

**CADENCE DESIGN SYSTEMS, INC.
First Quarter 2021 Financial Results Conference Call
Prepared Remarks**

**Lip-Bu Tan, chief executive officer
Anirudh Devgan, president
John Wall, senior vice president and chief financial officer**

**April 26, 2021
2:00 PM Pacific**

Safe Harbor Statement

Please note that today's discussion will contain forward-looking statements and that our actual results may differ materially from those expectations. For information on the factors that could cause a difference in our results, please refer to our filings with the Securities and Exchange Commission. These include Cadence's most recent reports on Form 10-K and Form 10-Q, including the company's future filings, and the cautionary comments regarding forward-looking statements in the earnings press release issued today.

In addition to the financial results prepared in accordance with Generally Accepted Accounting Principles, or GAAP, we will also present certain non-GAAP financial measures today. Cadence management believes that in addition to using GAAP results in evaluating our business, it can also be useful to review results using certain non-GAAP financial measures. Investors and potential investors are encouraged to review the reconciliation of non-GAAP financial measures with their most direct comparable GAAP financial results, which can be found in the quarterly earnings section of the investor relations portion of our website.

A copy of today's press release dated April 26, 2021 for the quarter ended April 3, 2021, and related financial tables, and our CFO Commentary which was included in our 8-K filing today, can also be found in the investor relations portion of our website.

Prepared Remarks of Lip-Bu Tan, chief executive officer

Good afternoon everyone and thank you for joining us today.

I am pleased to report that Cadence had a great start to the year delivering outstanding financial results for the first quarter, with broad based demand for our innovative solutions driving strong revenue growth, profitability and cash flow. John will provide the details in a moment, as well as our updated outlook.

Generational trends like 5G, hyperscale computing, autonomous driving and industrial IoT continue to propel the need for innovation in compute, memory, networking and storage, from the edge to the cloud. With massive amounts of new data being generated every day, AI/ML and data analytics are helping transform that data to intelligence, providing actionable insights and accelerating the digital transformation of several industries.

These trends are continuing to drive strong semiconductor demand and design activity across a broad spectrum of end markets, and our **Intelligent System Design** strategy ideally positions us to capture these exciting opportunities.

Now let me talk about the Q1 highlights, starting off with core EDA and IP, in the Design Excellence layer of our ISD strategy.

We had ongoing strength in **aerospace & defense** and we significantly expanded our collaboration with a marquee aerospace & defense systems company, that included the proliferation of our digital full flow as well as of our functional and custom simulation solutions.

Our **Digital and Signoff** business had a strong revenue quarter, with multiple market shaping customers successfully taping out at 5-nanometer and below process nodes using our digital full flow.

Increasing design complexity continues driving the secular trend for hardware assisted verification, and Q1 was a standout quarter for our **Palladium** emulation and **Protium** prototyping platforms.

- Significant expansions as well as multiple new wins contributed to Q1 being our best

hardware revenue quarter ever.

- Additionally, we announced our new **Palladium Z2** and the **Protium X2** platforms, delivering 2X capacity and 1.5X higher performance than our current leading Z1 and X1 systems.
- These next-generation systems enable the highest throughput hardware debug and pre-silicon software validation for multi-billion-gate SoC designs, and were endorsed by **Nvidia**, **AMD** and **Arm**.

Our **IP business** also delivered double digit year-over-year revenue growth.

- There was strong demand for our high speed SerDes IP by market shaping customers for their next generation data center and networking environments, as well as continued strength in our memory interface IP business.
- **Tensilica** continued to expand its footprint in True Wireless Stereo and Bluetooth headsets, and our Vision P6 and HiFi products proliferated in the Wearables and Smart Speakers end markets.

It was another exciting quarter for **System Design & Analysis** segment, delivering over 30 percent year-over-year revenue growth.

- Earlier this month, we acquired **Pointwise**, a leader in mesh generation for computational fluid dynamics.
 - The addition of Pointwise's technologies and experienced team further broadens our **System Analysis** portfolio and complements our recently acquired **NUMECA** CFD technology and our organic multiphysics products.
 - Pointwise provides highly innovative mesh and grid generation technologies to enable high fidelity CFD analysis, and its solutions are being used by several marquee customers, especially in the aerospace segment.
- We want to congratulate our NUMECA team for the role their products played in the design of the **Emirates Team New Zealand** racing boat, that won the America's Cup for New Zealand for the fourth time. The winning team used a simulator based on NUMECA's FINE™/Marine CFD software for their computational fluid-dynamic modeling, and thanks to the unprecedented

accuracy and realism of their simulators, were able to accurately test new ideas and concepts long before the first boat ever touched the water.

- We introduced **Sigrity-X**, our next generation signal and power integrity solutions, with endorsements from **Samsung**, **MediaTek** and **Renesas**. These solutions leverage new simulation engines and a massively parallel architecture to deliver up to a 10x performance and capacity gain, for system level simulations of the most demanding hyperscale, 5G, automotive and aerospace applications.
- And, **Qualcomm** expanded their usage of our flagship **Virtuoso** and **AWR** products for advanced RFIC design, and **Clarity** for systems analysis.

Let me conclude with a few comments on some macro level topics.

- We continue to monitor the semiconductor supply chain situation, and so far we are not seeing any slowdown in design activity across our customer base.
- Next, regarding the evolving state of the Covid-19 pandemic.
 - While some countries are edging towards normalcy, there is growing concern with the escalating number of cases in certain regions, especially in India.
 - As always, the health and safety of our employees, customers and partners is paramount and we will continue doing what's in their best interests, while working closely with local regulatory agencies.
- Lastly, this past year has brought to light many social justice challenges, including the recent acts of violence against Asian Americans.
 - I strongly believe that we have an obligation as individuals, and as a company, to take a stand against racism and to set an example for inclusiveness and understanding.
 - At Cadence, we are committed to listening with empathy, be inclusive of different points of view and as a result, ensure that our diversity enhances our experience and our innovative spirit.

Now, I will turn it over to John to go through Q1 results and present our Q2 and updated 2021 outlook.

Prepared Remarks of John Wall, senior vice president and CFO

Thanks Lip-Bu, and good afternoon everyone.

I am pleased to report that we exceeded all our key operating metrics for the quarter.

Broad-based growth across many lines of our business, combined with some earlier than anticipated hardware sales, resulted in strong revenue growth in Q1.

We continue to invest heavily in building out a multiphysics platform for system design and analysis. We completed our second acquisition of the year in the CFD space, when we acquired **Pointwise** in April, a leader in CFD mesh generation.

The focus over the past few months on completing acquisitions, contributed to some delays to our expected pace of hiring in Q1, but we expect to get hiring back on track by the second half of the year.

Now, let's go through the key results for the first quarter, beginning with the P&L:

- Total revenue was **736 million dollars**,
- Non-GAAP operating margin was approximately **38 percent**,
- GAAP EPS was **67 cents**, and
- Non-GAAP EPS was **83 cents**.

Next, turning to the balance sheet and cash flow:

- At quarter end, **cash** totaled **743 million dollars** while the principal value of **debt outstanding** was **350 million dollars**,
- **Operating cash flow** for Q1 was **208 million dollars**,
- **DSOs** were **48 days**, and
- During Q1 we **repurchased 172 million dollars** of Cadence shares.

Before I provide our updated outlook for fiscal 2021, and what we expect for Q2, I'd like to take a moment to share the assumptions embedded in our outlook.

Assumptions

- The ongoing chip capacity constraints, along with the recent surge in **COVID-19** cases in India, are expected to create a headwind for IP revenue for the remainder of this year. The revenue impact has been factored into our outlook.
- We expect expenses to increase in the second half of the year, primarily due to headcount growth, as we continue to invest in our expanding multiphysics platform.
- We've included the Pointwise **acquisition** in our 2021 Outlook.
- And finally, our outlook assumes that the export limitations that exist today for certain customers will remain in place for all of **2021**.

Embedding these assumptions into our outlook for fiscal 2021, we expect:

- Revenue in the range of **2.880 to 2.930 billion dollars**,
- Non-GAAP operating margin in the range of **35 to 36 percent**,
- GAAP EPS in the range of **\$2.01 to \$2.09**,
- Non-GAAP EPS in the range of **\$2.99 to \$3.07**,
- Operating cash flow in the range of **900 to 950 million dollars**, and
- We expect to use at least **50 percent** of our free cash flow to repurchase Cadence shares in **2021**.

For Q2 2021 we expect:

- Revenue in the range of **705 to 725 million dollars**,
- Non-GAAP operating margin of approximately **36 percent**,
- GAAP EPS in the range of **44 to 48 cents**, and
- Non-GAAP EPS in the range of **74 to 78 cents**

Our **CFO Commentary**, which is available on our website, includes our outlook for additional items as well as further analysis and GAAP to Non-GAAP reconciliations.

In conclusion, the Cadence team delivered another quarter of strong operating results and remain focused on driving profitable revenue growth.

We'd like to thank our customers, partners and of course our employees, for a solid start to 2021, and I'd like to remind them all, that their health and safety continue to be our first priority.

And with that, operator, we'll now take questions.

Q&A Session

- Lip-Bu Tan, chief executive officer
- Anirudh Devgan, president
- John Wall, senior vice president and chief financial officer

Prepared Closing Remarks of Lip-Bu Tan, chief executive officer

Thank you all for joining us this afternoon.

- I'm very excited about the growing market opportunities and the business momentum so far in 2021.
- Our **Intelligent System Design** strategy is playing out very nicely as we benefit from new opportunities in Design Excellence, System Innovation and Pervasive Intelligence, and an expanded total addressable market.
- I am pleased to share that **Fortune** and **Great Place to Work** have honored us as one of the 2021 100 Best Companies to Work For which marks Cadence's seventh year in a row being named to this prestigious list. Cadence was recognized as one of the best companies to work for thanks to its outstanding people-first culture and history of innovation.
- And lastly on behalf of our employees and our Board of Directors, we thank our customers and partners for their continued trust and confidence during these unprecedented times.