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IDEA

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Synopsys Inc. | North America

AI Expands the EDA Offering, PT to $574

WHAT'S CHANGED

	From	To
Synopsys Inc. (SNPS.O)		
Price Target	US$500.00	**US$574.00**

We think the market continues to undervalue Synopsys neglecting the revenue opportunity from AI. With the debate shifting to execution we move to valuing the stock on FY27 EPSe. We remain Overweight and lift our PT to $574.

Key Takeaways

- Synopsys trades on just 25x FY27 EPSe despite an 18% share price rise over the last month, well below its five-year average one-year forward P/E of 36x.
- We think the next step to a re-rating is execution. We look for delivery of targets, evidence of broadening customer partnerships and AI EPS accretion.
- We lift our FY27 EDA/Design IP/Simulation growth to 13%/15%/9% respectively, in-line with management commentary.
- We think the FY27 guidance looks achievable and see it likely for management to tighten this to the upper end at the Dec print.
- We remain OW and lift our PT to $574. We apply a 30x P/E multiple to our FY27e EPS of $19.12.

An underappreciated AI beneficiary. Synopsys trades on just 25x FY27 EPSe despite an 18% share price rise over the last month, well below its five-year average one-year forward P/E of 36x. We do not see this discount as warranted given AI-driven expansion of the EDA TAM and the emergence of a consumption-based model alongside the existing licence-based model. At last month's investor day, management outlined 3 AI frameworks: 1) Full Stack, 2) Customer Owned Platforms and Agents, and 3) Frontier Models (see more detail in *From Narrative to Execution*). While management have reiterated that these remain at an early stage, with limited visibility on earnings accretion, we think they meaningfully expand Synopsys' addressable market. **In our view, the next step to a re-rating is execution. We see the key checkpoints as delivery of investor day targets, evidence of broadening customer partnerships, and management commentary of earnings accretion from each AI platform.**

Achievable targets. At Synopsys' investor day, management provided a 2027 revenue/eps outlook alongside long-term targets for each segment. The company raised their growth outlooks for EDA to mid-teens and Design IP to high-teens (prior double-digits and mid-teens respectively) reflecting new AI revenue streams, the emergence of an Application Optimised IP model ('factory 2') and simulation

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Synopsys Inc. (SNPS.O, SNPS US)

Semiconductors | United States of America

Stock Rating	**Overweight**
Industry View	**Attractive**
Price target	**US$574.00**
Shr price, close (Oct 16, 2026)	US$454.63
52-Week Range	US$539.48-362.55
Mkt cap, curr (mn)	US$71,165
Net debt (10/26e) (mn)*	US$5,239
EV, curr (mn)*	US$81,688

* = GAAP or approximated based on GAAP

Fiscal Year Ending	10/25	10/26e	10/27e	10/28e
Sales / Revenue (US$ mn)**	7,054	9,717	10,896	12,351
EBITDA (US$ mn)**	3,293	5,832	6,412	7,538
EBIT (US$ mn)**	2,633	4,059	4,747	5,187
EPS (US$)**	12.99	15.19	19.12	23.14
Prior EPS (US$)**	-	15.12	17.96	20.18
EPS (US$)§	12.85	15.14	18.59	22.65
P/E**	34.9	29.9	23.8	19.6
EV/revenue*	12.2	7.9	6.7	5.8
EV/EBITDA**	26.1	13.1	11.3	9.5
EV/EBIT**	32.6	18.8	15.3	13.8
DPS (US$)	0.00	0.00	0.00	0.00
Div yld (%)	0.0	0.0	0.0	0.0
FCF yld ratio (%)**	2.7	3.2	4.5	(3.6)
Net debt (US$ mn)*	10,524	5,239	1,535	251
Net debt/EBITDA**	3.2	0.9	0.2	0.0
RNOA (%)**	50.7	8.4	12.5	13.9
ROE (%)**	23.6	10.3	11.3	12.4

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

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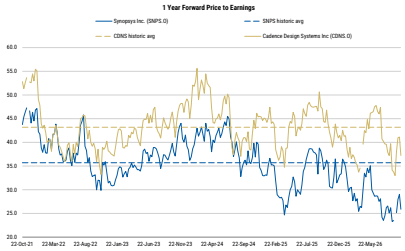
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opportunities (with Ansys converged products). We take a conservative view of these opportunities in our FY27 estimates modelling FY27 EDA, Design IP and Simulation growth at 13%/15%/9% respectively. All in, this lifts our FY27 EPSe to $19.12, at the top end of management's guidance. As such **we think the FY27 guidance looks achievable and see it likely for management to tighten this to the upper end at the Dec print (current EPS guidance at $19.04-19.12) which should help build confidence in Synopsys' ability to execute.**

Our thoughts on AI capex sensitivity: defensive in a downturn. While Synopsys' new IP model adds exposure to hyperscalers and increases sensitivity to capex, we maintain our view that EDA companies would be more defensive than the rest of our coverage in a downturn. Recurring revenue streams and contract structures mean that Synopsys and Cadence are traditionally less cyclical than the broader semiconductor industry. While we acknowledge the emergence of an application-optimised IP model could mean defensiveness weakens, this doesn't replace the existing business model. As such we would expect to see Synopsys and Cadence outperform the rest of our Semis coverage in the event of a downturn.

Interest in EDA remains low, but is picking up. EDA market interest continues to remain relatively smaller than the rest of our semiconductor coverage. That said, this has picked up from earlier in the year with the investor day clearly marking a turn in the narrative. With the debate now centering on execution we move to valuing the stock on FY27 EPSe. We apply a 30x P/E multiple, a discount to the historical average as we await further detail on possible earnings accretion, but a premium to where the stock currently trades, given upside optionality from the new AI revenue streams. We slightly lift our estimates for FY27e in line with the company's new targets. This takes our FY27 top line to $10.9bn ($10.8bn) and EPS to $19.12 (prior $17.96). Applying a 30x P/E multiple to our higher FY27 earnings base lifts our PT to $574. **We remain OW, PT $574.**

Exhibit 1: SNPS trades at a steep discount to its historical average as well as peer CDNS.



Source: FactSet, Morgan Stanley Research

Exhibit 2: Proof Points to Drive a Re-Rating

Catalyst
Delivery of Investor Day Targets
Evidence of Broadening Customer Partnerships
Mgmt commentary of EPS accretion from each AI platform

Source: Morgan Stanley Research

Financials

Exhibit 3: 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**	**9,717**	**10,896**	**12,351**
Cost of goods Sold	-654	-736	-753	-795	-862	-1,064	-1,222	-1,245	-1,624	-2,606	-2,776	-2,932
Gross profit	2,071	2,385	2,608	2,891	3,342	4,018	4,620	4,882	5,431	7,111	8,120	9,419
R&D	-909	-1,085	-1,137	-1,279	-1,505	-1,680	-1,947	-2,082	-2,479	-2,863	-3,064	-3,705
SG&A	-746	-886	-862	-917	-1,035	-1,134	-1,299	-1,428	-1,844	-2,255	-2,270	-2,544
Other income/(expenses)	-68	-55	-88	-75	-67	-42	-105	-16	-193	-1,023	-690	-630
EBIT (reported)	348	360	520	620	735	1,162	1,269	1,356	915	970	2,097	2,539
EBIT (non-GAAP)	649	691	839	1,032	1,281	1,675	2,048	2,362	2,633	4,059	4,747	5,187
EBITDA (Non-GAAP)	**838**	**900**	**1,040**	**1,242**	**1,485**	**1,904**	**2,295**	**2,657**	**3,293**	**5,832**	**6,412**	**7,538**
Net Financials & other	36	3	25	18	71	-47	33	158	478	-15	-417	-251
PBT (reported)	383	364	546	638	806	1,116	1,302	1,514	1,393	955	1,680	2,289
Income Tax	-247	69	-13	25	-49	-137	-84	-100	-56	-184	-20	36
Minorities	0	0	0	1	1	6	12	28	1	1	0	0
Income (loss) from Discontinued Operations								822	4			
Net Income (reported)	**137**	**433**	**532**	**664**	**758**	**985**	**1,230**	**2,263**	**1,332**	**771**	**1,660**	**2,325**
Net Income (Non-GAAP)	**529**	**574**	**719**	**865**	**1,077**	**1,393**	**1,737**	**2,058**	**2,134**	**2,910**	**3,677**	**4,443**
EPS ($) - Basic	0.91	2.90	3.55	4.40	4.96	6.44	8.08	14.76	8.10	4.04	8.67	12.16
EPS ($) - Diluted	**0.88**	**2.82**	**3.45**	**4.27**	**4.81**	**6.29**	**7.92**	**14.52**	**8.02**	**4.03**	**8.63**	**12.11**
EPS ($) - Basic (Non-GAAP)	3.52	3.85	4.80	5.72	7.05	9.10	11.42	13.42	13.11	15.26	19.20	23.23
EPS ($) - Diluted (Non-GAAP)	**3.42**	**3.74**	**4.66**	**5.55**	**6.84**	**8.90**	**11.19**	**13.20**	**12.99**	**15.19**	**19.12**	**23.14**
	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%	12%	13%
Gross margin	76.0%	76.4%	77.6%	78.4%	79.5%	79.1%	79.1%	79.7%	77.0%	73.2%	74.5%	76.3%
EBIT margin (reported)	12.8%	11.5%	15.5%	16.8%	17.5%	22.9%	21.7%	22.1%	13.0%	10.0%	19.2%	20.6%
EBIT margin (Non-GAAP)	**23.8%**	**22.1%**	**25.0%**	**26.0%**	**30.5%**	**33.0%**	**35.1%**	**38.5%**	**37.3%**	**41.8%**	**43.6%**	**42.0%**
EBITDA margin	30.8%	28.8%	31.0%	33.7%	35.3%	37.5%	39.3%	43.4%	46.7%	60.0%	58.8%	61.0%
PBT margin	14.1%	11.6%	16.2%	17.3%	19.2%	22.0%	22.3%	24.7%	19.7%	9.8%	15.4%	18.5%
Net margin (reported)	5.0%	13.9%	15.8%	18.0%	18.0%	19.4%	21.1%	36.9%	18.9%	7.9%	15.2%	18.8%
Net margin (Non-GAAP)	19.4%	18.4%	21.4%	23.5%	25.6%	27.4%	29.7%	33.6%	30.3%	30.0%	33.7%	36.0%
Effective tax rate	-64%	19%	-2%	4%	-6%	-12%	-6%	-7%	-4%	-19%	-1%	2%

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

Exhibit 4: SNPS Quarterly Income Statement

Quarterly Income Statement	1Q25	2Q25	3Q25	4Q25	FY25	1Q26	2Q26	3Q26	4Q26e	FY26e
Revenues	**1,455**	**1,604**	**1,740**	**2,255**	**7,054**	**2,409**	**2,276**	**2,477**	**2,555**	**9,717**
Cost of goods Sold	-270	-318	-381	-655	-1,624	-637	-630	-679	-659	-2,606
Gross profit	1,185	1,286	1,359	1,600	5,431	1,771	1,646	1,797	1,896	7,111
R&D	-553	-554	-625	-747	-2,479	-715	-700	-720	-728	-2,863
SG&A	-376	-352	-540	-576	-1,844	-579	-554	-563	-559	-2,255
Other income/(expenses)	361	345	89	-192	602	-1,568	-1,526	-1,440	-1,607	-6,141
EBIT (reported)	252	376	165	121	915	203	120	357	289	970
EBIT (Non-GAAP)	531	609	670	823	2,633	1,014	900	1,030	1,115	4,059
EBITDA	**549**	**425**	**280**	**571**	**1,575**	**654**	**577**	**812**	**700**	**2,743**
Net Financials & other	39	20	24	395	478	-124	-101	326	-117	-15
PBT (reported)	291	396	189	517	1,393	79	19	684	172	955
Income Tax	6	-47	53	68	56	-14	-2	-138	-27	-184
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**	**546**	**146**	**771**
Net Income (Non-GAAP)	**473**	**573**	**549**	**543**	**2,134**	**718**	**644**	**752**	**798**	**2,910**
EPS ($) - Basic	1.91	2.25	1.51	2.42	8.10	0.34	0.09	2.85	0.76	4.04
EPS ($) - Diluted	**1.89**	**2.24**	**1.50**	**2.39**	**8.02**	**0.34**	**0.09**	**2.84**	**0.76**	**4.03**
EPS ($) - Basic (Non-GAAP)	3.06	3.70	3.43	2.92	13.11	3.79	3.36	3.93	4.17	15.26
EPS ($) - Diluted (Non-GAAP)	**3.03**	**3.67**	**3.39**	**2.90**	**12.99**	**3.77**	**3.35**	**3.91**	**4.15**	**15.19**
DPS ($)	0.00	0.00	0.00	0.00	0.00					
	1Q25	**2Q25**	**3Q25**	**4Q25**	**FY25**	**1Q26**	**2Q26**	**3Q26**	**4Q26e**	**FY26e**
Sales growth - qq		10.2%	8.4%	29.6%	--		-5.5%	8.8%	3.2%	--
Gross margin	81.4%	80.2%	78.1%	71.0%	77.0%	73.5%	72.3%	72.6%	74.2%	73.2%
EBIT margin (reported)	17.3%	23.5%	9.5%	5.4%	13.0%	8.4%	5.3%	14.4%	11.3%	10.0%
EBIT margin (Non-GAAP)	**36.5%**	**38.0%**	**38.5%**	**36.5%**	**37.3%**	**42.1%**	**39.5%**	**41.6%**	**43.6%**	**41.8%**
EBITDA margin	37.7%	26.5%	16.1%	25.3%	22.3%	27.1%	25.3%	32.8%	27.4%	28.2%
PBT margin	20.0%	24.7%	10.9%	22.9%	19.7%	3.3%	0.8%	27.6%	6.8%	9.8%
Net margin (reported)	20.3%	21.8%	13.9%	19.9%	18.9%	2.7%	0.8%	22.0%	5.7%	7.9%
Net margin (Non-GAAP)	32.5%	35.7%	31.6%	24.1%	30.3%	29.8%	28.3%	30.4%	31.2%	30.0%
Effective tax rate	2%	-12%	28%	13%	4%	-18%	-12%	-20%	-15%	-19%

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

Exhibit 5: 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	3,827	7,530	7,813
Financial investments	0	0	0	0	148	148	152	154	73	1	1	3
Acc. receivables	451	554	554	781	569	796	947	934	1,505	1,277	1,467	1,663
Inventories	62	122	142	192	229	212	326	362	365	439	487	514
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	1,239	1,239	1,239
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**	**6,783**	**10,725**	**11,233**
PP&E	266	309	430	484	472	483	557	563	697	807	1,260	856
Goodwill & Other Intagibles	2,961	3,504	3,451	3,619	3,855	4,229	4,445	3,644	39,579	38,293	38,293	38,312
Op. Lease	0	0	0	466	493	559	569	566	702	695	695	695
Deferred tax assets	244	404	390	498	511	671	861	1,247	112	96	96	96
Prepaid taxes & Other	243	385	396	414	613	464	471	584	1,123	1,249	1,249	1,249
Total non-current assets	**3,714**	**4,602**	**4,666**	**5,481**	**5,944**	**6,405**	**6,903**	**6,604**	**42,212**	**41,139**	**41,593**	**41,207**
Total assets	**5,396**	**6,146**	**6,405**	**8,030**	**8,752**	**9,418**	**10,333**	**13,074**	**48,224**	**47,923**	**52,318**	**52,440**
Short-term debt	10	344	18	27	75	0	0	0	22	50	50	50
Trade & other payables	500	578	506	624	695	809	1,124	1,164	1,326	1,378	1,492	1,510
Op. Lease liabilities	0	0	0	73	80	54	86	95	128	138	138	138
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	2,299	2,617	3,088
Total current liabilities	**1,614**	**2,102**	**1,752**	**2,140**	**2,413**	**2,774**	**2,985**	**2,650**	**3,722**	**3,865**	**4,297**	**4,786**
Long-term debt	134	126	120	101	25	21	18	16	13,462	9,017	9,017	8,017
Deferred tax liabilities	83	117	90	105	136	154	175	341	383	384	384	384
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	2,238	2,374	2,374
Total non-current liabilities	**503**	**559**	**564**	**978**	**1,040**	**1,084**	**1,163**	**1,400**	**16,175**	**11,639**	**11,775**	**10,775**
Total liabilities	**2,117**	**2,661**	**2,316**	**3,118**	**3,453**	**3,859**	**4,149**	**4,050**	**19,897**	**15,504**	**16,072**	**15,561**
Total net assets	**3,280**	**3,485**	**4,089**	**4,912**	**5,299**	**5,559**	**6,184**	**9,023**	**28,327**	**32,418**	**36,246**	**36,879**
Total equity	**3,280**	**3,485**	**4,089**	**4,912**	**5,299**	**5,559**	**6,184**	**9,023**	**28,327**	**32,418**	**35,760**	**36,879**
Net debt:												
Total Debt	-144	-469	-138	-128	-100	-21	-18	-16	-13,485	-9,067	-9,067	-8,067
Total "Cash"	1,048	723	729	1,236	1,581	1,566	1,591	4,050	2,961	3,828	7,532	7,816
Net cash/(debt)	**904**	**254**	**591**	**1,108**	**1,481**	**1,545**	**1,572**	**4,035**	**-10,524**	**-5,239**	**-1,535**	**-251**

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

Exhibit 6: 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**	**470.0**	**505.0**	**505.0**	**505.0**
Number of Shares (m)	150	149	150	151	153	153	152	153	164	191	192	191
Market Cap ($m) - average	**11,462**	**13,386**	**18,470**	**28,081**	**43,925**	**48,427**	**78,340**	**74,446**	**77,055**	**96,331**	**96,726**	**96,567**
Net debt/(cash) ($m) - average	-904	-254	-591	-1,108	-1,481	-1,545	-1,572	-4,035	10,524	5,239	1,535	251
Enterprise Value ($m) - average	**10,557**	**13,133**	**17,879**	**26,973**	**42,444**	**46,882**	**76,768**	**70,411**	**87,579**	**101,570**	**98,261**	**96,817**
P/E (x)	22.3	24.0	26.4	33.5	42.0	35.6	46.0	36.8	36.2	33.2	26.4	21.8
P/E FY1 (x)	**20.4**	**19.3**	**22.2**	**27.1**	**32.3**	**28.3**	**39.0**	**37.4**	**30.9**	**26.4**		
Price/book value (x)	3.5	3.8	4.5	5.7	8.3	8.7	12.7	8.3	2.7	3.0	2.7	2.6
Price/FCF (x)	20.4	41.5	30.9	33.7	31.4	30.3	51.8	34.6	38.2	34.6	24.4	-33.3
EV/Sales (x)	3.9	4.2	5.3	7.3	10.1	9.2	13.1	11.5	12.4	10.5	9.0	7.8
EV/Sales FY1 (x)	**3.4**	**3.9**	**4.9**	**6.4**	**8.4**	**8.0**	**12.5**	**10.0**	**9.0**	**9.3**		
EV/EBITDA (x)	12.6	14.6	17.2	21.7	28.6	24.6	33.4	26.5	26.6	17.4	15.3	12.8
EV/EBITDA FY1 (x)	**11.7**	**12.6**	**14.4**	**18.2**	**22.3**	**20.4**	**28.9**	**21.4**	**15.0**	**15.8**		
EV/IC (x)	3.3	3.4	4.4	6.1	9.6	9.5	14.9	16.2	2.1	2.6		
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield	4.9%	2.4%	3.2%	3.0%	3.2%	3.3%	1.9%	2.9%	2.6%	2.9%	4.1%	-3.0%
Per share data ($):												
EPS - Diluted	**3.4**	**3.7**	**4.7**	**5.6**	**6.8**	**8.9**	**11.2**	**13.2**	**13.0**	**15.2**	**19.1**	**23.1**
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	14.6	20.7	-15.1
Book value per share	21.8	23.4	27.3	32.5	34.7	36.3	40.6	58.8	172.8	169.9	186.7	192.9

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%	5%	6%
ROIC	19%	7%	13%	13%	18%	26%	26%	34%	3%	3%	5%	6%
ROE	4%	13%	14%	15%	15%	18%	21%	30%	7%	3%	5%	6%
Interest cover (x)	114.7	57.7	89.2	241.6	441.3	1,121.0	1,948.4	75.6	7.4	10.4	12.6	17.2
Cash Conversion	1.3	2.1	1.3	1.3	1.0	1.1	1.3	1.2	1.5	1.9	1.5	-2.9
Net debt/Equity	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.4	0.2	0.0	0.0
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%	3%	2%
yy growth:												
Sales growth	12.5%	14.5%	7.7%	9.7%	14.1%	20.9%	15.0%	4.9%	15.1%	37.7%	12.1%	13.3%
EBIT growth	9.5%	3.6%	44.4%	19.2%	18.5%	58.1%	9.2%	6.8%	-32.5%	6.0%	116.1%	21.1%
EBITDA growth	7.9%	7.4%	15.6%	19.3%	19.6%	28.2%	20.6%	15.8%	23.9%	77.1%	10.0%	17.6%
EPS growth	-49.1%	220.5%	22.3%	23.8%	12.6%	30.8%	25.9%	83.4%	-44.8%	-49.8%	114.4%	40.3%
FCF growth	8.8%	-42.5%	85.6%	39.2%	67.8%	14.5%	-5.5%	42.4%	-6.3%	37.9%	42.5%	-173.1%
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%	73.2%	74.5%	76.3%
EBIT margin	12.8%	11.5%	15.5%	16.8%	17.5%	22.9%	21.7%	22.1%	13.0%	10.0%	19.2%	20.6%
EBITDA margin	30.8%	28.8%	31.0%	33.7%	35.3%	37.5%	39.3%	43.4%	46.7%	60.0%	58.8%	61.0%
PBT margin	14.1%	11.6%	16.2%	17.3%	19.2%	22.0%	22.3%	24.7%	19.7%	9.8%	15.4%	18.5%
Net margin	5.0%	13.9%	15.8%	18.0%	18.0%	19.4%	21.1%	36.9%	18.9%	7.9%	15.2%	18.8%

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

Risk Reward – Synopsys Inc. (SNPS.O)

Positioned to benefit from Physical AI

PRICE TARGET US$574.00

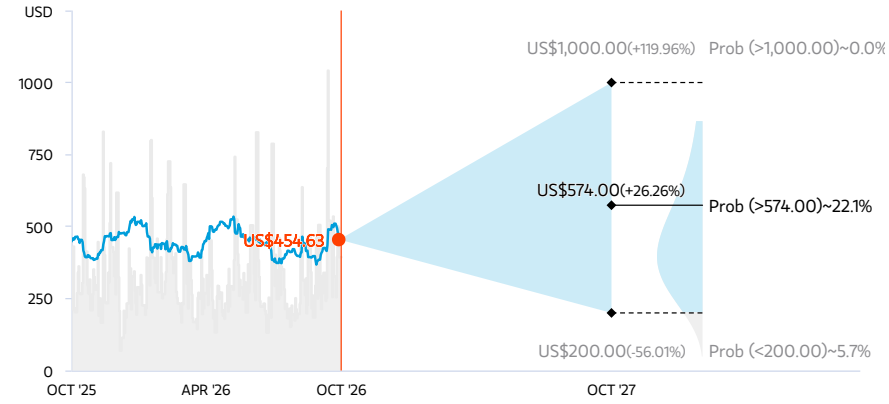
The sector is trading on a 30x P/E multiple range. We expect Synopsys to trade in line and apply a c.30x P/E multiple to estimated FY27 EPS ($19.12).

Consensus Price Target Distribution US$475.00 — US$587.87 (MS PT) — US$700.00

Source: Refinitiv, Morgan Stanley Research

◆ Mean ◆ Morgan Stanley Estimates

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



Key: Historical Stock Performance ● Current Stock Price ◆ Price Target

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 16 Oct 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

OVERWEIGHT THESIS

We think opportunities in systems simulation present a multi-year growth driver. We assume a 1-year forward P/E multiple range of 30x in setting our price target of $574. We are Overweight as we think (i) Design IP recovery is becoming more evident, (ii) Ansys synergies are materialising and (iii) the simulation portfolio is positioned to benefit from the emergence of physical AI.

Consensus Rating Distribution

96%	Overweight
4%	Equal-weight
0%	Underweight

● MS Rating

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$574.00

Multi-year growth drivers

We think opportunities in systems simulation present a multi-year growth driver, especially with the emergence of physical AI. We think Design IP recovery looks increasingly convincing, especially given the new Application-Optimised IP model. We model EPS of $19.12 by FY27 and, applying a 30x P/E multiple, we reach a $574 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)

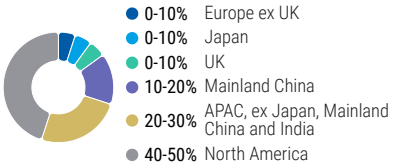
KEY EARNINGS INPUTS

Drivers	Oct 2025	Oct 2026e	Oct 2027e	Oct 2028e
Sales growth - yy (%)	15.1	37.7	12.1	13.3
Gross margin (%)	77.0	73.2	74.5	76.3
EBIT margin (reported) (%)	13.0	10.0	19.2	20.6

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	2/5 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

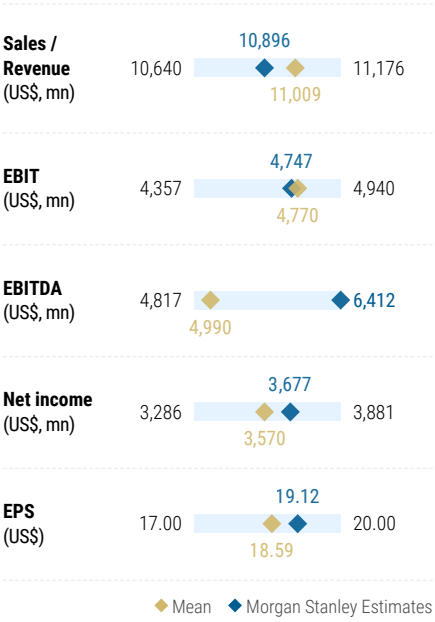
OWNERSHIP POSITIONING

Inst. Owners, % Active	51.7%
HF Sector Long/Short Ratio	2.2x
HF Sector Net Exposure	30.6%

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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Global Stock Ratings Distribution

(as of September 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	1599	43%	455	48%	28%	783	44%
Equal-weight/Hold	1563	42%	394	42%	25%	763	43%
Not-Rated/Hold	2	0%	1	0%	50%	1	0%
Underweight/Sell	570	15%	96	10%	17%	227	13%
Total	3,734		946			1774	

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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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.

Analyst Industry Views

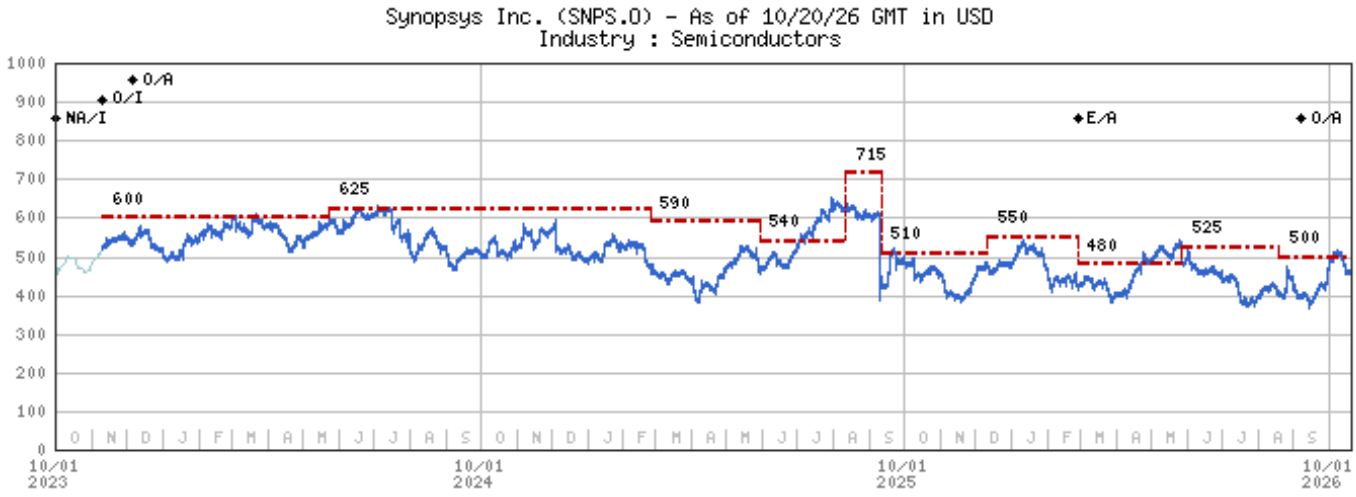
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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



Stock Rating History: 10/1/21 : NA/I; 11/10/23 : O/I; 12/7/23 : O/A; 2/27/26 : E/A; 9/8/26 : O/A

Price Target History: 11/10/23 : 600; 5/23/24 : 625; 2/24/25 : 590; 5/29/25 : 540; 8/11/25 : 715; 9/11/25 : 510; 12/11/25 : 550; 2/27/26 : 480; 5/28/26 : 525; 8/19/26 : 500

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -·- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ▬
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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INDUSTRY COVERAGE: Semiconductors

COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/19/2026)
Ella Tulchinsky		
Infleqtion, Inc. (INFQ.N)	E (10/15/2026)	US$8.75
Xanadu Quantum Technologies Limited (XNDU.O)	E (10/15/2026)	US$2.80
Joseph Moore		
Advanced Micro Devices (AMD.O)	E (06/09/2024)	US$538.05
Aeva Technologies Inc (AEVA.O)	E (07/19/2021)	US$9.92
Allegro Microsystems Inc (ALGM.O)	O (02/13/2026)	US$33.17
Ambarella Inc (AMBA.O)	O (03/29/2016)	US$62.76
Amkor Technology Inc (AMKR.O)	E (11/08/2023)	US$41.89
Analog Devices Inc. (ADI.O)	O (11/16/2023)	US$394.35
Astera Labs Inc (ALAB.O)	O (05/11/2025)	US$286.58
Broadcom Inc. (AVGO.O)	O (06/09/2024)	US$334.59
Cerebras Systems (CBRS.O)	O (06/08/2026)	US$120.66
GlobalFoundries Inc (GFS.O)	E (10/28/2024)	US$46.11
Intel Corporation (INTC.O)	E (02/22/2023)	US$92.03
IonQ Inc (IONQ.N)	E (04/25/2023)	US$30.78
Marvell Technology Group Ltd (MRVL.O)	E (09/14/2015)	US$237.09
Microchip Technology Inc. (MCHP.O)	E (07/10/2024)	US$74.43
Micron Technology Inc. (MU.O)	O (10/06/2025)	US$904.90
Navitas Semiconductor Corp (NVTS.O)	U (04/06/2025)	US$8.63
NVIDIA Corp. (NVDA.O)	O (03/16/2023)	US$217.09
NXP Semiconductor NV (NXPI.O)	O (02/11/2025)	US$230.19
ON Semiconductor Corp. (ON.O)	++	US$73.12
Qualcomm Inc. (QCOM.O)	E (06/24/2026)	US$173.53
Quantinuum (QNT.O)	O (10/15/2026)	US$34.93
SanDisk Corporation. (SNDK.O)	O (03/03/2025)	US$1,371.12
Semtech Corp. (SMTC.O)	E (04/06/2025)	US$142.22

Silicon Laboratories Inc. (SLAB.O)	E (01/19/2021)	US$220.99
SiTime Corporation (SITM.O)	O (09/16/2026)	US$495.75
Skyworks Solutions Inc (SWKS.O)	E (11/28/2018)	US$80.23
Texas Instruments (TXN.O)	U (04/13/2020)	US$276.15
Wolfspeed, INC (WOLF.N)	NR (04/06/2025)	US$24.14
Lee Simpson		
Arm Holdings plc (ARM.O)	E (04/07/2026)	US$228.05
Cadence Design Systems Inc (CDNS.O)	O (02/14/2024)	US$325.86
PDF Solutions Inc (PDFS.O)	O (09/08/2026)	US$41.22
Synopsys Inc. (SNPS.O)	O (09/08/2026)	US$454.58

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* Historical prices are not split adjusted.

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