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UPDATE

October 26, 2026 08:47 PM GMT

Cadence Design Systems Inc | North America

Launches Own Models

AlphaSignals Earnings Reaction

Unchanged	**Modest upside**	**Modest revision higher**
Impact to our thesis	Financial results versus consensus	Direction of next 12-month consensus EPS

Source: Company data, Morgan Stanley Research

Key Takeaways

- Signals strong growth for FY26, reports a record backlog and adds to its agentic AI strategy with launch of Maestro a suite of its own models.
- Q3 saw in-line margins (44.1%) but better EPS ($2.11 vs $2.05 expected); sales were also better than expected at $1.63bn ($1.61bn street).
- Bookings were also strong, with company again reporting record backlog at $8.2bn, (Q2 was $8.1bn).
- Raises FY26 sales guide ahead of street again at $6.4bn+ (prior $6.30bn) confirms 21% up yy (MS/e $6.32bn), nudges up non-GAAP OP% to 44.7% (prior 44.25%).
- As such, the company lifts EPS guide for FY26 at $8.40 (street/MSe at $8.16/ $8.35)

First Take: CDNS gave another solid print with a small beat and raise as previewed. The company also announced its own set of AI models for use alongside its proprietary agents - Maestro includes post-trained LLMs, trained decision models, and reusable agent skills, which run inside Cadence's AI Super Agents (AuraStack, ChipStack, InnoStack, and ViraStack). Early access for select customers starts in 4Q26. Meantime, continued customer traction with agents has been described as "delivering significant productivity", saw a record backlog (again) and Q4e earnings were guided c.9% better than CCS ($2.22 vs $2.04). Growth across all segments was notable, especially in SD&A; Core EDA grew a notable +20% yy, whilst IP rose 24% (Q2: +40% yy) and SD&A was up 30% yy (including Hexagon). Hardware had another record quarter with 12 customers added and relations at hyperscalers deepened. Raises FY guide growth of 21% yy ($6.4bn+) and EPS of $8.40 (Street at $8.16).

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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 23, 2026)	US$316.49
52-Week Range	US$416.69-262.75
Mkt cap, curr (mn)	US$86,323
Net debt (12/26e) (mn)*	US$985
EV, curr (mn)*	US$85,802

* = GAAP or approximated based on GAAP

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Exhibit 1: CDNS: Consensus Estimates into the Print

	3Q26				4Q26e			
	Actual	MSe	Cons	Actual vs. Cons	Guide	MSe	Cons	Guide vs. Cons
Revenue	1,633	1,612	1,616	1%	1,710	1,653	1,651	4%
Gross profit	1,397	1,373	1,385	1%		1,408	1,428	
Gross margin (%)	85.6%	85.2%	85.7%	-11bps		85.2%	86.5%	
EBIT	720	716	714	1%	761	725	716	6%
EBIT margin (%)	44.1%	44.4%	44.2%	-9bps	44.5%	43.8%	43.4%	110bps
Net income	566	570	567	0%	609	576	566	8%
EPS (Diluted)	2.11	2.07	2.05	3%	2.22	2.10	2.04	9%

	FY26e				FY27e			
	Guide	MSe	Cons	Guide vs. Cons	Guide	MSe	Cons	Guide vs. Cons
Revenue	6,402	6,324	6,325	1%		7,366	7,189	
Gross profit		5,385	5,417			6,399	6,194	
Gross margin (%)		85.2%	85.6%			86.9%	86.2%	
EBIT	2,862	2,820	2,809	2%		3,393	3,275	
EBIT margin (%)	44.7%	44.6%	44.4%	29bps		45.7%	45.5%	
Net income	2,309	2,297	2,252	3%		2,673	2,657	
EPS (Diluted)	8.40	8.35	8.16	3%		9.82	9.60	

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

Valuation Methodology and Risks

Cadence Design Systems Inc (CDNS.O)

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.

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



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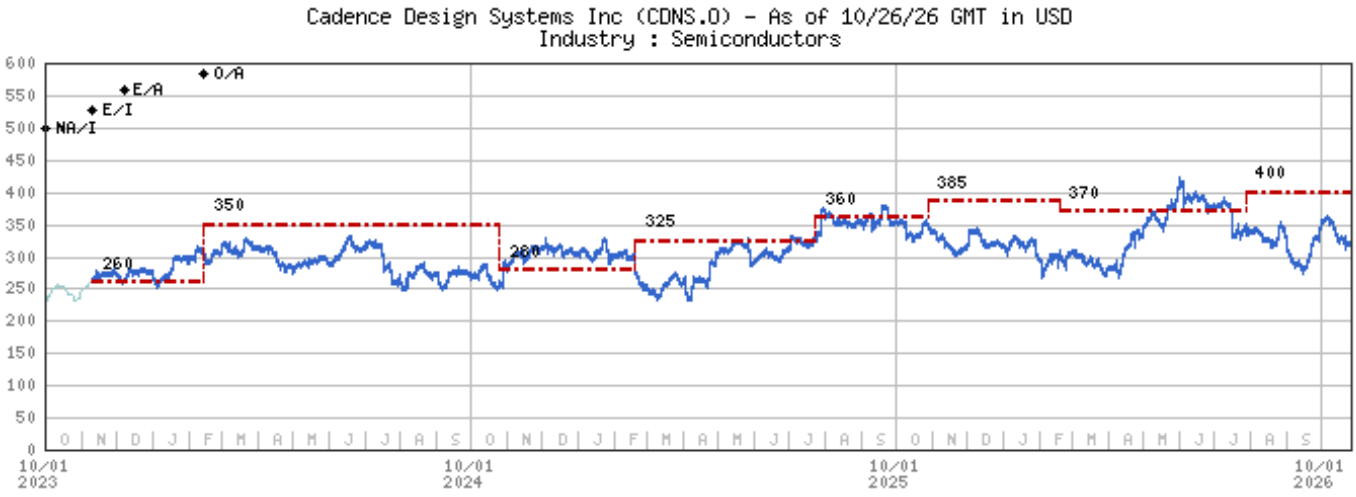
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Stock Price, Price Target and Rating History (See Rating Definitions)





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) ▬
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INDUSTRY COVERAGE: Semiconductors

COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/23/2026)
Ella Tulchinsky		
Infleqtion, Inc. (INFQ.N)	E (10/15/2026)	US$8.75
Xanadu Quantum Technologies Limited (XNDU.O)	E (10/15/2026)	US$2.64
Joseph Moore		
Advanced Micro Devices (AMD.O)	E (06/09/2024)	US$516.79
Aeva Technologies Inc (AEVA.O)	E (07/19/2021)	US$10.17
Allegro Microsystems Inc (ALGM.O)	O (02/13/2026)	US$31.48
Ambarella Inc (AMBA.O)	O (03/29/2016)	US$66.50
Amkor Technology Inc (AMKR.O)	E (11/08/2023)	US$39.30
Analog Devices Inc. (ADI.O)	O (11/16/2023)	US$391.07
Astera Labs Inc (ALAB.O)	O (05/11/2025)	US$257.16
Broadcom Inc. (AVGO.O)	O (06/09/2024)	US$321.68
Cerebras Systems (CBRS.O)	O (06/08/2026)	US$110.82
GlobalFoundries Inc (GFS.O)	E (10/28/2024)	US$44.39
Intel Corporation (INTC.O)	E (02/22/2023)	US$86.96
IonQ Inc (IONQ.N)	E (04/25/2023)	US$31.27
Marvell Technology Group Ltd (MRVL.O)	E (09/14/2015)	US$228.51
Microchip Technology Inc. (MCHP.O)	E (07/10/2024)	US$74.05
Micron Technology Inc. (MU.O)	O (10/06/2025)	US$877.55
Navitas Semiconductor Corp (NVTS.O)	U (04/06/2025)	US$8.38
NVIDIA Corp. (NVDA.O)	O (03/16/2023)	US$210.96
NXP Semiconductor NV (NXPI.O)	O (02/11/2025)	US$234.92
ON Semiconductor Corp. (ON.O)	++	US$72.25
Qualcomm Inc. (QCOM.O)	E (06/24/2026)	US$175.91
Quantinuum (QNT.O)	O (10/15/2026)	US$36.50
SanDisk Corporation. (SNDK.O)	O (03/03/2025)	US$1,238.03
Semtech Corp. (SMTC.O)	E (04/06/2025)	US$132.00

Silicon Laboratories Inc. (SLAB.O)	E (01/19/2021)	US$221.27
SiTime Corporation (SITM.O)	O (09/16/2026)	US$460.22
Skyworks Solutions Inc (SWKS.O)	E (11/28/2018)	US$83.43
Texas Instruments (TXN.O)	U (04/13/2020)	US$284.69
Wolfspeed, INC (WOLF.N)	NR (04/06/2025)	US$22.93
Lee Simpson		
Arm Holdings plc (ARM.O)	E (04/07/2026)	US$210.33
Cadence Design Systems Inc (CDNS.O)	O (02/14/2024)	US$316.49
PDF Solutions Inc (PDFS.O)	O (09/08/2026)	US$39.32
Synopsys Inc. (SNPS.O)	O (09/08/2026)	US$430.14

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* Historical prices are not split adjusted.

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