Richard Gu, Vice President, Investor Relations

Forward-Looking Statements and Non-GAAP Measures

The following discussion contains forward-looking statements, including our outlook on future business and operating results. Actual results may differ materially from expectations expressed or implied in the forward-looking statements due to risks, uncertainties and other factors, many of which are outside our control. All forward-looking statements in this discussion are made only as of October 24, 2022, are based on estimates and information available to us at that time, and we do not intend, and disclaim any obligation, to update them. 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 our most recent reports on Form 10-K and Form 10-Q, the cautionary comments regarding forward-looking statements in the earnings release issued on October 24, 2022, as well as our future filings.

In addition, the following discussion contains non-GAAP measures, which should not be considered in isolation from, or as a substitute for, GAAP results. Reconciliations of non-GAAP measures with their most directly comparable GAAP results are available in the quarterly earnings section of the investor relations portion of our website.

A copy of the earnings release for the third quarter of fiscal 2022, related financial tables and CFO Commentary which was included in our 8-K filing on October 24, 2022, can also be found in the investor relations portion of our website.

Anirudh Devgan, President and Chief Executive Officer

Thank you, Richard. Good afternoon everyone and thank you for joining us today.

I'm pleased to report that Cadence delivered excellent results for Q3 driven by our technology leadership, strong execution, diversified customer base and resilient business model. We beat our Q3 guidance on all key metrics and are raising our financial outlook for the year yet
again, to 19 percent year-over-year revenue growth and 40 percent operating margin. John will provide more details on our Q3 results and the updated outlook for the year.

Notwithstanding the prevailing macroeconomic uncertainties, our thesis about generational drivers such as 5G, hyperscale computing and AI/ML driving robust design activity over the long term, remains intact.

These secular trends are accelerating the digital transformation across several end markets, while the growing hyperconvergence across multiple domains – mechanical and electrical, hardware and software, and systems and semis, is driving the strong need for continued innovation in compute, connectivity and storage. Customers are investing heavily to differentiate their next generation platforms, with system companies increasingly developing purpose-built silicon, and semiconductor companies benefiting from expanding silicon content.

Our comprehensive offerings comprised of leading end-to-end EDA solutions, IP, hardware and an expanding systems portfolio, uniquely position us to support our customers, while providing us with ample growth opportunities.

In an environment of increasing design complexity, tighter time to market requirements and growing shortage of talent, sophisticated AI / ML solutions can greatly help to democratize chip and system development, while dramatically increasing productivity and quality of results.

Customers deploying our game changing AI-driven Cadence Cerebrus and Optimality solutions are realizing amazing results, and in Q3 we augmented our portfolio with the transformative Verisium AI verification platform, and the JedAI data platform.

Verification continues to be the critical path in system time to market consuming the vast majority of resources, with debug being the largest component. Verisium provides a generational shift in verification, moving from a legacy single-run, single-engine approach, to algorithms that leverage big data and AI to optimize multiple runs across multiple engines, leading to a 10x boost in debug productivity.
Several customers including Samsung and STMicroelectronics have observed impressive results with Verisium for automatically triaging and root causing bugs.

JedAI is our revolutionary AI-driven, big data analytics platform, that is foundational to unifying our AI innovations across Cadence Cerebrus, Optimality and Verisium.

JedAI operates on vast amounts of heterogenous EDA data, including all types of design, verification, analysis and methodology information, to facilitate smarter design optimization and enhanced productivity.

In Q3, we significantly expanded our footprint with market shaping customers as they increasingly embraced our optimized platform offerings.

We deepened our partnership with BAE Systems across our core EDA and systems portfolio, including proliferation of our digital full flow and analog products, and a broad expansion of our PCB and Multiphysics system analysis solutions.

Additionally, in Q3 we strengthened our collaboration with Teradyne, which included a broad proliferation of our core EDA software across digital, analog and verification, as well as a significant expansion of our PCB and systems analysis business.

Demand for our core EDA software remained strong and broad-based. Our digital business had another strong quarter, with 22 percent year over year growth, driven by key competitive wins and continued proliferation at market shaping customers. Thirteen new customers adopted our digital full flow in Q3. It’s been just over a year since we launched Cadence Cerebrus, and it’s fast becoming a linchpin technology for customers, as they derive incredible productivity and PPA results on a wide variety of their most advanced SoC designs. Several leading customers have major multi-design, multi-project production deployments underway and are reporting up to 30 percent improvement in quality of results and 30x productivity improvements. Additionally, we see accelerated growth in our front-end and signoff offerings, in part due to the Cadence Cerebrus pull-through effect.

We launched the Certus Closure solution which dramatically accelerates complete design closure, by using an innovative hierarchical architecture, and a fully automated environment for concurrent full chip optimization and signoff.
Using Certus, Renesas observed 6X faster chip-level signoff closure turnaround time versus current methodologies, and Maxlinear experienced overnight full chip signoff closure, while realizing up to 5 percent of untapped power savings.

Our Custom IC business continues to define the analog market with its bold vision, market leading technology and comprehensive portfolio. In Q3, it grew 12 percent year-over-year driven by our best-in-class Virtuoso layout platform and by strong growth in our Spectre simulation solutions.

Now moving onto Functional Verification - In Q3, our business grew 31 percent year over year, led by hardware and Xcelium. Our Palladium Z2 and Protium X2 hardware platforms, providing industry leading system verification and software bring-up capabilities, added three new customers and had twenty repeat orders, including from high end mobile, AI and hyperscaler customers.

Our IP business, led by our Star IP offerings at the most advanced nodes, continues to benefit from the ongoing IP outsourcing trend and from customers increasingly embracing IP reuse for risk reduction and faster time to market. During Q3 we signed our largest IP contract ever, with a marquee US semiconductor company, and had a major expansion at a leading US 5G company. Tensilica extended its leadership in the True Wireless Stereo market, while proliferating its functional safety and infotainment solutions with automotive companies. We also had multiple design IP wins across our leading PCIe, DDR and die-to-die portfolio.

Our System Design & Analysis business is a key tenet of our growth strategy to leverage our computational software expertise and expand our TAM by growing in near adjacencies. This business continued its strong momentum, delivering 29 percent year over year growth, as we increased our footprint in several verticals including Aerospace & Defense and high-tech electronics. Our broad systems portfolio providing tightly integrated platform solutions across design, simulation and analysis, is resonating strongly with customers as they increasingly choose a broader set of our solutions across these domains.
In Q3, we broadened our collaboration with Emerson, a global industrial technology and software leader, as they significantly expanded their use of our Systems solutions, notably our PCB, AWR and systems analysis technologies.

Fidelity CFD software, that was announced earlier this year, is ramping nicely and facilitating customers in verticals such as Aerospace, Marine and Turbomachinery to do design optimization, leading to efficiency improvements and meaningful reductions in emissions and energy consumption. And the addition of Future Facilities’ digital twin based thermal and power optimization technology, will further help data center customers to reduce their carbon footprint.

Lastly, we completed the acquisition of OpenEye Scientific, a leader in the computational molecular design space. We are very excited to bring our system level simulation and AI / ML expertise to the life sciences market to help improve the speed and accuracy of biosimulations, thereby enhancing the efficiency and success rate of the drug discovery process. Integration of both our Future Facilities and OpenEye acquisitions is progressing well.

In closing, Q3 was an outstanding quarter as we advanced our Intelligent System Design strategy and continued to closely collaborate with our customers on their next generation designs. We are managing our business with an intense focus on innovation and operational excellence to drive both revenue growth and margin expansion, and are very well positioned to capitalize on the massive opportunities ahead of us.

Now I will turn it over to John to provide more details on the Q3 results and our updated 2022 outlook.

John Wall, Senior Vice President and Chief Financial Officer

Thanks, Anirudh, and good afternoon, everyone.

I am pleased to report that we completed the acquisitions of OpenEye Scientific and Future Facilities in the third quarter of 2022. Cadence exceeded all key financial and operational
metrics for the quarter.

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

- Total revenue was 903 million dollars,
- GAAP operating margin was 29 percent and Non-GAAP operating margin was 39 percent,
- GAAP EPS was $0.68 and Non-GAAP EPS was $1.06,
- Operating cash flow was 317 million dollars.
- We used 150 million dollars of cash to repurchase Cadence shares
- At the end of the quarter, our Cash balance totaled 1 Billion dollars while the principal value of our debt outstanding was 800 Million dollars.

Before I provide our updated outlook for the remainder of fiscal 2022, I’d like to take a moment to share certain key assumptions embedded in our outlook.

- We expect the impact of the recent changes to US trade restrictions on our business to be limited and manageable. The impact is included in our outlook.
- Our outlook also assumes that the export limitations that exist today remain substantially similar for the rest of the year.

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

- Revenue in the range of 3.532 to 3.552 billion dollars,
- GAAP operating margin in the range of 29.7 to 30.7 percent,
- Non-GAAP operating margin in the range of 39.7 to 40.7 percent,
- GAAP EPS in the range of $2.71 to $2.75,
- Non-GAAP EPS in the range of $4.20 to $4.24,
- Operating cash flow of approximately 1.20 to 1.26 billion dollars, and
- We expect to use approximately 1.05 billion dollars of our free cash flow to repurchase Cadence shares in 2022.
For Q4 we expect:

- Revenue in the range of 870 to 890 million,
- GAAP operating margin of approximately 24 percent,
- Non-GAAP operating margin of approximately 35 percent,
- GAAP EPS in the range of 50 to 54 cents,
- Non-GAAP EPS in the range of 89 to 93 cents, and
- We expect to use approximately 300 million dollars of cash to repurchase Cadence shares 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 summary, I’m pleased with our progress across all lines of business this year. At the mid-point of our outlook, our 3-year revenue CAGR continues to increase, and I’d like to thank our Cadence team for their exceptional execution and financial discipline. At the mid-point of our outlook, we expect our annual non-GAAP operating margin to exceed 40% for the first time, which is especially pleasing.

As always, I’d like to thank 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 everyone for joining us this afternoon. We are excited about our business momentum and the tremendous market opportunities ahead of us. 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 seventh time by Fortune and Great Place to Work. We are also honored to be included in the Investors Business Daily’s 100 Best ESG companies for 2022 list, the fourth year in a row that we’ve received this recognition. On behalf of our employees and our Board of Directors, we thank our customers, partners, and investors for your continued trust and confidence in Cadence. We look forward to speaking with you again on our Q4 2022 earnings call. Thank you and have a great evening.