

CADENCE REPORTS SECOND QUARTER 2018

CADENCE DESIGN SYSTEMS, INC.

CFO COMMENTARY

July 23, 2018

Q2 2018 Key Takeaways

- Q2 results met or exceeded our expectations for revenue, operating margin, EPS and operating cash flow; raising outlook.
- Cash flow especially strong - raising outlook to midpoint of \$550 million for 2018, which would be growth of 17% over 2017.
- Repurchased \$50 million of Cadence shares in Q2.

FY 2018 Outlook *

(ASC Topic 606 Basis)

- Revenue: \$2.070 - \$2.090 billion.
- GAAP operating margin: ~16%.
- Non-GAAP operating margin: ~28%.
- GAAP EPS: \$0.95 - \$1.01
- Non-GAAP EPS \$1.64 - \$1.70
- Operating cash flow: \$535 - \$565 million.
- Expect to repurchase \$50 million of Cadence shares per quarter in 2018.

Q3 2018 Outlook *

(ASC Topic 606 Basis)

- Revenue : \$510 - \$520 million.
- GAAP operating margin: 14% to 15%.
- Non-GAAP operating margin: 27% to 28%.
- GAAP EPS: \$0.22 - \$0.24
- Non-GAAP EPS: \$0.40 - \$0.42

FY 2018 Implied Outlook *

(ASC Topic 605 Basis at midpoint)

- Revenue: ~\$2.105 billion.
- GAAP operating margin: ~17%.
- Non-GAAP operating margin: ~29%.
- GAAP EPS: ~\$1.06
- Non-GAAP EPS: ~\$1.74
- Operating cash flow: \$535 - \$565 million.

Q2 2018 KEY METRICS

- Revenue \$518 million
- GAAP operating margin 18%
- Non-GAAP operating margin 30%
- GAAP EPS \$0.27
- Non-GAAP EPS \$0.45
- Operating cash flow \$205 million

Financial Results Webcast

Our Q2 2018 financial results webcast will begin July 23, 2018 at 2:00 p.m. (Pacific). The webcast may be accessed at cadence.com/cadence/investor_relations. An archive of the webcast will be available on July 23, 2018 until 5:00 p.m. (Pacific) on September 14, 2018.

* As required by the new standard, Cadence will report revenue under both methods for the 2018 transition year.

Third Quarter 2018 Financial Outlook (ASC 606 Basis)

	ASC 606 Q2 2018A	ASC 606 Q3 2018E
Total Revenue (\$ Million)	\$518.4	\$510 - \$520
Q/Q Growth	0%	(2)% - 0%
GAAP Operating Margin	18%	14% to 15%
Non-GAAP Operating Margin	30%	27% to 28%
GAAP EPS	\$0.27	\$0.22 - \$0.24
Q/Q Growth	4%	(19)% - (11)%
Non-GAAP EPS	\$0.45	\$0.40 - \$0.42
Q/Q Growth	13%	(11)% - (7)%

Fiscal Year 2018 Financial Outlook (ASC 606 Basis)

	Previous ASC 606 FY 2018E	Current ASC 606 FY 2018E
Revenue Recognized Over Time	~90%	~90%
Total Revenue (\$ Billion)	\$2.055 - \$2.085	\$2.070 - \$2.090
Revenue from Beginning Backlog	70% - 75%	70% - 75%
GAAP Operating Margin	15% - 16%	~16%
Non-GAAP Operating Margin	27% - 28%	~28%
GAAP Other Income & Expense (\$ Million)	\$(31) - \$(23)	\$(26) - \$(19)
Non-GAAP Other Income & Expense (\$ Million)	\$(32) - \$(24)	\$(28) - \$(21)
GAAP Tax Rate	14% - 15%	~13%
Non-GAAP Tax Rate	16%	16%
Weighted Average Diluted Shares Outstanding (Million)	280 - 284	280 - 284
GAAP EPS	\$0.86 - \$0.94	\$0.95 - \$1.01
Non-GAAP EPS	\$1.57 - \$1.65	\$1.64 - \$1.70
Cash Flow from Operations (\$ Million)	\$510 - \$550	\$535 - \$565
DSO	~40	~40
Capital Expenditures (\$ Million)	~\$60	~\$65

Fiscal Year 2018 Financial Outlook (ASC 605 Basis)

	ASC 605 FY 2017A	Previous ASC 605 FY 2018E	Current ASC 605 FY 2018E
Revenue Recognized Over Time	~90%	~90%	~90%
Total Revenue (\$ Billion)	\$1.943	~\$2.100	~\$2.105
Y/Y Growth	7%	8%	8%
Revenue from Beginning Backlog	~70%	70% - 75%	70% - 75%
GAAP Operating Margin	16.7%	~17.0%	~17.0%
Non-GAAP Operating Margin	27.5%	~28.6%	~29.0%
GAAP Other Income & Expense (\$ Million)	\$(8.9)	\$(31) - \$(23)	\$(26) - \$(19)
Non-GAAP Other Income & Expense (\$ Million)	\$(24.6)	\$(32) - \$(24)	\$(28) - \$(21)
GAAP Tax Rate	35%	13% - 14%	12% - 13%
Non-GAAP Tax Rate	23%	16%	16%
Weighted Average Diluted Shares Outstanding (Million)	280.2	280 - 284	280 - 284
GAAP EPS	\$0.73	~\$1.01	~\$1.06
Y/Y Growth	4%	38%	45%
Non-GAAP EPS	\$1.40	~\$1.70	~\$1.74
Y/Y Growth	16%	21%	24%
Cash Flow from Operations (\$ Million)	\$470.7	\$510 - \$550	\$535 - \$565
DSO	36	~35	~35
Capital Expenditures (\$ Million)	\$57.9	~\$60	~\$65

Fiscal Year 2018 Financial Outlook (ASC 606 compared to ASC 605)

	ASC 606 FY 2018E	Adjustments	ASC 605 FY 2018E
Revenue @ Midpoint	\$2.080 billion	\$25.0 million	\$2.105 billion
Non-GAAP Operating Margin @ Midpoint	28%	1%	29%
Non-GAAP EPS @ Mid-point	\$1.67	\$0.07	\$1.74

Second Quarter Financial Results

Revenue

(In Thousands)	ASC 606 Q1 2018	ASC 606 Q2 2018
Product and Maintenance	\$480,609	\$487,870
Services	36,704	30,521
Total Revenue	<u>\$517,313</u>	<u>\$518,391</u>

(In Thousands)	ASC 605 Q2 2017	ASC 605 Q3 2017	ASC 605 Q4 2017	ASC 605 Q1 2018	ASC 605 Q2 2018
Product and Maintenance	\$443,847	\$451,229	\$467,504	\$486,789	\$483,254
Services	35,154	34,169	34,218	38,668	31,857
Total Revenue	<u>\$479,001</u>	<u>\$485,398</u>	<u>\$501,722</u>	<u>\$525,457</u>	<u>\$515,111</u>
Y/Y Growth	6%	9%	7%	10%	8%

Revenue Mix by Geography

(% of Total Revenue)	ASC 606 Q1 2018	ASC 606 Q2 2018
Americas	45%	46%
Asia	27%	26%
Europe, Middle East and Africa	20%	20%
Japan	8%	8%
Total	<u>100%</u>	<u>100%</u>

(% of Total Revenue)	ASC 605 Q2 2017	ASC 605 Q3 2017	ASC 605 Q4 2017	ASC 605 Q1 2018	ASC 605 Q2 2018
Americas	45%	45%	44%	45%	45%
Asia	28%	27%	28%	26%	26%
Europe, Middle East and Africa	19%	19%	20%	21%	21%
Japan	8%	9%	8%	8%	8%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Revenue Mix by Product Group

<i>(% of Total Revenue)</i>	ASC 606 Q1 2018	ASC 606 Q2 2018
Functional Verification	26%	23%
Digital IC Design and Signoff	30%	30%
Custom IC Design	26%	26%
System Interconnect and Analysis	9%	9%
IP	9%	12%
Total	100%	100%

<i>(% of Total Revenue)</i>	ASC 605 Q2 2017	ASC 605 Q3 2017	ASC 605 Q4 2017	ASC 605 Q1 2018	ASC 605 Q2 2018
Functional Verification	23%	21%	23%	26%	23%
Digital IC Design and Signoff	30%	30%	29%	29%	29%
Custom IC Design	26%	28%	26%	26%	26%
System Interconnect and Analysis	10%	10%	10%	9%	10%
IP	11%	11%	12%	10%	12%
Total	100%	100%	100%	100%	100%

Total Costs and Expenses

<i>(In Thousands)</i>	ASC 606 Q1 2018	ASC 606 Q2 2018
Total GAAP Costs and Expenses	\$431,480	\$425,335
Total Non-GAAP Costs and Expenses	\$373,753	\$364,084

<i>(In Thousands)</i>	ASC 605 Q2 2017	ASC 605 Q3 2017	ASC 605 Q4 2017	ASC 605 Q1 2018	ASC 605 Q2 2018
Total GAAP Costs and Expenses	\$396,311	\$405,013	\$420,444	\$428,419	\$424,283
Y/Y Growth	3%	7%	1%	8%	7%
Total Non-GAAP Costs and Expenses	\$350,647	\$351,787	\$351,503	\$370,692	\$363,032
Y/Y Growth	4%	6%	2%	5%	4%

Operating Margin

	ASC 606 Q1 2018	ASC 606 Q2 2018
GAAP Operating Margin	16.6%	18.0%
Non-GAAP Operating Margin	27.8%	29.8%

	ASC 605 Q2 2017	ASC 605 Q3 2017	ASC 605 Q4 2017	ASC 605 Q1 2018	ASC 605 Q2 2018
GAAP Operating Margin	17.3%	16.6%	16.2%	18.5%	17.6%
Non-GAAP Operating Margin	26.8%	27.5%	29.9%	29.5%	29.5%

Earnings (Loss) Per Share

	ASC 606 Q1 2018	ASC 606 Q2 2018
GAAP Net Income Per Share	\$0.26	\$0.27
Non-GAAP Net Income Per Share	\$0.40	\$0.45

	ASC 605 Q2 2017	ASC 605 Q3 2017	ASC 605 Q4 2017	ASC 605 Q1 2018	ASC 605 Q2 2018
GAAP Net Income (Loss) Per Share	\$0.25	\$0.29	\$(0.05)	\$0.30	\$0.26
Y/Y Growth	47%	26%	(136)%	20%	4%
Non-GAAP Net Income Per Share	\$0.34	\$0.35	\$0.39	\$0.44	\$0.44
Y/Y Growth	17%	17%	15%	38%	29%

Total DSO

	ASC 606 Q1 2018	ASC 606 Q2 2018
DSO	41	39

	ASC 605 Q2 2017	ASC 605 Q3 2017	ASC 605 Q4 2017	ASC 605 Q1 2018	ASC 605 Q2 2018
DSO	31	34	36	38	36

Balance Sheet and Cash Review**Cash Flow from Operating Activities**

<i>(In Thousands)</i>	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Net Cash from Operating Activities	\$162,140	\$89,314	\$126,856	\$157,647	\$205,266

Capital Expenditures

<i>(In Thousands)</i>	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Capital Expenditures	\$12,645	\$12,188	\$18,225	\$13,128	\$17,977

Cash and Short-Term Investments

<i>(In Thousands)</i>	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Cash and Short-Term Investments	\$659,227	\$682,419	\$692,542	\$752,434	\$825,382

- Approximately 58 percent of our cash and short-term investments were in the U.S. at quarter-end.

Stock Repurchase

<i>(In Thousands, Except Share Price)</i>	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Share Repurchase	—	\$50,013	\$50,012	\$50,013	\$50,012
Number of Shares	—	1,331	1,164	1,289	1,224
Average Share Price	—	\$37.58	\$42.97	\$38.80	\$40.86

Employees

	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Headcount	7,190	7,233	7,214	7,229	7,288

Forward Looking Statements

The statements in this CFO Commentary contain forward-looking statements based on current expectations or beliefs and preliminary assumptions about future events that are subject to factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties and other factors, many of which are outside Cadence's control, including, among others: (i) Cadence's ability to compete successfully in the electronic design automation product and the commercial electronic design and methodology services industries; (ii) the success of Cadence's efforts to improve operational efficiency and growth; (iii) the mix of products and services sold and the timing of significant orders for Cadence's products; (iv) change in customer demands, including those resulting from consolidation among Cadence's customers and the possibility that the restructurings and other efforts to improve operational efficiency of Cadence's customers could result in delays in purchases of Cadence's products and services; (v) economic and industry conditions in regions in which Cadence does business; (vi) fluctuations in rates of exchange between the U.S. dollar and the currencies of other countries in which Cadence does business; (vii) capital expenditure requirements, legislative or regulatory requirements, changes in tax laws, interest rates and Cadence's ability to access capital and debt markets; (viii) the acquisition of other companies or technologies or the failure to successfully integrate and operate these companies or technologies Cadence acquires, including the potential inability to retain customers, key employees or vendors; (ix) the effects of Cadence's efforts to improve operational efficiency in its business, including strategic, customer and supplier relationships, and its ability to retain key employees; (x) events that affect cash flow, liquidity, reserves or settlement assumptions Cadence may take from time to time with respect to accounts receivable, taxes and tax examinations, litigation or other matters; and (xi) the effects of any litigation or other proceedings to which Cadence is or may become a party. In addition, the actual timing and amount of Cadence's repurchase of its common stock under the existing authorization will be subject to business and market conditions, corporate and regulatory requirements, acquisition opportunities and other factors.

For a detailed discussion of these and other cautionary statements related to Cadence's business, please refer to Cadence's filings with the U.S. Securities and Exchange Commission, which include Cadence's most recent reports on Form 10-K and Form 10-Q, including Cadence's future filings.

GAAP to Non-GAAP Reconciliation

Non-GAAP financial measures should not be considered as a substitute for or superior to measures of financial performance prepared in accordance with GAAP. Investors are encouraged to review the reconciliation of non-GAAP financial measures contained within this CFO Commentary with their most directly comparable GAAP financial results. Investors are also encouraged to look at the GAAP results as the best measure of financial performance. See our earnings press release issued today for further discussion of our non-GAAP financial measures, as well as the reconciliation provided in the Appendix to this CFO Commentary.

Cadence's management uses non-GAAP net income because it excludes items that are generally not directly related to the performance of the company's core business operations and therefore provides supplemental information to Cadence's management and investors regarding the performance of the business operations, facilitates comparisons to the historical operating results and allows the review of Cadence's business from the same perspective as Cadence's management, including forecasting and budgeting.

Cadence's non-GAAP net income for the fourth quarter of 2017 excludes the effect of the transition tax expense and income tax expense related to the reduction in value of the deferred tax assets caused by the U.S. corporate tax rate reduction. Cadence management believes it is useful to exclude these tax expenses since it does not expect these tax expenses to be recorded frequently.

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APPENDIX I

Reconciliation of GAAP to Non-GAAP Financial Measures (Unaudited)

Reconciliation of GAAP Total Expenses to Non-GAAP Total Expenses

<i>(In Thousands)</i>	ASC 606 Q1 2018	ASC 606 Q2 2018
GAAP total costs and expenses	\$431,480	\$425,335
Reconciling items to non-GAAP total costs and expenses		
Amortization of acquired intangibles	(13,907)	(13,509)
Stock-based compensation expense	(37,901)	(40,956)
Non-qualified deferred compensation expenses	(127)	(468)
Restructuring and other credits	1,991	447
Acquisition and integration-related costs	(7,783)	(6,765)
Non-GAAP total costs and expenses†	<u>\$373,753</u>	<u>\$364,084</u>

<i>(In Thousands)</i>	ASC 605 Q2 2017	ASC 605 Q3 2017	ASC 605 Q4 2017	ASC 605 Q1 2018	ASC 605 Q2 2018
GAAP total costs and expenses	\$396,311	\$405,013	\$420,444	\$428,419	\$424,283
Reconciling items to non-GAAP total costs and expenses					
Amortization of acquired intangibles	(14,704)	(13,618)	(13,741)	(13,907)	(13,509)
Stock-based compensation expense	(30,482)	(36,090)	(36,015)	(37,901)	(40,956)
Non-qualified deferred compensation expenses	(756)	(2,825)	(1,295)	(127)	(468)
Restructuring and other (charges) credits	929	55	(12,178)	1,991	447
Acquisition and integration-related costs	(651)	(748)	(5,712)	(7,783)	(6,765)
Non-GAAP total costs and expenses†	<u>\$350,647</u>	<u>\$351,787</u>	<u>\$351,503</u>	<u>\$370,692</u>	<u>\$363,032</u>

† The non-GAAP measures presented in the table above should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.

Reconciliation of GAAP Operating Margin as Percent of Total Revenue to Non-GAAP Operating Margin as Percent of Total Revenue

	ASC 606 Q1 2018	ASC 606 Q2 2018	ASC 606 Q3 2018E
GAAP operating margin as percent of total revenue	17%	18%	14% - 15%
Reconciling items to non-GAAP operating margin as a percent of total revenue			
Amortization of acquired intangibles	3%	3%	3%
Stock-based compensation expense	7%	8%	9%
Non-qualified deferred compensation expenses	0%	0%	0%
Restructuring and other charges (credits)	0%	0%	0%
Acquisition and integration-related costs	1%	1%	1%
Non-GAAP operating margin as percent of total revenue†	<u>28%</u>	<u>30%</u>	<u>27% - 28%</u>

† The non-GAAP measures presented in the table above should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.

	ASC 605 Q2 2017	ASC 605 Q3 2017	ASC 605 Q4 2017	ASC 605 Q1 2018	ASC 605 Q2 2018
GAAP operating margin as percent of total revenue	17%	17%	16%	18%	18%
Reconciling items to non-GAAP operating margin as a percent of total revenue					
Amortization of acquired intangibles	3%	3%	3%	3%	3%
Stock-based compensation expense	7%	7%	7%	7%	8%
Non-qualified deferred compensation expenses	0%	1%	0%	0%	0%
Restructuring and other charges (credits)	0%	0%	3%	0%	0%
Acquisition and integration-related costs	0%	0%	1%	1%	1%
Non-GAAP operating margin as percent of total revenue†	<u>27%</u>	<u>28%</u>	<u>30%</u>	<u>29%</u>	<u>30%</u>

† The non-GAAP measures presented in the table above should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.

Reconciliation of GAAP Operating Margin as Percent of Total Revenue to Non-GAAP Operating Margin as Percent of Total Revenue

	ASC 605 2016	ASC 605 2017	ASC 605 2018E	ASC 606 2018E
GAAP operating margin as percent of total revenue	13%	17%	~17%	~16%
Reconciling items to non-GAAP operating margin as a percent of total revenue				
Amortization of acquired intangibles	4%	3%	3%	3%
Stock-based compensation expense	6%	7%	8%	8%
Non-qualified deferred compensation expenses	0%	0%	0%	0%
Restructuring and other charges (credits)	2%	1%	0%	0%
Acquisition and integration-related costs	1%	0%	1%	1%
Non-GAAP operating margin as percent of total revenue†	<u>26%</u>	<u>28%</u>	<u>~29%</u>	<u>~28%</u>

† The non-GAAP measures presented in the table above should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.

Reconciliation of GAAP Diluted Net Income Per Share to Non-GAAP Diluted Net Income Per Share

<i>(In Thousands, Except Per Share Data)</i>	ASC 606 Q1 2018	ASC 606 Q2 2018	ASC 606 Q3 2018E
Diluted net income per share on a GAAP basis	\$0.26	\$0.27	\$0.22 - \$0.24
Amortization of acquired intangibles	0.05	0.05	0.05
Stock-based compensation expense	0.13	0.14	0.17
Non-qualified deferred compensation expenses	—	—	—
Restructuring and other charges (credits)	(0.01)	—	—
Acquisition and integration-related costs	0.03	0.02	0.02
Other income or expense related to investments and non-qualified deferred compensation plan assets *	—	—	—
Income tax effect of non-GAAP adjustments	(0.06)	(0.03)	(0.06)
Diluted net income per share on a non-GAAP basis †	<u>\$0.40</u>	<u>\$0.45</u>	<u>\$0.40 - \$0.42</u>
Shares used in calculation of diluted net income per share - GAAP **	281,651	280,774	
Shares used in calculation of diluted net income per share - non-GAAP **	281,651	280,774	

† The non-GAAP measures presented in the table above should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.

* Includes, as applicable, equity in losses or income from investments, write-down of investments, gains or losses on investments and gains or losses on non-qualified deferred compensation plan assets recorded in other income or expense.

** Shares used in the calculation of GAAP net income per share are expected to be the same as shares used in the calculation of non-GAAP net income per share, except when the company reports a GAAP net loss and non-GAAP net income, or GAAP net income and a non-GAAP net loss.

Reconciliation of GAAP Diluted Net Income (Loss) Per Share to Non-GAAP Diluted Net Income Per Share

<i>(In Thousands, Except Per Share Data)</i>	ASC 605 Q2 2017	ASC 605 Q3 2017	ASC 605 Q4 2017	ASC 605 Q1 2018	ASC 605 Q2 2018
Diluted net income (loss) per share on a GAAP basis	\$0.25	\$0.29	\$(0.05)	\$0.30	\$0.26
Amortization of acquired intangibles	0.05	0.05	0.05	0.05	0.05
Stock-based compensation expense	0.11	0.13	0.13	0.13	0.14
Non-qualified deferred compensation expenses	—	0.01	—	—	—
Restructuring and other charges (credits)	—	—	0.04	(0.01)	—
Acquisition and integration-related costs	—	—	0.02	0.03	0.02
Other income or expense related to investments and non-qualified deferred compensation plan assets *	—	(0.04)	(0.01)	—	—
Income tax related to transition tax	—	—	0.24	—	—
Income tax related to tax rate change	—	—	0.09	—	—
Income tax effect of non-GAAP adjustments	(0.07)	(0.09)	(0.12)	(0.06)	(0.03)
Diluted net income per share on a non-GAAP basis †	<u>\$0.34</u>	<u>\$0.35</u>	<u>\$0.39</u>	<u>\$0.44</u>	<u>\$0.44</u>
Shares used in calculation of diluted net income (loss) per share - GAAP **	279,526	281,400	273,157	281,651	280,774
Shares used in calculation of diluted net income per share - non-GAAP **	279,526	281,400	282,206	281,651	280,774

† The non-GAAP measures presented in the table above should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.

* Includes, as applicable, equity in losses or income from investments, write-down of investments, gains or losses on investments and gains or losses on non-qualified deferred compensation plan assets recorded in other income or expense.

** Shares used in the calculation of GAAP net income (loss) per share are expected to be the same as shares used in the calculation of non-GAAP net income per share, except when the company reports a GAAP net loss and non-GAAP net income, or GAAP net income and a non-GAAP net loss.

Reconciliation of GAAP Diluted Net Income Per Share to Non-GAAP Diluted Net Income Per Share

<i>(In Thousands, Except Per Share Data)</i>	ASC 605 2016	ASC 605 2017	ASC 605 2018E	ASC 606 2018E
Diluted net income per share on a GAAP basis	\$0.70	\$0.73	~\$1.06	\$0.95 - \$1.01
Amortization of acquired intangibles	0.21	0.20	0.19	0.19
Stock-based compensation expense	0.37	0.46	0.60	0.60
Non-qualified deferred compensation expenses	0.01	0.02	—	—
Restructuring and other charges (credits)	0.14	0.03	(0.01)	(0.01)
Acquisition and integration-related costs	0.04	0.03	0.09	0.09
Other income or expense related to investments and non-qualified deferred compensation plan assets *	(0.02)	(0.05)	(0.01)	(0.01)
Income tax related to transition tax	—	0.24	—	—
Income tax related to tax rate change	—	0.09	—	—
Income tax effect of non-GAAP adjustments	(0.24)	(0.35)	(0.18)	(0.17)
Diluted net income per share on a non-GAAP basis †	<u>\$1.21</u>	<u>\$1.40</u>	<u>~\$1.74</u>	<u>\$1.64 - \$1.70</u>
Shares used in calculation of diluted net income per share - GAAP **	291,256	280,221	280 - 284M	280 - 284M
Shares used in calculation of diluted net income per share - non-GAAP **	291,256	280,221	280 - 284M	280 - 284M

† The non-GAAP measures presented in the table above should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.

* Includes, as applicable, equity in losses or income from investments, write-down of investments, gains or losses on investments and gains or losses on non-qualified deferred compensation plan assets recorded in other income or expense.

** Shares used in the calculation of GAAP net income per share are expected to be the same as shares used in the calculation of non-GAAP net income per share, except when the company reports a GAAP net loss and non-GAAP net income, or GAAP net income and a non-GAAP net loss.

Reconciliation of GAAP Total Other Income and Expense to Non-GAAP Total Other Income and Expense

(In Millions)	FY 2017A	Previous FY 2018E	Current FY 2018E
GAAP total other income and expense	\$(8.9)	\$(31) - \$(23)	\$(26) - \$(19)
Reconciling items to non-GAAP total income and expense			
Other income or expense related to investments and non-qualified deferred compensation plan assets*	(15.7)	(1)	(2)
Non-GAAP total other income and expense†	<u>\$ (24.6)</u>	<u>\$(32) - \$(24)</u>	<u>\$(28) - \$(21)</u>

† The non-GAAP measures presented in the table above should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.

* Includes, as applicable, equity in losses or income from investments, write-down of investments, gains or losses on investments and gains or losses on non-qualified deferred compensation plan assets recorded in other income or expense.

APPENDIX II

The following table summarizes the effects of adopting Topic 606 on Cadence's condensed consolidated balance sheet as of June 30, 2018:

(In Millions)	As reported under Topic 606	Adjustments	Balances under Prior GAAP
Receivables	\$ 219,072	\$ (19,328)	\$ 199,744
Prepaid expenses and other	56,042	(7,597)	48,445
Long-term receivables	4,740	1,073	5,813
Other assets	227,173	(11,766)	215,407
Accounts payable and accrued liabilities*	243,158	(26,920)	216,238
Current portion of deferred revenue	327,078	57,720	384,798
Long-term portion of deferred revenue	46,912	16,009	62,921
Retained earnings	574,966	(83,068)	491,898
Accumulated other comprehensive income	(13,172)	(1,359)	(14,531)

* Cadence has certain arrangements under which consideration is received from customers prior to identifying the specific goods or services to be delivered under the contract. Cadence records an accrued liability on a contract-by-contract basis at the end of each reporting period for cash consideration received.

The following table summarizes the effects of adopting Topic 606 on Cadence's condensed consolidated income statement for the three months ended June 30, 2018:

(In Millions)	As reported under Topic 606	Adjustments	Balances under Prior GAAP
Product and maintenance revenue	\$ 487,870	\$ (4,616)	\$ 483,254
Services revenue	30,521	1,336	31,857
Cost of product and maintenance	40,127	114	40,241
Marketing and sales expense	109,300	(1,166)	108,134
Provision for income taxes	14,876	(151)	14,725
Net income	75,149	(2,077)	73,072
Net income per share - basic	0.27	—	0.27
Net income per share - diluted	0.27	(0.01)	0.26

The following table summarizes the effects of adopting Topic 606 on Cadence's condensed consolidated income statement for the six months ended June 30, 2018:

(In Millions)	As reported under Topic 606	Adjustments	Balances under Prior GAAP
Product and maintenance revenue	\$ 968,479	\$ 1,564	\$ 970,043
Services revenue	67,225	3,300	70,525
Cost of product and maintenance	81,857	(137)	81,720
Marketing and sales expense	218,448	(3,976)	214,472
Provision for income taxes	20,160	406	20,566
Net income	148,034	8,571	156,605
Net income per share - basic	0.54	0.03	0.57
Net income per share - diluted	0.53	0.03	0.56