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Cadence Design Systems Inc | North America

Stronger Visibility, Emerging AI Upside

CDNS' beat-and-raise supports revenue visibility, with record backlog and stronger recurring growth. Agentic AI offers a potential monetisation opportunity, although commercial proof remains early. Hexagon weighs on margins, with integration benefits expected in 2027. We keep our OW rating, $400 PT.

Key Takeaways

- Record backlog and stronger recurring growth support revenue visibility.
- FY26 EPS guidance rises to $8.40 versus Street expectations of $8.16.
- We think Agentic AI differentiation hinges on adoption, production performance and delivery economics.
- Buybacks accelerate, with repurchases expected to exceed 50% of FY26 free cash flow
- We reiterate our Overweight rating, PT $400.

Beat-and-raise reinforces the growth outlook. Cadence signals strong growth for FY26, reports record backlog and adds to its agentic AI strategy with the launch of a suite of its own models. Q3 revenue rose 22% yy to $1.633bn, with non-GAAP operating margin of 44.1% and non-GAAP EPS of $2.11. Growth was broad-based as all segments grew strongly yy: SD&A increased 30%, including Hexagon, core EDA grew 20% and IP 24%. Backlog reached another record supporting a Q4 EPS guidance of $2.22 which was c.9% above consensus of $2.04. Management raised FY26 guidance to 21% revenue growth yy, or more than $6.4bn, c.$2bn of operating cash flow and EPS of $8.40 versus Street expectations of $8.16. **All in, CDNS delivered another solid quarter, consistent with our preview** (link).

Agentic AI: control versus partnership economics. Cadence and Synopsys are pursuing different monetisation models. Cadence's newly launched Maestro combines post-trained models, routing and reusable agent skills within its proprietary AI Agents (AuraStack, ChipStack, InnoStack and ViraStack). Proprietary models, customer-specific training and on-premises deployment emphasise control and deployment flexibility. Selected-customer early access begins in 4Q26; Cadence claims up to 30% better design quality and 5x token efficiency. Management also cited continued agent adoption and "significant productivity" gains. Meantime, Synopsys's multi-year OpenAI partnership centres on GPT-Synopsys, a specialised cloud-hosted model with revenue sharing and joint commercialisation (link). Customer engagements are underway, but no launch date has been announced. **The investor debate is whether control and flexibility outweigh frontier-model partnership economics**. Both retain multi-model strategies and say customer data will not train shared models. Production performance, adoption and delivery costs

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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 26, 2026)	US$322.17
52-Week Range	US$416.69-262.75
Mkt cap, curr (mn)	US$87,872
Net debt (12/26e) (mn)*	US$281
EV, curr (mn)*	US$87,351

* = GAAP or approximated based on GAAP

Fiscal Year Ending	12/25	12/26e	12/27e	12/28e
Sales / Revenue (US$ mn)**	5,297	6,407	7,461	8,430
EBITDA (US$ mn)**	2,459	3,206	3,580	4,153
EBIT (US$ mn)**	2,231	2,870	3,415	3,890
EPS (US$)**	7.14	8.63	9.92	11.54
Prior EPS (US$)**	-	8.35	9.82	11.43
EPS (US$)§	7.06	8.16	9.60	11.21
P/E**	43.8	37.3	32.5	27.9
EV/revenue*	16.0	16.1	13.6	11.8
EV/EBITDA**	34.5	32.2	28.3	24.0
EV/EBIT**	38.1	36.0	29.6	25.7
DPS (US$)	0.00	0.00	0.00	0.00
Div yld (%)	0.0	0.0	0.0	0.0
FCF yld ratio (%)**	1.9	2.0	2.6	1.9
Net debt (US$ mn)*	(521)	281	(867)	(1,311)
Net debt/EBITDA**	NM	0.1	NM	NM
RNOA (%)**	36.1	44.4	32.0	37.4
ROE (%)**	41.8	43.3	35.4	36.3

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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remain the key commercial differentiators.

Revenue quality supports visibility, but AI attribution remains unquantified. The Q3 revenue beat was c.$20m, with management stating no discrete pull-forward. Q4 revenue guidance was c.$60m above expectations, supported by record backlog. Recurring revenue growth accelerated to c.18% yy. Hardware delivered another record quarter, with revenue undisclosed, adding 12 customers and deepening hyperscaler relationships. These new-customer additions argue against growth being solely a pull-forward from existing accounts. The call suggested Maestro and AI "Super Agents" are supporting core demand rather than simply adding a separate revenue stream. We see potential early agentic AI traction in the Q4 outlook, but Cadence disclosed no discrete AI revenue figure. **cRPO of $4.2bn is c.2.5x the Q4 revenue guidance midpoint**, **supporting visibility. As such, essentially all of Q4 revenue is already covered in backlog, making a Q4 miss structurally unlikely absent a macro shock**.

Hexagon is the principal margin headwind; 2027 offers scope for improvement. Management identified Hexagon as the primary drag on incremental margins, with little operating profit contribution expected in 2026. Amortisation rose to c.4.9% of revenue ($79.9m), versus a historical c.1.9% run-rate, implying c.$49m of incremental amortisation associated with the acquisition. Restructuring charges of $42.2m, or 2.6% of revenue, were also elevated and appear likely to relate to integration. Restructuring represents a cash cost today but should taper as integration completes. Together, incremental amortisation and restructuring total c. $91m, or c.5.6% of Q3 revenue but we expect these potentially transitory charges to normalise next year. Cadence said incremental margins excluding Hexagon would be within the usual 54–55% range. Despite the drag, FY26 non-GAAP operating margin guidance increased to 44.7%, or slightly higher yy. **Management expects Hexagon integration initiatives to support margins in 2027 and we see margin accretion as likely as a result**.

Capital allocation: accelerated repurchases within an unchanged framework. Cadence repurchased c.400m of shares in Q3 and announced a new $2.5bn buyback programme. The company retains its target of returning 50% of free cash flow through repurchases, but expects to exceed this in FY26 after accelerating Q3 purchases at lower share prices. Cash was $1.45bn against debt of $2.65bn, with Q3 operating cash flow of $424m. Management expects the non-GAAP tax rate to remain unchanged for the rest of FY26.

An attractive entry point. We marginally lift our estimates to reflect updated management commentary, with our FY26/27 EPS increasing by 3%/1% to $8.63/9.92, respectively. Cadence currently trades on 32x our updated FY27 EPSe, a steep discount to the historical 40-45x range. Like Synopsys, they have de-rated this year on concerns that LLMs could disrupt the EDA business model. We think their overnight Maestro announcement pushed back well on this narrative and, together with their solid base in systems analysis and simulation, supports our view that the de-rating is overdone. We therefore see an attractive entry point, and apply a 40x multiple to our FY27 EPSe. We reiterate our Overweight rating, PT $400.

Financials

What was said

- 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)

Exhibit 1: CDNS Annual Income Statement

Annual Income Statement	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026e	2027e	2028e
Revenues	**1,943**	**2,138**	**2,336**	**2,683**	**2,988**	**3,562**	**4,090**	**4,641**	**5,297**	**6,407**	**7,461**	**8,430**
Cost of Sales	-237	-259	-266	-305	-307	-372	-435	-648	-722	-944	-979	-1,106
R&D	-804	-885	-936	-1,034	-1,134	-1,252	-1,442	-1,549	-1,769	-2,160	-2,388	-2,698
SG&A	-553	-573	-621	-671	-749	-846	-933	-1,040	-1,116	-1,347	-1,482	-1,637
Other income/(expenses)	-24	-25	-21	-27	-19	-19	-29	-54	-198	-138	-96	-96
EBIT (reported)	324	396	492	646	779	1,074	1,251	1,351	1,492	1,818	2,517	2,893
EBIT (Non-GAAP)	534	647	749	944	1,084	1,436	1,717	1,963	2,231	2,870	3,415	3,890
EBITDA (Non-GAAP)	**650**	**765**	**871**	**1,089**	**1,226**	**1,568**	**1,863**	**2,160**	**2,459**	**3,206**	**3,580**	**4,153**
Net Financials & other	-9	-20	-13	-13	-11	-28	31	45	30	22	-48	-2
PBT (reported)	315	376	479	633	768	1,045	1,282	1,396	1,522	1,840	2,468	2,890
Income Tax	-111	-31	510	-42	-72	-196	-241	-340	-413	-429	-642	-752
Net Income (reported)	**204**	**346**	**989**	**591**	**696**	**849**	**1,041**	**1,055**	**1,109**	**1,411**	**1,827**	**2,139**
Net Income (non-GAAP)	**393**	**526**	**618**	**782**	**918**	**1,173**	**1,404**	**1,635**	**1,952**	**2,373**	**2,698**	**3,107**
non-GAAP EPS ($) - Basic	1.44	1.92	2.26	2.86	3.36	4.33	5.21	6.03	7.19	8.69	9.98	11.62
non-GAAP EPS ($) - Diluted	**1.40**	**1.87**	**2.20**	**2.80**	**3.29**	**4.27**	**5.15**	**5.97**	**7.14**	**8.63**	**9.92**	**11.54**
DPS ($)	0.00	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**	**2028e**
Sales growth - yy	7%	10%	9%	15%	11%	19%	15%	13%	14%	21%	16%	13%
"Gross margin"	87.8%	87.9%	88.6%	88.6%	89.7%	89.6%	89.4%	86.0%	86.4%	85.3%	86.9%	86.9%
EBIT margin (reported)	16.7%	18.5%	21.1%	24.1%	26.1%	30.1%	30.6%	29.1%	28.2%	28.4%	33.7%	34.3%
EBIT margin (Non-GAAP)	**27.5%**	**30.2%**	**32.0%**	**35.2%**	**36.3%**	**40.3%**	**42.0%**	**42.3%**	**42.1%**	**44.8%**	**45.8%**	**46.1%**
EBITDA margin (non-GAAP)	33.5%	35.8%	37.3%	40.6%	41.0%	44.0%	45.5%	46.5%	46.4%	50.0%	48.0%	49.3%
PBT margin	16.2%	17.6%	20.5%	23.6%	25.7%	29.3%	31.3%	30.1%	28.7%	28.7%	33.1%	34.3%
Net margin (reported)	10.5%	16.2%	42.3%	22.0%	23.3%	23.8%	25.5%	22.7%	20.9%	22.0%	24.5%	25.4%
Net margin (non-GAAP)	20.2%	24.6%	26.4%	29.1%	30.7%	32.9%	34.3%	35.2%	36.8%	37.0%	36.2%	36.9%
Effective tax rate	-35%	-8%	106%	-7%	-9%	-19%	-19%	-24%	-27%	-23%	-26%	-26%

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

Exhibit 2: CDNS Quarterly Income Statement

Quarterly Income Statement	1Q25	2Q25	3Q25	4Q25	FY25	1Q26	2Q26	3Q26	4Q26e	FY26e
Revenues	**1,242**	**1,275**	**1,339**	**1,440**	**5,297**	**1,474**	**1,584**	**1,633**	**1,715**	**6,407**
Cost of Sales	-167	-184	-182	-189	-722	-215	-239	-236	-255	-944
R&D	-439	-442	-423	-465	-1,769	-508	-531	-538	-583	-2,160
SG&A	-266	-270	-271	-310	-1,116	-300	-330	-355	-362	-1,347
Other income/(expenses)	-9	-138	-38	-13	-198	-20	-34	-76	-8	-138
EBIT (reported)	362	242	425	463	1,492	431	450	429	508	1,818
EBIT (Non-GAAP)	516	546	638	659	2,359	659	721	720	770	2,870
EBITDA (Non-GAAP)	**569**	**600**	**695**	**724**	**2,587**	**744**	**838**	**839**	**786**	**3,206**
Net Financials & other	-6	39	-33	30	30	-3	60	-20	-15	22
PBT (reported)	356	281	393	493	1,522	428	510	408	493	1,840
Income Tax	-82	-121	-106	-105	-413	-92	-143	-119	-138	-429
Net Income (reported)	**274**	**160**	**287**	**388**	**1,109**	**336**	**367**	**290**	**355**	**1,411**
Net Income (non-GAAP)	**430**	**450**	**528**	**543**	**1,952**	**536**	**582**	**582**	**610**	**2,373**
EPS ($) - Basic	1.58	1.66	1.95	2.00	7.19	1.97	2.13	2.13	2.23	8.69
EPS ($) - Diluted	**1.57**	**1.65**	**1.93**	**1.99**	**7.14**	**1.96**	**2.11**	**2.11**	**2.22**	**8.63**
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**	**3Q26**	**4Q26e**	**FY26e**
Sales growth - qq	-8.4%	2.7%	5.0%	7.6%	--	2.4%	7.5%	3.1%	5.0%	--
"Gross margin"	86.5%	85.6%	86.4%	86.9%	86.4%	85.4%	84.9%	85.6%	85.2%	85.3%
EBIT margin (reported)	29.1%	19.0%	31.8%	32.2%	28.2%	29.3%	28.4%	26.2%	29.6%	28.4%
EBIT margin - Adjusted	41.5%	42.8%	47.6%	45.8%	44.5%	44.7%	45.5%	44.1%	44.9%	44.8%
EBITDA margin	45.8%	47.0%	51.9%	50.3%	48.8%	50.4%	52.9%	51.4%	45.8%	50.0%
PBT margin	28.6%	22.0%	29.3%	34.2%	28.7%	29.0%	32.2%	25.0%	28.7%	28.7%
Net margin (reported)	22.0%	12.5%	21.4%	27.0%	20.9%	22.8%	23.2%	17.7%	20.7%	22.0%
Net margin - Adjusted	34.6%	35.3%	39.5%	37.7%	36.8%	36.3%	36.8%	35.6%	35.5%	37.0%
Effective tax rate	-23%	-43%	-27%	-21%	-27%	-22%	-28%	-29%	-28%	-23%

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

Exhibit 3: CDNS Annual Balance Sheet

Annual Balance Sheet	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026e	2027e	2028e
Cash & cash equivalents	688	533	705	928	1,089	882	1,008	2,644	3,001	1,704	2,852	3,295
Financial investments	4	0	0	0	0	0	0	0	0	0	0	0
Trade receivables	190	297	305	338	338	487	489	680	945	1,144	1,140	1,288
Inventories	33	28	56	76	116	128	182	258	304	393	344	389
Prepaids & Other	64	93	104	136	174	210	297	434	420	360	448	506
Total current assets	**980**	**951**	**1,169**	**1,479**	**1,716**	**1,707**	**1,976**	**4,016**	**4,670**	**3,601**	**4,784**	**5,478**
PP&E	251	253	276	311	306	371	403	458	517	673	762	786
Goodwill & Other Intangibles	666	662	662	782	928	1,374	1,536	2,379	2,749	4,927	4,927	4,927
Acquired intangibles	279	225	172	211	233	355	337	595	718	1,792	1,792	1,792
Deferred tax assets	12	6	732	732	764	854	880	982	918	726	532	515
Other non-current assets	230	371	345	436	439	476	537	545	581	760	760	760
Total non-current assets	**1,439**	**1,518**	**2,188**	**2,472**	**2,671**	**3,430**	**3,693**	**4,958**	**5,483**	**8,878**	**8,772**	**8,780**
Total assets	**2,419**	**2,469**	**3,357**	**3,951**	**4,386**	**5,137**	**5,669**	**8,974**	**10,153**	**12,478**	**13,556**	**14,258**
Short-term debt (incl RCF)	85	100	0	0	0	100	349	0	0	0	0	0
Trade & other payables	221	257	317	350	417	557	577	633	857	931	957	0
Deferred revenues	336	352	355	447	554	691	665	737	778	1,029	1,119	1,264
Total current liabilities	**642**	**709**	**672**	**797**	**971**	**1,348**	**1,591**	**1,370**	**1,635**	**1,961**	**2,076**	**1,264**
Long-term debt	644	345	346	347	348	648	300	2,476	2,480	1,984	1,984	1,984
Deferred revenues	62	49	73	107	101	92	99	115	156	154	168	190
Other non-current liabilities	81	77	163	207	226	305	276	339	408	760	760	760
Total non-current liabilities	**787**	**471**	**582**	**661**	**674**	**1,044**	**674**	**2,931**	**3,044**	**2,899**	**2,913**	**2,934**
Total liabilities	**1,430**	**1,180**	**1,254**	**1,458**	**1,646**	**2,392**	**2,265**	**4,301**	**4,679**	**4,860**	**4,988**	**4,199**
Total net assets	**989**	**1,288**	**2,103**	**2,493**	**2,741**	**2,745**	**3,404**	**4,674**	**5,474**	**7,619**	**8,567**	**10,059**
Total equity	**989**	**1,288**	**2,103**	**2,493**	**2,741**	**2,745**	**3,404**	**4,674**	**5,474**	**7,619**	**8,567**	**10,059**
Net debt:												
Total Debt	-729	-445	-346	-347	-348	-748	-649	-2,476	-2,480	-1,984	-1,984	-1,984
Total "Cash"	693	533	705	928	1,089	882	1,008	2,644	3,001	1,704	2,852	3,295
Net cash/(debt)	**-37**	**88**	**359**	**582**	**741**	**134**	**359**	**168**	**521**	**-281**	**867**	**1,311**

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

Exhibit 4: CDNS Valuation Matrix and Ratio Analysis

Valuation Matrix ($m)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026e	2027e	2028e
Share Price ($)	**35.6**	**42.7**	**64.4**	**94.1**	**148.6**	**159.2**	**272.0**	**297.0**	**325.0**	**325.0**	**325.0**	**325.0**
Number of Shares (m)	280	281	281	280	279	275	273	274	273	275	272	269
Market Cap ($m) - average	**9,976**	**12,005**	**18,062**	**26,323**	**41,433**	**43,771**	**74,188**	**81,327**	**88,827**	**89,341**	**88,400**	**87,459**
Net debt/(cash) ($m) - average	37	-88	-359	-582	-741	-134	-359	-168	-521	281	-867	-1,311
Enterprise Value ($m) - average	**10,013**	**11,917**	**17,703**	**25,741**	**40,691**	**43,637**	**73,829**	**81,159**	**88,306**	**89,622**	**87,533**	**86,149**
P/E (x)	25.4	22.8	29.2	33.7	45.1	37.3	52.8	49.7	45.5	37.6	32.8	28.2
P/E FY1 (x)	**19.0**	**19.4**	**23.0**	**28.6**	**34.8**	**30.9**	**45.5**	**41.6**	**37.6**	**32.8**		
Price/book value (x)	10.1	9.3	8.6	10.6	15.1	15.9	21.8	17.4	16.2	11.7	10.3	8.7
Price/FCF (x)	24.2	22.1	27.6	32.5	40.1	39.2	70.8	72.7	55.6	49.3	38.1	54.2
EV/Sales (x)	5.2	5.6	7.6	9.6	13.6	12.3	18.1	17.5	16.7	14.0	11.7	10.2
EV/Sales FY1 (x)	**4.7**	**5.1**	**6.6**	**8.6**	**11.4**	**10.7**	**15.9**	**15.3**	**13.8**	**12.0**		
EV/EBITDA (x)	15.4	15.6	20.3	23.6	33.2	27.8	39.6	37.6	35.9	28.0	24.5	20.7
EV/EBITDA FY1 (x)	**13.1**	**13.7**	**16.3**	**21.0**	**25.9**	**23.4**	**34.2**	**33.0**	**27.5**	**25.0**		
EV/IC (x)	10.9	12.1	18.0	22.2	32.0	24.2	36.3	25.8	24.1	14.4		
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield	4.1%	4.5%	3.6%	3.1%	2.5%	2.6%	1.4%	1.4%	1.8%	2.0%	2.6%	1.8%
Per share data ($):												
EPS - Diluted	**1.4**	**1.9**	**2.2**	**2.8**	**3.3**	**4.3**	**5.1**	**6.0**	**7.1**	**8.6**	**9.9**	**11.5**
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	1.5	1.9	2.3	2.9	3.7	4.1	3.8	4.1	5.8	6.6	8.5	6.0
Book value per share	3.5	4.6	7.5	8.9	9.8	10.0	12.5	17.1	20.0	27.7	31.5	37.4

Ratio Analysis	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026e	2027e	2028e
ROCE	23%	26%	22%	26%	29%	31%	34%	27%	27%	20%	29%	33%
ROIC	47%	43%	-2%	59%	67%	70%	74%	54%	52%	36%	51%	49%
ROE	24%	30%	58%	26%	27%	31%	34%	26%	22%	22%	23%	23%
Interest cover (x)	25.3	33.1	46.3	52.5	72.2	68.4	51.5	28.4	21.1	25.4	30.8	35.7
Cash Conversion	1.4	1.3	1.2	1.2	1.1	1.3	1.4	1.7	1.4	1.6	1.4	2.2
Net debt/Equity	0.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.0	n/a	n/a
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%	3%	4%	2%	3%	3%	3%	3%	4%	3%	3%
yy growth:												
Sales growth	7.0%	10.0%	9.3%	14.8%	11.4%	19.2%	14.8%	13.5%	14.1%	21.0%	16.4%	13.0%
EBIT growth	32.3%	22.3%	24.1%	31.3%	20.7%	37.8%	16.5%	8.0%	10.5%	21.8%	38.4%	14.9%
EBITDA growth	10.5%	17.8%	13.8%	25.0%	12.6%	27.9%	18.7%	16.0%	13.8%	30.4%	11.6%	16.0%
EPS growth	16.2%	33.4%	17.8%	27.0%	17.8%	29.5%	20.7%	16.0%	19.6%	20.9%	14.9%	16.4%
FCF growth	5.5%	31.6%	20.6%	23.7%	27.6%	8.1%	-6.2%	6.6%	43.0%	13.3%	28.1%	-30.4%
Dividend growth	na	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%	0.0%
EBIT margin	16.7%	18.5%	21.1%	24.1%	26.1%	30.1%	30.6%	29.1%	28.2%	28.4%	33.7%	34.3%
EBITDA margin	33.5%	35.8%	37.3%	40.6%	41.0%	44.0%	45.5%	46.5%	46.4%	50.0%	48.0%	49.3%
PBT margin	16.2%	17.6%	20.5%	23.6%	25.7%	29.3%	31.3%	30.1%	28.7%	28.7%	33.1%	34.3%
Net margin	10.5%	16.2%	42.3%	22.0%	23.3%	23.8%	25.5%	22.7%	20.9%	22.0%	24.5%	25.4%

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

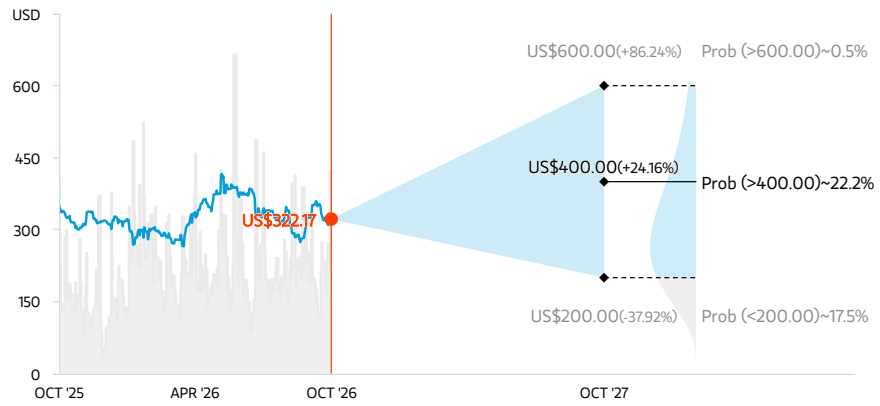
We apply a c.41x P/E multiple to our $9.92 FY27e EPS, an upcycle P/E within the 40-50x historical P/E multiple range. Our view remains that Cadence deserves a premium to peers, given its position at the centre of the semis/systems convergence and it is likely to benefit from several growth drivers across 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 26 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 $9.92 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 $9.92 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)

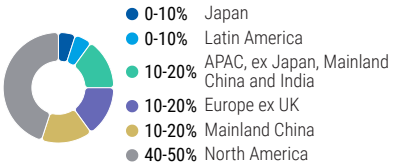
KEY EARNINGS INPUTS

Drivers	Dec 2025	Dec 2026e	Dec 2027e	Dec 2028e
Sales growth - yy (%)	14.1	21.0	16.4	13.0
Gross margin (%)	86.4	85.3	86.9	86.9
EBIT margin (reported) (%)	28.2	28.4	33.7	34.3

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

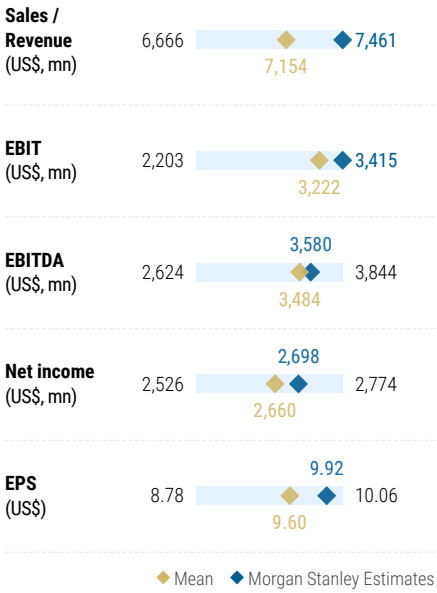
OWNERSHIP POSITIONING

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



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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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.

Equal-weight (E). The stock's total return is expected to be in line with 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.

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.

Underweight (U). The stock's total return is expected to be below 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.

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

Analyst Industry Views

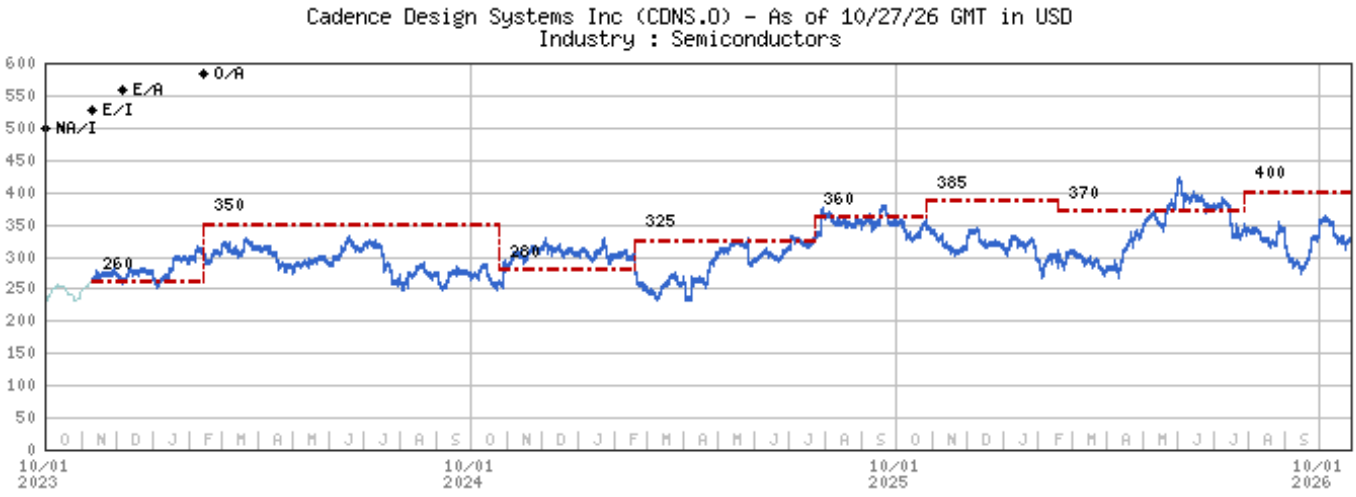
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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* (10/26/2026)
Ella Tulchinsky		
Infleqtion, Inc. (INFQ.N)	E (10/15/2026)	US$8.63
Xanadu Quantum Technologies Limited (XNDU.O)	E (10/15/2026)	US$2.56
Joseph Moore		
Advanced Micro Devices (AMD.O)	E (06/09/2024)	US$531.28
Aeva Technologies Inc (AEVA.O)	E (07/19/2021)	US$9.91
Allegro Microsystems Inc (ALGM.O)	O (02/13/2026)	US$32.32
Ambarella Inc (AMBA.O)	O (03/29/2016)	US$66.82
Amkor Technology Inc (AMKR.O)	E (11/08/2023)	US$36.81
Analog Devices Inc. (ADI.O)	O (11/16/2023)	US$407.93
Astera Labs Inc (ALAB.O)	O (05/11/2025)	US$259.51
Broadcom Inc. (AVGO.O)	O (06/09/2024)	US$329.17
Cerebras Systems (CBRS.O)	O (06/08/2026)	US$108.37
GlobalFoundries Inc (GFS.O)	E (10/28/2024)	US$45.00
Intel Corporation (INTC.O)	E (02/22/2023)	US$90.47
IonQ Inc (IONQ.N)	E (04/25/2023)	US$30.76
Marvell Technology Group Ltd (MRVL.O)	E (09/14/2015)	US$233.78
Microchip Technology Inc. (MCHP.O)	E (07/10/2024)	US$75.90
Micron Technology Inc. (MU.O)	O (10/06/2025)	US$903.70
Navitas Semiconductor Corp (NVTS.O)	U (04/06/2025)	US$8.40
NVIDIA Corp. (NVDA.O)	O (03/16/2023)	US$216.00
NXP Semiconductor NV (NXPI.O)	O (02/11/2025)	US$245.83
ON Semiconductor Corp. (ON.O)	++	US$74.06
Qualcomm Inc. (QCOM.O)	E (06/24/2026)	US$179.60
Quantinuum (QNT.O)	O (10/15/2026)	US$37.53
SanDisk Corporation. (SNDK.O)	O (03/03/2025)	US$1,255.58
Semtech Corp. (SMTC.O)	E (04/06/2025)	US$136.73

Silicon Laboratories Inc. (SLAB.O)	E (01/19/2021)	US$221.25
SiTime Corporation (SITM.O)	O (09/16/2026)	US$464.70
Skyworks Solutions Inc (SWKS.O)	E (11/28/2018)	US$83.34
Texas Instruments (TXN.O)	U (04/13/2020)	US$298.12
Wolfspeed, INC (WOLF.N)	NR (04/06/2025)	US$23.38
Lee Simpson		
Arm Holdings plc (ARM.O)	E (04/07/2026)	US$223.35
Cadence Design Systems Inc (CDNS.O)	O (02/14/2024)	US$322.17
PDF Solutions Inc (PDFS.O)	O (09/08/2026)	US$40.82
Synopsys Inc. (SNPS.O)	O (09/08/2026)	US$454.33

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* Historical prices are not split adjusted.

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