These prepared remarks contain forward-looking statements, including, but not limited to, statements regarding Synopsys' short-term and long-term financial targets, expectations and objectives; business outlook, opportunities and strategies; customer demand and market expansion; strategies related to our products and technology; our planned product releases and capabilities; industry growth rates; software trends; planned acquisitions and buybacks; our expected tax rate; the continued impact of U.S. and foreign government action on our results; and the continued impact of the COVID-19 pandemic. These statements involve 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. Such risks, uncertainties and factors include, but are not limited to: risks from the continued effect of the COVID-19 pandemic on the global economy and on our business, operations and financial condition; uncertainty in the growth of the semiconductor and electronics industries; consolidation among our customers and our dependence on a relatively small number of large customers; risks and compliance obligations relating to the global nature of our operations as well as actions by the U.S. or foreign governments, such as measures in response to the COVID-19 pandemic or the imposition of additional tariffs or export restrictions; macroeconomic conditions and uncertainty in the global economy; fluctuation of our operating results; increased variability in our revenue due to the adoption of ASC 606, including the resulting increase in recognizing upfront revenue as a percentage of total revenue; and more. Additional 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, 2020 and its latest Quarterly Report on Form 10-Q. The information provided herein is as of August 18, 2021. Although these Prepared Remarks are expected to remain available on Synopsys' website through the date of the earnings results call for the fourth quarter and fiscal year 2021, their 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 2021 earnings release and financial supplement, each dated August 18, 2021, 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 18, 2021.

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Good afternoon. Synopsys continues to execute very well, delivering record revenue and non-GAAP earnings in the third quarter. Revenue was $1.057 billion, with GAAP earnings per share of $1.27, and non-GAAP earnings of $1.81. We again made excellent progress on our margin expansion goals and generated $422 million of operating cash flow. Thanks to the hard work of our entire Synopsys team, on a TTM basis we have surpassed the major milestone we set our sights on a few years ago: $4 billion in revenue and 30% operating margin.

Reflecting our strong year-to-date results, the vibrant markets we serve, and technology innovations driving customer momentum in all product groups and all geographies, we are raising fiscal 2021 revenue, non-GAAP ops margin, earnings, and cash flow targets. We are well on the way towards our next goal of crossing $5 billion in revenue by 2023, raising our long-term revenue objective to double-digit growth, with continued margin expansion. Trac will discuss the financials in more detail.

Meanwhile, the market is not only strong, it is transforming in a way that is very positive for Synopsys. Both consumer and business demand for “smart everything” continue to intensify and grow. Smart devices intersect many skills and technologies – massive amounts of data to be stored, transmitted and processed, sophisticated machine learning, and application software specific to each market segment.

In this mega trend, semiconductors are absolutely critical. This means, not just more chips, but more advanced chips, lower power chips and chips that can be abutted or stacked for tight implementations. In addition, security and safety are rapidly becoming ‘must-haves,’ integrating more and more system requirements.

To make ‘smart everything’ possible, companies need more automation while transforming the way they approach the development of their systems. New entrants, such as large hyperscalers, increasingly design their own specialized chips, and our business with them is growing rapidly. Other systems companies – such as automotive – increasingly exert heavy influence on their suppliers by specifying key elements of chip performance, as well as functional safety and security. Synopsys is a crucial enabler and the broad economic “pull” is now augmenting the traditional Moore’s Law “push,” thus driving more opportunity for us.

Synopsys is ideally suited to capitalize on these tailwinds. Over the past five-plus years, we’ve invested heavily in breakthrough innovations that are now driving excellent customer results and, with it, accelerated business growth. Let me highlight three areas: AI and Autonomous Design, Silicon IP, and Security.

Let's start with AI. Designing today's most advanced chips with the additional vertical market requirements is among the most difficult engineering tasks, period. As schedule-pressured designers reach the practical limits of human design efforts, we must use the power of AI to automate not just design tasks, but entire segments of the design flow.

This is exactly what Synopsys pioneered a year and a half ago: 'AI-driven autonomous design.' Sitting on top of our Fusion Design Platform, we have built an AI design solution that automatically explores, implements, and optimizes multi-month design efforts in a matter of weeks. Called DSO.ai, which stands for "design space optimization using AI," the system has been used by customers on real chips, gone through production tape-outs, and seen silicon back from manufacturing. DSO.ai is breakthrough technology: the results are great! Through this, we've already achieved important customer renewals. Not only does it literally reduce design times from months to weeks, it improves performance, power, and area substantially beyond what teams of experts achieve on their own.

In addition to early industry recognition, as it won a 2020 World Electronics Achievement Award for "Innovative Product of the Year," customer engagements have been exceptional, with early endorsements by Samsung and Renesas. In addition, this quarter: a large Asia-Pacific provider of advanced chips achieved with one engineer, in one month, what previously required several experts over three months of manual work. One high-profile U.S. customer using DSO.ai attained better quality of results through a remarkable 20% reduction in power consumption. Next Monday, I'll keynote the Hot Chips conference reporting on further great DSO advances and another exciting customer success.

The impact of this AI "brain" is greatly leveraged by the powerful system that it sits on top of – our Fusion Design Platform. We pioneered the "fusion" concept several years ago by literally "fusing" together critical segments of the design flow into a single platform. The outcome: best-in-class results in terms of chip speed, power, and area.

Today, Fusion Compiler is the only solution available that seamlessly integrates market-leading synthesis, place & route with timing, power, and physical signoff all into a single tool. It's the fastest-ramping new design solution in Synopsys history, already surpassing 500 tape-outs across multiple verticals – including AI, 5G, and high-performance compute – for process nodes from 40nm down to 3nm. Notably, our leading foundry partners are already actively leveraging Fusion Compiler towards 2nm enablement. Our Fusion Design Platform is relied on by the world's largest, influential and hard-driving companies. Production successes include an advanced tape-out by Samsung Foundry for its next-generation chip in 3nm gate-all-around technology.

In parallel to autonomous design, another way to reduce risk and speed time-to-market for complex chips is by using ready-made IP. Our broad market-leading IP portfolio is delivering excellent double-digit growth towards what will be another outstanding year. Demand is very strong, with customers substantially expanding their reliance on us and renewing multi-year commitments faster than ever before. High-performance compute, automotive and mobile markets are especially strong, wanting both more, and more advanced, IP.

Let me highlight three areas: first, with growth in cloud data, we're seeing high demand for faster, high-performance interfaces such as DDR5, PCI Express 5.0 and 6.0 and 800G Ethernet. We saw great momentum this quarter with multiple customers selecting our first-to-market next-generation PCI Express 6.0 IP for advanced high-performance compute chips. This is a testament to the success of our PCI Express 5.0 IP, which has nearly 200 design wins. This quarter, we also saw immediate traction with our 400G/800G Ethernet IP solution, through multiple design wins that include our 112G SerDes.

Second, the number of highly advanced chip designs across cloud, AI and 5G applications has been growing rapidly. Our large and experienced R&D team remains at the forefront of delivering highly differentiated IP at the cutting edge of technology. In 5nm, we've secured nearly 400 design-ins across 33 customers. And this quarter, a significant driver of our physical IP business came from 5-, 4-, and 3nm.

Lastly, we're also seeing our customers integrating more security capabilities into their chips.
This is driving excellent momentum with our security IP portfolio, including strong demand for IDE IP to secure PCI Express and CXL interfaces.

Which is a natural segue to Software Integrity. We are doing well with increasing momentum following the significant execution and operational improvements we've made. In fact, Q3 was our highest orders quarter ever and we expect to eclipse our original revenue goal for the year.

As massive, ongoing security threats to business, safety and health become almost commonplace, companies are rethinking their protection strategies. It's no longer effective to pick and choose point tools with partial capabilities. Protection now requires a holistic, strategic approach.

Synopsys is at the forefront of this evolution, with the industry's only portfolio that features the broadest set of application testing solutions, strategic consulting to assist executives and boards in charting their software security plan, and now an innovative offering that elevates the impact of the Polaris Platform.

With the recent introduction of Intelligent Orchestration, our Polaris Platform can seamlessly integrate and automate security testing within each company's protocols.

We took another significant step in Q3 with the acquisition of Code Dx. They are the leading provider of application security risk management products that automate and accelerate the discovery, prioritization, and remediation of software vulnerabilities. This combination elevates our capabilities beyond what competitors can provide – a comprehensive, easy-to-adopt, holistic solution.

On the go-to-market side, we see very good progress from the enhancements we've made. Our services business again did better than plan, with over 20 new logo-wins in North America alone. Our win and renewal rates continue to improve, and we're encouraged by the progress we've made. Industry analysts continue to recognize the strength of our strategy and portfolio. For the fifth year in a row, Synopsys was named a Leader in the Gartner Magic Quadrant for Application Security Testing. And today, we were again recognized as a Leader in the Forrester Wave for Software Composition Analysis.

So far, I've highlighted three major areas – AI, IP and security. Let me point out a couple of other innovations that enable this new era. One of Synopsys' strengths is focused on the intersection of hardware and software, which is inherently crucial in 'smart everything.'

Our hardware-based verification systems continue to generate very strong business, with year-to-date 36 new logos and about 150 repeat orders. In addition, with innovations spanning both emulation and FPGA-based prototyping, we're off to a solid start to a multi-year product upgrade cycle. Over the last two quarters, we introduced new application-specific emulation products: the ZeBu Empower system enables early power analysis to reduce power-related risks. And the ZeBu EP1 is the first of its kind high-performance compute for mobile, GPU, CPU and AI designs. Both are substantially faster, with higher capacity, than any competitive solution in the market today. And we're already seeing strong demand and deployments at large, influential customers around the world.

Q3 was our largest orders quarter ever for our HAPS prototyping product line, fueled by the new HAPS-100. With highest performance and unmatched enterprise scalability, we closed multiple competitive wins in the quarter. With the momentum in both emulation and prototyping, we expect another record revenue year extending our market and technology leadership.

With increasing chip and system complexity, growing reliability requirements are now demanding ongoing post-silicon analysis, maintenance and optimization. Our new Silicon Lifecycle Management platform leverages our leadership in both EDA and IP as it monitors, analyzes, and optimizes chips from design to manufacturing to in-field adjustments.

This innovative approach opens up a substantial new TAM for us with business ramping ahead of expectations. Even at this early stage, we achieved two large, expanded renewals this quarter.

In summary, Q3 results were excellent, and we are raising our full-year objectives substantially. Vibrant markets, compelling innovations, and strong execution position us to continue to increase shareholder value going forward. While we will provide specific long-term objectives next quarter, we aim to cross $5 billion in revenue by 2023. We are raising our annual revenue growth objective to double digits, with continued margin expansion.

These results are not possible without our global team. Through the pandemic, they have demonstrated commitment, resilience, and compassion for others, while executing very well. Lastly, I hope you and your families are vaccinated, healthy, and staying safe. With that, I'll turn it over to Trac.

Thanks, Aart. Good afternoon everyone. Third quarter results – including record revenue and non-GAAP earnings – reflect strong momentum across the company. For the full year, we are on-track to deliver mid-teens revenue growth, an increase in non-GAAP operating margin of more than 200 basis points, non-GAAP earnings per share growth of more than 20%, and approximately $1.35 billion in operating cash flow.

The combination of the dynamic markets we serve, the powerful impact of our products and solutions on customer results, and our history of strong execution is the basis for us setting the goal of crossing $5 billion in revenue by 2023.

Now to the third quarter results. All comparisons are year-over-year, unless otherwise stated. We generated total revenue of $1.057 billion, up 10%, driven by broad-based strength across all product groups and geographies.

Semiconductor & System Design segment revenue was $959 million, with solid growth in both EDA and IP. Software Integrity segment revenue was $98 million, and we are executing better than expected against our bookings plan for the year. As a result, we project that Software Integrity revenue growth will approach double-digits for the full year, and we are solidly on the path to accelerate revenue growth to the 15-20% range long-term.

Moving on to expenses, total GAAP costs and expenses were $855 million, which includes approximately $15 million in restructuring costs. Total non-GAAP costs and expenses were $720 million, resulting in a non-GAAP operating margin of 31.9%. We are on track to deliver operating margin expansion to approximately 30.5% for the year. Adjusted operating margin for the Semiconductor & System Design segment was 34%, and Software Integrity margin was 9%. Wrapping up the income statement, GAAP earnings per share were $1.27. Non-GAAP earnings per share were $1.81.

Turning to cash, we generated $422 million in operating cash flow. We recently completed a $175 million stock buyback, bringing the total for the fiscal year to $573 million. And we ended the quarter with a cash balance of $1.53 billion, with total debt of $107 million.

For fiscal 2021, we are raising our revenue and non-GAAP operating margin and earnings guidance. Our targets are:

- Revenue of $4.19 to $4.22 billion – an increase of $145 million at the mid-point, representing mid-teens growth;
- Total GAAP costs and expenses between $3.431 and $3.459 billion;
- Total non-GAAP costs and expenses between $2.915 and $2.925 billion;
- A non-GAAP operating margin of approximately 30.5%;
- Other income and expenses between minus $6 and minus $4 million;
- Non-GAAP normalized tax rate of 16%;
- GAAP earnings of $4.63 to $4.79 per share;
- Non-GAAP earnings of $6.78 to $6.83 per share, representing over 20% growth;
- Cash flow from operations of approximately $1.35 billion;
- And capital expenditures of approximately $90 million.

Now to the targets for the fourth quarter:

- Revenue between $1.138 and $1.168 billion;
- Total GAAP costs and expenses between $924 and $952 million;
- Total non-GAAP costs and expenses between $805 and $815 million;
- GAAP earnings of $1.09 to $1.25 per share; and Non-GAAP earnings of $1.75 to $1.80 per share.

We will provide detailed 2022 guidance and our updated long-term financial objectives and assumptions when we report next quarter. As part of that discussion, we will also provide an update of our 3-year normalized non-GAAP tax rate, which is under review. Although we have not completed the assessment, I want to highlight that the rate may increase in light of the assumptions under review.

In conclusion, we delivered record revenue and non-GAAP earnings, and strong operating cash flow. Based on our excellent results year-to-date, and our outlook for Q4, we are substantially raising our targets for the full year and setting the goal of crossing $5 billion in revenue by 2023. This reflects an increase in our long-term revenue growth objective to double digits and is also complemented by ongoing margin expansion. At the same time, we will continue to invest to further scale the business and drive increasing shareholder value going forward.

With that, I'll turn it over to the operator for questions.