is a massive risk-reducer for our customers while impacting their time to market.

During Q1, for example, we released PrimeTime HyperScale, which reduces timing sign-off runtime and compute costs by 5 to 10x! The adoption is swift as market-leading companies such as Broadcom, Juniper Networks, MediaTek, Renesas Electronics and Samsung Electronics have already deployed HyperScale in their signoff and tape-out flows. The sharing of physical sign-off algorithms from IC Validator, natively inside IC Compiler II, also greatly improves sign-off time as it minimizes physical design violations during, instead of after place and route.

In custom/analog design, adoption of Custom Compiler is steadily progressing. In Q1, a market-leading mobile fabless company deployed Custom Compiler on multiple 7nm designs, while a large semiconductor IDM is replacing our competition for the design of a growing number of custom IP blocks.

Now to verification, where our platform vision and technology execution have yielded excellent business and market share growth. Verification is a showcase of our broader Synopsys Silicon to Software vision. Our focus is squarely on the greatest enabler of the IoT/Smart Everything age: the intersection of hardware and software verification. The center of our offering is our VCS simulator franchise. The product is not only doing well business-wise, but also delivering great new technology advances. During the quarter, we announced the roll out of massive parallelism natively integrated in the next release of VCS. Advanced customer-partners are already experiencing substantial performance boosts as this technology further cements our commitment to best-in-class verification products. Our hardware-based ZeBu emulation and HAPS prototyping had another strong quarter as well. The combination of increasing customer demand and our ability to deliver the fastest solution on the market today, gives us confidence that our verification business will do very well again this year.

On to our IP products, where we continue to deliver strong results and gain customer recognition. Strength was across the board, with notable wins in 7nm and continued momentum in IoT. A major Chinese customer selected Synopsys for a wide range of IP for their 7nm designs. TSMC certified our area-optimized USB 2.0 solution for IoT for its 40nm Ultra Low Power process. The ARC SEM security processor won the Linley Group's best processor IP award for 2016, based on power/performance efficiency, as well as unique security features. Our IP group is growing well. This is the result of more than 15 years of investment and hard work, yielding an unmatched portfolio of high-quality, trustworthy IP products.

These characteristics are particularly important in the expanding automotive space – a key focus segment for Synopsys, touching our IP, EDA and software security portfolios. Our customer base in automotive continues to widen, including new semiconductor companies as well as OEMs and noted tier 1 suppliers. In Q1, a high-profile automotive semiconductor company adopted our test solution for use in mixed-signal automotive ICs to enable ISO 26262 compliance. Their ICs are for safety-critical systems and therefore require in-system and power-on self-test to comply with the standard. Key elements of our EDA, IP and Software Integrity portfolio are now certified for the most stringent level of automotive safety measures defined by the ISO 26262 standard.

Which naturally leads me to our Software Integrity group. Succinctly stated, our focus is to provide products and services to build security and quality into the software development lifecycle and across the entire cyber supply chain. Clearly, security challenges are only increasing, but so is the recognition that finding and fixing security vulnerabilities must be addressed vigorously while developing the software. That means high-quality code-checking long before the software gets deployed is a must! For example, Online Trust Alliance, a well-known industry organization, states that 100% of recently reported IoT vulnerabilities could have been easily avoided if manufacturers and developers took security and privacy measures into account throughout the development process.

Our strategy is to: First, broaden and deploy our Software Sign-off Platform. Second, accelerate our penetration of key verticals in both the embedded and enterprise spaces. And third, drive demand creation, with services, ecosystem partners, and certification projects. While it's early, we are making great progress: 8 of the top 10 software companies in the world are now Synopsys customers; So are 7 of the top 10 automotive OEMs; And, illustrating the TAM-broadening potential for Synopsys, so are 16 of the top 20 commercial banks in the world.

Having greatly tuned our channel in fiscal '16, we continue to invest in this promising business. In Q1, we launched a new version of our static analysis tool with enhanced security for mobile and web applications. It's designed to help provide enterprise-level security analysis and broad programming language support necessary to address today's many evolving application security demands.

In Q1, we further broadened our language coverage, by adding support for Fortran through a small acquisition. While arguably an older language, it's a very important legacy component in many oil and energy systems. And, of course, in Q1 we closed the acquisitions of Cigital and Codiscope, a pivotal move to expand our market through a services arm that lets us reach and engage with higher-level decision makers at a broad set of customers. We see Synopsys and Cigital as an ideal combination: Synopsys leads with best-in-class products; Cigital with high-expertise services. Synopsys has a very strong presence in the embedded space, including automotive, medical devices and IoT; Cigital is a leader in serving enterprise customers, with particular strength in financial services. Synopsys is eminently engineering-centric, while Cigital brings a demand creation element, with customer touchpoints earlier in the security strategy development process. Thus far, the integration is proceeding well, and we had our first taste of the potential of the combination just this week at RSA, the world's largest security conference, where Synopsys highlighted the most comprehensive software security solution available today.

In summary, we exceeded expectations in Q1 for an excellent start to fiscal '17, and we're raising our full-year guidance. We're seeing very good momentum with our EDA platforms, continued strength in our IP portfolio, and good growth in Software Integrity as we continue to invest and broaden our TAM in this very promising emerging market. Let me now turn the call over to Trac.

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Thanks, Aart. Good afternoon everyone. I'm very pleased with our strong start to the year. In Q1, we continued to build on our momentum from 2016 as we achieved financial results that exceeded our expectations across all key metrics. We posted double-digit revenue and earnings growth, expanded operating margins, and generated considerable cash flow. In addition, we returned $100 million to shareholders in the form of buybacks. Based on our excellent Q1 performance and confidence in the rest of the year, we are raising our 2017 outlook for revenue, earnings, and cash flow.

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 increased 15 percent to $653 million, with strong results across the entire product portfolio. The upside relative to our target range was due mostly to timing of hardware sales and IP consulting deliverables. 90 percent of 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 2.8 years, and we expect the 2017 average to be about 3 years.

Total GAAP costs and expenses were $556 million, which includes a restructuring charge of $12 million, part of our plan to align resources to position the company for long-term growth. Total non-GAAP costs and expenses were $477 million, slightly below our target range.

Q1 non-GAAP operating margin was 27 percent, driven by strong top-line growth and better-than-expected expenses. For the year, we expect solid margin expansion over 2016 when the modest dilution from Cigital and Codiscope is excluded.

GAAP earnings per share were 56 cents. Non-GAAP earnings per share were 94 cents – above our target range – due to strong operational execution and the timing of hardware and IP revenue.

We generated $47 million in operating cash flow, even with the outflows from our 2016 annual incentive compensation payments. Collections were very strong, reflecting some large payments that came in earlier than expected. We are raising our 2017 target to a range of $500 to $520 million. We ended the quarter with cash, cash equivalents and short-term investments of $966 million – with 16 percent onshore – and total debt of $320 million.

In Q1, we returned $100 million to shareholders through our stock buyback program. In 2017, we intend to slightly reduce share count, and we have $335 million remaining on our current authorization.

Now to second quarter and fiscal 2017 guidance.

For Q2, the targets are:

- Revenue between $665 and $680 million;
- Total GAAP costs and expenses between $560 and $579 million;
- Total non-GAAP costs and expenses between $507 and $517 million;
- Other income between ($1) and $1 million;
- A non-GAAP normalized tax rate of 19 percent;
- Outstanding shares between 152 and 155 million;
- GAAP earnings of 51 to 59 cents per share; and
- Non-GAAP earnings of 85 to 88 cents per share.

For 2017:

- Revenue of $2.58 to $2.61 billion, a growth rate of 6 ½ to 8 percent;
- Other income between $2 and $6 million;
- A non-GAAP normalized tax rate of 19 percent;
- Outstanding shares between 152 and 155 million;
- GAAP earnings of $2.01 to $2.12 per share;
- We're raising the mid-point of our non-GAAP earnings target range by 4 cents to $3.21 to $3.26 per share;
- Capital expenditures of about $100 million;
- And cash flow from operations of $500 to $520 million.

As we look to the remainder of 2017, we now expect total revenue to be skewed to the first half of the year due to the timing of hardware and other deliverables. As a result, non-GAAP earnings per share will be higher in the first half. Investors should expect continued quarterly variability in revenue due to the growth of our hardware business and its upfront revenue recognition.

In summary, in Q1, we delivered double-digit growth in revenue and earnings, and generated solid cash flow. Based on our excellent Q1 performance, strong Q2 outlook, and confidence in the rest of the year – we are raising our 2017 outlook for revenue, earnings, and cash flow. Lastly, we will continue to manage the business for the long-term benefit of shareholders through an appropriate combination of investing in the business to drive sustainable earnings growth and returning capital to shareholders in the form of stock buybacks. With that, I'll turn it over to the operator for questions.