

**CADENCE DESIGN SYSTEMS, INC.
First Quarter 2022 Financial Results Conference Call
Prepared Remarks**

**Anirudh Devgan, president and chief executive officer
John Wall, senior vice president and chief financial officer**

**April 25, 2022
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 25, 2022 for the quarter and fiscal year ended January 1, 2022, 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 Anirudh Devgan, president and chief executive officer

Good afternoon everyone and thank you for joining us today.

I'm pleased to report that Cadence delivered exceptional results for the first quarter of 2022, with broad-based demand for our innovative solutions driving solid double-digit growth across all our business groups.

In view of the strong start to the year and the continuing momentum of our business, we are raising our financial outlook for the year. John will provide more details on that in a moment.

Generational trends such as hyperscale computing, 5G, autonomous driving and AI/ML are creating an explosion of data, that in turn is driving the need for next generation compute, connectivity, storage and data analytics solutions. Along with the accelerating digital transformation of multiple end markets, these trends continue to fuel robust design activity, creating rich market opportunities for our differentiated end-to-end EDA, IP and systems solutions.

Now let's talk about our key highlights for Q1.

A key element of our approach has been to closely collaborate with our ecosystem partners and focus on market shaping customers.

We're very excited to have built upon our successful engagements with a marquee US semiconductor company, and in Q1 signed one of the largest contracts in company history, to enable the broad proliferation of our EDA, hardware and systems solutions.

Additionally, in Q1, we expanded our longstanding partnership with Arm, who is using a comprehensive set of Cadence's EDA solutions, and Cadence who is using Arm's latest IP, to jointly provide implementation reference flows and optimized processor IP to accelerate customer innovation.

Rapidly increasing challenges in system verification and software bring-up continued to be a strong pull for our verification business, which delivered 30 percent year-over-year revenue growth.

On the heels of a record year, our hardware business had its biggest quarter by far, with unabating demand for our best-in-class Palladium Z2 and Protium X2 hardware platforms. With 10 new customers and over 50 repeat customers, more than half the orders during the quarter included both the platforms.

Demand for hardware was broad-based, with particular strength seen in the hyperscale, 5G/communications, and AI/ML segments.

Our digital and signoff business had another strong quarter, with 23 percent year over year revenue growth. Deployment of our digital full flow, delivering industry leading quality of results at the most advanced nodes, continued to accelerate with more than 15 new wins in Q1.

Our innovative Cadence Cerebrus solution uses unique reinforcement learning ML technologies to explore the entire design space and intelligently optimize the digital full flow in a fully automated manner.

Several market shaping customers have successfully deployed Cadence Cerebrus, and realized remarkable productivity and power, performance and area benefits, including:

A marquee Asia Pacific systems company used Cadence Cerebrus to achieve 5X engineering productivity and nearly 10 percent power gains on a critical advanced node subsystem.

And a leading Asia Pacific hyperscaler used Cadence Cerebrus with our digital full flow to tapeout a chip with nearly 2 billion instances, reducing power by 5 percent compared to the alternative flow.

Our System Design & Analysis business, which is driving our expansion beyond EDA, continued its strong momentum in Q1, delivering 22 percent year over year revenue growth.

There is growing interest in our Integrity 3D-IC solution, the industry's most advanced multi-die platform, with tightly integrated system planning, implementation and analysis technologies.

A large US data infrastructure company successfully deployed Integrity to tapeout their 2.5D IC and Lightelligence, used Integrity 3D-IC, Virtuoso and Innovus in the development of their fully integrated optical computer system.

In System Analysis, we continued executing to our strategy of building out our multi-physics platform, offering best-in-class engines delivering superior results compared to legacy solutions. We are pleased with the new wins and growing repeat orders for our organic Clarity and Celsius products, as well as our recently acquired CFD technologies. Over the past year, our CFD solutions have continued to proliferate, especially in the aerospace and defense arena with market-shaping customers such as Lockheed Martin.

In Q1, Juniper Networks renewed their commitment to Cadence technology, including comprehensive access to our systems portfolio across PCB, packaging and system analysis solutions.

And last week we introduced Fidelity CFD, a comprehensive CFD platform that includes enhanced meshing technologies as well as a next generation massively parallel high-order solver, that dramatically improves the performance and accuracy of complex CFD applications across multiple vertical end markets. Fidelity CFD's software meshing capabilities have been chosen by Toyota Motor Europe to be their standard workflow for CFD preprocessing, and the winning America's Cup, Team New Zealand, relies on Fidelity Marine solver for their hull hydrodynamic modeling.

Lastly, in addition to our outstanding business results, I am also proud of our high-performance inclusive culture and thrilled that we have been selected by Fortune and Great Place to Work as one of the 2022 100 Best Companies to Work For, for the eighth consecutive year.

Now I will turn it over to John to provide more details on the Q1 results and our updated 2022 outlook.

Prepared Remarks of John Wall, senior vice president and CFO

Thanks Anirudh, and good afternoon everyone.

I am pleased with the results we achieved for the first quarter of 2022, driven by broad-based strength across our technology portfolio and record demand for our leading hardware products. We continue to execute to our Intelligent System Design strategy, making further significant strides with our innovation roadmap, and most importantly, we continue to delight our customers.

Here are some of the financial highlights from the first quarter:

- Total revenue was 902 million dollars,
- GAAP operating margin was 35 percent and Non-GAAP operating margin was 44 percent,
- GAAP EPS was \$0.85 and Non-GAAP EPS was \$1.17,
- Cash balance was 1.135 billion dollars,
- Operating cash flow was 337 million dollars, and
- We repurchased 250 million dollars of Cadence shares.

Before I provide our updated outlook for fiscal 2022, and what we expect for Q2, I'd like to take a moment to share the assumptions embedded in our outlook.

We assume the export limitations that exist today will remain in place for the remainder of the year, We suspended operations in Russia in March. While the impact is not financially material, our outlook assumes the suspension is permanent.

Embedding these assumptions into our updated outlook for fiscal 2022, we now expect:

- Revenue in the range of 3.395 to 3.435 billion dollars,
- GAAP operating margin of in the range of 28.5 to 30 percent,
- Non-GAAP operating margin in the range of 38.5 to 40 percent,
- GAAP EPS in the range of \$2.51 to \$2.59,
- Non-GAAP EPS in the range of \$3.89 to \$3.97,
- Operating cash flow in the range of 1.19 to 1.29 billion dollars, and
- We expect to use at least 50 percent of our free cash flow to repurchase Cadence shares in 2022.

For Q2 we expect:

- Revenue in the range of 825 to 845 million dollars,
- GAAP operating margin in the range of 29 to 30 percent,
- Non-GAAP operating margin of 39 to 40 percent,
- GAAP EPS in the range of 59 to 63 cents,
- Non-GAAP EPS in the range of 95 to 99 cents, and
- We expect to repurchase at least 200 million dollars of Cadence shares in Q2.

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, all our businesses had a strong start to the year. I am pleased that revenue growth and profitability continue to accelerate. We are on track to exceed 50% incremental margin for 2022 which contributes to our continued operating margin expansion. Also, with the increase in our outlook, at the midpoint, we now expect revenue growth for the year to exceed 14 percent, driving acceleration in our 3-year revenue CAGR to over 13 percent.

As always, I'd like to close by thanking our customers, partners, and our employees for their continued support.

And with that, operator, we will now take questions.

Q&A Session

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

Prepared Closing Remarks of Anirudh Devgan, president and chief executive officer

Thank you all for joining us this afternoon.

It is an exciting time for Cadence with strong business momentum and a thriving semiconductor and systems industry offering tremendous market opportunities. We are proud of the innovative and inclusive culture we have built at Cadence. And on behalf of our employees and our Board of Directors, we thank our customers and partners for their continued trust and confidence in Cadence.