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 February 22, 2021 for the quarter ended January 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.

In a year of unprecedented macro challenges, I am pleased to report that Cadence achieved outstanding financial results for both the fourth quarter and 2020.

For the year, we achieved 15 percent revenue growth and 35 percent non-GAAP operating margin, with strength across the board and all segments growing by double digits.

In a moment, John will present more information for Q4 results and our 2021 outlook.

The acceleration of digitization due to the pandemic, coupled with exciting generational trends like 5G, AI/ML, data analytics and hyperscale computing, continued to drive strong semiconductor demand.

Leading hyperscaler, mobile and AI companies continue to aggressively pursue Moore’s law, while 5G/wireless, industrial and automotive verticals are leading the charge on the More-than-Moore front.

Our Intelligent System Design strategy triples our TAM, and our broad and compelling portfolio of chip, package, board and system design solutions, uniquely positions us to realize these exciting opportunities.

In 2020 we accelerated our momentum at marquee accounts, while expanding our systems portfolio through compelling acquisitions, enabling us to win new customers in our targeted vertical segments.

Of particular note was the strength in our aerospace & defense business as the digital transformation in this vertical continues, and we expanded and deepened our relationship with Northrop Grumman which includes use of our custom-analog and digital full flow.

Additionally, we are especially excited by the momentum we have with hyperscalers as they accelerate their chip and system design activity.
Our engagements with systems customers have steadily deepened over the past few years, and revenue from systems companies is now closer to forty-five percent of our total revenue.

It was a great year for Cadence Cloud which now has more than 175 customers, and we further strengthened our partnership with cloud infrastructure and foundry partners.

Now let’s review Q4 highlights.

Design Excellence is the foundational layer of our strategy and includes our Core EDA chip design platforms and IP portfolio.

- Our Digital & Signoff solutions offering superior quality of results and faster convergence, continued proliferating at market shaping customers.
  - We are engaged in well over a hundred projects at 5-nanometer and below process technologies, and we are in early collaborations on the 2-nanometer node.
  - Deployment of our full flow accelerated as more than 45 customers adopted the Cadence digital full flow at the most advanced nodes during the year, including MediaTek, Samsung, Micron, NuVia, and a global marquee customer.
  - Based on superior quality of results, a market shaping hyperscaler significantly increased their usage of our digital solutions.
  - Earlier in the year, a market shaping automotive semiconductor customer committed to Cadence as its primary EDA vendor for digital design.

- Customers are faced with mounting challenges in system verification and software bring-up and are benefiting from our Verification full flow solutions, that deliver industry leading verification throughput.
  - Momentum continued for Xcelium, our digital simulator, with several competitive displacements underway, as well as expansions and new customer wins.
  - Our hardware family of Palladium for emulation, and Protium for regressions and early software development, had a strong quarter to finish our best ever year for hardware.
For the year, Palladium Z1 had 24 new customers and 34 expansions, while Protium X1 had 13 new customers and 14 expansions. Demand was particularly strong at AI and hyperscaler customers.

- Ericsson renewed their commitment to Cadence verification hardware, including both Palladium and Protium.
- A unique differentiator of the Protium X1 is the common front-end compiler with the Palladium Z1, that enables significantly faster bring-up, and about 40 percent of our hardware business during the year included both Z1 and X1.

- Our IP business had a strong year, as our focused strategy and compelling portfolio leveraged the ongoing IP outsourcing trend.
  - We continued expanding the footprint of our leadership DDR and PCIe IP and had several design wins at the 5-nanometer and lower process nodes.
  - High speed SerDes is a critical component of hyperscaler infrastructure, and several customers have adopted our 112G SerDes IP including Xsight Labs, who has also demonstrated working silicon.
  - Tensilica had strong royalties and significant wins at key true wireless stereo and mobile application processor customers. Additionally, the automotive segment had good momentum with wins in functional safety, radar and digital radio, including an ADAS win at a leading self-driving car company.

In System Innovation, we are very excited about our system design & analysis segment, which had a particularly strong year with greater than 25 percent revenue growth.

- Rising system complexity for advanced 5G, automotive and HPC applications, is driving the need for a seamless platform solution across design, simulation and analysis.
- AWR and Integrand delivered great results in 2020 and there is strong customer interest in our integrated Virtuoso, Innovus, Allegro and AWR Microwave Office solutions, with in-design
analysis.

- **In System Analysis**, we are executing to our strategy of building out our multi-physics portfolio, offering best in class solutions and delivering superior results compared to legacy industry solutions.
  
  - Strong market adoption continued for our System Analysis products and we are particularly pleased with the growing number of repeat orders with customers including **STMicroelectronics**, **Realtek**, and a market shaping hyperscaler.

  - We tripled our System Analysis TAM by adding Computational Fluid Dynamics (CFD) technology through the pending **NUMECA** acquisition, which will bring leading CFD technology and the deep domain expertise of Dr. Charles Hirsch and his team to Cadence. NUMECA has over 450 customers including **Ford**, **Honda** and **NASA**, across multiple verticals such as automotive, aerospace, industrial and marine.

For **Pervasive Intelligence**, we continued to incorporate machine learning technology in various tools for improved PPA and faster convergence.

- **Xcelium-ML** had successful engagements with several market shaping customers, delivering up to a 5X improvement in regression throughput.

- We also progressed on providing IP specifically tuned for AI/ML apps, especially edge inferencing applications.

Cadence continues to invest in fostering **innovation** and advancing education through endowments at top universities. Building upon previous endowments at Stanford, the University of California at Berkeley and Carnegie Mellon, we announced a $5 million endowment at MIT’s Schwarzman College of Computing to promote research in the fields of artificial intelligence, machine learning and data analytics.

Now, I will turn it over to John to go through Q4 results and present our 2021 outlook.
Prepared Remarks of John Wall, Senior Vice President and CFO

Thanks Lip-Bu, and good afternoon everyone.

I am pleased to report we exceeded all of our key operating metrics for the fourth quarter and fiscal year 2020. **We achieved 50 percent on the ‘Rule of 40’ metric for the first time** through a combination of 15 percent revenue growth and 35 percent Non-GAAP operating margin.

Consistent execution against our strategy, and double-digit growth across all product categories, helped us achieve this landmark, but we also had the benefit of some tailwinds during a fiscal year which included a 53rd week, a strong second half in China, and the recovery of $26 million dollars that we previously thought to be uncollectable.

The pandemic brought many challenges, and I’m very proud of our Cadence team for their compassion and resilience in the face of adversity. Their focus on innovation and customer success resulted in continued acceleration of Cadence’s three-year revenue growth CAGR which is now into double digits.

Let’s go through the key results for the fourth quarter and the year, starting with the P&L:

- Total revenue was **760 million dollars** for the quarter and **2.683 billion dollars** for the year,
- Non-GAAP operating margin was approximately **37 percent** for the quarter and approximately **35 percent** for the year,
- GAAP EPS was **62 cents** for the quarter and **$2.11** for the year, and
- Non-GAAP EPS was **83 cents** for the quarter and **$2.80** for the year.

Next, turning to the balance sheet and cash flow:

- Our **cash balance** was **928 million dollars** at year-end, while the principal value of debt outstanding was **350 million dollars**,
- **Operating cash flow** in the fourth quarter was **136 million dollars** and **905 million dollars** for the full year,
- DSOs were **44 days**, and
• We repurchased **380 million dollars** of Cadence shares during the year

Before I provide commentary for Q1 and fiscal 2021, I’d like to take a moment to share the assumptions embedded in our outlook.

**Assumptions**

• We expect strong revenue growth for the first half, followed by more muted second half growth, as we lap some tough second half comps.

• Our outlook further assumes the **pandemic** restrictions will gradually ease across the globe this year, resulting in higher T&E expense in 2021 compared to 2020.

• We’ve included the expected impact of the pending **NUMECA acquisition** in our 2021 Outlook.

• And finally, as usual, 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 **2.860 to 2.920 billion dollars**,  
• Non-GAAP operating margin of **34.5 to 36 percent**,  
• GAAP EPS in the range of **$2.09 to $2.19**,  
• Non-GAAP EPS in the range of **$2.95 to $3.05**,  
• Operating cash flow in the range of **900 to 950 million dollars**, and  
• We expect to use approximately **50 percent** of our free cash flow to repurchase Cadence shares in **2021**.

**For Q1 2021 we expect:**

• Revenue in the range of **710 to 730 million dollars**,  
• Non-GAAP operating margin of approximately **35 percent**,  
• GAAP EPS in the range of **55 to 59 cents**, and  
• Non-GAAP EPS in the range of **72 to 76 cents**, and  
• We expect to repurchase **110 million dollars** of Cadence shares in **Q1**.
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 year of strong operating results, achieving 50 percent on the ‘Rule of 40’ metric for the very first time.

- We remain focused on driving profitable revenue growth and at the midpoint of our outlook for fiscal 2021, I’m pleased that we are on track to grow our annual revenue by over $1 billion dollars since 2016, with more than 50 cents of every dollar of revenue growth dropping through to non-GAAP operating margin over that period.
- 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 continue to be our first priority.

And with that, operator, we will 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 going into 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.
- We excelled in a challenging year thanks to the deep partnership with our customers and partners, and the strong commitment of the outstanding Cadence Team.
And lastly, on behalf of all our employees and our Board of Directors, we give our heartfelt thanks to all those on the front lines, who continue to work tirelessly in their efforts to put this pandemic behind us.

Thank you all for joining us this afternoon.