The following prepared remarks are an excerpt from Synopsys’ First Quarter and Fiscal Year 2015 Earnings Call. To review the contents of the entire earnings call, please refer to the official webcast, which will remain available on Synopsys’ website through the date of the second quarter fiscal year 2015 earnings call in May 2015.

These prepared remarks contain forward-looking statements relating to Synopsys’ business, acquisitions, new products, technologies, customer demand for our technology, new markets, and business model, including statements regarding projected financial results and business objectives. These statements are forward-looking statements within the meaning of the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934. Actual results could differ materially from those described by these statements due to a number of uncertainties, including, but not limited to, continued uncertainty in the global economy and its potential impact on the semiconductor and electronics industries; uncertainty in the growth of the semiconductor and electronics industry, and consolidation among our customers; increased competition in the market for Synopsys’ products and services including through consolidation in the industry; changes in demand for Synopsys’ products due to fluctuations in demand for its customers’ products; Synopsys' ability to realize the potential financial or strategic benefits of acquisitions it completes, including its acquisition of Coverity, Inc., and challenges in entering new markets in which Synopsys is not experienced and in the integration of the products and operations of acquired companies or assets into Synopsys' products and operations, including possible delays in customer orders, potential loss of customers, key employees, partners or vendors, customer demand and support obligations for product offerings, and disruption of ongoing business operations and diversion of management attention; adverse changes in the relationships between Synopsys and key participants in the complex semiconductor ecosystem, including major foundries and intellectual property providers; litigation; lower-than-anticipated new IC design starts; lower-than-anticipated purchases or delays in purchases of products or consulting services by Synopsys’ customers, including delays in the renewal, or non-renewal, of Synopsys’ license arrangements with major customers; changes in accounting principles or standards or in the way they are applied; changes in the mix of time-based licenses and upfront licenses; variability in the timing of revenue recognition due to factors such as payment terms and the timing and value of contract renewals and professional services projects; lower-than-expected orders; and failure of customers to pay license fees as scheduled.

In addition, Synopsys' actual expenses, earnings per share and tax rate on a GAAP and non-GAAP basis for the fiscal quarter ending April 30, 2015; actual expenses, earnings per share, tax rate, and other projections on a GAAP and non-GAAP basis for fiscal year 2015; and cash flow from operations on a GAAP basis for fiscal year 2015 could differ materially from the targets stated in these prepared remarks for a number of reasons, including, but not limited to, (i) integration and other acquisition-related costs, (ii) application of the actual consolidated GAAP and non-GAAP tax rates for such periods, or judgment by management, based upon the status of pending audits and settlements, to increase or decrease an income tax asset or liability, (iii) a determination by Synopsys that any portion of its goodwill or intangible assets has become impaired, (iv) changes in the anticipated amount of employee stock-based compensation expense recognized in Synopsys' financial statements, (v) actual change in the fair value of Synopsys' non-qualified deferred compensation plan obligations, (vi) increases or decreases to estimated capital expenditures, (vii) changes driven by new accounting rules, regulations, interpretations or guidance, (viii) fluctuations in foreign currency exchange rates, (ix) litigation, (x) general economic conditions, and (xi) other risks as detailed in Synopsys' SEC filings, including those described in the "Risk Factors" section in its Annual Report on Form 10-K for the fiscal year ended October 31, 2014. Furthermore, Synopsys’ actual tax rates applied to income for the second quarter and fiscal year 2015
Good afternoon and thank you for joining us. Q1 was an excellent start to the year. We delivered revenue of $542 million and non-GAAP earnings per share of 80 cents. We entered into a $180 million accelerated share buyback program to repurchase stock. We are on-track to meeting our operating cash flow goal of approximately $450M for the year. We are raising our revenue target to $2.195-2.235B, and our non-GAAP EPS objective to a range of $2.75 to $2.80 – the midpoint of which represents double-digit growth. Trac will discuss these in more detail shortly.

Looking at the economic landscape around us, I would characterize both the macro and semiconductor environments as solid. The overall economic outlook remains stable, with levels of caution that vary by geography. For semiconductors, which had a strong 2014 with about 10% growth, the outlook for 2015 is positive, albeit with the usual early year trepidations driven by a very competitive market.

The impact of semiconductors continues to grow, not only in the traditional computation and mobile communication areas, but increasingly in every aspect of our daily life, including health, automotive and financial segments. With this unstoppable evolution of the electronics market, the relentless drive for smaller and lower-power transistors continues unabated.
Its corollary, much more complex chips that integrate complete systems – including rapidly mounting embedded software content – continues to drive our, and our customers’, business. The number of designs using power-efficient FinFET transistors at sizes as small as 16, 14, and 10nm is growing at a fast pace. At the same time, the cost and time-to-market pressures can make or break a product cycle. For our customers, this puts great emphasis on partnering with vendors who can not only provide the best tools, but who also collaborate intensely to ensure product success.

Synopsys is uniquely positioned to be just that partner, and in fact has demonstrated time and again our value as an integral part of their success. One such partner, one of the most important wireless IC companies in the world, expanded its relationship with us in Q1. As they develop their next-generation of products and plan their requirements for the next several years, they’ll count on close collaboration and the leverage of a larger portfolio of Synopsys tools across digital and analog/mixed signal, design and verification.

In 2014, we launched a multi-year Silicon to Software market strategy, predicated on three pillars: First, build on our leadership in EDA with the clear objective to provide the state-of-the-art toolset required to design the next generations of chips. Second, grow our IP offering as one of the highest-impact productivity mechanisms available to design highly complex chips under unrelenting time-to-market constraints. And third, invest in and grow our Software Quality and Security solutions, as embedded software expands massively into next-generation electronic systems, and the vulnerabilities of application software create more and more challenges in our day-to-day lives.

We enter Q2 with confidence in our business due to our position and expertise ranging from deep silicon to sophisticated software; our comprehensive product portfolio utilized today by the most influential semi and systems companies; a global technical support team widely recognized as the best in the world; and a predictable business model that enables us to invest consistently to advance technology, while simultaneously driving long-term shareholder value.

Let me now provide some highlights from the past quarter, starting with EDA. As the acknowledged technology leader at advanced nodes, Synopsys is deeply engaged in our customers’ efforts, ranging from early process development, to chip design, to system verification. The number of active FinFET designs and tape-outs to date grew nearly 15% in just the last quarter, to almost 200. The breadth of our FinFET-proven tools and IP gives us a notable competitive advantage, as evidenced by Synopsys being relied on for approximately 95% of these designs. At the very bleeding edge, we’re engaged in numerous 10nm partnerships with early adopters, and we’re the go-to partner for 10nm process development.
Through our TCAD technology, we’re already collaborating with silicon providers and research consortia such as IMEC on 5 and 7nm. As a result of these early-stage collaborations, we have access to key models much earlier in the process than our competitors – giving us a sustainable advantage. Our relentless innovation in verification – both digital and analog/mixed-signal – is evident as well. Our flagship VCS functional verification product is the primary simulator for 80% of advanced designs.

In 2014, we began rolling out game-changing new products that are driving a multi-year upgrade cycle in both design and verification. The single most important EDA tool launch in the last decade was IC Compiler II – announced last March, and which delivers – we claimed at that time—an astonishing 10X improvement in throughput. Now with more than 50 engagements, our productivity claims are being confirmed again and again, and we’re now systematically helping customers proliferate IC Compiler II into their production flows.

During the quarter Renesas stated in a press release that they, “…view ICC II as a key enabler of competitive differentiation, and are in the process of extending its application to all key in-flight programs across 40nm, to 28nm and below.” Another advanced customer commented that, while the speed-up itself is impressive, the impact when combined with its larger capacity is that it opens the door to fundamentally changing the very way in which design is done. That’s why we refer to it as a game-changer in the industry. At this point, ICC II has already delivered a rapidly growing number of successful tape-outs, and we see high demand across our customer base.

In verification, our objectives are just as ambitious. We’re executing on a Verification Continuum vision that integrates best-in-class hardware and software engines aimed at radically impacting verification and debugging productivity. In 2014, we released the first set of capabilities in our Verification Compiler product, which combines all our software-based verification tools. Demand and initial adoption have been excellent. We’re now broadening our integration to encompass both software- and hardware-based verification engines. As we’re fortunate to have both the fastest engines and the #1 position in a majority of the verification areas, tight integration will drive substantial productivity increases for our customers. This has enormous value to them as they struggle with chip and system complexities compounded by hardware-software interactions. The early results are truly excellent and throughout 2015, we’ll roll out key capabilities that position us well over the next several years.
Our strong ecosystem partnerships with the leading foundries and key IP providers are also critical in supporting our mutual customers. For example, last month, ARM and Synopsys announced support for ARM’s new Cortex-A72 processor for mobile SoC development. The reference flow includes a range of Synopsys tools, including our powerful IC Compiler II product.

Let me move to our second strategic priority of growing our IP and Prototyping product lines. Demand for IP is strong, as more and more companies outsource standards-based, yet complex, IP blocks. Synopsys is the #1 supplier of interface, analog, memory, and physical semiconductor IP, bolstered by a reputation for highest quality, reliability and technical excellence. We are increasingly at the forefront of process viability as our IP is a vital enabler of the commercial introduction of new technology nodes – be it the most advanced FinFET processes or those targeting the Internet of Things. We’ve taped out more than 30 FinFET chips, and the silicon results look very good across the board. We secured a large, strategic win for a broad set of 10nm IP blocks, and also delivered our first 10nm embedded memory IP. All indicative of our momentum. In addition, we are the very first IP provider of a USB 3.1 controller. This new generation of USB has great promise – it’s twice as fast as USB 3.0, and more power efficient. Imagine the impact of such improvements in your daily use of your mobile devices!

As you know, the software content on those mobile devices is huge and growing. The design challenges are significant, and it’s become necessary to adopt an approach that enables software development to occur at the same time as the chip design – thereby speeding time-to-market by 6-9 months. Our HAPS FPGA-based prototyping solution does just that, and has proven itself in the marketplace. Q1 was its highest revenue quarter ever, and with more than 5,000 HAPS systems installed at customers today, we have excellent momentum.

Turning now to Strategic Priority number 3: Expand our presence in software quality and security by building on the excellent Coverity solutions we acquired last year. In this new market space that analysts expect to grow in the 20% range, we see our opportunity in three primary areas: One, accelerate adoption in the directly adjacent embedded software market segment, which covers software embedded on a chip, or electronic system. Two, accelerate adoption in the largely untapped enterprise-applications market segment that reaches industries from financial to health, energy, retail, social media, etc. And three, enlarge the portfolio by investing in new languages, and further expanding in the security space.
The Coverity integration of infrastructure and sales has gone well, and our initial financial expectations are on track. We saw 32 new logos in the quarter, and executed an important agreement with a large, U.S. energy company, which expanded its usage after good initial success. This customer values not only the excellent technology, but also the stability and resources of the larger Synopsys entity.

In summary, we are confident and optimistic about our business. We delivered strong results in Q1, and are raising revenue and non-GAAP earnings guidance for the year. We see high demand for our compelling new technologies in core EDA, which will drive a multi-year upgrade cycle. Our ever-expanding portfolio of IP and momentum in FPGA prototyping are driving strong IP and systems growth. And finally, we’re making good progress in our new, higher-growth software quality and security space. Let me now turn the call over to Trac Pham.

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Thanks, Aart. Good afternoon everyone. Building on a strong foundation in 2014, we're starting this year with great momentum. Our excellent Q1 financial results and improved 2015 outlook leaves us increasingly confident in our ability to execute our strategy for growth and profitability.

In Q1, we met or exceeded all quarterly financial targets we provided in December, posted double-digit growth in both revenue and earnings, and accelerated our stock buyback program.

Now to the numbers. As I talk through Q1 results and targets for the rest of the year, all comparisons will be year-over-year unless I specify otherwise.

Total revenue increased 13 percent to $542 million. Greater than 90 percent of Q1 revenue came from beginning-of-quarter backlog, and one customer accounted for more than 10 percent. The weighted average duration of our renewable customer license commitments was about 2.4 years, but we expect the full year duration to be approximately 3 years.

Q1 total GAAP costs and expenses were $471 million. Total non-GAAP costs and expenses were $403 million, below our target range, due largely to a shift in timing of expenses, including some delayed hiring, as well as lower travel and professional services. Q1 non-GAAP operating margin was 25.7 percent.

GAAP earnings per share were 41 cents. Non-GAAP earnings per share were 80 cents, above our target range due largely to a lower tax rate and timing of expenses.
Non-GAAP tax rate was 13.4 percent, due mostly to the reinstatement of the federal R&D tax credit for 2014. The Q1 tax rate includes both a retroactive benefit for fiscal 2014 and a partial year impact to fiscal 2015. As a result, we think a non-GAAP tax rate between 19 and 20 percent is a reasonable estimate for 2015.

Turning to cash flow. As expected, Q1 had a net operating cash outflow. The $87 million outflow was due mostly to the timing of 2014 incentive compensation payments, along with one-time severance payments related to our voluntary retirement program and other restructuring. We continue to target operating cash flow of approximately $450 million in 2015.

We ended the quarter with total debt of $303 million. This includes $235 million from our revolver, drawn during the quarter largely to fund our Q1 share repurchases, and $68 million from our term loan.

During the quarter, we entered into an accelerated share repurchase agreement, or ASR, for $180 million. This was part of our goal to keep share count roughly flat with 2014 levels. Under this ASR, we received 3.3 million shares in Q1, and expect to receive the balance by Q3 when the ASR is completed. We have $200 million remaining on our share repurchase authorization.

We ended the quarter with cash, cash equivalents and short-term investments of $917 million, with 13 percent onshore. We'll continue to optimize the use of cash to generate maximum long-term shareholder value. Each quarter we will evaluate our M&A, buyback and debt reduction options to determine the best balance.

DSO was 48 days and we ended Q1 with approximately 9,300 employees, with more than one third in lower-cost geographies.

Now to our second quarter and fiscal 2015 guidance, which excludes the impact of any future acquisitions. For the second quarter, our targets are:

- Revenue between $543 and $553 million;
- Total GAAP costs and expenses between $470 and $489 million;
- Total non-GAAP costs and expenses between $418 and $428 million;
- Other income between $0 and $2 million;
- A non-GAAP tax rate of 22 to 23 percent;
- Outstanding shares between 155 and 159 million;
For Fiscal 2015:

- We are increasing our revenue target to $2.195 to $2.235 billion, a growth rate of approximately 7 to 9 percent;
- We expect other income between $5 and $9 million;
- A non-GAAP tax rate of 19 to 20 percent;
- Outstanding shares between 155 and 159 million;
- GAAP earnings of $1.41 to $1.50 per share, which includes the impact of approximately $89 million in stock-based compensation expense;
- We are increasing our non-GAAP earnings to a range of $2.75 to $2.80 per share, which represents double-digit growth at the mid-point;
- Capital expenditures of approximately $100 million;
- And cash flow from operations of approximately $450 million.

Finally, to help in your modeling, second half revenue is expected to be slightly higher than first half revenue, with Q4 the largest revenue quarter. We expect total non-GAAP expenses to be skewed slightly toward the second half of the year, with non-GAAP EPS increasing sequentially from Q2 to Q4.

In summary, Q1 was a strong start to the year. We delivered excellent financial results, highlighted by double-digit top- and bottom-line growth and solid operating margin. We are also increasing revenue and EPS guidance for the year, reflecting the confidence and optimism we have for the business. With that, I'll turn it over to the operator for questions.