

**CADENCE DESIGN SYSTEMS, INC.
Second 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**

**July 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 July 26, 2021 for the quarter ended July 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.

Cadence delivered outstanding financial results for the second quarter as broad-based customer demand for our innovative solutions drove stronger than expected revenue growth, profitability and cash flow.

We are significantly raising our financial outlook for the year, highlighted by a \$40 million increase in revenue guidance, for 10% year-over-year revenue growth. John will provide the details in a moment for both our Q2 results and the updated outlook for the year.

Before I get into more details about the quarter, I would like to talk about the CEO transition news that we announced earlier this afternoon.

We announced that Anirudh Devgan, our president, will take over as CEO on December 15, 2021 and I would transition to the role of executive chairman at that time.

It's been a privilege to serve as the CEO of Cadence for the past 12 plus years. Over that period, I'm very pleased that we have instilled a sustainable culture centered on leapfrog innovation and customer delight, forged very close partnerships with our customers and partners and built an extremely talented Cadence team of over 9,000 employees.

Cadence is now firmly established not just as a top end-to-end EDA provider of choice, but a company that's well on the way in expanding beyond EDA by executing to our exciting intelligent system design strategy that triples our TAM to \$30 billion.

The board of directors and I are very excited that Anirudh will become CEO in December and we cannot think of anyone more uniquely qualified to lead Cadence to even greater heights. He is a proven leader with bold strategic vision, a relentless focus on innovation and execution and a passion for driving customer success.

Over the past four years since he became president, Anirudh and I have jointly led the company, and the board and I think this is the right time to execute the next phase of our succession plan and hand

over the baton to him. You can expect to see a lot of continuity going forward as we view this transition as more of a formalization of our current responsibilities.

As executive chairman, I will focus more on new market opportunities, key strategic initiatives, deepening our relationships with customers and partners and on maximizing shareholder value.

And now let me move on to the business highlights.

Generational trends such as 5G, hyperscalers and autonomous vehicles, underpinned by AI/ML and data analytics, are accelerating the digital transformation across multiple industries. With semiconductors at their foundation, these trends are driving strong design activity across a growing spectrum of semi and systems companies, and we are very well positioned for these to be sustainable long-term growth drivers for us.

Delighting customers and accelerating growth requires a relentless commitment to innovation. With the launch of four new products, we've now introduced eight significant, innovative products so far this year across all of our business groups, that will contribute to future growth.

We continued to expand our business with market-shaping customers, and our differentiated solutions led to a broad-based expansion of our partnership with Samsung, including proliferation of our digital full flow.

It was an outstanding quarter for our Digital and Signoff business with revenue growing 16 percent year-over-year.

- Our digital full flow delivering industry leading quality of results at the most advanced nodes, added 13 new customers that included key competitive displacements, while expanding significantly at several market shaping customers.
- Noteworthy among them were a large U.S. data infrastructure company, further expansion with a marquee U.S. aerospace & defense firm, a major Asia Pacific hyperscaler, and an exciting AI start-up.

- We have been steadily incorporating cutting edge AI/ML technology into our solutions and we significantly advanced that with last week's introduction of the new Cerebrus Intelligent Chip Explorer.
 - Cerebrus' unique reinforcement learning model increases effectiveness with each use and enables up to 20% performance, power and area improvement and 10X productivity gain.
 - Cerebrus was endorsed by Samsung and Renesas, and several customers have realized meaningful benefits across multiple process nodes and end-applications.

It was also a great quarter for our Verification business with 23% year-over-year revenue growth. Our Verification suite comprising of best-in-class engines and delivering the best verification throughput, saw continued strong customer adoption and expansion at several leading customers.

Secular demand for hardware continued unabated, leading to the best Q2 ever for our Palladium and Protium platforms.

- There is robust customer interest in the new Z2 and X2 systems with sales ramping nicely, while sales of Z1 and X1 remain strong. Our hardware family had 15 new orders and over 65 repeat orders in the quarter, with the three largest transactions being with hyperscalers, and that included our largest Protium transaction to date, which was for the new X2.

Strong momentum continued for our System Design & Analysis segment, with 20% year-over-year revenue growth.

- We expanded our systems footprint in multiple verticals including aerospace & defense, 5G wireless, and communications.
- Growing system complexity for high frequency applications is driving the need for an integrated platform solution across system design, simulation and analysis.
 - As we continue building out our systems portfolio, we are pleased to see early indications of customers increasingly choosing a broader set of our solutions across these domains.

- For instance, in Q2 a large U.S. data infrastructure company made a significant commitment to our PCB, IC packaging, RF and system analysis solutions.
- We introduced our next-generation PCB and IC package design platform, Allegro X, that provides a unified engineering platform incorporating innovative machine learning techniques and delivering up to a 4X improvement in overall design team productivity.
- AWR and Integrand had a record quarter and the integration of our recent NUMECA and Pointwise acquisitions is progressing well. We've added several hundred systems customers as we enhance our go-to-market and channel organization to help accelerate our business.

Next I want to make a few macro-level comments.

- We continue to monitor the ongoing semiconductor supply chain situation, and as I reported last quarter, so far we are not seeing any slowdown in design activity across our customer base.
- Unfortunately, the COVID-19 pandemic continues to evolve in an unpredictable manner, with the overall progress being threatened by new variants.
- 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.

Now, I will turn it over to Anirudh to say a few words.

Prepared Remarks of Anirudh Devgan, president

Thank you, Lip-Bu.

I'm very honored and humbled to be appointed the next CEO of Cadence and am deeply grateful to the board of directors and Lip-Bu for their confidence in me. I'm also very thankful to Lip-Bu for his mentorship and guidance over the years and am excited to continuing partnering with him in our new roles.

Generational industry drivers, and the rapidly unfolding digital transformation across several industries present an enormous opportunity for Cadence, and I strongly believe that we couldn't be better positioned to seize this opportunity.

Our intelligent system design strategy lays out a very exciting growth path as we enhance our portfolio to serve a growing set of customers. Our highly innovative solutions have led to a very strong foundation in core EDA and IP, and to our early successes in the systems and AI/ML segments of our strategy as we expand into large, fast growing adjacencies.

I enthusiastically look forward to working with our talented team to accelerate our growth strategy, while relentlessly driving to deliver strong business results, and delight our customers with breakthrough innovation, execution and unparalleled support. I also look forward to furthering our collaborations with customers and ecosystem partners and deepening the engagements with you, our valued shareholders.

Thank you, and I will now hand it over to John to go over the financial highlights.

Prepared Remarks of John Wall, senior vice president and CFO

Thanks Anirudh, and congratulations to you and Lip-Bu on your new roles. This is a great day for Cadence.

Good afternoon everyone, I am pleased to report that we exceeded all of our key financial metrics for the quarter, with broad based demand for our innovative solutions driving stronger than expected revenue growth, profitability and cash flow. As a result, we are raising our financial outlook for the year across all key metrics.

Before getting into the numbers, I'd like to say a particular 'thank you' to our India team. As we all know, India was particularly hard hit by the pandemic in Q2, and we are deeply grateful to our India leaders for going above and beyond the call of duty, to put people first. We commend them for their heroic work in helping the local relief efforts and it's reassuring to see the situation in India improve over the past few weeks.

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

- Total revenue was \$728 million,
- Non-GAAP operating margin was 39.5%,
- GAAP EPS was 56 cents, and
- Non-GAAP EPS was 86 cents.

Next, turning to the balance sheet and cash flow:

- At quarter end, cash totaled \$847 million while the principal value of debt outstanding was \$350 million,
- Operating cash flow for Q2 was \$380 million,
- DSOs were 49 days, and
- During Q2 we repurchased \$220 million of Cadence shares.

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

- We continue to expect that our NUMECA and Pointwise acquisitions will be slightly dilutive this year before becoming accretive next year.
- Our hiring plans in the first half were delayed by the COVID situation in India, but our outlook currently assumes we catch up on much of that delayed hiring activity in the second half.
- Our outlook for the second half includes the cost of salary and promotion increases for the broad employee base. Those promotions and salary increases were generally effective from July 1.
- And finally, our outlook assumes there will be no changes to the export limitations that exist today.

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

- Revenue in the range of \$2.925 to \$2.965 billion,
- Non-GAAP operating margin in the range of 36% to 36.75%,
- GAAP EPS in the range of \$2.15 to \$2.21,
- Non-GAAP EPS in the range of \$3.14 to \$3.20,

- Operating cash flow in the range of \$925 to \$975 million, and
- We expect to use at least 50% of our free cash flow to repurchase Cadence shares in 2021.

For Q3 2021 we expect:

- Revenue in the range of \$730 to \$750 million,
- Non-GAAP operating margin of approximately 34%,
- GAAP EPS in the range of 48 to 50 cents, and
- Non-GAAP EPS in the range of 74 to 76 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, Cadence delivered another quarter of strong revenue growth and expanding profitability, and we're pleased to raise our outlook for the year.

I would like to close by thanking our customers, partners, and our hardworking employees for all that they do, and I'd like to remind them all, that their health and safety continues 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.

- 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.