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IDEA

May 28, 2026 09:43 AM GMT

Synopsys Inc. | North America

2027 Set-up Yet to Emerge

WHAT'S CHANGED

Synopsys Inc. (SNPS.O)	From	To
Price Target	US$480.00	**US$525.00**

While 2Q26 was in line, we think the medium-term case for SNPS rests on (i) the co-design offering, (ii) the silicon to systems strategy and (iii) turning joint Synopsys-Ansys products into repeatable, large-scale customer workflows. We remain EW, but lift our PT to $525.

Key Takeaways

- A solid Q2 print and Q3 guide, with a better than expected Design IP (Q2: $454m or 5% beat), whilst core EDA was largely in line.
- Management said upside reflected broad-based strength, but also included a $12.5m accounting impact.
- c.50% of committed cost synergies are expected by end of FY26, with the first-phase revenue synergies of $400m expected to begin in FY27.
- We think the medium-term case rests on physical AI progress.
- We lift our estimates slightly to an OP% of 43% for next year (prior c.42.5%) and now see $18.05 EPS next year (prior $17.80).

Towards 2027 and Physical AI. While the quarter itself was relatively clean, management sounded more measured than upbeat on the recovery path ahead. Our read is that the medium-term case increasingly rests on three pillars:

- First, AI is driving a structural rise in engineering **complexity**, which should support higher demand for advanced design software. Activity in 3D chip design and related hardware workflows remains supportive, and management pointed to a leading hyperscaler using multiphysics sign-off tools for a new accelerator tape-out. **In our view, the key debate for investors is whether Synopsys can convince the market that its co-design offering is as strategically important as competing platforms**.
- Second, the company is broadening its positioning from a traditional electronic design automation vendor to a wider **"silicon-to-systems"** engineering platform. The Ansys acquisition is central to this strategy, extending the company into physics simulation, digital twins and system-level modelling. **We see this as a meaningful strategic shift, with implications that likely extend beyond 2027**.
- Third, **AgentEngineer and Multiphysics Fusion** appear to be the first tangible products that begin to validate the Synopsys-Ansys combination, although both remain at an early evaluation stage. In our view, turning these tools into repeatable, large-scale customer workflows will be important if

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Synopsys Inc. (SNPS.O, SNPS US)

Semiconductors | United States of America

Stock Rating	**Equal-weight**
Industry View	**Attractive**
Price target	**US$525.00**
Shr price, close (May 27, 2026)	US$525.92
52-Week Range	US$651.73-376.18
Mkt cap, curr (mn)	US$82,324
Net debt (10/26e) (mn)*	US$7,103
EV, curr (mn)*	US$92,848

* = GAAP or approximated based on GAAP

Fiscal Year Ending	10/25	10/26e	10/27e	10/28e
Sales / Revenue (US$ mn)**	7,054	9,767	10,796	11,936
EBITDA (US$ mn)**	3,293	6,433	6,309	7,349
EBIT (US$ mn)**	2,633	4,705	4,644	4,981
EPS (US$)**	12.99	14.91	18.05	19.80
Prior EPS (US$)**	-	14.46	17.80	19.76
EPS (US$)§	12.85	14.45	17.11	20.38
P/E**	34.9	35.3	29.1	26.6
EV/revenue*	12.2	9.2	8.2	7.3
EV/EBITDA**	26.1	13.9	14.0	11.8
EV/EBIT**	32.6	19.0	19.0	17.4
DPS (US$)	0.00	0.00	0.00	0.00
Div yld (%)	0.0	0.0	0.0	0.0
FCF yld ratio (%)**	2.7	2.0	3.4	(1.6)
Net debt (US$ mn)*	10,524	7,103	5,797	4,513
Net debt/EBITDA**	3.2	1.1	0.9	0.6
RNOA (%)**	50.7	9.2	10.8	11.3
ROE (%)**	23.6	10.0	11.1	11.6

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
§ = Consensus data is provided by Refinitiv Estimates
* = GAAP or approximated based on GAAP
** = Based on consensus methodology
e = Morgan Stanley Research estimates

the company is to participate fully in what management describes as the **physical AI opportunity**.

A change of accounts boosts Ansys sales. Q2 came in ahead of guidance on both revenue and EPS, while the backlog declined modestly quarter on quarter to around $11bn. Management said the upside reflected broad-based strength, but also included a $12.5m accounting impact related to a change in how Ansys channel revenue is recognised (moving to a gross basis recognition). A similar $12.5m offset in costs was seen, leaving EPS and free cash flow broadly unchanged. More broadly, the company now expects around $60m of revenue benefit in FY26 from continued Ansys channel realignment, including the Q2 contribution, again matched by a comparable cost increase. Management also pointed to roughly $35m of underlying business outperformance in H1. Offsetting this, the imminent closure of the processor IP divestment is expected to create an approximately $40m revenue headwind through the balance of the year.

What was reported. Synopsys reported Q2 FY2026 revenue of $2.28bn, including around $652m from Ansys and a $12.5m gross-basis channel accounting adjustment. The non-GAAP operating margin was 39.5%, with costs below guidance helped by realised Synopsys-Ansys synergies. Non-GAAP EPS were $3.35, ahead of guidance, while GAAP EPS were $0.09 and remained affected by accelerated restructuring charges. Backlog ended the quarter at $11bn. The company raised FY26 guidance to revenue of $9.625-9.705bn, non-GAAP operating margin of around 41%, and non-GAAP EPS of $14.72-14.80, an increase of $0.34 at the midpoint. Q3 guidance was set at revenue of $2.41-2.46bn and non-GAAP EPS of $3.63-3.69. FY26 free cash flow guidance was also raised by $100m to around $2bn.

Modest estimate changes. The merit work integrating legacy costs/incentives has started, but gains impact across Q3/Q4 (to realign Synopsys-Ansys accounting), and it was confirmed that the deal synergies (e.g., $400m annual cost savings) have been pulled forward to 2026-27 as the company has learnt fast where the synergies can be achieved. Much of this already informs the guide (unchanged) of c.41% operating margin this year. But beyond this restructuring (including merit changes and headcount cuts), we still struggle to see >200bps margin leverage on LDD% sales growth in FY27, given the ongoing need for R&D and stubbornly slow growth outside of IP, hardware and systems (perhaps). All told, we nudge up our estimates slightly to an OP% of 43% for next year (prior c.42.5%) and now see $18.05 EPS next year (prior $17.80).

Valuation. We think opportunities in systems simulation still present a multi-year growth driver, although near-term share price movement will likely depend on convincing the market of this systems promise and reinvigorating core EDA growth. We make only modest changes to our FY26 numbers, in line with guidance ($9.77bn sales, $14.91 diluted EPS), and, as mentioned, slightly raise FY27 earnings by 13bps on relatively unchanged sales, meaning that earnings growth slows (3-year CAGR of c.11% over FY24-27e). Given the slow underlying EDA growth, we keep our 1-year forward P/E multiple range to 30-35x for Synopsys; this sets our new price target at $525 (prior $480). We remain Equal-weight pending greater visibility on profitability from the integration of Ansys and a return to teens % growth in EDA.

Financials

Other points made on the call

Synopsys gave a solid Q2 print and Q3 guidance, and delivered a better than expected Design IP (Q2: $454m or 5% beat) whilst core EDA was largely in line. Notable this quarter was a beat on adjusted EPS at $3.35 vs $3.16 expected.

Rhetoric points to "durable growth". CEO Sassine Ghazi noted the business is at several "inflection points", with AI-driven demand enabling new monetisation models across IP, EDA and simulation. Long-term visibility is underpinned by the backlog and management plans to detail growth drivers at an Investor Day on September 30.

Ansys synergies unchanged. Integration is progressing as planned; Synopsys is embedding Ansys EDA tools into its direct sales channel while using Ansys' partner network to reach industrial, automotive and aerospace customers. Around 50% of committed cost synergies are expected by the end of FY26 (October year-end), with the first-phase revenue synergies of $400m (semiconductor multiphysics) expected to begin in FY27.

China – as you were. Q2 sequential growth in China was attributed to the Ansys addition, but underlying design-start activity remains "challenged" due to cumulative export restrictions. Management kept its full-year China guidance unchanged, describing its stance as "pragmatic".

Multiphysics Fusion: The offering integrates Ansys solvers into the EDA design flow, delivering up to a claimed 3x faster design closure and 2x faster turnaround for complex analog designs in early trials. As mentioned, a leading HPC provider used the unified solution to tape out a next-generation AI accelerator in Q2. Management says broad commercial availability is targeted for 2H26.

Exhibit 1: SNPS Annual Income Statement

Annual Income Statement	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026e	2027e	2028e
Revenues	**2,725**	**3,121**	**3,361**	**3,685**	**4,204**	**5,082**	**5,843**	**6,127**	**7,054**	**9,767**	**10,796**	**11,936**
Cost of goods Sold	-654	-736	-753	-795	-862	-1,064	-1,222	-1,245	-1,624	-2,600	-2,799	-3,193
Gross profit	2,071	2,385	2,608	2,891	3,342	4,018	4,620	4,882	5,431	7,167	7,997	8,744
R&D	-909	-1,085	-1,137	-1,279	-1,505	-1,680	-1,947	-2,082	-2,479	-3,015	-3,293	-3,581
SG&A	-746	-886	-862	-917	-1,035	-1,134	-1,299	-1,428	-1,844	-2,232	-2,300	-2,459
Other income/(expenses)	-68	-55	-88	-75	-67	-42	-105	-16	-193	-895	-721	-631
EBIT (reported)	348	360	520	620	735	1,162	1,269	1,356	915	1,024	1,684	2,073
EBIT (non-GAAP)	649	691	839	1,032	1,281	1,675	2,048	2,362	2,633	4,705	4,644	4,981
EBITDA (Non-GAAP)	**838**	**900**	**1,040**	**1,242**	**1,485**	**1,904**	**2,295**	**2,657**	**3,293**	**6,433**	**6,309**	**7,349**
Net Financials & other	36	3	25	18	71	-47	33	158	478	-457	-423	-363
PBT (reported)	383	364	546	638	806	1,116	1,302	1,514	1,393	567	1,260	1,710
Income Tax	-247	69	-13	25	-49	-137	-84	-100	-56	-136	-131	-209
Minorities	0	0	0	1	1	6	12	28	1	1	1	1
Income (loss) from Discontinued Operations								822	4			
Net Income (reported)	**137**	**433**	**532**	**664**	**758**	**985**	**1,230**	**2,263**	**1,332**	**432**	**1,130**	**1,502**
Net Income (Non-GAAP)	**529**	**574**	**719**	**865**	**1,077**	**1,393**	**1,737**	**2,058**	**2,134**	**2,846**	**3,476**	**3,806**
EPS ($) - Basic	0.91	2.90	3.55	4.40	4.96	6.44	8.08	14.76	8.10	2.27	5.89	7.84
EPS ($) - Diluted	**0.88**	**2.82**	**3.45**	**4.27**	**4.81**	**6.29**	**7.92**	**14.52**	**8.02**	**2.26**	**5.87**	**7.81**
EPS ($) - Basic (Non-GAAP)	3.52	3.85	4.80	5.72	7.05	9.10	11.42	13.42	13.11	14.97	18.12	19.87
EPS ($) - Diluted (Non-GAAP)	**3.42**	**3.74**	**4.66**	**5.55**	**6.84**	**8.90**	**11.19**	**13.20**	**12.99**	**14.91**	**18.05**	**19.80**
	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026e**	**2027e**	**2028e**
Sales growth - yy	12%	15%	8%	10%	14%	21%	15%	5%	15%	38%	11%	11%
Gross margin	76.0%	76.4%	77.6%	78.4%	79.5%	79.1%	79.1%	79.7%	77.0%	73.4%	74.1%	73.3%
EBIT margin (reported)	12.8%	11.5%	15.5%	16.8%	17.5%	22.9%	21.7%	22.1%	13.0%	10.5%	15.6%	17.4%
EBIT margin (Non-GAAP)	**23.8%**	**22.1%**	**25.0%**	**28.0%**	**30.5%**	**33.0%**	**35.1%**	**38.5%**	**37.3%**	**48.2%**	**43.0%**	**41.7%**
EBITDA margin	30.8%	28.8%	31.0%	33.7%	35.3%	37.5%	39.3%	43.4%	46.7%	65.9%	58.4%	61.6%
PBT margin	14.1%	11.6%	16.2%	17.3%	19.2%	22.0%	22.3%	24.7%	19.7%	5.8%	11.7%	14.3%
Net margin (reported)	5.0%	13.9%	15.8%	18.0%	18.0%	19.4%	21.1%	36.9%	18.9%	4.4%	10.5%	12.6%
Net margin (Non-GAAP)	19.4%	18.4%	21.4%	23.5%	25.6%	27.4%	29.7%	33.6%	30.3%	29.1%	32.2%	31.9%
Effective tax rate	-64%	19%	-2%	4%	-6%	-12%	-6%	-7%	-4%	-24%	-10%	-12%

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 2: SNPS Quarterly Income Statement

Quarterly Income Statement	1Q25	2Q25	3Q25	4Q25	FY25	1Q26	2Q26	3Q26e	4Q26e	FY26e
Revenues	**1,455**	**1,604**	**1,740**	**2,255**	**7,054**	**2,409**	**2,276**	**2,481**	**2,601**	**9,767**
Cost of goods Sold	-270	-318	-381	-655	-1,624	-637	-630	-641	-692	-2,600
Gross profit	1,185	1,286	1,359	1,600	5,431	1,771	1,646	1,839	1,910	7,167
R&D	-553	-554	-625	-747	-2,479	-715	-700	-794	-806	-3,015
SG&A	-376	-352	-540	-576	-1,844	-579	-554	-541	-557	-2,232
Other income/(expenses)	361	345	141	-115	732	-1,568	-1,526	-1,520	-1,529	-6,143
EBIT (reported)	252	376	165	121	915	203	120	320	381	1,024
EBIT (Non-GAAP)	531	609	670	823	2,633	1,710	900	1,013	1,082	4,705
EBITDA	**549**	**425**	**280**	**571**	**1,575**	**654**	**577**	**729**	**793**	**2,753**
Net Financials & other	39	20	24	395	478	-124	-101	-119	-113	-457
PBT (reported)	291	396	189	517	1,393	79	19	201	268	567
Income Tax	6	-47	53	68	56	-14	-2	-52	-64	-136
Minorities	-2	0	0	0	-1	0	0	0	0	1
Income (loss) from Discontinued Operations	0	0	0	0	-4	0	0	0	0	0
Net Income (reported)	**296**	**349**	**243**	**449**	**1,332**	**65**	**17**	**148**	**204**	**432**
Net Income (Non-GAAP)	**473**	**573**	**549**	**543**	**2,134**	**718**	**644**	**712**	**774**	**2,846**
EPS ($) - Basic	1.91	2.25	1.51	2.42	8.10	0.34	0.09	0.78	1.07	2.27
EPS ($) - Diluted	**1.89**	**2.24**	**1.50**	**2.39**	**8.02**	**0.34**	**0.09**	**0.77**	**1.06**	**2.26**
EPS ($) - Basic (Non-GAAP)	3.06	3.70	3.43	2.92	13.11	3.79	3.36	3.72	4.04	14.97
EPS ($) - Diluted (Non-GAAP)	**3.03**	**3.67**	**3.39**	**2.90**	**12.99**	**3.77**	**3.35**	**3.71**	**4.03**	**14.91**
DPS ($)	0.00	0.00	0.00	0.00	0.00					
	1Q25	**2Q25**	**3Q25**	**4Q25**	**FY25**	**1Q26**	**2Q26**	**3Q26e**	**4Q26e**	**FY26e**
Sales growth - qq		10.2%	8.4%	29.6%	--		-5.5%	9.0%	4.9%	--
Gross margin	81.4%	80.2%	78.1%	71.0%	77.0%	73.5%	72.3%	74 [illegible]	[illegible]	[illegible]
EBIT margin (reported)	17.3%	23.5%	9.5%	5.4%	13.0%	8.4%	5.3%	12 [illegible]	[illegible]	[illegible]
EBIT margin (Non-GAAP)	**36.5%**	**38.0%**	**38.5%**	**36.5%**	**37.3%**	**71.0%**	**39.5%**	**40** [illegible]	[illegible]	[illegible]
EBITDA margin	37.7%	26.5%	16.1%	25.3%	22.3%	27.1%	25.3%	29 [illegible]	[illegible]	[illegible]
PBT margin	20.0%	24.7%	10.9%	22.9%	19.7%	3.3%	0.8%	8. [illegible]	[illegible]	[illegible]
Net margin (reported)	20.3%	21.8%	13.9%	19.9%	18.9%	2.7%	0.8%	6. [illegible]	[illegible]	[illegible]
Net margin (Non-GAAP)	32.5%	35.7%	31.6%	24.1%	30.3%	29.8%	28.3%	28 [illegible]	[illegible]	[illegible]
Effective tax rate	2%	-12%	28%	13%	4%	-18%	-12%	-2 [illegible]	[illegible]	[illegible]

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 3: SNPS Annual Balance Sheet

Annual Balance Sheet	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026e	2027e	2028e
Cash & cash equivalents	1,048	723	729	1,236	1,433	1,418	1,439	3,897	2,888	2,860	3,166	3,448
Financial investments	0	0	0	0	148	148	152	154	73	72	72	74
Acc. receivables	451	554	554	781	569	796	947	934	1,505	1,850	2,045	2,261
Inventories	62	122	142	192	229	212	326	362	365	523	563	642
Income Taxes rec.	48	77	25	32	32	0	0	0	0	0	0	0
Prepaids & Other	73	68	290	308	398	439	568	1,123	1,181	1,195	1,195	1,195
ST assets HFS								0		0	0	0
Total current assets	**1,683**	**1,544**	**1,739**	**2,549**	**2,808**	**3,013**	**3,431**	**6,470**	**6,012**	**6,500**	**7,041**	**7,620**
PP&E	266	309	430	484	472	483	557	563	697	958	1,100	699
Goodwill & Other Intagibles	2,961	3,504	3,451	3,619	3,855	4,229	4,445	3,644	39,579	38,729	38,729	38,729
Op. Lease	0	0	0	466	493	559	569	566	702	697	697	697
Deferred tax assets	244	404	390	498	511	671	861	1,247	112	114	114	114
Prepaid taxes & Other	243	385	396	414	613	464	471	584	1,123	1,197	1,197	1,197
Total non-current assets	**3,714**	**4,602**	**4,666**	**5,481**	**5,944**	**6,405**	**6,903**	**6,604**	**42,212**	**41,695**	**41,837**	**41,436**
Total assets	**5,396**	**6,146**	**6,405**	**8,030**	**8,752**	**9,418**	**10,333**	**13,074**	**48,224**	**48,195**	**48,878**	**49,056**
Short-term debt	10	344	18	27	75	0	0	0	22	22	22	22
Trade & other payables	500	578	506	624	695	809	1,124	1,164	1,326	1,426	1,450	1,520
Op. Lease liabilities	0	0	0	73	80	54	86	95	128	136	136	136
Income tax payable	40	27	16	28	46	0	0	0	0	0	0	0
Deferred Revenues	1,065	1,153	1,212	1,388	1,518	1,911	1,776	1,392	2,246	2,617	2,807	2,984
Total current liabilities	**1,614**	**2,102**	**1,752**	**2,140**	**2,413**	**2,774**	**2,985**	**2,650**	**3,722**	**4,201**	**4,414**	**4,662**
Long-term debt	134	126	120	101	25	21	18	16	13,462	10,013	9,013	8,013
Deferred tax liabilities	83	117	90	105	136	154	175	341	383	389	389	389
Op. Lease liabilities	33	51	30	25	28	0	0	0	0	0	0	0
Deferred Revs & Other	252	266	324	747	851	909	970	1,044	2,330	2,286	2,286	2,286
Total non-current liabilities	**503**	**559**	**564**	**978**	**1,040**	**1,084**	**1,163**	**1,400**	**16,175**	**12,688**	**11,688**	**10,688**
Total liabilities	**2,117**	**2,661**	**2,316**	**3,118**	**3,453**	**3,859**	**4,149**	**4,050**	**19,897**	**16,889**	**16,102**	**15,350**
Total net assets	**3,280**	**3,485**	**4,089**	**4,912**	**5,299**	**5,559**	**6,184**	**9,023**	**28,327**	**31,306**	**32,776**	**33,706**
Total equity	**3,280**	**3,485**	**4,089**	**4,912**	**5,299**	**5,559**	**6,184**	**9,023**	**28,327**	**31,257**	**32,776**	**33,706**
Net debt:												
Total Debt	-144	-469	-138	-128	-100	-21	-18	-16	-13,485	-10,035	-9,035	-8,035
Total "Cash"	1,048	723	729	1,236	1,581	1,566	1,591	4,050	2,961	2,932	3,238	3,522
Net cash/(debt)	**904**	**254**	**591**	**1,108**	**1,481**	**1,545**	**1,572**	**4,035**	**-10,524**	**-7,103**	**-5,797**	**-4,513**

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 4: SNPS Valuation Matrix and Ratio Analysis

Valuation Matrix ($m)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026e	2027e	2028e
Share Price ($)	**76.2**	**89.8**	**123.2**	**185.8**	**287.7**	**316.5**	**514.9**	**485.4**	**525.0**	**525.0**	**525.0**	**525.0**
Number of Shares (m)	150	149	150	151	153	153	152	153	164	190	192	192
Market Cap ($m) - average	**11,462**	**13,386**	**18,470**	**28,081**	**43,925**	**48,427**	**78,340**	**74,446**	**86,072**	**99,796**	**100,719**	**100,559**
Net debt/(cash) ($m) - average	-904	-254	-591	-1,108	-1,481	-1,545	-1,572	-4,035	10,524	7,103	5,797	4,513
Enterprise Value ($m) - average	**10,557**	**13,133**	**17,879**	**26,973**	**42,444**	**46,882**	**76,768**	**70,411**	**96,596**	**106,899**	**106,515**	**105,072**
P/E (x)	22.3	24.0	26.4	33.5	42.0	35.6	46.0	36.8	40.4	35.2	29.1	26.5
P/E FY1 (x)	**20.4**	**19.3**	**22.2**	**27.1**	**32.3**	**28.3**	**39.0**	**37.4**	**35.2**	**29.1**		
Price/book value (x)	3.5	3.8	4.5	5.7	8.3	8.7	12.7	8.3	3.0	3.2	3.1	3.0
Price/FCF (x)	20.4	41.5	30.9	33.7	31.4	30.3	51.8	34.6	42.7	50.4	29.0	-62.0
EV/Sales (x)	3.9	4.2	5.3	7.3	10.1	9.2	13.1	11.5	13.7	10.9	9.9	8.8
EV/Sales FY1 (x)	**3.4**	**3.9**	**4.9**	**6.4**	**8.4**	**8.0**	**12.5**	**10.0**	**9.9**	**9.9**		
EV/EBITDA (x)	12.6	14.6	17.2	21.7	28.6	24.6	33.4	26.5	29.3	16.6	16.9	14.3
EV/EBITDA FY1 (x)	**11.7**	**12.6**	**14.4**	**18.2**	**22.3**	**20.4**	**28.9**	**21.4**	**15.0**	**16.9**		
EV/IC (x)	3.3	3.4	4.4	6.1	9.6	9.5	14.9	16.2	2.4	2.6		
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield	4.9%	2.4%	3.2%	3.0%	3.2%	3.3%	1.9%	2.9%	2.3%	2.0%	3.5%	-1.6%
Per share data ($):												
EPS - Diluted	**3.4**	**3.7**	**4.7**	**5.6**	**6.8**	**8.9**	**11.2**	**13.2**	**13.0**	**14.9**	**18.0**	**19.8**
Dividends per share	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	3.7	2.2	4.0	5.5	9.1	10.5	9.9	14.0	12.3	10.4	18.1	-8.5
Book value per share	21.8	23.4	27.3	32.5	34.7	36.3	40.6	58.8	172.8	164.4	170.8	176.0

Ratio Analysis	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026e	2027e	2028e
ROCE	9%	8%	11%	11%	12%	18%	18%	21%	2%	2%	4%	5%
ROIC	19%	7%	13%	13%	18%	26%	26%	34%	3%	3%	4%	5%
ROE	4%	13%	14%	15%	15%	18%	21%	30%	7%	1%	4%	5%
Interest cover (x)	114.7	57.7	89.2	241.6	441.3	1,121.0	1,948.4	75.6	7.4	11.6	13.0	16.8
Cash Conversion	1.3	2.1	1.3	1.3	1.0	1.1	1.3	1.2	1.5	2.9	1.7	-5.5
Net debt/Equity	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.4	0.2	0.2	0.1
Dividend/FCF	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Payout ratio (DPS/EPS)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Capex/Sales	3%	3%	6%	4%	2%	3%	3%	2%	2%	2%	1%	2%
yy growth:												
Sales growth	12.5%	14.5%	7.7%	9.7%	14.1%	20.9%	15.0%	4.9%	15.1%	38.5%	10.5%	10.6%
EBIT growth	9.5%	3.6%	44.4%	19.2%	18.5%	58.1%	9.2%	6.8%	-32.5%	11.9%	64.4%	23.1%
EBITDA growth	7.9%	7.4%	15.6%	19.3%	19.6%	28.2%	20.6%	15.8%	23.9%	95.3%	-1.9%	16.5%
EPS growth	-49.1%	220.5%	22.3%	23.8%	12.6%	30.8%	25.9%	83.4%	-44.8%	-71.8%	159.2%	33.1%
FCF growth	8.8%	-42.5%	85.6%	39.2%	67.8%	14.5%	-5.5%	42.4%	-6.3%	-1.8%	75.6%	-146.7%
Dividend growth	na	na	na	na	na	na	na	na	na	na	na	na
Margin structure:												
Gross margin	76.0%	76.4%	77.6%	78.4%	79.5%	79.1%	79.1%	79.7%	77.0%	73.4%	74.1%	73.3%
EBIT margin	12.8%	11.5%	15.5%	16.8%	17.5%	22.9%	21.7%	22.1%	13.0%	10.5%	15.6%	17.4%
EBITDA margin	30.8%	28.8%	31.0%	33.7%	35.3%	37.5%	39.3%	43.4%	46.7%	65.9%	58.4%	61.6%
PBT margin	14.1%	11.6%	16.2%	17.3%	19.2%	22.0%	22.3%	24.7%	19.7%	5.8%	11.7%	14.3%
Net margin	5.0%	13.9%	15.8%	18.0%	18.0%	19.4%	21.1%	36.9%	18.9%	4.4%	10.5%	12.6%

Source: Company data, Morgan Stanley Research estimates (e); na = not meaningful

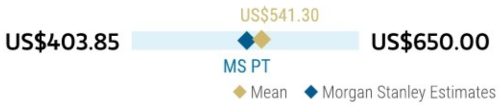
Risk Reward – Synopsys Inc. (SNPS.O)

Multi-year growth drivers dependent on execution

PRICE TARGET US$525.00

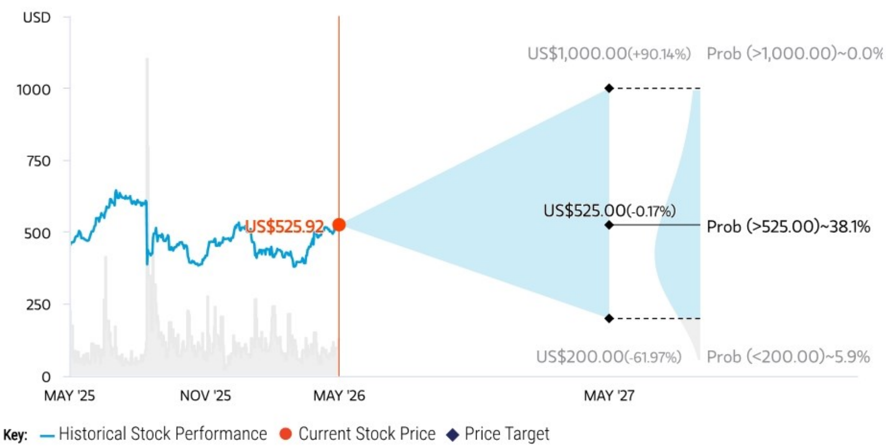
The sector is trading on a 30-35x P/E multiple range. We expect Synopsys to trade in line and apply a c.35x P/E multiple to estimated FY26 EPS ($14.91).

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

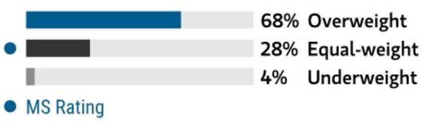


Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 27 May 2026. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

EQUAL-WEIGHT THESIS

We think opportunities in systems simulation still present a multi-year growth driver, although near-term share price movement will likely depend on convincing the market of this systems promise and reinvigorating core EDA growth. Given the business uncertainty into 2H26/1H27 and slowing underlying EDA growth, we assume a 1-year forward P/E multiple range of 30-35x in setting our price target of $525. We are Equal-weight pending (i) greater visibility on profitability from the integration of Ansys, (ii) a return to teens % growth in EDA and (iii) evidence that the co-design offering is as strategically important as competing platforms.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

New Data Era:	*Positive*
Secular Growth:	*Positive*
Technology Diffusion:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE US$1,000.00

Accelerating HPC chip development & security test

Synopsys sees better gains than modelled in AI as design range and complexity expand through the rest of this decade at a faster pace than expected. Edge AI and new autos compute (ADAS, SDV driven) add further momentum. Software testing finds a large, niche market (security?) and moves to corporate average margins within 3 years. We estimate Synopsys could reach c.$25 EPS on such accelerating development trends, which on a cycle high of c.40x could see a c.$1,000 share price.

BASE CASE US$525.00

Multi-year growth drivers dependent on execution

We think opportunities in systems simulation present a multi-year growth driver, although share price movement in the near term will likely depend on convincing of this systems promise and reinvigorating core EDA growth. We model EPS of $14.91 by FY26 and, applying c. 35x P/E multiple, we reach a $525 base case valuation.

BEAR CASE US$200.00

Slowing AI development as macro trumps secular

Assumes that demand for Synopsys' tools and IP wanes as the down-cycle in Semis becomes deep enough even to directly affect strategic spend (R&D) in design flow. Chip development is postponed at key customers as macro weakness and weak demand visibility continue, dampening sales growth to low single digits, with support mainly from high recurring revenues. In this scenario, we see FY26 EPS at c.$8, which on a cycle trough of c.25x could see the share price pared back to c.$200.

Risk Reward – Synopsys Inc. (SNPS.O)

KEY EARNINGS INPUTS

Drivers	2025	2026e	2027e	2028e
Sales growth - yy (%)	15.1	38.5	10.5	10.6
Gross margin (%)	77.0	73.4	74.1	73.3
EBIT margin (reported) (%)	13.0	10.5	15.6	17.4

INVESTMENT DRIVERS

- Attractive portfolio positioned for growth (AI chip development)
- Sustained earnings leverage on double-digit EDA sales CAGR
- Structural opportunities including Physical AI
- Automotive and industrial recovery
- Joint Synopsys-Ansys products

GLOBAL REVENUE EXPOSURE

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

4/5 BEST	24 Month Horizon	5/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Bigger ramp-up in AI ASICs and GPUs than modelled
- Quicker recovery in Automotive & industrial
- Design wins at expense of peers with Ansys products
- Strong recovery in IP business (esp. in China)

RISKS TO DOWNSIDE

- Scale and duration of downturn seeing deeper R&D cuts
- Further tightening of export controls
- Loss of share to new entrant EDA players given localisation trends
- Failure to hit cost synergies from Ansys merger

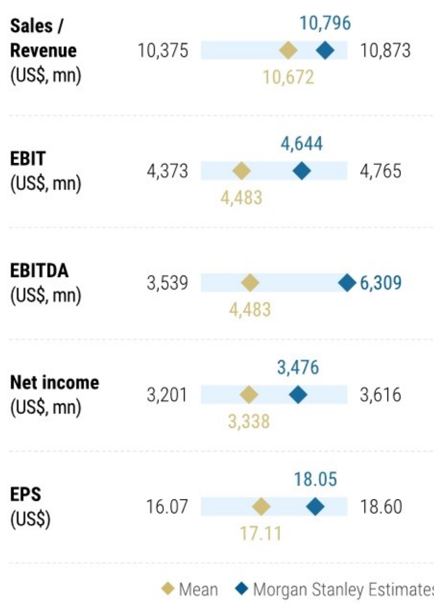
OWNERSHIP POSITIONING

Inst. Owners, % Active	53.8%
HF Sector Long/Short Ratio	2x
HF Sector Net Exposure	25.3%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Oct 2027e



Source: Refinitiv, Morgan Stanley Research

Risk Reward Reference links

1. View explanation of Options Probabilities methodology - Options_Probabilities_Exhibit_Link.pdf

2. View descriptions of Risk Rewards Themes - RR_Themes_Exhibit_Link.pdf

3. View explanation of regional hierarchies - GEG_Exhibit_Link.pdf

4. View explanation of Theme/Exposure methodology - ESG_Sustainable_Solutions_External_Link.pdf

5. View explanation of HERS methodology - ESG_HERS_External_Link.pdf

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(as of April 30, 2026)

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	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1546	42%	467	51%	30%	709	44%
Equal-weight/Hold	1568	43%	358	39%	23%	715	44%
Not-Rated/Hold	4	0%	0	0%	0%	1	0%
Underweight/Sell	555	15%	84	9%	15%	202	12%
Total	3,673		909			1627	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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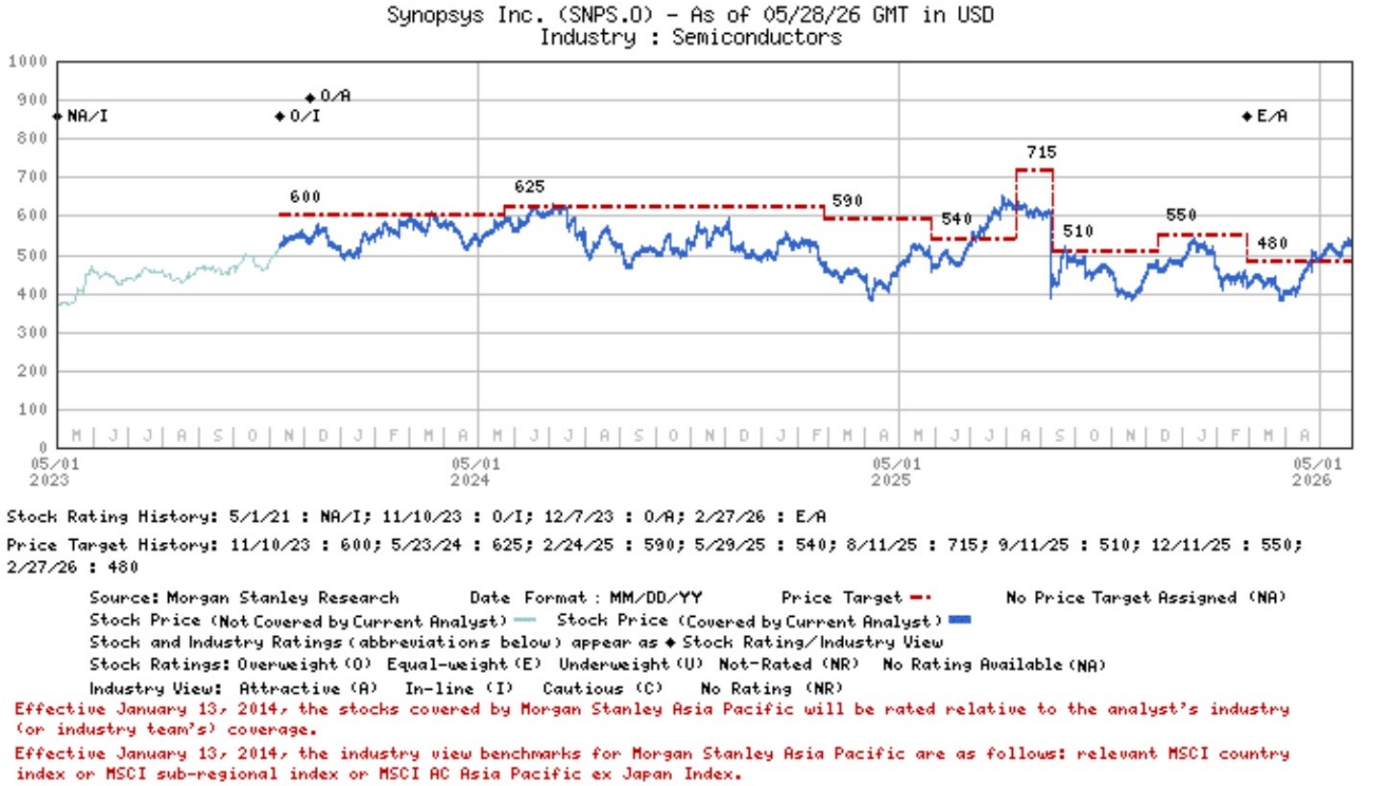
Stock Price, Price Target and Rating History (See Rating Definitions)



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INDUSTRY COVERAGE: Semiconductors

COMPANY (TICKER)	RATING (AS OF)	PRICE* (05/27/2026)
Joseph Moore		
Advanced Micro Devices (AMD.O)	E (06/09/2024)	US$495.54
Aeva Technologies Inc (AEVA.O)	E (07/19/2021)	US$29.29
Allegro Microsystems Inc (ALGM.O)	O (02/13/2026)	US$49.00
Ambarella Inc (AMBA.O)	O (03/29/2016)	US$90.58
Amkor Technology Inc (AMKR.O)	E (11/08/2023)	US$72.19
Analog Devices Inc. (ADI.O)	O (11/16/2023)	US$416.88
Astera Labs Inc (ALAB.O)	O (05/11/2025)	US$325.33
Broadcom Inc. (AVGO.O)	O (06/09/2024)	US$421.86
GlobalFoundries Inc (GFS.O)	E (10/28/2024)	US$81.11
Intel Corporation (INTC.O)	E (02/22/2023)	US$121.77
IonQ Inc (IONQ.N)	E (04/25/2023)	US$65.40
Marvell Technology Group Ltd (MRVL.O)	E (09/14/2015)	US$198.70
Microchip Technology Inc. (MCHP.O)	E (07/10/2024)	US$96.85
Micron Technology Inc. (MU.O)	O (10/06/2025)	US$928.41
Navitas Semiconductor Corp (NVTS.O)	U (04/06/2025)	US$28.88
NVIDIA Corp. (NVDA.O)	O (03/16/2023)	US$212.60
NXP Semiconductor NV (NXPI.O)	O (02/11/2025)	US$329.24
ON Semiconductor Corp. (ON.O)	E (05/11/2025)	US$124.89
Qorvo Inc (QRVO.O)	E (10/28/2025)	US$103.91
Qualcomm Inc. (QCOM.O)	U (02/10/2026)	US$233.40
SanDisk Corporation. (SNDK.O)	O (03/03/2025)	US$1,589.94
Semtech Corp. (SMTC.O)	E (04/06/2025)	US$157.20
Silicon Laboratories Inc. (SLAB.O)	E (01/19/2021)	US$218.06
Skyworks Solutions Inc (SWKS.O)	E (11/28/2018)	US$78.68
Texas Instruments (TXN.O)	U (04/13/2020)	US$317.45
Wolfspeed, INC (WOLF.N)	NR (04/06/2025)	US$63.26
Lee Simpson		
Arm Holdings plc (ARM.O)	E (04/07/2026)	US$302.71
Cadence Design Systems Inc (CDNS.O)	O (02/14/2024)	US$374.05

Synopsys Inc. (SNPS.O)	E (02/27/2026)	US$525.92

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* Historical prices are not split adjusted.