

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 February 13, 2023, 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 February 13, 2023, 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 fourth quarter of fiscal 2022, related financial tables and CFO Commentary which was included in our 8-K filing on February 13, 2023, 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 record results for 2022, as we exceeded our guidance yet again, achieving 19 percent revenue growth and over 40 percent non-GAAP operating margin. Cadence's innovative solutions are essential and especially relevant in the current environment, enabling customers to achieve their increasingly challenging design goals.

Secular megatrends such as 5G, hyperscale computing, and AI/ML that are driving sustained long-term semiconductor and system growth remain unchanged. Amid ongoing macroeconomic uncertainty, companies continue making significant investments in their next generation products, resulting in robust design activity.

We expect our pioneering solutions to continue fueling broad based business momentum in 2023, driving strong revenue growth and profitability. John will provide more details in a moment.

Our Intelligent System Design strategy greatly broadens our Total Available Market, and leading end-to-end EDA, IP, hardware, and expanding system analysis portfolio, uniquely position us to capture a wide range of market opportunities.

During the year, we introduced nine significant, innovative products across all of our business groups, and we expect these to be key drivers of our future growth.

The age of AI is upon us, and Cadence provides several groundbreaking, computational software driven Generative AI technologies at both the chip and system level, unified by JedAI, our differentiated big data analytics platform. Our customers are seeing dramatic results, with these solutions delivering highly optimized designs and unprecedented efficiency gains. Additionally, by automating repetitive tasks and producing new ideas, our Generative AI frees up engineers to focus on more advanced, high-value activities, opening up more opportunities for innovation.

During the year, we also materially expanded our core EDA, IP and system solutions footprint at market shaping customers.

In Q2, we extended our collaboration with AMD to a far-reaching commitment to our innovative core EDA, hardware, design IP and system software solutions.

In Q3, 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.

And in Q4, we broadened our relationship with a global leader in memory and storage solutions through an extensive proliferation of our custom, digital and system solutions.

We also expanded our strategic partnership with a global leader in networking and telecommunications through their renewed commitment to our core EDA, IP and system solutions.

In addition, we furthered our partnerships with leading foundry, IP and cloud service providers and won six Open Innovation Platform Partner of the Year awards from TSMC.

Now let's talk about some of the product highlights for both Q4 and 2022. Our digital IC business finished another strong year with 17 percent revenue growth.

- Deployment of our digital full flow, delivering industry leading quality of results at the most advanced nodes, continued to accelerate with nearly 50 additional customers adopting it during the year.
- Our digital software is now deployed in all top 20 semiconductor companies. We are pleased with accelerating growth for our front-end Genus and Joules tools and signoff products such as Tempus and Quantus, complementing the broad proliferation of Innovus.
- Our transformative Cadence Cerebrus AI-driven solution continued to deliver impressive PPA and productivity gains across a wide range of designs, resulting in broader adoption and accelerating proliferation – among others, it's now deployed at 10 of the top 20 semiconductor companies , including 7 of the top 10 semis, and at several major hyperscalers.
- In Q4, GUC successfully delivered an advanced HPC design and a CPU design using our digital full flow and Cadence Cerebrus on TSMC N5 process technology, delivering 8 percent reduced power and a 9 percent area improvement, while significantly improving engineering productivity.
- In 2022, several market shaping customers including Intel, NVIDIA, Broadcom, Samsung and Renesas shared their remarkable successes with Cadence Cerebrus at our CadenceLIVE user conferences.

Escalating system and software bring-up complexities combined with relentless first-pass silicon requirements, continued to drive strong demand for our essential Functional

Verification solutions. Our Verification business grew 28 percent year-over-year fueled by the secular trend for hardware, which had another record year.

Our dynamic duo of Palladium Z2 and Protium X2 platforms providing best in class system verification and software bring-up solutions, saw accelerated growth and strong momentum across mobile, hyperscale, HPC and increasingly auto EV segments. Our hardware family added 30 new customers and over 160 repeat orders during the year.

- Due to the compelling value offered by its common front-end compiler, demand for the pair greatly exceeded our expectations with more than 2/3 of the orders in the year including both platforms.

Our new Cadence Verisium AI-driven Verification Platform enables dramatic improvements in debug productivity and in early production usage at several market shaping customers, Verisium delivered up to a 30x improvement in efficient root cause analysis.

Our Custom IC Virtuoso and Spectre franchise solutions tackle the toughest challenges in analog, mixed signal, RF design and circuit simulation, and as electrification and digital transformation trends gain momentum, they are becoming increasingly crucial to our customers.

- Building on our market leadership, our Custom IC revenue grew 13 percent year-over-year in 2022, with Virtuoso growth spurred by demand in advanced nodes, heterogeneous integration, and the emerging silicon photonics segment.
- We added 200 new Virtuoso logos and more than 150 logos for Spectre, with Spectre FX making strong headway in FastSPICE memory applications.

Increasing usage of preconfigured IP blocks to reduce risk and time to market, coupled with our star IP portfolio, led to a strong year for our IP business which grew 12 percent year over year in 2022.

- Demand was particularly strong in HPC, 5G and automotive segments, with our silicon proven high performance PCIe Gen5, LPDDR5 and Ethernet interfaces helping secure key wins in advanced node designs.
- Our Tensilica DSP portfolio continued expanding its footprint in smart speakers and True Wireless Stereo headsets, imaging, and machine learning applications.

Rising system complexity and challenges stemming from the growing hyperconvergence of the electrical, mechanical and physical worlds, are driving the strong need for a seamless platform solution across design, packaging, simulation, and analysis. Our System Design & Analysis business, that is expanding our TAM expansion beyond EDA, continued its strong momentum delivering 27 percent year-over-year growth.

- Industry interest in advanced packaging solutions notably spiked in 2022, with customers embracing our revolutionary Integrity 3D-IC solution, the industry's only comprehensive platform providing tightly integrated system planning, implementation and analysis technologies.
- Our multi-physics portfolio comprising of leading electromagnetic, electro-thermal, signal and power integrity and CFD solutions continued ramping strongly across multiple end markets. Our in-design analysis solutions had several significant wins with HPC and hyperscaler customers, while our CFD Fidelity platform proliferated with market shaping Aerospace & Defense customers. During the year, Fidelity CFD's software meshing capabilities were chosen by Toyota Motor Europe to be their standard workflow for CFD preprocessing,
- And in numerous customer engagements, Optimality Explorer, the industry's first AI-driven multidisciplinary system analysis and optimization solution, has demonstrated up to a 10x efficiency improvement in design space exploration, leading to faster time to results.

Lastly, in keeping with our transition plan, Lip-Bu Tan has notified the Cadence Board that he will not seek re-election at our upcoming 2023 Annual Stockholders Meeting in May. He will

continue to serve as an advisor to me. We will return to an independent chair structure with ML Krakauer becoming our next Board Chair following that meeting. The rest of the Board and I look forward to working closely with ML in her new role.

In closing, we are pleased with our strong execution in 2022 and are thrilled by the business momentum and market opportunities ahead of us in 2023.

Now I will turn it over to John to provide more details on the Q4 results and our 2023 outlook.

John Wall, senior vice president and chief financial officer

Thanks, Anirudh, and good afternoon, everyone.

I am pleased to report that we exceeded all our key financial and operating metrics for the fourth quarter and 2022.

Robust customer design activity, and demand for our strong technology portfolio continue to drive growth across all our businesses.

Cadence had an excellent 2022 and we begin 2023 with a lot of confidence and strong momentum, on the back of the stability and resilience you'd expect from a predominately recurring revenue model.

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

- Total revenue was \$900 million for the quarter and \$3.562 billion for the year,
- GAAP operating margin was 23.5 percent for the quarter and 30.1 percent for the year,
- Non-GAAP operating margin was 35.6 percent for the quarter and 40.3 percent for the year,
- GAAP EPS was 88 cents for the quarter and \$3.09 for the year,
- Non-GAAP EPS was 96 cents for the quarter and \$4.27 for the year

Next, turning to the balance sheet and cash flow:

- Our cash balance was \$882 million at year-end, while the principal value of debt outstanding was \$750 million,
- Operating cash flow in the fourth quarter was \$264 million and \$1.24 billion for the full year,
- DSOs were 49 days, and
- We repurchased 1.05 billion dollars' worth of Cadence shares during the year

Before I provide our outlook for Q1 and 2023, I'd like to share a few comments:

- Our most recent fiscal year ended on December 31, 2022. This fiscal year will also end on December 31, as we have now moved our fiscal year to a calendar year.
- Approximately 15% of our annual revenue for fiscal 2022 was up-front, with 85% recurring. At the midpoint of our 2023 revenue outlook, we're expecting a similar revenue mix for this year, and
- Our outlook for 2023 assumes export control regulations remain substantially similar for the remainder of the year.

In our Outlook for 2023, we expect:

- Revenue in the range of \$4.00 to \$4.06 billion
- GAAP operating margin of 30.5 to 32.0 percent
- Non-GAAP operating margin of 40.5 to 42.0 percent
- GAAP EPS in the range of \$3.24 to \$3.34
- Non-GAAP EPS in the range of \$4.90 to \$5.00,
- Operating cash flow in the range of \$1.3 to \$1.4 billion, and
- We expect to use approximately 50 percent of our free cash flow to repurchase Cadence shares in 2023.

For Q1, we expect:

- Revenue in the range of \$1.00 to \$1.02 billion,
- GAAP operating margin in the range of 31.0 to 32.0 percent,
- Non-GAAP operating margin of 41.0 to 42.0 percent,
- GAAP EPS in the range of 84 to 88 cents,
- Non-GAAP EPS in the range of \$1.23 to \$1.27, and

As usual, we've published a 'CFO Commentary' document on our Investor Relations website, which includes our outlook for additional items, as well as further analysis and GAAP to Non-GAAP reconciliations.

In conclusion, I am pleased that we:

- achieved double-digit revenue growth across all our businesses
- increased 3-year revenue CAGR into the mid-teens, and
- I'm especially pleased that we continue to expand operating margins

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 all for joining us this afternoon.

- It is an exciting time for Cadence as we enter 2023 with strong business momentum and strong design activity offering tremendous market opportunities.
- Our strong execution of the Intelligent System Design strategy, customer-first mindset, and our high-performance and inclusive culture are driving accelerating growth as we grow our core EDA business while expanding our portfolio with new innovative solutions.
- Fostering sustainable innovation is a top priority and we're thrilled to have been included in the newly released Sustainalytics' newly released 2023 Top-Rated ESG Companies List, ranking #18 out of over a thousand companies in the Software and Services group.
- And 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.