

CADENCE DESIGN SYSTEMS, INC.
Second Quarter 2022 Financial Results Conference Call
Prepared Remarks

Anirudh Devgan, president and chief executive officer
John Wall, senior vice president and chief financial officer

July 25, 2022
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 25, 2022 for the quarter ended July 2, 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.

Cadence delivered outstanding financial results for the second quarter, with accelerating broad-based demand for our innovative solutions driving double-digit growth across all our business groups. We beat our guidance on all key metrics and are significantly raising our financial outlook for the year, resulting in 17 percent year-over-year revenue growth as well as exceeding the Rule of 55. John will provide the details in a moment on both our Q2 results and the updated outlook for the year.

Generational trends such as 5G, hyperscale computing and autonomous vehicles, underpinned by AI/ML and data analytics are accelerating the digital transformation across multiple industries.

Notwithstanding the macroeconomic uncertainties, our customers continue relentlessly investing in their next generation innovation, with semiconductor companies benefiting from increasing silicon content, and system companies investing in building custom silicon. These exciting trends are fueling robust design activity and driving a strong, secular tailwind for our end-to-end core EDA solutions, IP and expanding systems portfolio.

In Q2 we significantly accelerated our Intelligent System Design growth strategy through the introduction of five new innovative products, as well as through the transformative OpenEye Scientific and Future Facilities acquisitions, that expand our TAM and position us well for future growth.

This morning we announced our intent to acquire OpenEye Scientific, a leader in the computational molecular design space. Over the past few years, we have successfully extended our multi-decade chip-level simulation expertise to the system level, first to finite element analysis and more recently to computational fluid dynamics. With OpenEye, we are now expanding into molecular modeling and simulation, an emerging area of growing interest as pharmaceutical and biotechnology companies accelerate their emphasis on software solutions for drug discovery.

The acquisition will allow us to leverage our solver and AI / ML leadership along with large data management infrastructure, to significantly enhance the speed and accuracy of biosimulations. This will drive disruptive innovation in the life science market through increasing the efficiency and

success rate of the traditionally long and complex drug discovery process. Additionally, OpenEye's market leading cloud-native SaaS platform can capitalize on our cloud expertise thereby benefiting highly computationally intensive biosimulations.

OpenEye's scientifically proven, innovative solutions are used by 19 of the top 20 pharma companies, including Pfizer and AstraZeneca, as well as leading biotech firms. And we excitedly look forward to Dr Anthony Nichols and the OpenEye team, with their deep science expertise and rich domain knowhow, joining Cadence.

During the quarter we also acquired Future Facilities, a pioneer in the datacenter digital twin space, that expands our CFD portfolio and extends it to datacenters. In addition to electronics cooling analysis, Future Facilities' innovative solutions enable customers such as HP Enterprise, Digital Realty and Equinix to optimize thermal and power efficiencies in the datacenter using physics-based 3D digital twins, thereby helping reduce their carbon footprint. We are excited to welcome Hassan Moezzi and his talented team to Cadence.

Now moving onto Q2 Product and Customer Highlights

A key element of our approach has been to partner closely with market shaping customers and win their confidence by providing leadership platform solutions built on best-in-class engines.

In Q2, we deepened our long-standing partnership with Samsung through a wide-ranging expansion of our core EDA, system software and hardware solutions.

And we are excited to have extended our collaboration with AMD, through a far-reaching commitment to our innovative core EDA, hardware, design IP and systems software solutions.

Demand for our core EDA software remained strong and broad-based. Our digital business had another strong quarter, with 14% year over year growth, fueled by key competitive displacements as well as significant expansions at several market shaping customers.

Adoption of our digital full flow, delivering industry leading quality of results at the most advanced nodes, continued to accelerate with close to 25 new wins in the first half of the year.

Our innovative, automated, and scalable Cadence Cerebrus solution with its unique self-learning capabilities, allows users to explore the entire design space and intelligently optimize the digital full flow to meet their aggressive PPA, schedule and productivity goals.

Cadence Cerebrus continues to see accelerating proliferation, especially with market shaping customers as they realize transformative results across a broad range of complex production designs and getting as much as 30 percent reduction in leakage power and up to 30x productivity improvements for design tasks ranging from Design-Technology Co-Optimization (DTCO), automated floorplan implementation, and final PPA push.

At our recent CadenceLIVE Silicon Valley user conference, several key customers including Intel, Nvidia, Broadcom, Samsung and Renesas presented their remarkable successes using Cadence Cerebrus.

Functional verification is becoming a key differentiator as we enable our customers to improve system quality and speed-up their time to market. In Q2, our business grew 13 percent year over year, led by strong growth in hardware and Jasper.

Strong secular demand for our industry leading Palladium Z2 and Protium X2 platforms, especially from hyperscale, AI/ML and server customers, led to our best Q2 ever for hardware. With 10 new customers and nearly 50 repeat customers, more than two-third of the orders during the quarter included both the platforms.

Our IP business had a very good quarter growing 30% year over year as the continuing IP outsourcing trend drove strong design and foundry activity for our star IP, especially at the advanced process nodes.

Our leading DDR IP solutions continued to proliferate strongly, especially at hyperscaler and memory customers, while our PCIe portfolio had significant wins with compute and automotive companies.

Tensilica continued to expand its footprint in true wireless stereo and Bluetooth headsets, and had notable wins in automotive, mobile and AR / VR end markets.

Our System Design & Analysis business that is driving our expansion beyond EDA, continued its strong momentum in Q2 delivering 29% year over year growth as we increased our footprint in several verticals including high tech electronics, Hyperscalers, Aerospace & Defense and 5G Communications.

In Q2, Ciena, a leader in “Intelligent Networking”, adopted our advanced node custom design, photonics, multiphysics analysis and 2.5D / 3D packaging solutions for their next generation coherent optical solutions.

Exploding design complexity coupled with rising product development time and costs, is driving the need for innovative packaging solutions that can enable heterogenous integration in a modular manner. We are seeing accelerating growth for our Integrity 3D-IC solution, which is the industry’s only comprehensive platform with all in-house technology, that provides a truly tightly integrated, optimized solution across system level floor planning, implementation, packaging and system analysis.

Our System Analysis portfolio delivering disruptive performance and capacity benefits without compromising accuracy, is proliferating nicely with both semiconductor and systems customers.

For example, in addition to multiple repeat orders, Clarity 3D Solver was adopted by several leading companies, including a marquee US semiconductor company, a market leading US company providing RF and mobile communications chips and a global marquee hyperscaler.

We also announced a new, multi-year partnership with McLaren Racing, who will use our Fidelity CFD software to investigate airflow.

We are also very excited to have introduced Optimality Explorer, which brings the revolutionary AI technology implemented in Cadence Cerebrus to the systems space for the first time. This solution enables the delivery of optimized designs about 10X faster on average than traditional manual methods, with up to a 100X speedup having been seen on some designs. Optimality is quickly ramping up with early adopter customers as they realize these compelling results, with Microsoft, MediaTek, Baidu and Ambarella having provided strong endorsements for the product.

As we innovate on our systems technologies, we are also enhancing our go-to-market strategy. In Q2, we launched our transformational OnCloud SaaS and e-Commerce Platform, a scalable solution offering instant access and flexible use models for companies adopting a “cloud-first” approach. This new e-commerce platform is an industry first and offers a consumption-based use model that’s built upon the well-established Cadence Cloudburst SaaS platform. Several customers including Bombardier, Cisco, and Amazon Web Services have endorsed the significance of this game-changing platform.

To summarize, semiconductor and systems companies are relentlessly investing to accelerate their innovation, and this continues to drive secular tailwinds for our business. Q2 was an outstanding quarter as we raised the financial outlook for the year, while advancing our Intelligent System Design strategy and setting us up well for future growth, by expanding into new end markets with our OpenEye and Future Facilities acquisitions.

Now I will turn it over to John to provide more details on the Q2 results and our updated 2022 outlook.

Prepared Remarks of John Wall, senior vice president and CFO

Good afternoon everyone. Cadence achieved strong results for the second quarter of 2022, driven by broad-based strength across our technology portfolio. All of our product categories saw double-digit year-over-year revenue growth, and we exceeded all key financial and operational metrics in Q2.

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

- Total revenue was \$858 million,
- GAAP operating margin was 33% and Non-GAAP operating margin was 42%,
- GAAP EPS was \$0.68 and Non-GAAP EPS was \$1.08,
- Operating cash flow was \$325 million,
- We used \$350 million of cash to repurchase Cadence shares, and
- At the end of the quarter, our cash balance totaled \$1.03 billion while the principal value of debt outstanding was \$350 million.

Before I provide our updated outlook for fiscal 2022, and what we expect for Q3, I'd like to take a moment to share certain key assumptions embedded in our outlook.

- We assume the export limitations that exist today will remain in place for the rest of the year.
- We have included the expected impact of both the Future Facilities and OpenEye acquisitions.
- At the mid-point of our fiscal 2022 outlook, we have included the following for these acquisitions:
 - Revenue of \$15 million, and
 - An operating cash outflow of \$60 million, largely due to our expectation that some of the price paid for these acquisitions will flow through operating cash in the second half.

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

- Revenue in the range of \$3.47 to \$3.51 billion,
- GAAP operating margin of in the range of 29.25 to 30.25%,
- Non-GAAP operating margin of approximately 39.25 to 40.25%,
- GAAP EPS in the range of \$2.59 to \$2.65,
- Non-GAAP EPS in the range of \$4.06 to \$4.12,
- Operating cash flow of approximately \$1.2 billion, and
- We expect to use our free cash flow to repurchase approximately \$900 million of Cadence shares in 2022.

For Q3 we expect:

- Revenue in the range of \$860 to \$880 million,
- GAAP operating margin in the range of 26 to 27%,
- Non-GAAP operating margin of 37 to 38%,
- GAAP EPS in the range of 58 to 62 cents,
- Non-GAAP EPS in the range of 94 to 98 cents, and
- We expect to use approximately \$150 million of cash to repurchase Cadence shares in Q3.

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, 2022 is shaping up to be another strong year for all of our businesses at Cadence.

I am pleased that revenue growth and profitability continue to improve.

At the midpoint of our annual outlook, we now expect:

- Revenue growth of 16.8%,
- Non-GAAP operating margin of 39.75%, and
- Non-GAAP EPS growth of 24.3%.

As always, I'd like to close by thanking our customers, partners, and our employees.

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. On behalf of our employees and our Board of Directors, we thank our customers, partners, and investors for their continued trust and confidence in Cadence. We look forward to speaking with you again on our Q3 2022 earnings call. Thank you and have a great evening.