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Cadence Design Systems Inc. Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question will come from the line of Rich Valera with Needham & Company.

Rich Valera - Needham & Company

Thank you. Good afternoon and welcome aboard, Lip-Bu. If you could give, maybe, the revenue signature of your backlog, Kevin you talked about expecting the one, you have \$1.8 billion of backlog entering 2009. Can you give us a sense of how that you expect to recognize that over the next couple of years, or how much you expect to recognize in 2009 specifically?

Kevin Palatnik

Rich, at this time we are really waiting for the model to be a bit more stable, more mature before we start disclosing coverage for the following year. We'd probably need a couple more quarters for that maturity to happen.

Rich Valera - Needham & Company

Okay. This is probably just a different way of asking the same question, but how about the percentage of ratable bookings you would expect for the year? You know, you said you are, I guess, 85% for the fourth quarter. Do you expect to be at or approaching 90% for all of 2009?

Kevin Palatnik

I expect given the skew of our business it's typically in the back half. I think, by that time we should achieve a 90/10 mix.

Rich Valera - Needham & Company

By the back half, you'd, so for the full year maybe not quite seeing that?

Kevin Palatnik

Very close to it, but not exactly 90/10, that's correct.

Rich Valera - Needham & Company

Okay. That's helpful. And then just wanted to talk about the expense side of things and how you achieve, you talked before about a target operating margin, at some point, I believe, of 25%.

And just wanted to get a sense of, obviously we can't predict of any precision maybe when that happens, but what kind of revenue level do you think you need to get to, to hit that and when you could achieve it, because it seems like if you have roll out the model even to 2011, very tough to get to that kind of op margin unless there was another maybe round of expense cut. So I just wanted to know how you're thinking about achieving these kind of 20% plus type of op margin targets.

Kevin Palatnik

So Rich, when we announced the new model in July of last year to the 90/10, a lot of folks did ask about when do you achieve a normalized bookings in revenue number? And the response we gave was, it's going to take three to four years to transition through this model. So middle of 2011 into 2012, that's when we really believe we can be above the 20 plus percent operating margins. It's going to take that time, if you will, to establish that stable model and achieve those margins.

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