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Cadence Design Systems Inc | North America

AI Frameworks as the Next Leg

Cadence Design Systems prints 3Q26 results next Monday 26th October. We think a clearer connection between AI adoption, monetisation and incremental earnings is key, not simply another strong quarter.

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Cadence Design Systems Inc (CDNS.O, CDNS US)

Semiconductors | United States of America

Stock Rating	**Overweight**
Industry View	**Attractive**
Price target	**US$400.00**
Shr price, close (Oct 16, 2026)	US$319.51
52-Week Range	US$416.69-262.75
Mkt cap, curr (mn)	US$87,146
Net debt (12/26e) (mn)*	US$985
EV, curr (mn)*	US$86,625

* = GAAP or approximated based on GAAP

Fiscal Year Ending	12/25	12/26e	12/27e	12/28e
Sales / Revenue (US$ mn)**	5,297	6,324	7,366	8,323
EBITDA (US$ mn)**	2,459	3,051	3,555	4,121
EBIT (US$ mn)**	2,231	2,820	3,393	3,863
EPS (US$)**	7.14	8.35	9.82	11.43
Prior EPS (US$)**	-	8.31	9.81	11.43
EPS (US$)§	7.06	8.15	9.59	11.19
P/E**	43.8	38.2	32.5	28.0
EV/revenue*	16.0	16.8	14.1	12.3
EV/EBITDA**	34.5	34.8	29.2	24.9
EV/EBIT**	38.1	37.6	30.6	26.5
DPS (US$)	0.00	0.00	0.00	0.00
Div yld (%)	0.0	0.0	0.0	0.0
FCF yld ratio (%)**	1.9	1.8	2.8	1.9
Net debt (US$ mn)*	(521)	985	(338)	(863)
Net debt/EBITDA**	NM	0.3	NM	NM
RNOA (%)**	36.1	42.9	31.0	36.5
ROE (%)**	41.8	42.0	37.6	37.7

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

Key Takeaways

- We think the bar is high for Cadence into the quarter: the company must print strong numbers and also address the AI opportunity.
- We anticipate strength across all 3 segments, most notably with IP continuing to outpace group growth.
- We don't expect Cadence to announce a comparable headline AI partnership to Synopsys.
- Instead, we expect management to emphasise broad-based adoption of Cadence tools among AI model developers.
- We remain Overweight, PT $400.

Another strong quarter expected... Cadence has delivered a consistent run of beats and raises this year, but that now appears embedded in expectations. Last quarter's record $8.1bn backlog, alongside strong revenue and margins, reinforced the durability of EDA and IP demand. Yet the shares closed broadly flat the following day. Our investor conversations suggest sentiment has weakened further since the last print, raising the bar for a positive reaction: strong numbers remain necessary, but may no longer be sufficient. That said, we expect the company to print a backlog of $8.2bn, supported by significant design intensity and strength at leading-edge foundries, including Intel. We anticipate broad-based strength across EDA, IP and system design and analysis, with Q3 revenue of $1.6bn, up 20% y/y and at the midpoint of guidance. Within EDA, we expect management to highlight specific customer engagements across the ChipStack portfolio, including ViraStack and Aura Stack, alongside evidence of swift adoption. However, these are a more meaningful 2027 opportunity. We also expect management to reiterate design-technology co-optimisation (DTCO) traction across Intel, Samsung and TSMC, supporting continued EDA growth. Elsewhere, IP should continue to outpace group growth, led by advanced-node demand, while design and IT services should also remain strong.

...but the bigger question is AI. Following Synopsys' analyst day, we think the market focus is on LLM/AI adoption and monetisation. We do not expect Cadence to announce a comparable headline AI partnership. Instead, consistent with its approach in previous quarters, we would expect management to emphasise broad-based adoption of Cadence tools among AI model developers rather than single out one relationship. Further, Cadence in the past also said that consumption-based pricing could complement the traditional licensing model, which we think could be a feature of agentic EDA, given what SNPS have discussed of late. As custom-silicon

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development broadens, usage-linked pricing could allow Cadence to capture some of the associated increase in design activity, creating earnings upside over time. **In our view, Cadence will need to articulate how it intends to monetise agentic workflows, and how its portfolio is positioned to capture that demand.**

Valuation discount to history offers an attractive entry point. Although Cadence has outperformed Synopsys, it has lagged the rest of our coverage universe YTD. Investor interest in EDA has remained relatively muted, with concerns centered on whether LLMs could replace EDA capabilities. However, we have seen a pickup in interest over the past month following Synopsys' investor day, which we believe could support Cadence outperformance into year-end. The company has a solid base in systems analysis and simulation work in the chip design flow, deep customer relationships, a leading position in analog and mixed-signal design, and a solid balance sheet, and should enjoy strong structural growth with its new AI-driven EDA tools. **We reiterate our Overweight rating and $400 price target.**

Exhibit 1: CDNS trades on 37x FY27 P/E, a steep discount to its 43x historical average.



Source: FactSet, Morgan Stanley Research

Exhibit 2: Cadence's Agentic Portfolio.



Source: Company Data, Morgan Stanley Research

AlphaSignals Earnings Preview

Focus KPI	Focus KPI Surprise	Likely impact to consensus EPS*
Cadence Design Systems Inc CDNS.O		
Backlog and AI Frameworks	— In-line	↑ Modest revision higher

• Eyes are on management articulating how AI is additive to Cadence.

*Likely impact to consensus EPS is for the next 12 months
Source: Company data, Morgan Stanley Research

Financials

What was said last quarter

Management spoke to broad-based strength across all segments, with IP (+40% yy) and a record hardware quarter as near-term drivers. Agentic AI was framed as an additive demand accelerator and longer-term TAM expansion opportunity, while the company circled in on Intel as an incremental multi-year growth driver. Q3 revenue was guided to $1.61bn at the midpoint ($1.595–1.625bn), with non-GAAP operating margin of 43.5–44.5%. EPS is expected to come in between $2.01 and $2.07. H2 margin flattening was described as reflecting targeted investment rather than demand weakness, and looking to the FY, the company raised revenue at the midpoint to $6.30bn (c.19% yy) with non-GAAP operating margin of 44.25%, non-GAAP EPS of $8.10 and operating cash flow of c.$2.0bn. Backlog exited Q2 at a record $8.1bn, and while ChipStack now has more than 20 customer engagements, guidance does not assume a step-change in agentic adoption.

MSe vs Consensus

We see 3Q26 revenue coming in at the midpoint of company guidance at $1.61bn, in line with consensus and implying 2% sequential growth. We see the Gross Margin coming in at 85.2%, 58bps below consensus, but EPS slightly ahead of consensus at $2.07, at the top end of the guided range. Looking to Q4, we expect the company to guide to revenue of $1.65bn, in line with consensus, with EPS of $2.10 coming in 3% ahead of consensus.





Exhibit 3: Cadence Design Systems 3Q26 MSe vs Consensus

	3Q26e			4Q26e		
	MSe	Cons	MSe vs. Cons	MSe	Cons	MSe vs. Cons
Revenue	1,612	1,615	0%	1,653	1,650	0%
Gross profit	1,373	1,384	-1%	1,408	1,427	-1%
Gross margin (%)	85.15%	85.66%	-51bps	85.15%	86.53%	-138bps
EBIT	716	713	0%	725	715	1%
EBIT margin (%)	44.39%	44.15%	24bps	43.85%	43.32%	52bps
Net income	570	566	1%	576	564	2%
EPS (Diluted)	2.07	2.05	1%	2.10	2.04	3%

	FY26e			FY27e		
	MSe	Cons	MSe vs. Cons	MSe	Cons	MSe vs. Cons
Revenue	6,324	6,324	0%	7,366	7,187	2%
Gross profit	5,385	5,416	-1%	6,399	6,194	3%
Gross margin (%)	85.16%	85.65%	-49bps	86.9%	86.2%	70bps
EBIT	2,820	2,807	0%	3,393	3,274	4%
EBIT margin (%)	44.60%	44.38%	22bps	46.1%	45.5%	51bps
Net income	2,297	2,250	2%	2,673	2,656	1%
EPS (Diluted)	8.35	8.16	2%	9.82	9.60	2%

Source: Morgan Stanley Research, Visible Alpha Consensus as of 19/10/26

Exhibit 4: Cadence Design Systems Annual Income Statement

Annual Income Statement	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026e	2027e
Revenues	**1,943**	**2,138**	**2,336**	**2,683**	**2,988**	**3,562**	**4,090**	**4,641**	**5,297**	**6,324**	**7,366**
Cost of Sales	-237	-259	-266	-305	-307	-372	-435	-648	-722	-938	-967
R&D	-804	-885	-936	-1,034	-1,134	-1,252	-1,442	-1,549	-1,769	-2,183	-2,357
SG&A	-553	-573	-621	-671	-749	-846	-933	-1,040	-1,116	-1,329	-1,468
Other income/(expenses)	-24	-25	-21	-27	-19	-19	-29	-54	-198	-69	-70
EBIT (reported)	324	396	492	646	779	1,074	1,251	1,351	1,492	1,805	2,504
EBIT (Non-GAAP)	534	647	749	944	1,084	1,436	1,717	1,963	2,231	2,821	3,393
EBITDA (Non-GAAP)	**650**	**765**	**871**	**1,089**	**1,226**	**1,568**	**1,863**	**2,160**	**2,459**	**3,051**	**3,555**
Net Financials & other	-9	-20	-13	-13	-11	-28	31	45	30	28	-56
PBT (reported)	315	376	479	633	768	1,045	1,282	1,396	1,522	1,833	2,448
Income Tax	-111	-31	510	-42	-72	-196	-241	-340	-413	-453	-636
Net Income (reported)	**204**	**346**	**989**	**591**	**696**	**849**	**1,041**	**1,055**	**1,109**	**1,380**	**1,811**
Net Income (non-GAAP)	**393**	**526**	**618**	**782**	**918**	**1,173**	**1,404**	**1,635**	**1,952**	**2,297**	**2,673**
non-GAAP EPS ($) - Basic	1.44	1.92	2.26	2.86	3.36	4.33	5.21	6.03	7.19	8.42	9.89
non-GAAP EPS ($) - Diluted	**1.40**	**1.87**	**2.20**	**2.80**	**3.29**	**4.27**	**5.15**	**5.97**	**7.14**	**8.36**	**9.82**
DPS ($)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026e**	**2027e**
Sales growth - yy	7%	10%	9%	15%	11%	19%	15%	13%	14%	19%	16%
"Gross margin"	87.8%	87.9%	88.6%	88.6%	89.7%	89.6%	89.4%	86.0%	86.4%	85.2%	86.9%
EBIT margin (reported)	16.7%	18.5%	21.1%	24.1%	26.1%	30.1%	30.6%	29.1%	28.2%	28.5%	34.0%
EBIT margin (Non-GAAP)	**27.5%**	**30.2%**	**32.0%**	**35.2%**	**36.3%**	**40.3%**	**42.0%**	**42.3%**	**42.1%**	**44.6%**	**46.1%**
EBITDA margin (non-GAAP)	33.5%	35.8%	37.3%	40.6%	41.0%	44.0%	45.5%	46.5%	46.4%	48.3%	48.3%
PBT margin	16.2%	17.6%	20.5%	23.6%	25.7%	29.3%	31.3%	30.1%	28.7%	29.0%	33.2%
Net margin (reported)	10.5%	16.2%	42.3%	22.0%	23.3%	23.8%	25.5%	22.7%	20.9%	21.8%	24.6%
Net margin (non-GAAP)	20.2%	24.6%	26.4%	29.1%	30.7%	32.9%	34.3%	35.2%	36.8%	36.3%	36.3%
Effective tax rate	-35%	-8%	106%	-7%	-9%	-19%	-19%	-24%	-27%	-25%	-26%

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

Exhibit 5: Cadence Design Systems Quarterly Income Statement

Quarterly Income Statement	1Q25	2Q25	3Q25	4Q25	FY25	1Q26	2Q26	3Q26e	4Q26e	FY26e
Revenues	**1,242**	**1,275**	**1,339**	**1,440**	**5,297**	**1,474**	**1,584**	**1,612**	**1,653**	**6,324**
Cost of Sales	-167	-184	-182	-189	-722	-215	-239	-239	-246	-939
R&D	-439	-442	-423	-465	-1,769	-508	-531	-564	-579	-2,183
SG&A	-266	-270	-271	-310	-1,116	-300	-330	-347	-353	-1,329
Other income/(expenses)	-9	-138	-38	-13	-198	-20	-34	-8	-8	-69
EBIT (reported)	362	242	425	463	1,492	431	450	454	469	1,804
EBIT (Non-GAAP)	516	546	638	659	2,359	659	721	716	725	2,820
EBITDA (Non-GAAP)	**569**	**600**	**695**	**724**	**2,587**	**744**	**838**	**727**	**742**	**3,051**
Net Financials & other	-6	39	-33	30	30	-3	60	-15	-14	28
PBT (reported)	356	281	393	493	1,522	428	510	439	455	1,832
Income Tax	-82	-121	-106	-105	-413	-92	-143	-123	-127	-453
Net Income (reported)	**274**	**160**	**287**	**388**	**1,109**	**336**	**367**	**316**	**327**	**1,379**
Net Income (non-GAAP)	**430**	**450**	**528**	**543**	**1,952**	**536**	**582**	**570**	**576**	**2,297**
EPS ($) - Basic	1.58	1.66	1.95	2.00	7.19	1.97	2.13	2.09	2.11	8.42
EPS ($) - Diluted	**1.57**	**1.65**	**1.93**	**1.99**	**7.14**	**1.96**	**2.11**	**2.07**	**2.10**	**8.35**
DPS ($)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	1Q25	**2Q25**	**3Q25**	**4Q25**	**FY25**	**1Q26**	**2Q26**	**3Q26e**	**4Q26e**	**FY26e**
Sales growth - qq	-8.4%	2.7%	5.0%	7.6%	--	2.4%	7.5%	1.7%	2.6%	--
"Gross margin"	86.5%	85.6%	86.4%	86.9%	86.4%	85.4%	84.9%	85.2%	85.2%	85.2%
EBIT margin (reported)	29.1%	19.0%	31.8%	32.2%	28.2%	29.3%	28.4%	28.2%	28.3%	28.5%
EBIT margin - Adjusted	41.5%	42.8%	47.6%	45.8%	44.5%	44.7%	45.5%	44.4%	43.8%	44.6%
EBITDA margin	45.8%	47.0%	51.9%	50.3%	48.8%	50.4%	52.9%	45.1%	44.9%	48.2%
PBT margin	28.6%	22.0%	29.3%	34.2%	28.7%	29.0%	32.2%	27.3%	27.5%	29.0%
Net margin (reported)	22.0%	12.5%	21.4%	27.0%	20.9%	22.8%	23.2%	19.6%	19.8%	21.8%
Net margin - Adjusted	34.6%	35.3%	39.5%	37.7%	36.8%	36.3%	36.8%	35.4%	34.8%	36.3%
Effective tax rate	-23%	-43%	-27%	-21%	-27%	-22%	-28%	-28%	-28%	-25%

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

Exhibit 6: Cadence Design Systems Annual Balance Sheet

Annual Balance Sheet	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026e	2027e
Cash & cash equivalents	688	533	705	928	1,089	882	1,008	2,644	3,001	1,498	2,820
Financial investments	4	0	0	0	0	0	0	0	0	0	0
Trade receivables	190	297	305	338	338	487	489	680	945	974	1,125
Inventories	33	28	56	76	116	128	182	258	304	349	340
Prepaids & Other	64	93	104	136	174	210	297	434	420	628	442
Total current assets	**980**	**951**	**1,169**	**1,479**	**1,716**	**1,707**	**1,976**	**4,016**	**4,670**	**3,449**	**4,727**
PP&E	251	253	276	311	306	371	403	458	517	662	750
Goodwill & Other Intangibles	666	662	662	782	928	1,374	1,536	2,379	2,749	4,915	4,915
Acquired intangibles	279	225	172	211	233	355	337	595	718	1,874	1,874
Deferred tax assets	12	6	732	732	764	854	880	982	918	810	676
Other non-current assets	230	371	345	436	439	476	537	545	581	676	676
Total non-current assets	**1,439**	**1,518**	**2,188**	**2,472**	**2,671**	**3,430**	**3,693**	**4,958**	**5,483**	**8,938**	**8,892**
Total assets	**2,419**	**2,469**	**3,357**	**3,951**	**4,386**	**5,137**	**5,669**	**8,974**	**10,153**	**12,387**	**13,619**
Short-term debt (incl RCF)	85	100	0	0	0	100	349	0	0	0	0
Trade & other payables	221	257	317	350	417	557	577	633	857	997	944
Deferred revenues	336	352	355	447	554	691	665	737	778	909	1,105
Total current liabilities	**642**	**709**	**672**	**797**	**971**	**1,348**	**1,591**	**1,370**	**1,635**	**1,907**	**2,049**
Long-term debt	644	345	346	347	348	648	300	2,476	2,480	2,482	2,482
Deferred revenues	62	49	73	107	101	92	99	115	156	136	166
Other non-current liabilities	81	77	163	207	226	305	276	339	408	747	747
Total non-current liabilities	**787**	**471**	**582**	**661**	**674**	**1,044**	**674**	**2,931**	**3,044**	**3,365**	**3,395**
Total liabilities	**1,430**	**1,180**	**1,254**	**1,458**	**1,646**	**2,392**	**2,265**	**4,301**	**4,679**	**5,272**	**5,444**
Total net assets	**989**	**1,288**	**2,103**	**2,493**	**2,741**	**2,745**	**3,404**	**4,674**	**5,474**	**7,114**	**8,175**
Total equity	**989**	**1,288**	**2,103**	**2,493**	**2,741**	**2,745**	**3,404**	**4,674**	**5,474**	**7,114**	**8,175**
Net debt:											
Total Debt	-729	-445	-346	-347	-348	-748	-649	-2,476	-2,480	-2,482	-2,482
Total "Cash"	693	533	705	928	1,089	882	1,008	2,644	3,001	1,498	2,820
Net cash/(debt)	**-37**	**88**	**359**	**582**	**741**	**134**	**359**	**168**	**521**	**-985**	**338**

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

Exhibit 7: Cadence Design Systems Valuation Matrix and Ratio Analysis

Valuation Matrix ($m)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026e	2027e
Share Price ($)	**35.6**	**42.7**	**64.4**	**94.1**	**148.6**	**159.2**	**272.0**	**297.0**	**335.0**	**335.0**	**335.0**
Number of Shares (m)	280	281	281	280	279	275	273	274	273	275	272
Market Cap ($m) - average	**9,976**	**12,005**	**18,062**	**26,323**	**41,433**	**43,771**	**74,188**	**81,327**	**91,561**	**92,100**	**91,229**
Net debt/(cash) ($m) - average	37	-88	-359	-582	-741	-134	-359	-168	-521	985	-338
Enterprise Value ($m) - average	**10,013**	**11,917**	**17,703**	**25,741**	**40,691**	**43,637**	**73,829**	**81,159**	**91,039**	**93,085**	**90,892**
P/E (x)	25.4	22.8	29.2	33.7	45.1	37.3	52.8	49.7	46.9	40.1	34.1
P/E FY1 (x)	**19.0**	**19.4**	**23.0**	**28.6**	**34.8**	**30.9**	**45.5**	**41.6**	**40.1**	**34.1**	
Price/book value (x)	10.1	9.3	8.6	10.6	15.1	15.9	21.8	17.4	16.7	12.9	11.2
Price/FCF (x)	24.2	22.1	27.6	32.5	40.1	39.2	70.8	72.7	57.3	58.7	37.9
EV/Sales (x)	5.2	5.6	7.6	9.6	13.6	12.3	18.1	17.5	17.2	14.7	12.3
EV/Sales FY1 (x)	**4.7**	**5.1**	**6.6**	**8.6**	**11.4**	**10.7**	**15.9**	**15.3**	**14.4**	**12.6**	
EV/EBITDA (x)	15.4	15.6	20.3	23.6	33.2	27.8	39.6	37.6	37.0	30.5	25.6
EV/EBITDA FY1 (x)	**13.1**	**13.7**	**16.3**	**21.0**	**25.9**	**23.4**	**34.2**	**33.0**	**29.8**	**26.2**	
EV/IC (x)	10.9	12.1	18.0	22.2	32.0	24.2	36.3	25.8	24.9	15.8	
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield	4.1%	4.5%	3.6%	3.1%	2.5%	2.6%	1.4%	1.4%	1.7%	1.7%	2.6%
Per share data ($):											
EPS - Diluted	**1.4**	**1.9**	**2.2**	**2.8**	**3.3**	**4.3**	**5.1**	**6.0**	**7.1**	**8.4**	**9.8**
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
FCF per share	1.5	1.9	2.3	2.9	3.7	4.1	3.8	4.1	5.8	5.7	8.8
Book value per share	3.5	4.6	7.5	8.9	9.8	10.0	12.5	17.1	20.0	25.9	30.0

Ratio Analysis	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026e	2027e
ROCE	23%	26%	22%	26%	29%	31%	34%	27%	27%	20%	28%
ROIC	47%	43%	-2%	59%	67%	70%	74%	54%	52%	38%	51%
ROE	24%	30%	58%	26%	27%	31%	34%	26%	22%	22%	24%
Interest cover (x)	25.3	33.1	46.3	52.5	72.2	68.4	51.5	28.4	21.1	24.4	30.6
Cash Conversion	1.4	1.3	1.2	1.2	1.1	1.3	1.4	1.7	1.4	1.7	1.3
Net debt/Equity	0.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.1	n/a
Dividend/FCF	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%
Capex/Sales	3%	3%	3%	4%	2%	3%	3%	3%	3%	4%	3%
yy growth:											
Sales growth	7.0%	10.0%	9.3%	14.8%	11.4%	19.2%	14.8%	13.5%	14.1%	19.4%	16.5%
EBIT growth	32.3%	22.3%	24.1%	31.3%	20.7%	37.8%	16.5%	8.0%	10.5%	20.9%	38.8%
EBITDA growth	10.5%	17.8%	13.8%	25.0%	12.6%	27.9%	18.7%	16.0%	13.8%	24.1%	16.5%
EPS growth	16.2%	33.4%	17.8%	27.0%	17.8%	29.5%	20.7%	16.0%	19.6%	17.0%	17.5%
FCF growth	5.5%	31.6%	20.6%	23.7%	27.6%	8.1%	-6.2%	6.6%	43.0%	-1.8%	53.2%
Dividend growth	na	na	na	na	na	na	na	na	na	na	na
Margin structure:											
Gross margin	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBIT margin	16.7%	18.5%	21.1%	24.1%	26.1%	30.1%	30.6%	29.1%	28.2%	28.5%	34.0%
EBITDA margin	33.5%	35.8%	37.3%	40.6%	41.0%	44.0%	45.5%	46.5%	46.4%	48.2%	48.3%
PBT margin	16.2%	17.6%	20.5%	23.6%	25.7%	29.3%	31.3%	30.1%	28.7%	29.0%	33.2%
Net margin	10.5%	16.2%	42.3%	22.0%	23.3%	23.8%	25.5%	22.7%	20.9%	21.8%	24.6%

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

Risk Reward – Cadence Design Systems Inc (CDNS.O)

A Range of Growth Opportunities Ahead

PRICE TARGET US$400.00

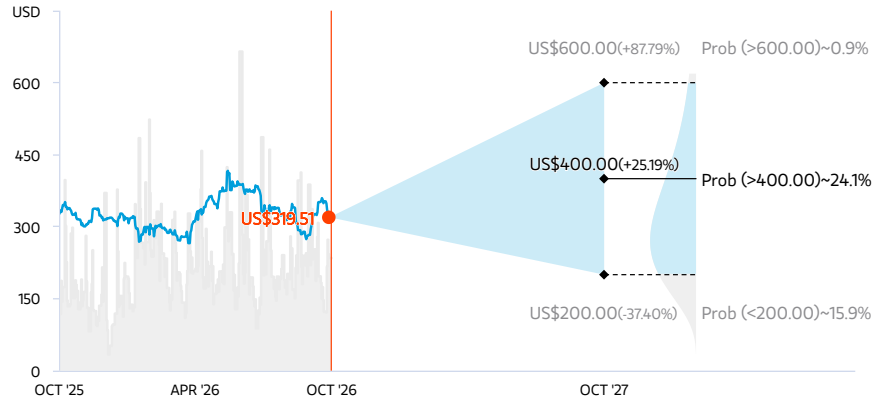
We apply a c.41x P/E multiple to our $9.82 FY27e EPS, an upcycle P/E within the 40-50x historical P/E multiple range. Our view remains that Cadence deserves a premium to peers, given its position at the centre of the semis/systems convergence and it is likely to benefit from several growth drivers across FY26-27e.

Consensus Price Target Distribution US$300.00 — US$405.46 (MS PT) — US$470.00

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 the range of growth drivers and the operational efficiency inherent in Cadence's business model has yet to be fully reflected in the share price. The company has a solid base in systems analysis and simulation work in the chip design flow, deep customer relationships, a leading position in analog and mixed-signal design, a solid balance sheet and should enjoy strong structural growth with its new AI-driven EDA tools. With our FY27 EPS of $9.82 and our view that the business should trade on c.40x earnings, we are Overweight with a $400 price target.

Consensus Rating Distribution

96%	Overweight
4%	Equal-weight
0%	Underweight

● MS Rating

Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Secular Growth: *Positive*
Technology Diffusion: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE US$600.00

Accelerating chip development

Cadence may see better than modelled gains as design range and complexity expands through the rest of this decade at a faster pace than expected. New acquisitions in systems design and analog may add momentum. Design IP finds a large, niche market (e.g., use in advanced packaging or HBM interface) and adds to margin leverage story. We estimate Cadence could reach c.$12+ EPS FY27 on such accelerating development trends, which on a cycle high c.50x could see a c.$600 share price.

BASE CASE US$400.00

Profitable growth

We see c.17% sales CAGR (FY24-27e) mainly on broadening chip development. We expect FY26e margin (non-GAAP) to reach 44.6%, highlighting the operational efficiency in the business model (high recurring revenues from subscription-like revenue recognition). We model EPS to reach $9.82 in FY27e (c.18% CAGR FY24-FY27e). Applying a 41x P/E (an upcycle multiple within the historical 40-50x P/E range) we derive a $400/share valuation.

BEAR CASE US$200.00

Weak macro overpowers growth drivers in FY27

Assumes that demand for EDA wanes as the sector sees broad cuts to chip R&D spend. Tightening of export controls and/or loss of market share to new entrant Chinese EDA players at key foundries appears through 2026 or 2027, affecting sentiment. Sales growth drops to low single digit %, with support mainly from high recurring revenues. As such, 2027 EPS is c.$8 and a cycle trough 20-25x sees the share price pared back to $200.

Risk Reward – Cadence Design Systems Inc (CDNS.O)

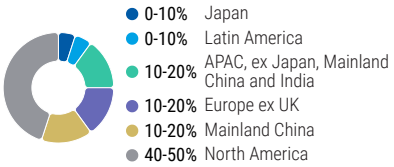
KEY EARNINGS INPUTS

Drivers	Dec 2025	Dec 2026e	Dec 2027e	Dec 2028e
Sales growth - yy (%)	14.1	19.4	16.5	13.0
Gross margin (%)	86.4	85.2	86.9	86.9
EBIT margin (reported) (%)	28.2	28.5	34.0	34.6

INVESTMENT DRIVERS

- Track record with strategic bolt-ons
- Margin leverage and earnings growth on additional sales
- Analog chip development drivers
- Design IP may have relevance in areas of value
- Geopolitical, macro and competitive risks

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 build-out in AI ASICs and analog chips than modelled
- Design wins at expense of peers with new AI-enabled tools
- Lifting of export controls on Chinese customers
- Broader systems analysis work through recent acquisitions

RISKS TO DOWNSIDE

- Risk if downturn bigger than modelled - sees deep cuts to R&D
- Further tightening of export controls to impact EDA
- Share loss to new entrant Chinese EDA players at key foundries

OWNERSHIP POSITIONING

Inst. Owners, % Active	54.7%
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 Dec 2027e

Sales / Revenue (US$, mn)	6,901	7,174	7,366 / 7,420
EBIT (US$, mn)	2,203	3,221	3,393
EBITDA (US$, mn)	2,624	3,483	3,555 / 3,844
Net income (US$, mn)	2,526	2,660	2,673 / 2,774
EPS (US$)	8.78	9.59	9.82 / 10.06

◆ Mean ◆ Morgan Stanley Estimates

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

Analyst Industry Views

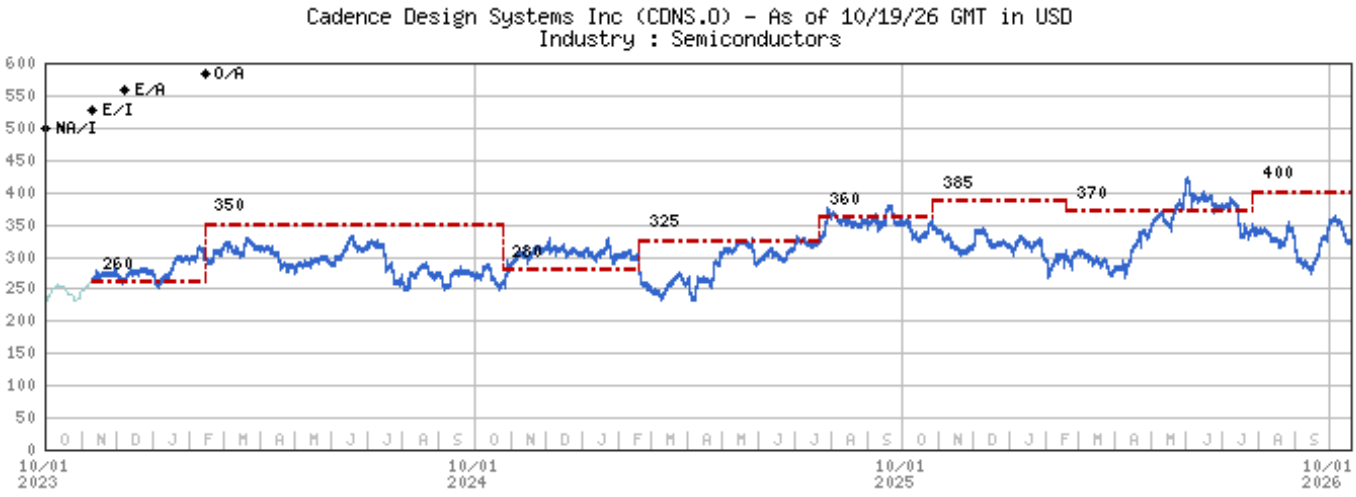
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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 : E/I; 12/7/23 : E/A; 2/14/24 : O/A

Price Target History: 11/10/23 : 260; 2/14/24 : 350; 10/25/24 : 280; 2/19/25 : 325; 7/23/25 : 360; 10/28/25 : 385; 2/18/26 : 370; 7/28/26 : 400

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* (10/16/2026)
Ella Tulchinsky		
Infleqtion, Inc. (INFQ.N)	E (10/15/2026)	US$8.75
Xanadu Quantum Technologies Limited (XNDU.O)	E (10/15/2026)	US$3.04
Joseph Moore		
Advanced Micro Devices (AMD.O)	E (06/09/2024)	US$528.75
Aeva Technologies Inc (AEVA.O)	E (07/19/2021)	US$10.03
Allegro Microsystems Inc (ALGM.O)	O (02/13/2026)	US$31.62
Ambarella Inc (AMBA.O)	O (03/29/2016)	US$61.70
Amkor Technology Inc (AMKR.O)	E (11/08/2023)	US$41.82
Analog Devices Inc. (ADI.O)	O (11/16/2023)	US$395.44
Astera Labs Inc (ALAB.O)	O (05/11/2025)	US$285.82
Broadcom Inc. (AVGO.O)	O (06/09/2024)	US$328.75
Cerebras Systems (CBRS.O)	O (06/08/2026)	US$127.21
GlobalFoundries Inc (GFS.O)	E (10/28/2024)	US$46.68
Intel Corporation (INTC.O)	E (02/22/2023)	US$89.85
IonQ Inc (IONQ.N)	E (04/25/2023)	US$30.78
Marvell Technology Group Ltd (MRVL.O)	E (09/14/2015)	US$227.83
Microchip Technology Inc. (MCHP.O)	E (07/10/2024)	US$73.85
Micron Technology Inc. (MU.O)	O (10/06/2025)	US$878.84
Navitas Semiconductor Corp (NVTS.O)	U (04/06/2025)	US$8.34
NVIDIA Corp. (NVDA.O)	O (03/16/2023)	US$214.13
NXP Semiconductor NV (NXPI.O)	O (02/11/2025)	US$229.33
ON Semiconductor Corp. (ON.O)	++	US$72.02
Qualcomm Inc. (QCOM.O)	E (06/24/2026)	US$172.11
Quantinuum (QNT.O)	O (10/15/2026)	US$36.55
SanDisk Corporation. (SNDK.O)	O (03/03/2025)	US$1,299.30
Semtech Corp. (SMTC.O)	E (04/06/2025)	US$136.73

Silicon Laboratories Inc. (SLAB.O)	E (01/19/2021)	US$221.00
SiTime Corporation (SITM.O)	O (09/16/2026)	US$472.14
Skyworks Solutions Inc (SWKS.O)	E (11/28/2018)	US$79.70
Texas Instruments (TXN.O)	U (04/13/2020)	US$276.48
Wolfspeed, INC (WOLF.N)	NR (04/06/2025)	US$24.14
Lee Simpson		
Arm Holdings plc (ARM.O)	E (04/07/2026)	US$227.80
Cadence Design Systems Inc (CDNS.O)	O (02/14/2024)	US$319.51
PDF Solutions Inc (PDFS.O)	O (09/08/2026)	US$39.22
Synopsys Inc. (SNPS.O)	O (09/08/2026)	US$454.63

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* Historical prices are not split adjusted.

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