



The following prepared remarks are an excerpt from Synopsys' Fourth Quarter and Fiscal Year 2011 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 first quarter earnings call in February 2012.

These prepared remarks contain forward looking statements relating to Synopsys' business, products and technologies, including statements regarding projected financial results and financial objectives, and statements regarding the expected closing of Synopsys' acquisition of Magma Design Automation, Inc. ("Magma"), the expected impact of such acquisition on Synopsys' financial results, benefits of such acquisition, and integration of Magma's products and employees with those of Synopsys. 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, uncertainty in the growth of the semiconductor and electronics 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 and the difficulties in the integration of the products and operations of acquired companies or assets into Synopsys' products and operations; Synopsys ability to consummate its acquisition of Magma in a timely manner or at all, including the satisfaction of the conditions precedent to the closing of the acquisition, the ability to secure regulatory approvals for the acquisition in a timely manner or at all, and the approval of the acquisition by Magma's stockholders; the possibility of litigation, including litigation relating to Synopsys' acquisition of Magma; the effect of the announcement of Synopsys' acquisition of Magma on Synopsys and Magma's respective businesses, including possible delays in customer orders; Synopsys' ability to successfully operate or integrate Magma's business and technologies, including potential loss of customers, key employees, partners or vendors and uncertain customer demand and support obligations for new product offerings; continued uncertainty in the global economy and its potential impact on the semiconductor and electronics industries; increased competition in the market for Synopsys' products and services including through consolidation in the industry and among our customers; lower-than-anticipated new IC design starts; lower-than-anticipated purchases or delays in purchases of software or consulting services by Synopsys' customers, including delays in the renewal, or non-renewal, of Synopsys' license arrangements with major customers; changes in the mix of time-based licenses and upfront licenses; 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 January 31, 2012, actual expenses, earnings per share, tax rate, and other projections on a GAAP and non-GAAP basis for fiscal year, and cash flow from operations on a GAAP basis for fiscal year 2012 could differ materially from the targets stated under "Financial Targets" above for a number of reasons, including, but not limited to, (i) integration and other acquisition-related costs such as those arising from Synopsys' pending acquisition of Magma, including amortization of intangible assets and costs formerly capitalized but now expensed due to new accounting guidance related to business combinations, as well as changes in the fair value of contingent consideration related to prior acquisitions, (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 have become impaired, (iv) changes in the anticipated amount of employee stock-based compensation expense recognized on 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) general economic conditions, and (ix) other risks as detailed in Synopsys' SEC filings, including those described in the "Risk Factors" section in its latest Quarterly Report on Form 10-Q for the third fiscal quarter ended July 31, 2011. Furthermore, Synopsys' actual tax rates applied to income for the first quarter and fiscal year 2012 could differ from the targets given in this press release as a result of a number of factors, including the actual geographic mix of revenue during the quarter and year, and actions by the government.

Finally, Synopsys' targets for outstanding shares in the first quarter and fiscal year 2012 could differ from the targets given in these prepared remarks as a result of higher than expected employee stock plan issuances or stock option exercises, acquisitions, including the pending acquisition of Magma by Synopsys, and the extent of Synopsys' stock repurchase activity.

The information contained in these prepared remarks represents Synopsys' expectations and beliefs as of November 30, 2011 only. Synopsys is under no obligation to (and expressly disclaims any such obligation to) update or alter any of the forward-looking statements made in these prepared remarks, the earnings release, the conference call or the financial supplement whether as a result of new information, future events or otherwise, unless otherwise 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 fourth quarter and fiscal year 2011 earnings release and financial supplement, each dated November 30, 2011 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 November 30, 2011.

Good afternoon, and thank you for joining us. Today I'm happy to report first on our excellent Q4 and fiscal 2011 results, and our raised guidance for FY 2012. And second, on the signing of a definitive agreement to acquire Magma Design Automation, which we announced this afternoon.

Let me begin with our results. Our business in Q4 was strong, closing an outstanding overall FY11 and, most importantly, yielding an excellent position heading into FY12. Specifically, in Q4 we delivered revenue of \$391 million, resulting in \$1.536 billion for the fiscal year. This is 11% growth over FY10. With non-GAAP earnings per share of 45 cents in Q4, we delivered \$1.80 for the year - above the target range we communicated at the beginning of fiscal 2011, and 13% growth over FY10. In the process we managed to a solid non-GAAP operating margin of 22.3% for the year, while generating \$440 million in operating cash flow. Our three-year backlog grew to \$2.5 billion, and we have more than 80% of next year's planned revenue scheduled from current backlog. In summary, a strong year with double digit growth in both top and bottom line.

Looking forward to fiscal year 2012, we are raising our outlook. While we are conscious of the continued economic uncertainty, our good momentum and backlog support an objective of double digit non-GAAP EPS growth. We plan to achieve this goal on the basis of solid top line growth and improvement of our operating margin. Brian will give you more detail in just a minute.

Before moving to the business highlights, let me address today's announcement that we have signed a definitive agreement to acquire Magma Design Automation. This acquisition is motivated by our customers' need for further technology acceleration and productivity.

Indeed, today's chip designs require customers to either deal with the very complex physics of advanced 28, 20, or even 14nm silicon, or squeeze the last bit of performance, power, and cost from designs at more mature nodes. Either way, the R&D and support demands to keep the state of the art moving necessitate more invention and more investments. Bringing together the complementary technologies of Synopsys and Magma, as well as our R&D and support capabilities, will help us deliver advanced tools earlier, thus directly impacting our customers' demand for increased design productivity. As you can understand, although we wanted to share our enthusiasm about this combination, we have limited ability to comment about our specific plans until the transaction is closed. Brian Beattie will address some of the financial terms in just a moment.

Looking at our business overall, we see our customers continue to drive design aggressively. Even in the context of the unsettled economy, we expect electronics to do relatively well as the main markets of mobile, cloud, and "smart-everything" remain quite vibrant. While the rate of growth in semiconductor revenue did slow in 2011, a good number of successful companies beat expectations and provided positive outlooks. Consumers have shown that they will prioritize the next mobile connected device over almost any other discretionary purchase. At the same time, these devices push the limits of performance and power efficiency, demanding state-of-the-art EDA and IP solutions.

Among our customers, the race for differentiation is very much on, which explains the rapid adoption of advanced design nodes, such as 28 and 20nm. In addition, the development of FinFETs, or vertical transistors, will bring further density and power consumption improvements, as well as additional requirements for leading-edge EDA solutions. In this context, EDA and third-party IP are crucial, and Synopsys is positioned well as the technology leader, offering comprehensive and best-in-class solutions from system design, to chip, to manufacturing.

Let me provide some highlights, beginning with Core EDA. Today, Synopsys enables the most advanced production designs in the world. For example, major customers such as ST Microelectronics and Samsung have already taped out their first 20nm test chips with our Galaxy implementation flow. In Q4 we announced yet another major technology advance – the integration of our cornerstone IC Compiler solution with Custom Designer. Even though the product was just introduced, ST Microelectronics has already reported that it reduced its final layout preparation time by 25% compared to its previous flow.

With the move to still smaller geometries, the bridge to manufacturing is increasingly critical to achieving acceptable yields in chip production. With our Yield Explorer tool, designers are now able to identify and correct areas in their design which affect manufacturability. This can directly impact our customers' profitability. In Q4 another highly influential top-10 fabless company chose our solution.

Synopsys is also the technology leader in FinFET support, with tools throughout the flow. Our popular TCAD solution is where 3D transistor design begins. It simulates transistors at the near-molecular level, and is being used today by nearly every leading semiconductor manufacturer, as well as many fab-light companies.

The move to smaller geometries brings more high-value chip functionality, but the huge number of transistors on the chip also requires a tremendous amount of verification. In analog simulation, we are seeing good momentum, as speed and ease-of-use enhancements are enabling us to win important benchmarks and business. LG Electronics, for example, selected Synopsys after we delivered a 10X acceleration over previous solutions.

In digital, customers continue to depend on our flagship VCS product for their most advanced designs. VCS had a solid year and is poised well for FY12, especially in all the advanced nodes and for complex chips such as CPUs, graphics cores, and sophisticated networking chips.

Our new optical products did very well in 2011, and we expect continued growth in 2012. While a small part of our overall business, its performance illustrates the importance of simulation even beyond the electronics space.

Now turning to IP and Systems, which performed very well in 2011 and contributed 23% of total revenue. At the systems level, we successfully integrated a broad set of virtual platform technologies and acquisitions into a single offering: Virtualizer. Software development has become a large part of most chip-design projects, and virtual platforms are of high value because they accelerate delivery of software by six-to-nine months. Another tool aimed at speeding software development and system validation is

FPGA-based prototyping. Our HAPS solution has successfully demonstrated its effectiveness, and demand has been very good.

The other great source of productivity for our customers is Synopsys IP. As the complexity of IP blocks grows and external economic pressures continue, customers are increasingly re-evaluating make-versus-buy decisions, with more and more IP being outsourced. We estimate that well under half of IP is outsourced thus far, creating a substantial opportunity for Synopsys. During the year we announced more than 40 design wins across more than 30 customers for our USB 3.0 products. We had our largest year ever in PCI Express controllers, DDR and HDMI. And for the second year in a row, we received TSMC's Interface "IP Partner of the Year" award. In FY11 we delivered excellent revenue growth and improved profitability. Looking forward, we anticipate continued growth in this area as we further broaden our IP portfolio, and as customers are already ordering IP for the more advanced nodes.

In conclusion, we finished Fiscal 2011 strongly in terms of top line, bottom line, backlog, technology, and customer relationships. Our predictable business model provides stability, and supports continued investment, even in the face of the stormy economic situation. We are confident in our ability to deliver healthy results for the fiscal year, and are setting an objective for double digit non-GAAP EPS growth for FY12. I'll now turn the call over to Brian Beattie.

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Thanks, Aart. Good afternoon everyone. In my comments today I will summarize our financial results for the quarter and fiscal year, provide you with our 2012 guidance for Q1 and the full year, and provide some financial details of the Magma transaction. As a reminder, I'll be discussing certain GAAP and non-GAAP measures of our financial performance. We have provided reconciliations and explanations in the press release, 8-K and financial supplement posted on our website. In my discussions, all of my comparisons will be year-over-year unless I specify otherwise.

As Aart mentioned, Synopsys delivered a very solid fourth quarter, wrapping up an outstanding year. FY11 financial results were highlighted by strong business levels, double-digit growth in both revenue and non-GAAP earnings, and considerable free cash flow generation. Let me now provide some additional detail on our financials.

Q4 total revenue increased 4 percent to \$391 million and annual revenue grew 11 percent to \$1.536 billion. Our IP and Systems products continued their momentum and achieved double-digit revenue growth in Q4 and the year. One customer accounted for slightly more than 10 percent of Q4 and fiscal

year revenue. Greater than 90 percent of Q4 revenue came from beginning-of-quarter backlog while upfront revenue was 5 percent of total for Q4 and 6 percent for all of FY11. This is well within our target range of less than 10 percent upfront.

The average length of our renewable customer license commitments for the quarter and for the fiscal year was about 2.7 years. We currently expect average duration in fiscal 2012 to be between 2.7 and 2.9 years, as we're seeing some customers refine their contract durations to match their particular design cycles.

Three-year backlog increased to \$2.5 billion from \$2.4 billion, with a book-to-bill slightly greater than one. Finally, we have greater than 80 percent of our target fiscal 2012 revenue in hand for the coming year and more than 90 percent for the coming quarter.

Turning to expenses, Q4 total GAAP costs and expenses were \$334 million, which included \$17 million of amortization of intangible assets and \$15 million of stock-based compensation. For the year, total GAAP costs and expenses were \$1.323 billion, which included \$69 million of amortization of intangible assets and \$56 million of stock-based compensation.

Q4 total non-GAAP costs and expenses were \$305 million, within our target range. For the full year, total non-GAAP costs and expenses were \$1.193 billion, an expected increase due mainly to our acquisitions, along with some year-over-year cost pressures such as employee compensation, the variable compensation impact that resulted from strong orders, and other key financial metrics.

Non-GAAP operating margin was 22 percent for the quarter and 22.3 percent for the full year. For all of FY12, we expect non-GAAP operating margin to increase over FY11 levels.

Turning now to earnings, GAAP earnings per share were 27 cents for the quarter and \$1.47 for the year, compared to \$1.56 for all of 2010. Q4 non-GAAP earnings per share increased 15 percent to 45 cents and full year non-GAAP earnings grew 13 percent to \$1.80. FY11 growth was driven primarily by top-line growth and a lower effective tax rate, and to a lesser extent reduced share count.

Q4 non-GAAP tax rate was 24 percent, within our guidance range. For the full year, our tax rate declined to 22 percent, due primarily to the reenactment of the federal R&D tax credit for fiscal years 2010 and 2011, which resulted in certain one-time tax benefits in fiscal 2011. For modeling purposes, we think that a non-GAAP tax rate between 25 and 26 percent is a reasonable estimate for fiscal 2012.

Now turning to our cash and balance sheet items. Our balance sheet remains strong with \$1 billion in cash and short-term investments. Of our total cash balance, 23 percent is onshore and 77 percent is offshore. Of course our U.S. balance reflects our share repurchase program and two small acquisitions during the year – both funded with U.S. cash.

We generated \$73 million in cash from operations in Q4 and \$440 million for all of fiscal 2011. At this time we're targeting operating cash flow of approximately \$300 million in FY12. As we reiterated at our New York investor meeting last quarter, operating cash flow tends to be lumpy from year to year, which is why we believe it is important to focus on multi-year averages. For the three-year period ended in FY11 annual operating cash flow was on average, about \$340 million. We expect our operating cash flow quarterly profile to be similar to last year, with a net operating cash outflow during the first quarter of fiscal 2012, due primarily to the timing of our prior year annual incentive compensation payments.

Continuing on with our cash and balance sheet items. Capital expenditures were \$15 million for the quarter and \$57 million for the year. For fiscal 2012 we expect capital spending of approximately \$50 million.

During the quarter, we purchased 1 million shares of Synopsys stock in the open market for \$25 million and also entered into an accelerated share repurchase agreement, or ASR, for \$75 million. Under this agreement, we received 1.7 million shares in Q4 and expect to receive the balance of approximately 1.1 million shares in Q1 when the ASR is completed. For all of fiscal 2011 we were aggressive with our balance sheet and spent \$435 million repurchasing 15.1 million shares, buying back four times as many shares as we granted during the year. We have approximately \$313 million remaining on our current share repurchase authorization. When factoring in cash generated from options exercised during the year, we spent a net \$299 million on repurchases. FY11 fully diluted share count declined 1.5 million to 150 million shares and more importantly, Q4 share count declined 5.6 million year-over-year to 146.4 million, as a result of our share repurchases.

Continuing on with balance sheet items. Q4 net accounts receivable totaled \$203 million and DSO was 45 days, reflecting the high quality of our AR portfolio. Deferred revenue at the end of the quarter was \$760 million, and we ended Q4 with approximately 6,800 employees. While we have selectively grown our headcount primarily through acquisitions, we continue to have about a third of our total employees in low-cost geographies.

We also renewed our credit facility in Q4 for \$350 million. This revolver, which may also be increased by an additional \$150 million, provides excellent flexibility in supporting our business operations.

Now to some of the financial details of the Magma transaction. The value of the transaction is approximately \$507 million, net of cash and debt acquired, or \$7.35 per Magma share, which we intend to fund using a combination of U.S. cash and debt – the specifics of which will be determined as we approach the close. Subject to Hart Scott Rodino regulatory review and other customary closing conditions, including Magma shareholder approval, we expect the transaction to close in the second calendar quarter of 2012. Given the timing of the anticipated close, we expect the combination to be modestly accretive to 2012 non-GAAP earnings per share. We will update 2012 guidance at the time of close.

Now let's address our first quarter and fiscal 2012 guidance, which excludes Magma and any future M&A. Our GAAP targets also exclude any future acquisition-related expenses that may be incurred in Q1 and beyond. Similar to what we saw in fiscal 2007, we have an extra week in fiscal 2012 that occurs in the first quarter.

For the first quarter of FY12, our targets are:

- Revenue between \$412 and \$420 million;
- Total GAAP costs and expenses between \$340 and \$357 million, which includes approximately \$16 million of stock-based compensation expense;
- Total non-GAAP costs and expenses between \$310 and \$320 million;
- Other income and expense between \$0 and \$2 million;
- A non-GAAP tax rate between 24 and 25 percent;
- Outstanding shares between 145 and 149 million;
- GAAP earnings of \$0.33 to \$0.38 per share; and
- Non-GAAP earnings of \$0.51 to \$0.53 per share.
- We expect greater than 90 percent of the quarter's revenue to come from backlog.

Now our Fiscal 2012 outlook:

- Based on what we know now, we expect revenue between \$1.64 and \$1.665 billion, a growth rate of approximately 7 to 8 percent;
- Other income and expense between \$0 and \$4 million;

- A non-GAAP tax rate between 25 and 26 percent;
- Outstanding shares between 145 and 149 million;
- GAAP earnings per share between \$1.28 and \$1.44, which includes the impact of approximately \$61 million in stock-based compensation expense;
- Non-GAAP earnings per share of \$1.93 to \$1.99; and
- Cash flow from operations of approximately \$300 million.

Finally, to help you with your modeling let me provide some brief commentary on our 2012 quarterly revenue and expense profile. At this time, revenue in the first half is expected to be higher than the second half, reflecting the extra week in Q1, which contributes about \$25 million to revenue.

We expect Q2 revenue to be similar to Q1, reflecting timing of certain deals, deliverables and consulting milestones, and second half revenue to be evenly distributed between Q3 and Q4. At this time, we expect Q1 expenses to be higher than what is typical of our business due to the extra week, a sequential decrease in Q2, and Q3 moderately below a traditionally higher Q4. As a result, we expect Q2 to be the highest quarter for non-GAAP earnings per share, with Q3 and Q4 roughly equal – again, due to the timing of revenue.

In summary, we're very pleased with our exceptional fourth quarter and fiscal 2011 results, highlighted by top- and bottom-line growth and strong cash flow generation. We look forward to another year of solid business execution. With that, I'll turn it over to the operator for questions.