

# FINANCIAL SUPPLEMENT Q3 FY2020

August 19, 2020

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- [Press Release](#)
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- [Form 10-K FY2019](#)
- [Form 10-Q Q3 FY2020](#)

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## I. FISCAL YEAR 2020 SELECTED FINANCIAL TARGETS <sup>(1) (2)</sup>

|   | Q4FY2020          | FY2020            |
|---|-------------------|-------------------|
| Revenue (million)                             | \$1,000 - \$1,030 | \$3,660 - \$3,690 |
| GAAP Expenses (million)                       | \$802 - \$822     | \$3,037 - \$3,057 |
| Non-GAAP Expenses (million)                   | \$717 - \$727     | \$2,645 - \$2,655 |
| Other Income and Expense Net (million)        | (\$6) - (\$4)     | (\$4) - (\$2)     |
| Annual Non-GAAP Tax Rate                      | 16%               | 16%               |
| Fully Diluted Outstanding Shares (million)    | 154 - 157         | 154 - 157         |
| Implied GAAP Operating Margin at Midpoint     |                   | ~17%              |
| Implied Non-GAAP Operating Margin at Midpoint |                   | ~28%              |
| GAAP Earnings Per Share                       | \$1.10 - \$1.21   | \$4.10 - \$4.21   |
| Non-GAAP Earnings Per Share                   | \$1.51 - \$1.56   | \$5.48 - \$5.53   |
| Cash Flow from Operations (million)           |                   | ~\$900            |
| Capital Expenditures (million)                |                   | ~\$170            |
| Average Renewable License Duration            |                   | ~3 years          |

(1) These targets were provided by Synopsys as of August 19, 2020.

(2) These targets assume that the current U.S. government "Entity List" restrictions remain in place for the rest of the fiscal year.

## RECENT ACQUISITION

### Qualtera SAS

- Closed June 2020.
- Terms not disclosed; not material.
- Big data analytics technology which improves post-silicon optimization solution, a key to maximizing efficiencies from design through device shipment.

## II. REVENUE BY PRODUCT GROUP (Unaudited)

| (\$ millions)           | Q119         | Q219         | Q319         | Q419         | FY19           | Q120         | Q220         | Q320         |
|-------------------------|--------------|--------------|--------------|--------------|----------------|--------------|--------------|--------------|
| EDA                     | 500.8        | 492.7        | 481.6        | 489.2        | 1,964.3        | 492.6        | 511.4        | 531.8        |
| % of Revenue            | 61%          | 59%          | 56%          | 57%          | 58%            | 59%          | 59%          | 55%          |
| IP & System Integration | 235.8        | 259.2        | 286.2        | 275.5        | 1,056.6        | 255.1        | 260.0        | 335.7        |
| % of Revenue            | 29%          | 31%          | 34%          | 32%          | 31%            | 31%          | 30%          | 35%          |
| Software Integrity      | 82.5         | 83.2         | 83.6         | 85.3         | 334.6          | 85.6         | 88.3         | 93.4         |
| % of Revenue            | 10%          | 10%          | 10%          | 10%          | 10%            | 10%          | 10%          | 10%          |
| Other                   | 1.3          | 1.1          | 1.6          | 1.1          | 5.2            | 1.1          | 1.7          | 3.2          |
| <b>Total</b>            | <b>820.4</b> | <b>836.2</b> | <b>853.0</b> | <b>851.1</b> | <b>3,360.7</b> | <b>834.4</b> | <b>861.3</b> | <b>964.1</b> |

Revenue from our products and services is categorized into four groups:

- EDA, which includes digital and custom integrated circuit (IC) design software, verification products, manufacturing-related products, and field-programmable gate array (FPGA) design software;
- IP & System Integration, which includes our DesignWare® IP portfolio, system-level design products, prototyping products, and general professional services;
- Software Integrity, which includes solutions that test software code for security vulnerabilities and quality defects, as well as professional and managed services; and
- Other, which includes university programs and the impact of gains and losses from foreign currency hedges.

Note: Amounts included in the table above may not foot due to rounding. Product revenue data for multi-product transactions reflect internal allocations based upon certain assumptions and management's methodology. In addition, we allocate maintenance revenue to the products to which those maintenance services relate.

## III. REVENUE BY GEOGRAPHIC REGION (Unaudited)

| (\$ millions) | Q119         | Q219         | Q319         | Q419         | FY19           | Q120         | Q220         | Q320         |
|---------------|--------------|--------------|--------------|--------------|----------------|--------------|--------------|--------------|
| North America | 414.5        | 433.9        | 414.0        | 450.0        | 1,712.5        | 415.4        | 405.8        | 443.7        |
| % of Revenue  | 51%          | 52%          | 49%          | 53%          | 51%            | 50%          | 47%          | 46%          |
| Europe        | 83.9         | 83.5         | 90.1         | 91.5         | 349.0          | 94.4         | 89.3         | 94.3         |
| % of Revenue  | 10%          | 10%          | 11%          | 11%          | 10%            | 11%          | 10%          | 10%          |
| Japan         | 65.1         | 72.7         | 65.7         | 69.2         | 272.7          | 72.2         | 80.5         | 77.8         |
| % of Revenue  | 8%           | 9%           | 8%           | 8%           | 8%             | 9%           | 9%           | 8%           |
| Korea*        | 102.7        | 84.9         | 85.0         |              | 353.4          | 89.5         | 105.3        | 96.3         |
| % of Revenue  | 13%          | 10%          | 10%          |              | 11%            | 11%          | 12%          | 10%          |
| Asia Pacific* | 154.2        | 161.2        | 198.2        | 240.3        | 673.2          | 162.9        | 180.4        | 251.9        |
| % of Revenue  | 19%          | 19%          | 23%          | 28%          | 20%            | 20%          | 21%          | 26%          |
| <b>Total</b>  | <b>820.4</b> | <b>836.2</b> | <b>853.0</b> | <b>851.1</b> | <b>3,360.7</b> | <b>834.4</b> | <b>861.3</b> | <b>964.1</b> |

\* We began reporting revenue from Korea separate from Asia Pacific revenue at the conclusion of fiscal 2019. Revenue from Korea is reported separately from Asia Pacific revenue for the first, second and third quarters of fiscal 2019 for comparative purposes.

Note: Amounts included in the table above may not foot due to rounding. Geographic revenue data for multi-regional, multi-product transactions reflect internal allocations and are based upon certain assumptions and management's methodology.

## IV. SELECTED FINANCIAL AND OPERATING METRICS

|   | Q119    | Q219    | Q319    | Q419    | FY19      | Q120    | Q220    | Q320    |
|---|---------|---------|---------|---------|-----------|---------|---------|---------|
| Revenue License Type (millions) <sup>(1)</sup>              |         |         |         |         |           |         |         |         |
| - Time-based Products                                       | \$553.7 | \$558.3 | \$537.6 | \$548.4 | \$2,198.0 | \$556.4 | \$590.1 | \$612.1 |
| - Upfront Products  | \$130.5 | \$143.4 | \$177.6 | \$168.3 | \$619.8   | \$150.7 | \$129.8 | \$210.9 |
| - Maintenance and Service <sup>(2)</sup>                    | \$136.2 | \$134.5 | \$137.8 | \$134.4 | \$542.9   | \$127.2 | \$141.5 | \$141.1 |
| Recurring Revenue (% of Total Revenue) <sup>(3)</sup>       | 89%     | 90%     | 88%     | 89%     | 89%       | 87%     | 90%     | 87%     |
| Avg Renewable License Duration (yrs) <sup>(4)</sup>         | -2.9    | -2.7    | -2.4    | -2.7    | -2.7      | -2.5    | -3.2    | -2.4    |
| Non-GAAP Operating Margin <sup>(5)</sup>                    | 24.5%   | 25.1%   | 25.4%   | 24.8%   | 25.0%     | 22.4%   | 25.7%   | 33.6%   |
| Cash, Cash Equivalents & Short-term Investments (millions)  | \$592   | \$631   | \$687   | \$729   | \$729     | \$700   | \$856   | \$1,050 |
| - % held in U.S.  | 23%     | 28%     | 24%     | 26%     | 26%       | 31%     | 36%     | 37%     |
| Outstanding Debt  | \$542   | \$292   | \$142   | \$138   | \$138     | \$331   | \$236   | \$131   |
| Operating Cash Flow <sup>(1),(6)</sup>                      | (\$144) | \$353   | \$370   | \$221   | \$801     | \$10    | \$380   | \$399   |
| Capital Expenditures <sup>(1)</sup>                         | \$29    | \$40    | \$53    | \$76    | \$198     | \$55    | \$26    | \$40    |
| Share Repurchases (millions) <sup>(1)</sup>                 |         |         |         |         |           |         |         |         |
| - Number of Shares  | 0.3     | 0.8     | 0.8     | 0.8     | 2.7       | 0.6     | 0.7     | -       |
| - Gross Share Repurchases                                   | (\$29)  | (\$100) | (\$100) | (\$100) | (\$329)   | (\$100) | (\$100) | -       |
| - Remaining Repurchase Authorization                        | \$296   | \$196   | \$500   | \$400   | \$400     | \$300   | \$200   | \$500   |
| DSO   | 85      | 57      | 49      | 59      |           | 87      | 67      | 59      |
| Employee Headcount  | ~13,450 | ~13,580 | ~13,860 | ~13,895 |           | ~14,280 | ~14,500 | ~14,800 |
| Revenue by Segment (millions) <sup>(7),(8)</sup>            |         |         |         |         |           |         |         |         |
| - Semiconductor & System Design                             | \$737.9 | \$753.0 | \$769.4 | \$765.8 | \$3,026.1 | \$748.8 | \$773.0 | \$870.7 |
| % of Total  | 90%     | 90%     | 90%     | 90%     | 90%       | 90%     | 90%     | 90%     |
| - Software Integrity  | \$82.5  | \$83.2  | \$83.6  | \$85.3  | \$334.6   | \$85.6  | \$88.3  | \$93.4  |
| % of Total  | 10%     | 10%     | 10%     | 10%     | 10%       | 10%     | 10%     | 10%     |
| Adjusted Op Income by Segment (millions) <sup>(7),(8)</sup> |         |         |         |         |           |         |         |         |
| - Semiconductor & System Design                             | \$195.3 | \$201.4 | \$207.8 | \$202.1 | \$806.6   | \$178.9 | \$209.7 | \$308.7 |
| - Software Integrity  | \$5.6   | \$8.4   | \$8.8   | \$9.4   | \$32.2    | \$8.1   | \$11.7  | \$14.8  |
| Adjusted Operating Margin by Segment <sup>(7),(8)</sup>     |         |         |         |         |           |         |         |         |
| - Semiconductor & System Design                             | 26.5%   | 26.8%   | 27.0%   | 26.4%   | 26.7%     | 23.9%   | 27.1%   | 35.4%   |
| - Software Integrity  | 6.8%    | 10.1%   | 10.5%   | 11.0%   | 9.6%      | 9.4%    | 13.3%   | 15.8%   |

- (1) Amounts may not foot due to rounding.
- (2) Includes maintenance on term and perpetual licenses.
- (3) We define recurring revenue as revenue generated from time-based products, multi-period IP contracts, and maintenance and services, for which revenue is recognized over time. Prior to ASC 606 adoption, multi-period IP contracts covering unspecified titles were recognized ratably and considered time-based revenue. Beginning in Q1'19 with the adoption of ASC 606, revenue from these contracts is considered upfront revenue. However, revenue from these contracts is still recognized over the duration of the contract as the customer draws down the contract balance.
- (4) Weighted average duration of the license arrangements closed in the period reported.
- (5) Should be read in conjunction with our Form 8-K filed with the SEC on August 19, 2020 and the reconciliations of the non-GAAP financial measures to their comparable GAAP measures found in this Financial Supplement.
- (6) Will typically track earnings before interest, taxes, depreciation and amortization (EBITDA) over time (less cash taxes). As operating cash flow is inherently lumpy, it is important to look at multi-year averages.
- (7) We manage the business on a long-term, annual basis, and consider quarterly fluctuations of revenue and profitability as a normal element of our business. Quarterly variability, which increased as a result of ASC 606, should be expected.
- (8) These segment results are consistent with the information required by ASC 280. They are presented to reflect the information that is considered by Synopsys' chief operating decision makers (CODMs) to evaluate the operating performance of its segments. The CODMs do not allocate certain operating expenses managed at a consolidated level to our reportable segments, and as a result, the reported operating income and operating margin do not include these unallocated expenses. Such unallocated expenses consist of stock-based compensation expense, amortization of intangible assets, restructuring, litigation and acquisition-related costs. Management excludes these same expenses to arrive at non-GAAP measures used to evaluate and make decisions about Synopsys as a whole.

## V. RECONCILIATIONS AND ADJUSTMENTS

### SUPPLEMENTAL GAAP TO NON-GAAP INFORMATION <sup>(1)</sup>

(Unaudited and in thousands, except per share amounts)

|                                      | Three Months Ended July 31, 2020 |                            |            |
|--------------------------------------|----------------------------------|----------------------------|------------|
|                                      | GAAP                             | Adjustments <sup>(2)</sup> | Non-GAAP   |
| <b>Cost of revenue:</b>              |                                  |                            |            |
| Products                             | \$ 118,478                       | \$ (8,919)                 | \$ 109,559 |
| Maintenance and service              | 60,812                           | (2,395)                    | 58,417     |
| Amortization of intangible assets    | 13,718                           | (13,718)                   | -          |
| <b>Operating expenses:</b>           |                                  |                            |            |
| Research and development             | \$ 322,602                       | \$ (46,337)                | \$ 276,265 |
| Sales and marketing                  | 156,456                          | (16,094)                   | 140,362    |
| General and administrative           | 73,516                           | (17,538)                   | 55,978     |
| Amortization of intangible assets    | 9,931                            | (9,931)                    | -          |
| Restructuring charges                | (1,977)                          | 1,977                      | -          |
| Operating income                     | \$ 210,598                       | \$ 112,955                 | \$ 323,553 |
| Other income (expense), net          | \$ 26,256                        | \$ (26,153)                | \$ 103     |
| Provision (benefit) for income taxes | \$ (16,057)                      | \$ 67,767                  | \$ 51,710  |
| Net income                           | \$ 252,911                       | \$ 19,035                  | \$ 271,946 |
| Net income per share (Diluted)       | \$ 1.62                          | \$ 0.12                    | \$ 1.74    |

Shares used in computing per share amounts:

|         |         |         |
|---------|---------|---------|
| Diluted | 155,973 | 155,973 |
|---------|---------|---------|

(1) Synopsys' third quarter of fiscal year 2020 ended on August 1, 2020. For presentation purposes, we refer to the closest calendar month end.

(2) The adjustments to the various line items resulted from excluding the following from non-GAAP measures: stock compensation of \$61.8 million, restructuring charges of (\$2.0) million, amortization of intangible assets of \$23.6 million, changes in the fair value of the non-qualified deferred compensation plan of \$26.2 million, acquisition-related costs of \$3.3 million, and tax effect of non-GAAP adjustments of (\$67.8) million.

### GAAP TO NON-GAAP OPERATING MARGIN RECONCILIATION <sup>(1)</sup>

(Unaudited)

|  | Three Months Ended<br>July 31, 2020 |
|--|-------------------------------------|
| GAAP operating margin                                  | 21.8%                               |
| Amortization of intangible assets                      | 2.5%                                |
| Stock compensation                                     | 6.4%                                |
| Acquisition-related costs                              | 0.3%                                |
| Restructuring charges                                  | (0.2%)                              |
| Change in value of non-qualified deferred compensation | 2.8%                                |
| Non-GAAP operating margin                              | 33.6%                               |

(1) Synopsys' third quarter of fiscal year 2020 ended on August 1, 2020. For presentation purposes, we refer to the closest calendar month end.

## TOTAL ADJUSTED SEGMENT OPERATING INCOME RECONCILIATION <sup>(1) (2)</sup>

(in millions)

|   | <b>Three Months<br/>Ended<br/>July 31, 2020 <sup>(3)</sup></b> |
|---|--|
| GAAP total operating income – as reported                   | \$ 210.6   |
| Other expenses managed at consolidated level                |  |
| -Amortization of intangible assets                          | 23.6   |
| -Stock compensation   | 61.8   |
| -Fair value changes in executive deferred compensation plan | 26.2   |
| -Acquisition-related costs                                  | 3.3  |
| -Restructuring  | (2.0)  |
| Total adjusted segment operating income                     | <u>\$ 323.6</u>  |

(1) Synopsys manages the business on a long-term, annual basis, and considers quarterly fluctuations of revenue and profitability as normal elements of our business. Quarterly variability, which increases as a result of ASC 606, should be expected. Amounts may not foot due to rounding.

(2) These segment results are consistent with the information required by ASC 280, *Segment Reporting*. They are presented to reflect the information that is considered by Synopsys' chief operating decision makers (CODMs) to evaluate the operating performance of its segments. The CODMs do not allocate certain operating expenses managed at a consolidated level to our reportable segments, and as a result, the reported operating income and operating margin do not include these unallocated expenses as shown in the table above. Amounts may not foot due to rounding.

(3) Synopsys' third quarter of fiscal year 2020 ended on August 1, 2020. For presentation purposes, we refer to the closest calendar month end.

## GAAP TO NON-GAAP RECONCILIATION OF FOURTH QUARTER FISCAL YEAR 2020 TARGETS <sup>(1)</sup>

(in thousands, except per share amounts)

|   | Range for Three Months  |            |
|---|-------------------------|------------|
|   | Ending October 31, 2020 |            |
|   | Low                     | High       |
| Target GAAP expenses                                  | \$ 802,000              | \$ 822,000 |
| Adjustments:  |                         |            |
| Estimated impact of amortization of intangible assets | (20,000)                | (25,000)   |
| Estimated impact of stock compensation                | (65,000)                | (70,000)   |
| Target non-GAAP expenses                              | \$ 717,000              | \$ 727,000 |

|  | Range for Three Months  |         |
|--|-------------------------|---------|
|  | Ending October 31, 2020 |         |
|  | Low                     | High    |
| Target GAAP earnings per share                                 | \$ 1.10                 | \$ 1.21 |
| Adjustments:   |                         |         |
| Estimated impact of amortization of intangible assets          | 0.16                    | 0.13    |
| Estimated impact of stock compensation                         | 0.45                    | 0.42    |
| Estimated impact of tax adjustments                            | (0.20)                  | (0.20)  |
| Target non-GAAP earnings per share                             | \$ 1.51                 | \$ 1.56 |
| Shares used in non-GAAP calculation (midpoint of target range) | 155,500                 | 155,500 |

## GAAP TO NON-GAAP RECONCILIATION OF FULL FISCAL YEAR 2020 TARGETS <sup>(1)</sup>

(in thousands, except per share amounts)

|  | Range for Fiscal Year |              |
|--|-----------------------|--------------|
|  | October 31, 2020      |              |
|  | Low                   | High         |
| Target GAAP expenses                                       | \$ 3,037,449          | \$ 3,057,449 |
| Adjustments:   |                       |              |
| Estimated impact of amortization of intangible assets      | (90,000)              | (95,000)     |
| Estimated impact of stock compensation                     | (235,000)             | (240,000)    |
| Acquisition-related costs                                  | (10,837)              | (10,837)     |
| Estimated impact of restructuring charges                  | (36,446)              | (36,446)     |
| Fair value changes in executive deferred compensation plan | (20,166)              | (20,166)     |
| Target non-GAAP expenses                                   | \$ 2,645,000          | \$ 2,655,000 |

|  | Range for Fiscal Year |         |
|--|-----------------------|---------|
|  | October 31, 2020      |         |
|  | Low                   | High    |
| Target GAAP earnings per share                                 | \$ 4.10               | \$ 4.21 |
| Adjustments:   |                       |         |
| Estimated impact of amortization of intangible assets          | 0.61                  | 0.58    |
| Estimated impact of stock compensation                         | 1.55                  | 1.52    |
| Acquisition-related costs                                      | 0.07                  | 0.07    |
| Estimated impact of restructuring charges                      | 0.24                  | 0.24    |
| Impact of tax adjustments                                      | (1.09)                | (1.09)  |
| Target non-GAAP earnings per share                             | \$ 5.48               | \$ 5.53 |
| Shares used in non-GAAP calculation (midpoint of target range) | 155,500               | 155,500 |

(1) Synopsys' fourth fiscal quarter and fiscal year will end on October 31, 2020.



## GAAP TO NON-GAAP RECONCILIATION OF OPERATING MARGIN AT MIDPOINT OF FULL FISCAL YEAR 2020 TARGETS <sup>(1)</sup>

|  | <b>Twelve Months Ended<br/>October 31, 2020<sup>(2)</sup></b> |
|--|---|
| At midpoint of revenue and expense guidance ranges     |   |
| GAAP operating margin                                  | 17.1%   |
| Amortization of intangible assets                      | 2.5%  |
| Stock compensation                                     | 6.5%  |
| Acquisition-related costs                              | 0.3%  |
| Restructuring charges                                  | 1.0%  |
| Change in value of non-qualified deferred compensation | 0.5%  |
| Target non-GAAP operating margin                       | <u>27.9%</u>  |

(1) These numbers represent the midpoint of targets in the prepared remarks provided on August 19, 2020, and do not represent official guidance for 2020.

(2) Synopsys' fiscal year will end on October 31, 2020.

## GAAP TO NON-GAAP RECONCILIATIONS

Please see our Current Report on Form 8-K filed with the SEC on August 19, 2020 available at <http://www.sec.gov> for the reasons why Synopsys believes that the presentation of non-GAAP financial measures provides useful information to our shareholders regarding our financial condition and results of operations and the purposes for which management uses such non-GAAP financial measures. Certain non-GAAP data used by management, as well as the reconciliation of such data to its most directly comparable GAAP measures, is contained in the third quarter of fiscal 2020 earnings release available on Synopsys' website at <https://www.synopsys.com/company/investor-relations/financial-news.html> and our Current Report on Form 8-K filed with the SEC on August 19, 2020. In addition to the adjustments described in the Current Report on Form 8-K, the non-GAAP financial measures provided in this Supplement also exclude changes in the fair value of our non-qualified deferred compensation plans since such changes typically do not require current cash settlement and because they are not used by us in assessing the profitability of our business operations.

## FORWARD-LOOKING STATEMENTS

This Supplement contains 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 expected impact of U.S. and foreign government action on our financial results; and the expected impact of the COVID-19 pandemic. These statements involve risks, uncertainties and other factors that could cause our actual results, timeframes 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 impact of the COVID-19 pandemic and the associated economic downturn 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 action 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 we make 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, 2019 and in its latest Quarterly Report on Form 10-Q.

## EFFECTIVENESS OF INFORMATION

The information provided herein is as of August 19, 2020. Although this Supplement will remain available on Synopsys' website through the date of the fourth quarter and fiscal year 2020 earnings call in December 2020, its continued availability through such date does not mean that Synopsys is reaffirming or confirming its continued validity. Synopsys does not currently intend to, and assumes no obligation to, report on its progress during the fourth quarter of fiscal 2020 or comment to analysts or investors on, or otherwise update, the information contained in this Supplement.