

# CADENCE REPORTS FOURTH QUARTER AND FISCAL YEAR 2021

CADENCE DESIGN SYSTEMS, INC.

## CFO COMMENTARY

### Key Takeaways

- Achieved revenue growth of 11% and non-GAAP operating margin of 37% in 2021.
- Operating cash flow for 2021 was \$1.1 billion.
- FY 2022 outlook projects revenue growth of approximately 12% and non-GAAP operating margin of 38.25%.

### FY 2022 Outlook

- Revenue: \$3.32 - \$3.38 billion.
- GAAP operating margin: 27.5% - 29%.
- Non-GAAP operating margin: 37.5% - 39%.
- GAAP EPS: \$2.46 - \$2.56
- Non-GAAP EPS \$3.70 - \$3.80
- Operating cash flow: \$1.15 - \$1.25 billion.
- Expect to use at least 50% of free cash flow to repurchase Cadence shares for the year.

### Q1 2022 Outlook

- Revenue : \$850 - \$870 million.
- GAAP operating margin: 30% - 31%.
- Non-GAAP operating margin: 40% - 41%.
- GAAP EPS: \$0.70 - \$0.74
- Non-GAAP EPS: \$1.00 - \$1.04
- Expect to repurchase approximately \$250 million of Cadence shares in Q1.

### Financial Results Webcast

Our Q4 2021 financial results webcast will begin February 22, 2022 at 2:00 p.m. (Pacific). The webcast may be accessed at [www.cadence.com/cadence/investor\\_relations](http://www.cadence.com/cadence/investor_relations). An archive of the webcast will be available on February 22, 2022 until 5:00 p.m. (Pacific) on March 18, 2022.

### Q4 2021 KEY METRICS

- Revenue \$773 million
- GAAP operating margin 25%
- Non-GAAP operating margin 36%
- GAAP EPS \$0.63
- Non-GAAP EPS \$0.82
- Operating cash flow \$216 million

### FY 2021 KEY METRICS

- Revenue \$2.988 billion
- GAAP operating margin 26%
- Non-GAAP operating margin 37%
- GAAP EPS \$2.50
- Non-GAAP EPS \$3.29
- Operating cash flow \$1.101 billion

**Financial Metrics**

| (In Millions, except per share data)        | 2016            | 2017*           | 2018            | 2019            | 2020*           | 2021            | 2022E                  |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------------|
| Revenue                                     | \$ 1,816        | \$ 1,943        | \$ 2,138        | \$ 2,336        | \$ 2,683        | \$ 2,988        | \$3,320- \$3,380       |
| Revenue growth*                             | 7%              | 7%              | 10%             | 9%              | 15%             | 11%             | 11% - 13%              |
| 3-year CAGR                                 | 8%              | 7%              | 8%              | 9%              | 11%             | 12%             | ~13%                   |
| 3-year CAGR without 53rd week impact        |                 | 8%              |                 |                 | 11%             |                 |                        |
| <b>GAAP operating expenses</b>              | <b>\$ 1,571</b> | <b>\$ 1,619</b> | <b>\$ 1,742</b> | <b>\$ 1,845</b> | <b>\$ 2,037</b> | <b>\$ 2,209</b> | <b>~\$2,397</b>        |
| Non-GAAP operating expenses                 | \$ 1,348        | \$ 1,409        | \$ 1,491        | \$ 1,587        | \$ 1,739        | \$ 1,877        | ~\$2,069               |
| Non-GAAP operating expense growth           |                 | 5%              | 6%              | 6%              | 10%             | 8%              | ~10%                   |
| <b>GAAP operating margin</b>                | <b>13%</b>      | <b>17%</b>      | <b>19%</b>      | <b>21%</b>      | <b>24%</b>      | <b>26%</b>      |                        |
| <b>Implied GAAP operating margin**</b>      |                 |                 |                 |                 |                 |                 | <b>28.25%</b>          |
| Non-GAAP operating margin                   | 26%             | 28%             | 30%             | 32%             | 35%             | 37%             |                        |
| Implied Non-GAAP operating margin**         |                 |                 |                 |                 |                 |                 | 38.25%                 |
| <b>GAAP earnings per share</b>              | <b>\$ 0.70</b>  | <b>\$ 0.73</b>  | <b>\$ 1.23</b>  | <b>\$ 3.53</b>  | <b>\$ 2.11</b>  | <b>\$ 2.50</b>  | <b>\$2.46 - \$2.56</b> |
| Non-GAAP earning per share                  | \$ 1.21         | \$ 1.40         | \$ 1.87         | \$ 2.20         | \$ 2.80         | \$ 3.29         | \$3.70 - \$3.80        |
| Weighted average shares diluted outstanding | 291.3           | 280.2           | 281.1           | 280.5           | 279.6           | 278.9           | 277 - 279              |
| Cash flow from operations                   | 445             | 471             | 605             | 730             | 905             | 1,101           | \$1,150 - \$1,250      |
| Capital expenditures                        | 54              | 58              | 62              | 75              | 95              | 65              | ~\$125                 |

\* Fiscal 2014 and 2020 were 53-week years, compared to all other years which are 52 week years. 2020 included approximately \$45 million revenue impact for the extra week. 2014 revenue (which impacts the 3 year CAGR in 2017) included approximately \$27 million revenue impact for the extra week.

\*\* At midpoint of guidance.

**Profitability Trends**

| (In Millions)   | 2016          | 2017          | 2018          | 2019          | 2020          | 2021            | 2022E           |
|---|---------------|---------------|---------------|---------------|---------------|-----------------|-----------------|
| Revenue   | \$ 1,816      | \$ 1,943      | \$ 2,138      | \$ 2,336      | \$ 2,683      | \$ 2,988        | \$ 3,350        |
| Revenue Growth  | 7%            | 7%            | 10%           | 9%            | 15%           | 11%             | ~12%            |
| 3-Year Revenue Growth CAGR                                      | 8%            | 7%            | 8%            | 9%            | 11%           | 12%             | ~13%            |
| Non-GAAP operating margin                                       | 26%           | 28%           | 30%           | 32%           | 35%           | 37%             | 37.5% - 39%     |
| Stock-based compensation  | (6)%          | (7)%          | (8)%          | (8)%          | (7)%          | (7)%            | ~(8)%           |
| Non-GAAP operating margin adjusted for stock-based compensation | 20%           | 21%           | 22%           | 24%           | 28%           | 30%             | 29.5% - 31%     |
| <b>Non-GAAP operating income</b>                                | <b>\$ 469</b> | <b>\$ 534</b> | <b>\$ 647</b> | <b>\$ 749</b> | <b>\$ 944</b> | <b>\$ 1,111</b> | <b>\$ 1,281</b> |
| Non-GAAP operating income adjusted for stock-based compensation | \$ 360        | \$ 404        | \$ 479        | \$ 567        | \$ 747        | \$ 901          | \$ 1,013        |

## First Quarter 2022 Financial Outlook

|                              | Q1 2021        | Q4 2021        | Q1 2022E               |
|------------------------------|----------------|----------------|------------------------|
| Total Revenue (\$ Millions)  | \$ 736         | \$ 773         | \$850 - \$870          |
| Q/Q Growth                   |                | 3%             | 10% - 13%              |
| Y/Y Growth                   |                | 2%             | 15% - 18%              |
| <b>GAAP Operating Margin</b> | <b>28%</b>     | <b>25%</b>     | <b>30% - 31%</b>       |
| Non-GAAP Operating Margin    | 38%            | 36%            | 40% - 41%              |
| <b>GAAP EPS</b>              | <b>\$ 0.67</b> | <b>\$ 0.63</b> | <b>\$0.70 - \$0.74</b> |
| Non-GAAP EPS                 | \$ 0.83        | \$ 0.82        | \$1.00 - \$1.04        |
| Q/Q Growth                   |                | 3%             | 22% -27%               |
| Y/Y Growth                   |                | (1)%           | 20% -25%               |

## Fiscal Year 2022 Financial Outlook

|  | FY 2021        | FY 2022E               |
|--|----------------|------------------------|
| Recurring Revenue                                      | 85% - 90%      | 85% - 90%              |
| Total Revenue (\$ Millions)                            | \$ 2,988       | \$3,320 - \$3,380      |
| Y/Y Growth*  | 11%            | 11% - 13%              |
| Revenue from Beginning Backlog                         | ~70%           | ~75%                   |
| <b>GAAP Operating Margin</b>                           | <b>26.1%</b>   | <b>27.5% - 29%</b>     |
| Non-GAAP Operating Margin                              | 37.2%          | 37.5% - 39%            |
| <b>GAAP Other Income &amp; Expense (\$ Millions)</b>   | <b>\$ (11)</b> | <b>\$(15) - \$(23)</b> |
| Non-GAAP Other Income & Expense (\$ Millions)          | \$ (17)        | \$(15) - \$(23)        |
| <b>GAAP Tax Rate</b>                                   | <b>9%</b>      | <b>~25%</b>            |
| Non-GAAP Tax Rate                                      | 16%            | 17.5%                  |
| Weighted Average Diluted Shares Outstanding (Millions) | 278.9          | 277 - 279              |
| <b>GAAP EPS</b>  | <b>\$ 2.50</b> | <b>\$2.46 - \$2.56</b> |
| Non-GAAP EPS   | \$ 3.29        | \$3.70 - \$3.80        |
| Y/Y Growth   | 18%            | 12% - 16%              |
| Cash Flow from Operations (\$ Millions)                | \$ 1,101       | \$1,150 - \$1,250      |
| DSO  | 40             | ~45                    |
| Capital Expenditures (\$ Millions)                     | \$ 65          | ~\$125                 |

## Fourth Quarter and Fiscal Year Financial Results

### Backlog

| (In Billions) | 2018   | 2019   | 2020   | 2021   |
|---------------|--------|--------|--------|--------|
| Backlog       | \$ 3.0 | \$ 3.6 | \$ 3.9 | \$ 4.4 |

### Revenue

| (In Millions)           | Q4 2020* | Q1 2021 | Q2 2021 | Q3 2021 | Q4 2021 |
|-------------------------|----------|---------|---------|---------|---------|
| Product and Maintenance | \$ 723   | \$ 699  | \$ 688  | \$ 706  | \$ 720  |
| Services                | 37       | 37      | 40      | 45      | 53      |
| Total Revenue           | \$ 760   | \$ 736  | \$ 728  | \$ 751  | \$ 773  |

\* Q4 2020 was a 14-week quarter.

| (In Millions)           | 2018     | 2019     | 2020*    | 2021     |
|-------------------------|----------|----------|----------|----------|
| Product and Maintenance | \$ 1,998 | \$ 2,204 | \$ 2,537 | \$ 2,813 |
| Services                | 140      | 132      | 146      | 175      |
| Total Revenue           | \$ 2,138 | \$ 2,336 | \$ 2,683 | \$ 2,988 |

\* Fiscal 2020 was a 53-week year.

### Revenue Mix by Geography

| (% of Total Revenue)           | Q4 2020 | Q1 2021 | Q2 2021 | Q3 2021 | Q4 2021 |
|--------------------------------|---------|---------|---------|---------|---------|
| Americas                       | 41 %    | 46 %    | 44 %    | 46 %    | 43 %    |
| China                          | 17 %    | 12 %    | 14 %    | 13 %    | 12 %    |
| Other Asia                     | 18 %    | 18 %    | 19 %    | 18 %    | 21 %    |
| Europe, Middle East and Africa | 17 %    | 18 %    | 17 %    | 17 %    | 18 %    |
| Japan                          | 7 %     | 6 %     | 6 %     | 6 %     | 6 %     |
| Total                          | 100 %   | 100 %   | 100 %   | 100 %   | 100 %   |

| (% of Total Revenue)           | 2018  | 2019  | 2020  | 2021  |
|--------------------------------|-------|-------|-------|-------|
| Americas                       | 45 %  | 44 %  | 42 %  | 45 %  |
| China                          | 10 %  | 10 %  | 15 %  | 13 %  |
| Other Asia                     | 18 %  | 20 %  | 18 %  | 19 %  |
| Europe, Middle East and Africa | 19 %  | 18 %  | 18 %  | 17 %  |
| Japan                          | 8 %   | 8 %   | 7 %   | 6 %   |
| Total                          | 100 % | 100 % | 100 % | 100 % |

## Revenue Mix by Product Category

| (% of Total Revenue)            | Q4 2020 | Q1 2021 | Q2 2021 | Q3 2021 | Q4 2021 |
|---------------------------------|---------|---------|---------|---------|---------|
| Custom IC Design and Simulation | 26 %    | 23 %    | 23 %    | 23 %    | 24 %    |
| Digital IC Design and Signoff   | 31 %    | 27 %    | 28 %    | 29 %    | 29 %    |
| Functional Verification         | 19 %    | 26 %    | 25 %    | 23 %    | 21 %    |
| IP                              | 13 %    | 14 %    | 13 %    | 14 %    | 14 %    |
| System Design and Analysis      | 11 %    | 10 %    | 11 %    | 11 %    | 12 %    |
| Total                           | 100 %   | 100 %   | 100 %   | 100 %   | 100 %   |

| (% of Total Revenue)            | 2018  | 2019  | 2020  | 2021  |
|---------------------------------|-------|-------|-------|-------|
| Custom IC Design and Simulation | 26 %  | 25 %  | 25 %  | 23 %  |
| Digital IC Design and Signoff   | 29 %  | 30 %  | 29 %  | 29 %  |
| Functional Verification         | 24 %  | 23 %  | 22 %  | 24 %  |
| IP                              | 12 %  | 13 %  | 14 %  | 13 %  |
| System Design and Analysis      | 9 %   | 9 %   | 10 %  | 11 %  |
| Total                           | 100 % | 100 % | 100 % | 100 % |

## 3 Year Revenue CAGR by Product Category

| (% of Total Revenue)            | 2018 | 2019 | 2020 | 2021 |
|---------------------------------|------|------|------|------|
| Custom IC Design and Simulation | 7 %  | 9 %  | 9 %  | 8 %  |
| Digital IC Design and Signoff   | 9 %  | 10 % | 11 % | 11 % |
| Functional Verification         | 10 % | 5 %  | 11 % | 11 % |
| IP                              | 8 %  | 16 % | 18 % | 16 % |
| System Design and Analysis      | 3 %  | 7 %  | 13 % | 19 % |
| Total 3 Year CAGR               | 8 %  | 9 %  | 11 % | 12 % |

## 3 Year Revenue CAGR by Product Category Without 53rd Week Impact\*

| (% of Total Revenue)            | 2018 | 2019 | 2020 | 2021 |
|---------------------------------|------|------|------|------|
| Custom IC Design and Simulation | 7 %  | 9 %  | 8 %  | 8 %  |
| Digital IC Design and Signoff   | 9 %  | 10 % | 10 % | 11 % |
| Functional Verification         | 10 % | 5 %  | 10 % | 11 % |
| IP                              | 8 %  | 16 % | 18 % | 16 % |
| System Design and Analysis      | 3 %  | 7 %  | 12 % | 19 % |
| Total 3 Year CAGR               | 8 %  | 9 %  | 11 % | 12 % |

\* Fiscal 2020 was a 53-week year and included approximately \$45 million revenue impact for the extra week.

## Gross Margin

|                          | Q4 2020       | Q1 2021       | Q2 2021       | Q3 2021       | Q4 2021       |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>GAAP Gross Margin</b> | <b>90.3 %</b> | <b>88.6 %</b> | <b>89.5 %</b> | <b>89.8 %</b> | <b>91.0 %</b> |
| Non-GAAP Gross Margin    | 92.2 %        | 90.4 %        | 91.8 %        | 91.6 %        | 92.7 %        |

|                          | 2018          | 2019          | 2020          | 2021          |
|--------------------------|---------------|---------------|---------------|---------------|
| <b>GAAP Gross Margin</b> | <b>87.9 %</b> | <b>88.6 %</b> | <b>88.6 %</b> | <b>89.7 %</b> |
| Non-GAAP Gross Margin    | 90.0 %        | 90.6 %        | 90.6 %        | 91.7 %        |

## Total Costs and Expenses

| (In Millions)                        | Q4 2020*      | Q1 2021       | Q2 2021       | Q3 2021       | Q4 2021       |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Total GAAP Costs and Expenses</b> | <b>\$ 575</b> | <b>\$ 532</b> | <b>\$ 543</b> | <b>\$ 557</b> | <b>\$ 577</b> |
| Total Non-GAAP Costs and Expenses    | \$ 478        | \$ 456        | \$ 441        | \$ 483        | \$ 498        |

\* Q4 2020 was a 14-week quarter.

| (In Millions)                        | 2018            | 2019            | 2020*           | 2021            |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|
| <b>Total GAAP Costs and Expenses</b> | <b>\$ 1,742</b> | <b>\$ 1,845</b> | <b>\$ 2,037</b> | <b>\$ 2,209</b> |
| Total Non-GAAP Costs and Expenses    | \$ 1,491        | \$ 1,587        | \$ 1,739        | \$ 1,877        |

\* Fiscal 2020 was a 53-week year.

## Operating Margin

|                              | Q4 2020       | Q1 2021       | Q2 2021       | Q3 2021       | Q4 2021       |
|------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>GAAP Operating Margin</b> | <b>24.3 %</b> | <b>27.7 %</b> | <b>25.5 %</b> | <b>25.8 %</b> | <b>25.3 %</b> |
| Non-GAAP Operating Margin    | 37.1 %        | 38.1 %        | 39.5 %        | 35.7 %        | 35.5 %        |

|                              | 2018          | 2019          | 2020          | 2021          |
|------------------------------|---------------|---------------|---------------|---------------|
| <b>GAAP Operating Margin</b> | <b>18.5 %</b> | <b>21.1 %</b> | <b>24.1 %</b> | <b>26.1 %</b> |
| Non-GAAP Operating Margin    | 30.2 %        | 32.1 %        | 35.2 %        | 37.2 %        |

## Earnings Per Share

|                                  | Q4 2020        | Q1 2021        | Q2 2021        | Q3 2021        | Q4 2021        |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>GAAP Net Income Per Share</b> | <b>\$ 0.62</b> | <b>\$ 0.67</b> | <b>\$ 0.56</b> | <b>\$ 0.63</b> | <b>\$ 0.63</b> |
| Non-GAAP Net Income Per Share    | \$ 0.83        | \$ 0.83        | \$ 0.86        | \$ 0.80        | \$ 0.82        |

|                                  | 2018           | 2019           | 2020           | 2021           |
|----------------------------------|----------------|----------------|----------------|----------------|
| <b>GAAP Net Income Per Share</b> | <b>\$ 1.23</b> | <b>\$ 3.53</b> | <b>\$ 2.11</b> | <b>\$ 2.50</b> |
| Non-GAAP Net Income Per Share    | \$ 1.87        | \$ 2.20        | \$ 2.80        | \$ 3.29        |

## Total DSO

|     | Q4 2020 | Q1 2021 | Q2 2021 | Q3 2021 | Q4 2021 |
|-----|---------|---------|---------|---------|---------|
| DSO | 44      | 48      | 49      | 40      | 40      |

**Balance Sheet and Cash Review****Free Cash Flow**

| <i>(In Millions)</i>               | <b>Q4 2020</b> | <b>Q1 2021</b> | <b>Q2 2021</b> | <b>Q3 2021</b> | <b>Q4 2021</b> |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Net Cash from Operating Activities | \$ 136         | \$ 208         | \$ 380         | \$ 296         | \$ 216         |
| Capital Expenditures               | 31             | 17             | 14             | 19             | 15             |
| Free Cash Flow                     | \$ 105         | \$ 191         | \$ 366         | \$ 277         | \$ 201         |

| <i>(In Millions)</i>               | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> | <b>2021</b> |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Net Cash from Operating Activities | \$ 471      | \$ 605      | \$ 730      | \$ 905      | \$ 1,101    |
| Capital Expenditures               | 58          | 62          | 75          | 95          | 65          |
| Free Cash Flow                     | \$ 413      | \$ 543      | \$ 655      | \$ 810      | \$ 1,036    |

**Cash and Cash Equivalents**

| <i>(In Millions)</i>      | <b>Q4 2020</b> | <b>Q1 2021</b> | <b>Q2 2021</b> | <b>Q3 2021</b> | <b>Q4 2021</b> |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash and Cash Equivalents | \$ 928         | \$ 743         | \$ 847         | \$ 1,014       | \$ 1,089       |

- Approximately 45 percent of our cash and cash equivalents were in the U.S. at quarter-end.

| <i>(In Millions)</i>      | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> | <b>2021</b> |
|---------------------------|-------------|-------------|-------------|-------------|-------------|
| Cash and Cash Equivalents | \$ 688      | \$ 533      | \$ 705      | \$ 928      | \$ 1,089    |

**Share Repurchase**

| <i>(In Millions, Except Share Price)</i> | <b>Q4 2020</b> | <b>Q1 2021</b> | <b>Q2 2021</b> | <b>Q3 2021</b> | <b>Q4 2021</b> |
|--|----------------|----------------|----------------|----------------|----------------|
| Share Repurchase                         | \$ 130         | \$ 172         | \$ 220         | \$ 110         | \$ 110         |
| Number of Shares                         | 1.123          | 1.323          | 1.720          | 0.723          | 0.635          |
| Average Share Price                      | \$ 115.78      | \$ 130.01      | \$ 127.91      | \$ 152.14      | \$ 173.22      |

| <i>(In Millions, Except Share Price)</i> | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> | <b>2021</b> |
|--|-------------|-------------|-------------|-------------|-------------|
| Share Repurchase                         | \$ 100      | \$ 250      | \$ 306      | \$ 380      | \$ 612      |
| Number of Shares                         | 2.495       | 5.934       | 4.841       | 4.247       | 4.401       |
| Average Share Price                      | \$ 40.09    | \$ 42.14    | \$ 63.24    | \$ 89.49    | \$ 139.14   |

**Employees**

|           | <b>Q4 2020</b> | <b>Q1 2021</b> | <b>Q2 2021</b> | <b>Q3 2021</b> | <b>Q4 2021</b> |
|-----------|----------------|----------------|----------------|----------------|----------------|
| Headcount | 8,746          | 8,990          | 9,092          | 9,257          | 9,298          |

|           | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> | <b>2021</b> |
|-----------|-------------|-------------|-------------|-------------|-------------|
| Headcount | 7,214       | 7,499       | 8,078       | 8,746       | 9,298       |

## Forward Looking Statements

The statements in this CFO Commentary contain forward-looking statements which are based on current expectations and preliminary assumptions that are subject to factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties and other factors, many of which are outside Cadence's control, including, among others: (i) Cadence's ability to compete successfully in the highly competitive industries in which it operates; (ii) the success of Cadence's efforts to maintain and improve operational efficiency and growth; (iii) the mix of products and services sold, the timing of orders and deliveries and the ability to develop, install or deliver Cadence's products or services; (iv) change in customer demands or supply constraints that could result in delays in purchases, development, installations or deliveries of Cadence's products or services, including those resulting from consolidation, restructurings and other operational efficiency improvements of Cadence's customers; (v) economic and industry conditions, including that of the semiconductor and electronics industries, government regulations and trade restrictions; (vi) capital expenditure requirements, legislative or regulatory requirements, changes in tax laws, interest rates, currency exchange rate fluctuations, inflation rates and Cadence's ability to access capital and debt markets; (vii) the acquisition of other companies or technologies or the failure to successfully integrate and operate them; (viii) events that affect cash flow, liquidity, or reserves, or settlement assumptions Cadence may take from time to time with respect to accounts receivable, taxes and tax examinations, litigation, regulatory or other matters; (ix) the effects of any litigation, regulatory or other proceedings to which Cadence is or may become a party; and (x) the duration, severity, volatility and effects of the COVID-19 pandemic and containment measures on Cadence, its employees, and its suppliers and customers, which may also have the effect of heightening the other risks described in this paragraph. In addition, the timing and amount of Cadence's repurchase of its common stock under the authorizations will be subject to business and market conditions, corporate and regulatory requirements, stock price, acquisition opportunities and other factors.

For a detailed discussion of these and other cautionary statements related to Cadence's business, please refer to Cadence's filings with the U.S. Securities and Exchange Commission, which include Cadence's most recent reports on Form 10-K and Form 10-Q, including Cadence's future filings.

## GAAP to Non-GAAP Reconciliation

Non-GAAP financial measures should not be considered as a substitute for or superior to measures of financial performance prepared in accordance with GAAP. Investors are encouraged to review the reconciliation of non-GAAP financial measures contained within this CFO Commentary with their most directly comparable GAAP financial results. Investors are also encouraged to look at the GAAP results as the best measure of financial performance. See our earnings press release issued today for further discussion of our non-GAAP financial measures, as well as the reconciliation provided in the Appendix to this CFO Commentary.

Cadence's management uses non-GAAP net income because it excludes items that are generally not directly related to the performance of the company's core business operations and therefore provides supplemental information to Cadence's management and investors regarding the performance of the business operations, facilitates comparisons to the historical operating results and allows the review of Cadence's business from the same perspective as Cadence's management, including forecasting and budgeting.

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## APPENDIX I

### Reconciliation of GAAP to Non-GAAP Financial Measures (Unaudited)

#### Reconciliation of GAAP Total Expenses to Non-GAAP Total Expenses

| <i>(In Millions)</i>                                   | Q4 2020*      | Q1 2021       | Q2 2021       | Q3 2021       | Q4 2021       |
|--|---------------|---------------|---------------|---------------|---------------|
| <b>GAAP total costs and expenses</b>                   | <b>\$ 575</b> | <b>\$ 532</b> | <b>\$ 543</b> | <b>\$ 557</b> | <b>\$ 577</b> |
| Reconciling items to non-GAAP total costs and expenses |               |               |               |               |               |
| Stock-based compensation expense                       | (59)          | (53)          | (50)          | (53)          | (54)          |
| Amortization of acquired intangibles                   | (17)          | (16)          | (17)          | (17)          | (17)          |
| Acquisition and integration-related costs              | (7)           | (5)           | (6)           | (5)           | (6)           |
| Restructuring  | (10)          | —             | —             | —             | —             |
| Non-qualified deferred compensation (expenses) credits | (4)           | (2)           | (2)           | 1             | (2)           |
| Special charges**                                      | —             | —             | (27)          | —             | —             |
| Non-GAAP total costs and expenses †                    | <u>\$ 478</u> | <u>\$ 456</u> | <u>\$ 441</u> | <u>\$ 483</u> | <u>\$ 498</u> |

\* Q4 2020 was a 14-week quarter.

\*\* Q2 2021 includes costs related to a voluntary retirement program.

† **The non-GAAP measures presented in the table above should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.**

#### Reconciliation of GAAP Total Expenses to Non-GAAP Total Expenses

| <i>(In Millions)</i>                                   | 2016           | 2017           | 2018           | 2019           | 2020*          | 2021           | 2022E          |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>GAAP total costs and expenses</b>                   | <b>\$1,571</b> | <b>\$1,619</b> | <b>\$1,742</b> | <b>\$1,845</b> | <b>\$2,037</b> | <b>\$2,209</b> | <b>\$2,397</b> |
| Reconciling items to non-GAAP total costs and expenses |                |                |                |                |                |                |                |
| Stock-based compensation expense                       | (109)          | (130)          | (168)          | (182)          | (197)          | (210)          | (268)          |
| Amortization of acquired intangibles                   | (60)           | (57)           | (53)           | (53)           | (64)           | (67)           | (52)           |
| Acquisition and integration-related costs              | (11)           | (8)            | (20)           | (8)            | (23)           | (23)           | (8)            |
| Restructuring  | (41)           | (9)            | (11)           | (9)            | (9)            | 1              | —              |
| Non-qualified deferred compensation (expenses) credits | (2)            | (6)            | 1              | (5)            | (5)            | (6)            | —              |
| Special charges **                                     | —              | —              | —              | (1)            | —              | (27)           | —              |
| Non-GAAP total costs and expenses †                    | <u>\$1,348</u> | <u>\$1,409</u> | <u>\$1,491</u> | <u>\$1,587</u> | <u>\$1,739</u> | <u>\$1,877</u> | <u>\$2,069</u> |

\* Fiscal 2020 was a 53-week year.

\*\* 2021 includes costs related to a voluntary retirement program.

† **The non-GAAP measures presented in the table above should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.**

### Reconciliation of GAAP Gross Margin as a Percent of Total Revenue to Non-GAAP Gross Margin as a Percent of Total Revenue

|  | Q4 2020      | Q1 2021      | Q2 2021      | Q3 2021      | Q4 2021      |
|--|--------------|--------------|--------------|--------------|--------------|
| <b>GAAP gross margin as a percent of total revenue</b>                   | <b>90.3%</b> | <b>88.6%</b> | <b>89.5%</b> | <b>89.8%</b> | <b>91.0%</b> |
| Reconciling items to non-GAAP gross margin as a percent of total revenue |              |              |              |              |              |
| Stock-based compensation expense   | 0.3%         | 0.2%         | 0.2%         | 0.3%         | 0.2%         |
| Amortization of acquired intangibles                                     | 1.6%         | 1.6%         | 1.7%         | 1.5%         | 1.5%         |
| Non-qualified deferred compensation expenses                             | 0.0%         | 0.0%         | 0.0%         | 0.0%         | 0.0%         |
| Special charges *  | 0.0%         | 0.0%         | 0.4%         | 0.0%         | 0.0%         |
| Non-GAAP gross margin as a percent of total revenue †                    | <u>92.2%</u> | <u>90.4%</u> | <u>91.8%</u> | <u>91.6%</u> | <u>92.7%</u> |

\* Q2 2021 includes costs related to a voluntary retirement program.

† **The non-GAAP measures presented in the table above should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.**

|  | 2018         | 2019         | 2020         | 2021         |
|--|--------------|--------------|--------------|--------------|
| <b>GAAP gross margin as a percent of total revenue</b>                   | <b>87.9%</b> | <b>88.6%</b> | <b>88.6%</b> | <b>89.7%</b> |
| Reconciling items to non-GAAP gross margin as a percent of total revenue |              |              |              |              |
| Stock-based compensation expense   | 0.3%         | 0.3%         | 0.3%         | 0.3%         |
| Amortization of acquired intangibles                                     | 1.8%         | 1.7%         | 1.7%         | 1.6%         |
| Non-qualified deferred compensation expenses                             | 0.0%         | 0.0%         | 0.0%         | 0.0%         |
| Special charges *  | 0.0%         | 0.0%         | 0.0%         | 0.1%         |
| Non-GAAP gross margin as a percent of total revenue †                    | <u>90.0%</u> | <u>90.6%</u> | <u>90.6%</u> | <u>91.7%</u> |

\* 2021 includes costs related to a voluntary retirement program.

† **The non-GAAP measures presented in the table above should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.**

## Reconciliation of GAAP Operating Margin as a Percent of Total Revenue to Non-GAAP Operating Margin as a Percent of Total Revenue

|  | Q4 2020    | Q1 2021    | Q2 2021    | Q3 2021    | Q4 2021    | Q1 2022E         |
|--|------------|------------|------------|------------|------------|------------------|
| <b>GAAP operating margin as a percent of total revenue</b>                   | <b>24%</b> | <b>28%</b> | <b>25%</b> | <b>26%</b> | <b>25%</b> | <b>30% - 31%</b> |
| Reconciling items to non-GAAP operating margin as a percent of total revenue |            |            |            |            |            |                  |
| Stock-based compensation expense   | 8%         | 7%         | 7%         | 7%         | 7%         | 7%               |
| Amortization of acquired intangibles   | 2%         | 2%         | 2%         | 2%         | 2%         | 2%               |
| Acquisition and integration-related costs                                    | 1%         | 1%         | 1%         | 1%         | 1%         | 1%               |
| Restructuring  | 1%         | 0%         | 0%         | 0%         | 0%         | 0%               |
| Non-qualified deferred compensation expenses (credits)                       | 1%         | 0%         | 0%         | 0%         | 1%         | 0%               |
| Special charges *  | 0%         | 0%         | 4%         | 0%         | 0%         | 0%               |
| Non-GAAP operating margin as a percent of total revenue †                    | <u>37%</u> | <u>38%</u> | <u>39%</u> | <u>36%</u> | <u>36%</u> | <u>40% - 41%</u> |

\* Q2 2021 includes costs related to a voluntary retirement program.

† The non-GAAP measures presented in the table above should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.

|  | 2016       | 2017       | 2018       | 2019       | 2020       | 2021       | 2022E              |
|--|------------|------------|------------|------------|------------|------------|--------------------|
| <b>GAAP operating margin as a percent of total revenue</b>                   | <b>13%</b> | <b>17%</b> | <b>19%</b> | <b>21%</b> | <b>24%</b> | <b>26%</b> | <b>27.5% - 29%</b> |
| Reconciling items to non-GAAP operating margin as a percent of total revenue |            |            |            |            |            |            |                    |
| Stock-based compensation expense   | 6%         | 7%         | 8%         | 8%         | 7%         | 7%         | 8%                 |
| Amortization of acquired intangibles   | 4%         | 3%         | 2%         | 2%         | 3%         | 2%         | 2%                 |
| Acquisition and integration-related costs                                    | 1%         | 0%         | 1%         | 0%         | 1%         | 1%         | 0%                 |
| Restructuring  | 2%         | 1%         | 0%         | 1%         | 0%         | 0%         | 0%                 |
| Non-qualified deferred compensation expenses (credits)                       | 0%         | 0%         | 0%         | 0%         | 0%         | 0%         | 0%                 |
| Special charges *  | 0%         | 0%         | 0%         | 0%         | 0%         | 1%         | 0%                 |
| Non-GAAP operating margin as a percent of total revenue †                    | <u>26%</u> | <u>28%</u> | <u>30%</u> | <u>32%</u> | <u>35%</u> | <u>37%</u> | <u>37.5% - 39%</u> |

\* 2021 includes costs related to a voluntary retirement program.

† The non-GAAP measures presented in the table above should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.

## Reconciliation of GAAP Diluted Net Income Per Share to Non-GAAP Diluted Net Income Per Share

| <i>(In Thousands, Except Per Share Data)</i>  | Q4 2020        | Q1 2021        | Q2 2021        | Q3 2021        | Q4 2021        | Q1 2022E               |
|---|----------------|----------------|----------------|----------------|----------------|------------------------|
| <b>Diluted net income per share on a GAAP basis</b>   | <b>\$ 0.62</b> | <b>\$ 0.67</b> | <b>\$ 0.56</b> | <b>\$ 0.63</b> | <b>\$ 0.63</b> | <b>\$0.70 - \$0.74</b> |
| Stock-based compensation expense  | 0.21           | 0.19           | 0.18           | 0.19           | 0.20           | 0.22                   |
| Amortization of acquired intangibles  | 0.06           | 0.06           | 0.06           | 0.06           | 0.06           | 0.06                   |
| Acquisition and integration-related costs   | 0.02           | 0.02           | 0.02           | 0.02           | 0.02           | 0.01                   |
| Restructuring   | 0.04           | —              | —              | —              | —              | —                      |
| Non-qualified deferred compensation expenses (credits)  | 0.01           | —              | 0.01           | —              | 0.01           | —                      |
| Special charges *   | —              | —              | 0.10           | —              | —              | —                      |
| Other income or expense related to investments and non-qualified deferred compensation plan assets ** | (0.02)         | (0.01)         | (0.01)         | —              | (0.01)         | —                      |
| Income tax effect of non-GAAP adjustments   | (0.11)         | (0.10)         | (0.06)         | (0.10)         | (0.09)         | 0.01                   |
| Diluted net income per share on a non-GAAP basis †  | <u>\$ 0.83</u> | <u>\$ 0.83</u> | <u>\$ 0.86</u> | <u>\$ 0.80</u> | <u>\$ 0.82</u> | <u>\$1.00 - \$1.04</u> |
| Shares used in calculation of diluted net income per share  | 280,173        | 280,140        | 278,558        | 278,311        | 278,253        |                        |

† The non-GAAP measures presented in the table above should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.

\* Q2 2021 includes costs related to a voluntary retirement program.

\*\* Includes, as applicable, equity in losses or income from investments, write-down of investments, gains or losses on investments and gains or losses on non-qualified deferred compensation plan assets recorded in other income or expense.

## Reconciliation of GAAP Diluted Net Income Per Share to Non-GAAP Diluted Net Income Per Share

| (In Thousands, Except Per Share Data)  | 2016           | 2017           | 2018           | 2019           | 2020           | 2021           | 2022E                  |
|--|----------------|----------------|----------------|----------------|----------------|----------------|------------------------|
| <b>Diluted net income per share on a GAAP basis</b>  | <b>\$ 0.70</b> | <b>\$ 0.73</b> | <b>\$ 1.23</b> | <b>\$ 3.53</b> | <b>\$ 2.11</b> | <b>\$ 2.50</b> | <b>\$2.46 - \$2.56</b> |
| Stock-based compensation expense   | 0.37           | 0.46           | 0.60           | 0.65           | 0.71           | 0.75           | 0.97                   |
| Amortization of acquired intangibles   | 0.21           | 0.20           | 0.19           | 0.19           | 0.23           | 0.24           | 0.19                   |
| Acquisition and integration-related costs  | 0.04           | 0.03           | 0.07           | 0.03           | 0.08           | 0.08           | 0.03                   |
| Restructuring  | 0.14           | 0.03           | 0.04           | 0.03           | 0.03           | —              | —                      |
| Non-qualified deferred compensation expenses (credits)   | 0.01           | 0.02           | (0.01)         | 0.02           | 0.02           | 0.02           | —                      |
| Special charges*   | —              | —              | —              | —              | —              | 0.10           | —                      |
| Other income or expense related to investments and non-qualified deferred compensation plan assets** | (0.02)         | (0.05)         | —              | (0.01)         | —              | (0.03)         | —                      |
| Income tax benefit related to intercompany transfers of certain intellectual property rights         | —              | —              | —              | (2.05)         | —              | —              | —                      |
| Income tax related to transition tax   | —              | 0.24           | —              | —              | —              | —              | —                      |
| Income tax related to tax rate change  | —              | 0.09           | —              | —              | —              | —              | —                      |
| Income tax effect of non-GAAP adjustments  | (0.24)         | (0.35)         | (0.25)         | (0.19)         | (0.38)         | (0.37)         | 0.05                   |
| Diluted net income per share on a non-GAAP basis †   | <u>\$ 1.21</u> | <u>\$ 1.40</u> | <u>\$ 1.87</u> | <u>\$ 2.20</u> | <u>\$ 2.80</u> | <u>\$ 3.29</u> | <u>\$3.70 - \$3.80</u> |
| Shares used in calculation of diluted net income per share   | 291,256        | 280,221        | 281,144        | 280,515        | 279,641        | 278,858        | 277 - 279M             |

† The non-GAAP measures presented in the table above should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.

\* 2021 includes costs related to a voluntary retirement program.

\*\* Includes, as applicable, equity in losses or income from investments, write-down of investments, gains or losses on investments and gains or losses on non-qualified deferred compensation plan assets recorded in other income or expense.

## Reconciliation of GAAP Total Other Income and Expense to Non-GAAP Total Other Income and Expense

| (In Millions)   | FY 2020          | FY 2021          | FY 2022E               |
|---|------------------|------------------|------------------------|
| <b>GAAP total other income and expense</b>  | <b>\$ (12.8)</b> | <b>\$ (10.7)</b> | <b>\$(15) - \$(23)</b> |
| Reconciling items to non-GAAP total income and expense  |                  |                  |                        |
| Other income or expense related to investments and non-qualified deferred compensation plan assets* | (0.5)            | (6.7)            | —                      |
| Non-GAAP total other income and expense†  | <u>\$ (13.3)</u> | <u>\$ (17.4)</u> | <u>\$(15) - \$(23)</u> |

† The non-GAAP measures presented in the table above should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.

\* Includes, as applicable, equity in losses or income from investments, write-down of investments, gains or losses on investments and gains or losses on non-qualified deferred compensation plan assets recorded in other income or expense.