

**CADENCE DESIGN SYSTEMS, INC.**  
**Third 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**

**October 25, 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 October 25, 2021 for the quarter ended October 2, 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 strong financial results for the third quarter driven by accelerating customer demand for our innovative solutions and continued solid execution by the team.

Driven by the broad-based strength of our business, we are raising our financial outlook for the third time this year and are now expecting about 11 percent revenue growth and 37 percent non-GAAP operating margin for 2021. John will provide the details in a moment for both our Q3 results and the updated outlook for the year.

The data-driven era is being fueled by generational trends like 5G, hyperscale computing, autonomous driving and industrial IoT that are accelerating the digital transformation of several industries. This requires continued innovation in key areas such as compute, connectivity, storage, and data analysis, which in turn is driving secular semiconductor growth and design activity across a wide range of end markets.

Before I ask Anirudh to go through the business and product highlights for the quarter, I would like to remind you that I will be transitioning to the role of executive chairman on December 15, with Anirudh becoming our president and CEO at that time.

It has truly been an honor leading Cadence for the past thirteen years and I'm very proud of the team's accomplishments and grateful for the confidence and trust that our customers and shareholders have placed in us. Cadence is extremely well positioned, and as I hand the baton over to Anirudh, I can think of no one better to lead the company through its next phase of growth and I eagerly look forward to him taking Cadence to new heights. While I will remain engaged with shareholders, this will be my last earnings call.

Thank you very much for your continued support and I will now turn the call over to Anirudh.

## Prepared Remarks of Anirudh Devgan, president

Thank you Lip-Bu.

Our Intelligent System Design strategy leverages our strong computational software expertise as we expand beyond EDA into new markets, and we're uniquely positioned to capture the exciting opportunities that Lip-Bu talked about. As we execute to our strategy, we are especially pleased to see our differentiated EDA, IP and systems solutions being increasingly adopted by a growing number of systems companies.

For instance, Tesla utilized a broad set of Cadence EDA software solutions and hardware platforms to enable the successful delivery of their innovative Dojo system.

Delighting customers and accelerating growth requires a relentless commitment to innovation. This quarter we launched the Integrity 3D-IC Platform, Tensilica AI Platform, Midas Safety Platform and the Helium Virtual and Hybrid Studio. We have now introduced 13 significant, innovative products this year across all of our business groups, and these will be key drivers of our future growth.

[Integrity 3D-IC, TIP AI, Helium, Cerebrus, Allegro X, Clarity Cloud, Spectre FX, Sigrity X, Palladium Z2, Protium X2, PCIe Gen 5, Vision Q8/P1, Midas]

Let me share some of the business highlights starting with **Digital and Signoff**, which had another strong quarter with 18 percent year-over-year revenue growth.

- Our digital full flow delivering industry leading quality of results at the most advanced nodes, continued to proliferate with market shaping customers, and was adopted by 13 new customers.
- We are very pleased with the growing momentum of our transformative Cadence Cerebrus solution, that incorporates unique reinforcement learning AI / ML technology, to deliver significant power, performance, and area (PPA) and productivity gains. In addition to the Samsung and Renesas endorsements at launch, several market shaping customers have added Cadence Cerebrus to their production flows and are realizing meaningful benefits. As an example, a global mobile semiconductor company used Cadence Cerebrus on their manually

tuned CPU design to reduce total power by almost 10 percent and improve timing by over 25 percent automatically in only 8 days. Additionally, Cadence Cerebrus enabled a marquee mobile systems company to reduce the power consumption of their 4nm design by over 25 percent and get over 10X improvement in productivity.

- We continued growing our business with hyperscale customers, including a broad expansion of our EDA software with a marquee hyperscaler, that included a significant commitment to our digital solutions.

Next, I will talk about our **Verification** business, which had a strong quarter with 13 percent year-over-year revenue growth. Growing system design complexity and the high cost of failure, continues to drive strong demand for our Verification Suite, which provides a comprehensive solution across IP, SoC and system verification, hardware/software regressions, and early software development

- This momentum is especially noticeable in our hardware business, where customers are deploying significant additional capacity as they reap the performance, quality and productivity benefits of our industry leading hardware platforms. Accelerating adoption of our new Dynamic Duo, the Palladium Z2 and Protium X2, led by hyperscale and global mobile customers, drove the majority of hardware orders in the quarter.
- In Verification software, Xcelium-ML, our machine learning optimized logic simulator delivering up to 5X faster regressions, was adopted by marquee customers in North America and Asia.
- We launched the **Helium Virtual and Hybrid Studio**, a new platform that accelerates the creation of virtual and hybrid prototypes of complex systems, enabling early software bring-up.
  - Helium was endorsed by Nvidia and several other engagements with leading customers are underway.

- We also announced the **Midas Safety platform**, which is part of the comprehensive Cadence Safety solution featuring integrated digital and analog safety flows and engines for faster certification of safety critical automotive designs.

Moving on to **System Design & Analysis**, I am particularly pleased that this segment which is driving our market expansion beyond EDA, continued to deliver strong, double digit growth, increasing revenue by 17 percent year-over-year, as we grew our footprint in several verticals including Aerospace & Defense and 5G communications.

- With 5G and AI/ML applications pushing silicon reticle limits, and transistor scaling slowing down, there's an accelerated move to disaggregate SoCs into a heterogenous set of discrete die that can be integrated together with sophisticated packaging technology.
- Leveraging over two decades of pioneering packaging expertise, we're very excited to have launched **Integrity 3D-IC**, the industry's first and only comprehensive platform that ties together our best-in-class system planning, implementation and thermal, timing and power analysis technologies, along with a multi technology database, all in a unified cockpit.
- This third-generation 3D-IC solution enables designers to achieve system-driven PPA with reduced design complexity and faster time to market, and we're engaged with several leading semi & system houses, foundries, and packaging companies.
- Our organically developed System Analysis products continued to make good headway, with Clarity, our electromagnetic 3D simulator, displacing the incumbent solution and becoming plan-of-record at a marquee hyperscaler.
- And Celsius, our electro-thermal 3D simulator, was deployed at a global marquee systems customer.
- Our recently acquired CFD solutions also delivered strong results, winning new business with several automotive, and Aerospace & Defense customers.

And now before I turn it over to John, I wanted to say a few words about the upcoming CEO transition on December 15.

- On behalf of the Cadence Board and our employees, I want to thank Lip-Bu for his outstanding leadership and his numerous illustrious accomplishments over the past thirteen years, that have made a lasting impact on our industry and on Cadence. With his laser focus on creating a highly innovative and results-based culture, he drove a cultural transformation at Cadence that was rooted in customer and shareholder success, leading to trusted partnerships with market-shaping customers and delivering shareholder return of over 3500 percent.
- I am especially grateful to Lip-Bu for his mentorship and guidance and look forward to continuing our partnership in our new roles, as, along with our talented team, we relentlessly drive to deliver strong business results and delight our customers and shareholders.

Now, I will turn it over to John to go through the Q3 results and present our Q4 and updated 2021 outlook.

### **Prepared Remarks of John Wall, senior vice president and CFO**

Thank you Anirudh. And thank you Lip-Bu. They say “Values are like fingerprints. Nobody’s are the same, but you leave them all over everything you do.” Your impact on Cadence has been significant and will last for many, many years to come. It’s been a truly remarkable run over the past 13 years, and I feel blessed to have had the chance to work so closely with you.

I’ve also heard it said that “Legacy is not something you do for yourself, but it’s something you leave for the benefit of the next generation”, and on behalf of all Cadence stakeholders, I’d like to thank you both for conducting such a smooth CEO transition. We haven’t missed a beat ... Focused execution by the entire Cadence team, combined with broad-based strength across our product portfolio and customer base, drove another strong quarter of top and bottom-line results.

- We exceeded our expectations for all key financial metrics, and
- We are raising our financial outlook for the year.

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

- Total revenue was \$751 million,
- Non-GAAP operating margin was 35.7 percent,
- GAAP EPS was 63 cents, and
- Non-GAAP EPS was 80 cents.

For the balance sheet and cash flow:

- Cash totaled \$1.014 billion at quarter end while the principal value of debt outstanding was \$350 million,
- Operating cash flow was \$296 million,
- DSOs were 40 days, and
- We repurchased \$110 million of Cadence shares during the quarter.

Next let's turn to our updated outlook.

Our outlook continues to assume that there will be no changes to the **export limitations** that exist today.

For fiscal 2021, we now expect:

- Revenue in the range of \$2.960 to \$2.980 billion,
- Non-GAAP operating margin of approximately 37 percent,
- GAAP EPS in the range of \$2.36 to \$2.40,
- Non-GAAP EPS in the range of \$3.24 to \$3.28, and
- Operating cash flow in the range of \$975 million to \$1.025 billion.

For the fourth quarter we expect:

- Revenue in the range of \$745 to \$765 million,
- Non-GAAP operating margin of approximately 35 percent,
- GAAP EPS in the range of 49 to 53 cents,
- Non-GAAP EPS in the range of 76 to 80 cents, and
- We expect to repurchase \$110 million of Cadence stock in Q4.

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 closing, I am pleased that:

- Revenue growth continues to accelerate with our 3-year revenue CAGR now approximately 11.5 percent at the midpoint of guidance,
- We are expecting approximately \$1 billion of operating cash flow for 2021 at the midpoint, and
- We are on track to deliver over 50 percent incremental operating margin for the year.

As always, I want to thank our customers, partners, and of course our employees for their continued support.

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.

- It is an exciting time for Cadence with growing market opportunities and strong business momentum.
- 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.
- We are proud of the innovative and inclusive culture we have built at Cadence and are grateful for the recognitions we've received over the years, including most recently being named as One of the World's Best Workplaces for the sixth time by Fortune and Great Place to work, as well as being named to Newsweek's List of Most Loved Workplaces for 2021.
- 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.