

CADENCE REPORTS FOURTH QUARTER AND FISCAL YEAR 2023

CADENCE DESIGN SYSTEMS, INC.

CFO COMMENTARY

Key Takeaways for 2023

- Revenue growth of 15%, and EPS growth of >20%
- A seventh consecutive year of >50% incremental non-GAAP operating margin, resulting in non-GAAP operating margin of 42%
- Record year-end backlog of \$6.0B and current RPO of \$3.2B

FY 2024 Outlook

- Revenue: \$4.55 - \$4.61 billion
- GAAP operating margin: 32% - 33%
- Non-GAAP operating margin: 42% - 43%
- GAAP EPS: \$4.08 - \$4.18
- Non-GAAP EPS \$5.87 - \$5.97
- Operating cash flow: \$1.35 - \$1.45 billion
- Expect to use approximately 50% of free cash flow to repurchase Cadence shares for the year

Q1 2024 Outlook

- Revenue : \$990 million - \$1.010 billion
- GAAP operating margin: 24.5% - 25.5%
- Non-GAAP operating margin: 36.5% - 37.5%
- GAAP EPS: \$0.74 - \$0.78
- Non-GAAP EPS: \$1.10 - \$1.14
- Expect to use approximately \$125 million to repurchase Cadence shares in Q1

Financial Results Webcast

Our Q4 2023 financial results webcast will begin February 12, 2024 at 2:00 p.m. (Pacific). The webcast may be accessed at www.cadence.com/cadence/investor_relations. An archive of the webcast will be available on February 12, 2024 until 5:00 p.m. (Pacific) on March 15, 2024.

Q4 2023 KEY METRICS

- Revenue \$1.069 billion
- GAAP operating margin 31%
- Non-GAAP operating margin 43%
- GAAP EPS \$1.19
- Non-GAAP EPS \$1.38
- Operating cash flow \$272 million

FY 2023 KEY METRICS

- Revenue \$4.090 billion
- GAAP operating margin 31%
- Non-GAAP operating margin 42%
- GAAP EPS \$3.82
- Non-GAAP EPS \$5.15
- Operating cash flow \$1.349 billion

Financial Metrics

| (In Millions, except per share data) | 2018 | 2019 | 2020* | 2021 | 2022 | 2023* | 2024E |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------------|
| Revenue | \$ 2,138 | \$ 2,336 | \$ 2,683 | \$ 2,988 | \$ 3,562 | \$ 4,090 | \$4,550- \$4,610 |
| Revenue growth* | 10% | 9% | 15% | 11% | 19% | 15% | 11% - 13% |
| 3-year CAGR | 8% | 9% | 11% | 12% | 15% | 15% | ~15% |
| 3-year CAGR without 53rd week impact | | | 11% | | | 16% | |
| GAAP operating expenses | \$ 1,742 | \$ 1,845 | \$ 2,037 | \$ 2,209 | \$ 2,488 | \$ 2,839 | ~\$3,109 |
| GAAP operating expense growth | 8% | 6% | 10% | 8% | 13% | 14% | ~10% |
| Non-GAAP operating expenses | \$ 1,491 | \$ 1,587 | \$ 1,739 | \$ 1,877 | \$ 2,125 | \$ 2,373 | ~\$2,634 |
| Non-GAAP operating expense growth | 6% | 6% | 10% | 8% | 13% | 12% | ~11% |
| GAAP operating margin** | 19% | 21% | 24% | 26% | 30% | 31% | 32.5 % |
| Non-GAAP operating margin** | 30% | 32% | 35% | 37% | 40% | 42% | 42.5 % |
| GAAP earnings per share | \$ 1.23 | \$ 3.53 | \$ 2.11 | \$ 2.50 | \$ 3.09 | \$ 3.82 | \$4.08 - \$4.18 |
| Non-GAAP earning per share | \$ 1.87 | \$ 2.20 | \$ 2.80 | \$ 3.29 | \$ 4.27 | \$ 5.15 | \$5.87 - \$5.97 |
| Non-GAAP EPS growth** | 34% | 18% | 27% | 18% | 30% | 21% | 15 % |
| 3-year Non-GAAP EPS CAGR** | 20% | 22% | 26% | 21% | 25% | 23% | 22 % |
| Weighted average shares diluted outstanding | 281.1 | 280.5 | 279.6 | 278.9 | 275.0 | 272.7 | 271.5 - 273.5 |
| Cash flow from operations | 605 | 730 | 905 | 1,101 | 1,242 | 1,349 | \$1,350 - \$1,450 |
| Capital expenditures | 62 | 75 | 95 | 65 | 123 | 102 | ~\$120 |

* Fiscal 2020 was a 53-week year, compared to all other years which were 52 week years. 2020 (which impacts the 3 year CAGR in 2023) included approximately \$45 million revenue impact for the extra week.

** At midpoint of guidance.

Profitability Trends

| (In Millions) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024E* |
|--|---------------|---------------|---------------|-----------------|-----------------|-----------------|-----------------|
| Revenue | \$ 2,138 | \$ 2,336 | \$ 2,683 | \$ 2,988 | \$ 3,562 | \$ 4,090 | \$ 4,580 |
| Revenue Growth | 10% | 9% | 15% | 11% | 19% | 15% | 12% |
| 3-Year Revenue Growth CAGR | 8% | 9% | 11% | 12% | 15% | 15% | 15% |
| GAAP operating margin | 19% | 21% | 24% | 26% | 30% | 31% | 32.5% |
| Non-GAAP operating margin | 30% | 32% | 35% | 37% | 40% | 42% | 42.5% |
| Stock-based compensation | (8)% | (8)% | (7)% | (7)% | (8)% | (8)% | (8)% |
| Non-GAAP operating margin adjusted for stock-based compensation | 22% | 24% | 28% | 30% | 32% | 34% | 34.5% |
| GAAP operating income | \$ 396 | \$ 492 | \$ 646 | \$ 779 | \$ 1,074 | \$ 1,251 | \$ 1,471 |
| Non-GAAP operating income | \$ 647 | \$ 749 | \$ 944 | \$ 1,111 | \$ 1,436 | \$ 1,717 | \$ 1,946 |
| Non-GAAP operating income adjusted for stock-based compensation | \$ 479 | \$ 567 | \$ 747 | \$ 901 | \$ 1,166 | \$ 1,391 | \$ 1,576 |

* At midpoint of guidance.

First Quarter 2024 Financial Outlook

| | Q1 2023 | Q4 2023 | Q1 2024E |
|------------------------------|----------------|----------------|------------------------|
| Total Revenue (\$ Millions) | \$ 1,022 | \$ 1,069 | \$990 - \$1,010 |
| Q/Q Growth | | 4% | (7)% - (6)% |
| Y/Y Growth | | 19% | (3)% - (1)% |
| GAAP Operating Margin | 32% | 31% | 24.5% - 25.5% |
| Non-GAAP Operating Margin | 42% | 43% | 36.5% - 37.5% |
| GAAP EPS | \$ 0.89 | \$ 1.19 | \$0.74 - \$0.78 |
| Non-GAAP EPS | \$ 1.29 | \$ 1.38 | \$1.10 - \$1.14 |

Fiscal Year 2024 Financial Outlook

| | FY 2023 | FY 2024E |
|--|----------------|------------------------|
| Recurring Revenue | 84% | 80% - 85% |
| Total Revenue (\$ Millions) | \$ 4,090 | \$4,550 - \$4,610 |
| Y/Y Growth | 15% | 11% - 13% |
| Revenue from Beginning Backlog | ~75% | ~70% |
| GAAP Operating Margin | 30.6% | 32% - 33% |
| Non-GAAP Operating Margin | 42.0% | 42% - 43% |
| GAAP Other Income & Expense (\$ Millions) | \$ 31 | \$(10) - \$(18) |
| Non-GAAP Other Income & Expense (\$ Millions) | \$ (15) | \$(10) - \$(18) |
| GAAP Tax Rate | 19% | ~23% |
| Non-GAAP Tax Rate | 17.5% | 16.5% |
| Weighted Average Diluted Shares Outstanding (Millions) | 272.7 | 271.5 - 273.5 |
| GAAP EPS | \$ 3.82 | \$4.08 - \$4.18 |
| Y/Y Growth | 24% | 7% - 9% |
| Non-GAAP EPS | \$ 5.15 | \$5.87 - \$5.97 |
| Y/Y Growth | 21% | 14% - 16% |
| Cash Flow from Operations (\$ Millions) | \$ 1,349 | \$1,350 - \$1,450 |
| DSO | 43 | ~45 |
| Capital Expenditures (\$ Millions) | \$ 102 | ~\$120 |

Fourth Quarter and Fiscal Year Financial Results

Backlog

| (In Billions) | 2019 | 2020 | 2021 | 2022 | 2023 |
|---------------|--------|--------|--------|--------|--------|
| Backlog | \$ 3.6 | \$ 3.9 | \$ 4.4 | \$ 5.8 | \$ 6.0 |

Revenue

| (In Millions) | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|-------------------------|---------|----------|---------|----------|----------|
| Product and Maintenance | \$ 846 | \$ 964 | \$ 923 | \$ 966 | \$ 982 |
| Services | 54 | 58 | 54 | 57 | 87 |
| Total Revenue | \$ 900 | \$ 1,022 | \$ 977 | \$ 1,023 | \$ 1,069 |

| (In Millions) | 2019 | 2020* | 2021 | 2022 | 2023 |
|-------------------------|----------|----------|----------|----------|----------|
| Product and Maintenance | \$ 2,204 | \$ 2,537 | \$ 2,813 | \$ 3,340 | \$ 3,834 |
| Services | 132 | 146 | 175 | 222 | 256 |
| Total Revenue | \$ 2,336 | \$ 2,683 | \$ 2,988 | \$ 3,562 | \$ 4,090 |

* Fiscal 2020 was a 53-week year.

Recurring and Up-Front Revenue

| | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|---|---------|---------|---------|---------|---------|
| Revenue recognized over time | 84 % | 77 % | 82 % | 83 % | 85 % |
| Revenue from arrangements with non-cancelable commitments | 3 % | 3 % | 3 % | 2 % | 2 % |
| Recurring Revenue | 87 % | 80 % | 85 % | 85 % | 87 % |
| Up-Front Revenue | 13 % | 20 % | 15 % | 15 % | 13 % |
| Total | 100 % | 100 % | 100 % | 100 % | 100 % |

| | 2020 | 2021 | 2022 | 2023 |
|---|-------|-------|-------|-------|
| Revenue recognized over time | 85 % | 85 % | 83 % | 81 % |
| Revenue from arrangements with non-cancelable commitments | 3 % | 3 % | 2 % | 3 % |
| Recurring Revenue | 88 % | 88 % | 85 % | 84 % |
| Up-Front Revenue | 12 % | 12 % | 15 % | 16 % |
| Total | 100 % | 100 % | 100 % | 100 % |

Trailing Twelve Months Recurring and Up-Front Revenue

| | Trailing Twelve Months Ended | | | | Q4 2023 |
|-------------------|------------------------------|---------|---------|---------|---------|
| | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | |
| Recurring Revenue | 85 % | 84 % | 84 % | 84 % | 84 % |
| Up-Front Revenue | 15 % | 16 % | 16 % | 16 % | 16 % |
| Total | 100 % | 100 % | 100 % | 100 % | 100 % |

Revenue Mix by Geography

| (% of Total Revenue) | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|--------------------------------|---------|---------|---------|---------|---------|
| Americas | 46 % | 44 % | 41 % | 43 % | 44 % |
| China | 13 % | 17 % | 18 % | 17 % | 15 % |
| Other Asia | 18 % | 18 % | 18 % | 19 % | 19 % |
| Europe, Middle East and Africa | 17 % | 15 % | 17 % | 15 % | 16 % |
| Japan | 6 % | 6 % | 6 % | 6 % | 6 % |
| Total | 100 % | 100 % | 100 % | 100 % | 100 % |

| (% of Total Revenue) | 2019 | 2020 | 2021 | 2022 | 2023 |
|--------------------------------|-------|-------|-------|-------|-------|
| Americas | 44 % | 42 % | 45 % | 46 % | 43 % |
| China | 10 % | 15 % | 13 % | 15 % | 17 % |
| Other Asia | 20 % | 18 % | 19 % | 18 % | 19 % |
| Europe, Middle East and Africa | 18 % | 18 % | 17 % | 16 % | 16 % |
| Japan | 8 % | 7 % | 6 % | 5 % | 5 % |
| Total | 100 % | 100 % | 100 % | 100 % | 100 % |

Revenue Mix by Product Category

| (% of Total Revenue) | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|---------------------------------|---------|---------|---------|---------|---------|
| Custom IC Design and Simulation | 22 % | 20 % | 22 % | 22 % | 22 % |
| Digital IC Design and Signoff | 28 % | 25 % | 27 % | 28 % | 29 % |
| Functional Verification | 25 % | 32 % | 27 % | 26 % | 24 % |
| IP | 12 % | 11 % | 11 % | 11 % | 13 % |
| System Design and Analysis | 13 % | 12 % | 13 % | 13 % | 12 % |
| Total | 100 % | 100 % | 100 % | 100 % | 100 % |

| (% of Total Revenue) | 2019 | 2020 | 2021 | 2022 | 2023 |
|---------------------------------|-------|-------|-------|-------|-------|
| Custom IC Design and Simulation | 25 % | 25 % | 23 % | 22 % | 22 % |
| Digital IC Design and Signoff | 30 % | 29 % | 29 % | 28 % | 27 % |
| Functional Verification | 23 % | 22 % | 24 % | 26 % | 27 % |
| IP | 13 % | 14 % | 13 % | 12 % | 12 % |
| System Design and Analysis | 9 % | 10 % | 11 % | 12 % | 12 % |
| Total | 100 % | 100 % | 100 % | 100 % | 100 % |

3 Year Revenue CAGR by Product Category

| (% of Total Revenue) | 2019 | 2020 | 2021 | 2022 | 2023 |
|---------------------------------|------|------|------|------|------|
| Custom IC Design and Simulation | 9 % | 9 % | 8 % | 10 % | 10 % |
| Digital IC Design and Signoff | 10 % | 11 % | 11 % | 13 % | 13 % |
| Functional Verification | 5 % | 11 % | 11 % | 20 % | 23 % |
| IP | 16 % | 18 % | 16 % | 15 % | 8 % |
| System Design and Analysis | 7 % | 13 % | 19 % | 24 % | 22 % |
| Total 3 Year CAGR | 9 % | 11 % | 12 % | 15 % | 15 % |

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

| (% of Total Revenue) | 2019 | 2020* | 2021 | 2022 | 2023 |
|---------------------------------|------|-------|------|------|------|
| Custom IC Design and Simulation | 9 % | 8 % | 8 % | 10 % | 11 % |
| Digital IC Design and Signoff | 10 % | 10 % | 11 % | 13 % | 14 % |
| Functional Verification | 5 % | 10 % | 11 % | 20 % | 24 % |
| IP | 16 % | 18 % | 16 % | 15 % | 9 % |
| System Design and Analysis | 7 % | 12 % | 19 % | 24 % | 23 % |
| Total 3 Year CAGR | 9 % | 11 % | 12 % | 15 % | 16 % |

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

Gross Margin

| | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| GAAP Gross Margin | 89.6 % | 87.8 % | 90.1 % | 89.3 % | 90.3 % |
| Non-GAAP Gross Margin | 91.1 % | 89.1 % | 91.4 % | 90.6 % | 91.7 % |

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| GAAP Gross Margin | 88.6 % | 88.6 % | 89.7 % | 89.6 % | 89.4 % |
| Non-GAAP Gross Margin | 90.6 % | 90.6 % | 91.7 % | 91.0 % | 90.7 % |

Total Costs and Expenses

| (In Millions) | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Total GAAP Costs and Expenses | \$ 689 | \$ 699 | \$ 677 | \$ 730 | \$ 732 |
| Total Non-GAAP Costs and Expenses | \$ 579 | \$ 591 | \$ 569 | \$ 603 | \$ 610 |

| (In Millions) | 2019 | 2020* | 2021 | 2022 | 2023 |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Total GAAP Costs and Expenses | \$ 1,845 | \$ 2,037 | \$ 2,209 | \$ 2,488 | \$ 2,839 |
| Total Non-GAAP Costs and Expenses | \$ 1,587 | \$ 1,739 | \$ 1,877 | \$ 2,125 | \$ 2,373 |

* Fiscal 2020 was a 53-week year.

Operating Margin

| | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|------------------------------|---------------|---------------|---------------|---------------|---------------|
| GAAP Operating Margin | 23.5 % | 31.6 % | 30.7 % | 28.6 % | 31.5 % |
| Non-GAAP Operating Margin | 35.6 % | 42.1 % | 41.8 % | 41.1 % | 42.9 % |

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|------------------------------|---------------|---------------|---------------|---------------|---------------|
| GAAP Operating Margin | 21.1 % | 24.1 % | 26.1 % | 30.1 % | 30.6 % |
| Non-GAAP Operating Margin | 32.1 % | 35.2 % | 37.2 % | 40.3 % | 42.0 % |

Net Income Per Share

| | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| GAAP Net Income Per Share | \$ 0.88 | \$ 0.89 | \$ 0.81 | \$ 0.93 | \$ 1.19 |
| Non-GAAP Net Income Per Share | \$ 0.96 | \$ 1.29 | \$ 1.22 | \$ 1.26 | \$ 1.38 |

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| GAAP Net Income Per Share | \$ 3.53 | \$ 2.11 | \$ 2.50 | \$ 3.09 | \$ 3.82 |
| Non-GAAP Net Income Per Share | \$ 2.20 | \$ 2.80 | \$ 3.29 | \$ 4.27 | \$ 5.15 |

Total DSO

| | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|-----|---------|---------|---------|---------|---------|
| DSO | 49 | 44 | 42 | 39 | 43 |

Balance Sheet and Cash Review

Free Cash Flow

| <i>(In Millions)</i> | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|------------------------------------|---------|---------|---------|---------|---------|
| Net Cash from Operating Activities | \$ 264 | \$ 267 | \$ 414 | \$ 396 | \$ 272 |
| Capital Expenditures | 37 | 26 | 20 | 22 | 34 |
| Free Cash Flow | \$ 227 | \$ 241 | \$ 394 | \$ 374 | \$ 238 |

| <i>(In Millions)</i> | 2019 | 2020 | 2021 | 2022 | 2023 |
|------------------------------------|--------|--------|----------|----------|----------|
| Net Cash from Operating Activities | \$ 730 | \$ 905 | \$ 1,101 | \$ 1,242 | \$ 1,349 |
| Capital Expenditures | 75 | 95 | 65 | 123 | 102 |
| Free Cash Flow | \$ 655 | \$ 810 | \$ 1,036 | \$ 1,119 | \$ 1,247 |

Cash and Cash Equivalents

| <i>(In Millions)</i> | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|---------------------------|---------|---------|---------|---------|----------|
| Cash and Cash Equivalents | \$ 882 | \$ 917 | \$ 874 | \$ 962 | \$ 1,008 |

| <i>(In Millions)</i> | 2019 | 2020 | 2021 | 2022 | 2023 |
|---------------------------|--------|--------|----------|--------|----------|
| Cash and Cash Equivalents | \$ 705 | \$ 928 | \$ 1,089 | \$ 882 | \$ 1,008 |

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

Share Repurchase

| <i>(In Millions)</i> | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|----------------------|----------------|----------------|----------------|----------------|----------------|
| Share Repurchase | \$ 300 | \$ 125 | \$ 265 | \$ 185 | \$ 125 |
| Number of Shares | 1.939 | 0.668 | 1.178 | 0.811 | 0.488 |

- Q3 2023 includes 276,330 shares and \$60 million equity forward contract from Q2 2023 ASR settled in Q3 2023.

| <i>(In Millions)</i> | 2019 | 2020 | 2021 | 2022 | 2023 |
|----------------------|-------------|-------------|-------------|-------------|-------------|
| Share Repurchase | \$ 306 | \$ 380 | \$ 612 | \$ 1,050 | \$ 700 |
| Number of Shares | 4.841 | 4.247 | 4.401 | 6.602 | 3.145 |

Employees

| | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|-----------|----------------|----------------|----------------|----------------|----------------|
| Headcount | 10,228 | 10,579 | 10,832 | 11,139 | 11,226 |

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|-----------|-------------|-------------|-------------|-------------|-------------|
| Headcount | 8,078 | 8,746 | 9,298 | 10,228 | 11,226 |

Forward Looking Statements

This CFO Commentary contains forward-looking statements, including Cadence's outlook on future operating results, strategic objectives, business prospects, technology and product developments, industry trends and other statements using words such as "anticipates," "believes," "expects," "intends," "plans," "will," and words of similar import and the negatives thereof. Forward-looking statements are subject to a number of risks, uncertainties and other factors, many of which are outside Cadence's control and which may cause actual results to differ materially from expectations expressed or implied in the forward-looking statements, including, among others: (i) Cadence's ability to compete successfully in the highly competitive industries in which it operates and realize the benefits of its investments in research and development, including opportunities presented by AI; (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, geopolitical and industry conditions, including that of the semiconductor and electronics industries, government regulations and trade restrictions, and rising tensions and conflicts around the world such as in the Middle East and with respect to Taiwan; (vi) capital expenditure requirements, legislative or regulatory requirements, changes in tax laws, interest rates, currency exchange rate fluctuations, inflation rates, Cadence's upcoming debt maturities and Cadence's ability to access capital and debt markets; (vii) the continued acquisition of other companies, businesses or technologies or the failure to successfully integrate and operate them; (viii) potential harm caused by compromises in cybersecurity and cybersecurity attacks; (ix) 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; (x) the effects of any litigation, regulatory, tax or other proceedings to which Cadence is or may become a party or to which Cadence or its products, services, technologies or properties are subject; and (xi) Cadence's ability to successfully meet corporate governance, environmental and social targets and strategies. In addition, the timing and amount of Cadence's repurchases of its common stock are 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, including its most recent report on Form 10-K, subsequent reports on Form 10-Q and future filings.

All forward-looking statements in this document are based on management's expectations as of the date of this document and, except as required by law, Cadence disclaims any obligation to update these forward-looking statements to reflect future events or circumstances.

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 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|--|---------------|---------------|---------------|---------------|---------------|
| GAAP total costs and expenses | \$ 689 | \$ 699 | \$ 677 | \$ 730 | \$ 732 |
| Reconciling items to non-GAAP total costs and expenses | | | | | |
| Stock-based compensation expense | (73) | (74) | (76) | (88) | (87) |
| Amortization of acquired intangibles | (16) | (15) | (15) | (15) | (17) |
| Acquisition and integration-related costs | (18) | (16) | (14) | (14) | (13) |
| Restructuring | — | — | — | (12) | 1 |
| Non-qualified deferred compensation (expenses) credits | (3) | (3) | (3) | 2 | (6) |
| Non-GAAP total costs and expenses* | <u>\$ 579</u> | <u>\$ 591</u> | <u>\$ 569</u> | <u>\$ 603</u> | <u>\$ 610</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.

Reconciliation of GAAP Total Expenses to Non-GAAP Total Expenses

| <i>(In Millions)</i> | 2018 | 2019 | 2020* | 2021 | 2022 | 2023 | 2024E |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| GAAP total costs and expenses | \$1,742 | \$1,845 | \$2,037 | \$2,209 | \$2,488 | \$2,839 | \$3,109 |
| Reconciling items to non-GAAP total costs and expenses | | | | | | | |
| Stock-based compensation expense | (168) | (182) | (197) | (210) | (270) | (326) | (370) |
| Amortization of acquired intangibles | (53) | (53) | (64) | (67) | (60) | (62) | (66) |
| Acquisition and integration-related costs | (20) | (8) | (23) | (23) | (41) | (56) | (39) |
| Restructuring | (11) | (9) | (9) | 1 | — | (11) | — |
| Non-qualified deferred compensation (expenses) credits | 1 | (5) | (5) | (6) | 8 | (11) | — |
| Special charges** | — | (1) | — | (27) | — | — | — |
| Non-GAAP total costs and expenses*** | <u>\$1,491</u> | <u>\$1,587</u> | <u>\$1,739</u> | <u>\$1,877</u> | <u>\$2,125</u> | <u>\$2,373</u> | <u>\$2,634</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 Operating Income to Non-GAAP Operating Income and Non-GAAP Operating Income Adjusted for Stock-based Compensation

| <i>(In Millions)</i> | 2018 | 2019 | 2020* | 2021 | 2022 | 2023 | 2024E |
|--|---------------|---------------|---------------|----------------|----------------|----------------|-----------------|
| GAAP operating income | \$ 396 | \$ 492 | \$ 646 | \$ 779 | \$1,074 | \$1,251 | \$1,471 |
| Reconciling items to non-GAAP operating income | | | | | | | |
| Stock-based compensation expense | 168 | 182 | 197 | 210 | 270 | 326 | 370 |
| Amortization of acquired intangibles | 53 | 53 | 64 | 67 | 60 | 62 | 66 |
| Acquisition and integration-related costs | 20 | 8 | 23 | 23 | 41 | 56 | 39 |
| Restructuring | 11 | 9 | 9 | (1) | — | 11 | — |
| Non-qualified deferred compensation expenses (credits) | (1) | 5 | 5 | 6 | (8) | 11 | — |
| Special charges** | — | 1 | — | 27 | — | — | — |
| Non-GAAP operating income*** | <u>\$ 647</u> | <u>\$ 749</u> | <u>\$ 944</u> | <u>\$1,111</u> | <u>\$1,436</u> | <u>\$1,717</u> | <u>\$1,946</u> |
| Stock-based compensation expense | <u>(168)</u> | <u>(182)</u> | <u>(197)</u> | <u>(210)</u> | <u>(270)</u> | <u>(326)</u> | <u>\$ (370)</u> |
| Non-GAAP operating income adjusted for stock-based compensation*** | <u>\$ 479</u> | <u>\$ 567</u> | <u>\$ 747</u> | <u>\$ 901</u> | <u>\$1,166</u> | <u>\$1,391</u> | <u>\$1,576</u> |

Table may not foot due to rounding

* 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 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|--|--------------|--------------|--------------|--------------|--------------|
| GAAP gross margin as a percent of total revenue | 89.6% | 87.8% | 90.1% | 89.3% | 90.3% |
| Reconciling items to non-GAAP gross margin as a percent of total revenue | | | | | |
| Stock-based compensation expense | 0.3% | 0.3% | 0.2% | 0.2% | 0.3% |
| Amortization of acquired intangibles | 1.2% | 1.0% | 1.1% | 1.1% | 1.1% |
| Non-qualified deferred compensation expenses (credits) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Acquisition and integration-related costs | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Non-GAAP gross margin as a percent of total revenue* | <u>91.1%</u> | <u>89.1%</u> | <u>91.4%</u> | <u>90.6%</u> | <u>91.7%</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.

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

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|--|--------------|--------------|--------------|--------------|--------------|
| GAAP gross margin as a percent of total revenue | 88.6% | 88.6% | 89.7% | 89.6% | 89.4% |
| Reconciling items to non-GAAP gross margin as a percent of total revenue | | | | | |
| Stock-based compensation expense | 0.3% | 0.3% | 0.3% | 0.2% | 0.2% |
| Amortization of acquired intangibles | 1.7% | 1.7% | 1.6% | 1.2% | 1.1% |
| Non-qualified deferred compensation expenses (credits) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Acquisition and integration-related costs | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Special charges * | 0.0% | 0.0% | 0.1% | 0.0% | 0.0% |
| Non-GAAP gross margin as a percent of total revenue** | <u>90.6%</u> | <u>90.6%</u> | <u>91.7%</u> | <u>91.0%</u> | <u>90.7%</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 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 | Q1 2024E |
|--|------------|------------|------------|------------|------------|----------------------|
| GAAP operating margin as a percent of total revenue | 23% | 32% | 31% | 29% | 31% | 24.5% - 25.5% |
| Reconciling items to non-GAAP operating margin as a percent of total revenue | | | | | | |
| Stock-based compensation expense | 8% | 7% | 8% | 9% | 8% | 9% |
| Amortization of acquired intangibles | 2% | 1% | 2% | 1% | 2% | 2% |
| Acquisition and integration-related costs | 2% | 2% | 1% | 1% | 1% | 1% |
| Restructuring | 0% | 0% | 0% | 1% | 0% | 0% |
| Non-qualified deferred compensation expenses (credits) | 1% | 0% | 0% | 0% | 1% | 0% |
| Non-GAAP operating margin as a percent of total revenue* | 36% | 42% | 42% | 41% | 43% | 36.5% - 37.5% |

* 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

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024E |
|--|------------|------------|------------|------------|------------|------------|------------------|
| GAAP operating margin as a percent of total revenue | 19% | 21% | 24% | 26% | 30% | 31% | 32% - 33% |
| Reconciling items to non-GAAP operating margin as a percent of total revenue | | | | | | | |
| Stock-based compensation expense | 8% | 8% | 7% | 7% | 8% | 8% | 8% |
| Amortization of acquired intangibles | 2% | 2% | 3% | 2% | 2% | 2% | 1% |
| Acquisition and integration-related costs | 1% | 0% | 1% | 1% | 1% | 1% | 1% |
| Restructuring | 0% | 1% | 0% | 0% | 0% | 0% | 0% |
| Non-qualified deferred compensation expenses (credits) | 0% | 0% | 0% | 0% | (1)% | 0% | 0% |
| Special charges * | 0% | 0% | 0% | 1% | 0% | 0% | 0% |
| Non-GAAP operating margin as a percent of total revenue** | 30% | 32% | 35% | 37% | 40% | 42% | 42% - 43% |

* 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 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 | Q1 2024E |
|--|----------------|----------------|----------------|----------------|----------------|------------------------|
| Diluted net income per share on a GAAP basis | \$ 0.88 | \$ 0.89 | \$ 0.81 | \$ 0.93 | \$ 1.19 | \$0.74 - \$0.78 |
| Stock-based compensation expense | 0.27 | 0.27 | 0.28 | 0.32 | 0.32 | 0.32 |
| Amortization of acquired intangibles | 0.06 | 0.05 | 0.06 | 0.06 | 0.06 | 0.06 |
| Acquisition and integration-related costs | 0.06 | 0.06 | 0.05 | 0.05 | 0.04 | 0.04 |
| Restructuring | — | — | — | 0.04 | — | — |
| Non-qualified deferred compensation expenses (credits) | 0.01 | 0.01 | 0.01 | — | 0.02 | — |
| Other income or expense related to investments and non-qualified deferred compensation plan assets** | (0.01) | (0.01) | (0.01) | (0.04) | (0.10) | — |
| Income tax effect of non-GAAP adjustments | (0.31) | 0.02 | 0.02 | (0.10) | (0.15) | (0.06) |
| Diluted net income per share on a non-GAAP basis* | <u>\$ 0.96</u> | <u>\$ 1.29</u> | <u>\$ 1.22</u> | <u>\$ 1.26</u> | <u>\$ 1.38</u> | <u>\$1.10 - \$1.14</u> |
| Shares used in calculation of diluted net income per share | 272,997 | 273,159 | 272,996 | 272,427 | 272,419 | |

* **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.

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

| (In Thousands, Except Per Share Data) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024E |
|---|----------------|----------------|----------------|----------------|----------------|----------------|------------------------|
| Diluted net income per share on a GAAP basis | \$ 1.23 | \$ 3.53 | \$ 2.11 | \$ 2.50 | \$ 3.09 | \$ 3.82 | \$4.08 - \$4.18 |
| Stock-based compensation expense | 0.60 | 0.65 | 0.71 | 0.75 | 0.98 | 1.19 | 1.36 |
| Amortization of acquired intangibles | 0.19 | 0.19 | 0.23 | 0.24 | 0.22 | 0.23 | 0.24 |
| Acquisition and integration-related costs | 0.07 | 0.03 | 0.08 | 0.08 | 0.15 | 0.21 | 0.14 |
| Restructuring | 0.04 | 0.03 | 0.03 | — | — | 0.04 | — |
| Non-qualified deferred compensation expenses (credits) | (0.01) | 0.02 | 0.02 | 0.02 | (0.03) | 0.04 | — |
| Special charges** | — | — | — | 0.10 | — | — | — |
| Other income or expense related to investments and non-qualified deferred compensation plan assets*** | — | (0.01) | — | (0.03) | 0.05 | (0.17) | — |
| Income tax benefit related to intercompany transfers of certain intellectual property rights | — | (2.05) | — | — | — | — | — |
| Income tax effect of non-GAAP adjustments | (0.25) | (0.19) | (0.38) | (0.37) | (0.19) | (0.21) | 0.05 |
| Diluted net income per share on a non-GAAP basis* | <u>\$ 1.87</u> | <u>\$ 2.20</u> | <u>\$ 2.80</u> | <u>\$ 3.29</u> | <u>\$ 4.27</u> | <u>\$ 5.15</u> | <u>\$5.87 - \$5.97</u> |
| Shares used in calculation of diluted net income per share | 281,144 | 280,515 | 279,641 | 278,858 | 275,011 | 272,748 | 271.5 - 273.5M |

* **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 2022 | FY 2023 | FY 2024E |
|--|----------------|----------------|------------------------|
| GAAP total other income and expense | \$ (28) | \$ 31 | \$(10) - \$(18) |
| Reconciling items to non-GAAP total income and expense | | | |
| Other income or expense related to investments and non-qualified deferred compensation plan assets** | 14 | (46) | — |
| Non-GAAP total other income and expense* | <u>\$ (14)</u> | <u>\$ (15)</u> | <u>\$(10) - \$(18)</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.