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, 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 outstanding financial results for 2021, as we exceeded our original growth targets, achieving 11 percent revenue growth, 37 percent non-GAAP operating margin and operating cash flow of over $1 billion.

Generational trends such as 5G, hyperscale computing, and AI/ML are propelling the digital transformation of multiple end markets and fueling a golden era for semiconductors and electronic systems. With robust design activity providing a strong tailwind, we expect our innovative solutions to continue driving broad based business momentum in 2022, accelerating revenue growth and profitability. John will provide more details in a moment.

Our Intelligent System Design strategy triples our Total Available Market, and our compelling portfolio of chip, package, board and system design solutions leveraging our computational software expertise, uniquely positions us to capture a wide range of exciting opportunities.

During the year, we significantly expanded our core EDA and IP solutions footprint at market shaping customers, as new customers accelerated their adoption of our expanding systems portfolio. We deepened our partnerships with leading foundry, IP and cloud service providers and launched key strategic collaboration initiatives.

Earlier today we announced an exciting strategic partnership with Dassault Systèmes that brings together Cadence’s Allegro and Dassault’s 3DEXPERIENCE platforms to provide virtual twin experiences for optimizing the entire value chain for electromechanical systems modeling, design, simulation and product lifecycle management.

Central to our strategy is our relentless commitment to innovation, and in 2021 we introduced 13 significant, differentiated products across our business groups, that will be key to our future growth.

Now let’s talk about some of the product highlights for both Q4 and 2021.
Our digital and signoff business had another strong year with 10 percent revenue growth.

- Deployment of our digital full flow, delivering industry leading quality of results at the most advanced nodes, continued to accelerate as more than 45 additional customers adopted it during the year.

- In 2021 we strengthened our relationship with OPPO, a leading mobile phone manufacturer in China, with our digital full flow and an expansion of our systems design and analysis products.

- We expanded our relationship with Socionext, who used our digital full flow delivering the best quality of results to successfully tape out several advanced node automotive and hyperscaler designs.

Our transformative Cadence Cerebrus solution incorporates sophisticated ML technologies to explore the entire design space and intelligently optimize the digital full flow in a completely automated manner. Several leading customers are increasingly deploying Cadence Cerebrus in production designs and gaining exceptional power, performance, area and productivity benefits including:

- A market shaping U.S automotive company that reduced the power consumption of a critical 5-nanometer SoC AI block by nearly 10 percent in just 2 weeks.

- Additionally, a premier Asia Pacific systems company reduced power of their 4-nanometer design by ten percent with one-tenth the effort of manual optimization, and then applied the Cadence Cerebrus trained ML model to other designs, further improving their power and productivity.

- And Cadence Cerebrus enabled a marquee US semiconductor company to tapeout their next generation SoC with a 5x productivity improvement on several critical blocks.

Rapidly escalating system verification and software bring-up challenges continued to drive heavy demand for our Verification full flow solutions, delivering industry leading verification throughput. Our Verification business grew 20 percent year-over-year, fueled by a record year for hardware.
• Our next generation Palladium Z2 and Protium X2 platforms provide best in class solutions to address system verification and software bring-up challenges of complex multi-billion gate designs.

• Demand for these platforms, that were launched earlier last year, has greatly exceeded our expectations as customers quickly embraced their superior performance, capacity and debug capabilities.

• The compelling value offered by the common front-end compiler led to more than half of our customers purchasing both the Palladium as well as the Protium platforms during the year.

• Our hardware family added over thirty new customers and over a hundred repeat orders during the year, with particular strength seen in the hyperscale, mobile, and networking verticals.

• Our Verification software products, which include the Xcelium logic simulator and Jasper formal verification platform continued to proliferate, with Jasper having an exceptional year, adding over 40 new customers, with particular strength in compute and hyperscale.

Today’s complex memory and mixed signal, high frequency SoC designs underscore the need for high performance and very accurate circuit simulations. Our Spectre platform has been the long standing leading simulation solution for analog and RF designs, and now with the recent addition of Spectre FX, our next generation FastSPICE simulator for memory and large SoC designs, we provide the industry’s most advanced, comprehensive cross-domain simulation platform. Several leading customers have already deployed SpectreFX on their production designs, such as:

• SK Hynix has successfully evaluated and deployed the Spectre FX FastSPICE simulation solution to improve their design methodology and productivity in DRAM verification.

• And, Micron adopted Spectre FX simulator as it gave very compelling FastSPICE simulation performance for accurate verification of their DRAM and Flash designs.
In 2021, our IP business grew in multiple vertical markets, including mobile, 5G, hyperscale and automotive.

- Our leadership DDR and PCIe IP products continued to proliferate at the 5-nanometer and lower process nodes and our design IP portfolio had several wins at top customers, including a significant expansion at a marquee US semiconductor company.

- Our Tensilica DSP portfolio continued expanding its footprint in audio, imaging, computer vision and machine learning applications, and during the year we launched the Tensilica AI Platform delivering scalable and energy-efficient on-device to edge AI processing.

Rising system complexity for advanced 5G, automotive and HPC applications is driving the need for a seamless platform solution across design, simulation and analysis. Our System Design & Analysis business, that is driving our expansion beyond EDA, continued its strong momentum delivering 18 percent year-over-year growth.

- There is rapidly growing demand for sophisticated multi-die integration packaging solutions and our revolutionary Integrity 3D-IC solution, providing tightly integrated system planning, implementation and analysis technologies, has been gaining strong customer traction. Our Integrity 3D-IC platform was recognized at TSMC’s OIP Ecosystem Forum by winning Partner of the Year award for Joint Development of 3DFabric Design Solutions as well as winning a Customer Choice Award for 3D-IC Design.

- Last year we furthered our System Analysis strategy of building out a disruptive comprehensive multi-physics platform, by expanding into the CFD domain through the acquisitions of NUMECA and Pointwise. The integration has gone well, and we’ve added nearly a hundred new logos including competitive wins across multiple end markets, notably in Aerospace & Defense.

- We expanded our collaboration with Schneider Electric, a leader in the digital transformation of energy management and industrial automation, as they standardized on our Allegro X platform for PCB design, as well as adopting our Clarity solution for systems analysis.
In Q4 we significantly strengthened our partnership with ADI, with a wide-ranging expansion of our EDA products along with the deployment of our systems design and analysis solutions which will enable them to develop more complete, end-to-end solutions for their customers.

And, Butterfly Network leveraged our Clarity 3D Solver for an advanced mobile ultrasound design.

Lastly, usage of our Cadence Cloud portfolio continued to scale, with over 250 customers using our solutions in the cloud. Cadence cloud-ready products are enabling our customers to realize meaningful scalability, performance and productivity benefits through the availability of several flexible use models.

Now I will turn it over to John to provide more details on the Q4 results and our 2022 outlook.

Prepared Remarks of John Wall, senior vice president and CFO

Thanks Anirudh, and good afternoon everyone.

I am pleased to report we exceeded all of our key operating metrics for the fourth quarter and fiscal year 2021. The underlying strength in demand, for our essential technology and solutions, continues to drive consistent growth across the business. A strong finish to 2021, combined with our relentless focus on innovation, customer success, an inclusive employee culture, and continued execution, helped Cadence to achieve:

- Revenue growth of 11 percent, and
- A fifth consecutive year of non-GAAP incremental margin of greater than 50 percent, which contributed to
- An increase in our operating cash flow to $1.1 billion for the year.

Here are some highlights from the fourth quarter and the year, starting with the P&L:

- Total revenue was $773 million for the quarter and $2.988 billion for the year,
- Non-GAAP operating margin was approximately 36 percent for the quarter and 37 percent for the year,
• GAAP EPS was 63 cents for the quarter and $2.50 for the year, and  
• Non-GAAP EPS was 82 cents for the quarter and $3.29 for the year.

Next, turning to the balance sheet and cash flow:
• Our cash balance was $1.09 billion at year-end, while the principal value of debt outstanding was $350 million,
• Operating cash flow in the fourth quarter was $216 million and $1.10 billion for the full year,
• DSOs were 40 days, and
• We repurchased $612 million of Cadence shares during the year.

Before I provide commentary for Q1 and fiscal 2022, I’d like to take a moment to share the assumptions embedded in our outlook.
• Our outlook assumes a non-GAAP tax rate of 17.5 percent.
• At the midpoint of our 2022 outlook, we are assuming our annual up-front revenue percentage will increase slightly from 2021 to 2022. This is primarily due to higher up-front revenue in Q1 resulting from a very strong hardware bookings finish to 2021.
• And finally, our outlook assumes that the export limitations that exist today will remain in place for all of 2022.

Embedding these assumptions into our outlook for fiscal 2022, we expect:
• Revenue in the range of $3.32 to $3.38 billion,
• Non-GAAP operating margin of 37.5 to 39 percent,
• GAAP EPS in the range of $2.46 to $2.56,
• Non-GAAP EPS in the range of $3.70 to $3.80,
• Operating cash flow in the range of $1.15 to $1.25 billion, and
• We expect to use at least 50 percent of our free cash flow to repurchase Cadence shares in 2022.
For Q1 2022 we expect:

- Revenue in the range of $850 to $870 million,
- Non-GAAP operating margin of 40 to 41 percent,
- GAAP EPS in the range of $0.70 to $0.74,
- Non-GAAP EPS in the range of $1.00 to $1.04, and
- We expect to repurchase approximately $250 million 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, I would like to take a moment to acknowledge the entire Cadence team for continuously improving our 3-year revenue growth CAGR and delivering over 50% incremental margin for five years in a row. As a result of the compounding impact of all their efforts, I am pleased that, at the midpoint of our outlook, we expect revenue growth of 12% and over 38% non-GAAP operating margin for 2022. 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 as we enter 2022 with strong business momentum and a thriving semiconductor and systems industry offering tremendous market opportunities. Our Intelligent System Design strategy, relentless execution and customer-first mindset is driving accelerating growth as we continue expanding our portfolio with new innovative solutions. We are proud of the innovative and inclusive culture we have built at Cadence and are
grateful for the recognition we’ve received over the years. 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.