Richard Gu, Vice President, Investor Relations

Forward-Looking Statements and Non-GAAP Measures

The following discussion contains forward-looking statements, including our outlook on future business and operating results. Actual results may differ materially from expectations expressed or implied in the forward-looking statements due to risks, uncertainties and other factors, many of which are outside our control. All forward-looking statements in this discussion are made only as of July 27, 2026, and are based on estimates and information available to us at that time, and we do not intend, and disclaim any obligation, to update them. For information on the factors that could cause a difference in our results, please refer to our filings with the Securities and Exchange Commission. These include our most recent reports on Form 10-K and Form 10-Q, the cautionary comments regarding forward-looking statements in the earnings release issued on July 27, 2026, as well as our future filings.

In addition, all financial measures discussed on this call are non-GAAP unless otherwise specified. The non-GAAP measures, which should not be considered in isolation from, or as a substitute for, GAAP results. Reconciliations of non-GAAP measures with their most directly comparable GAAP results are available in the quarterly earnings section of the investor relations portion of our website.

A copy of the earnings release for the second quarter of fiscal 2026, related financial tables and CFO Commentary which was included in our Form 8-K filing on July 27, 2026, can also be found in the investor relations portion of our website.

Anirudh Devgan, President and Chief Executive Officer

Thank you, Richard. Good afternoon everyone and thank you for joining us today.

I am very pleased to report that Cadence delivered outstanding financial results for the second quarter of 2026, with all key metrics exceeding our guidance. We exited the quarter with record backlog that was above our expectations. We are seeing growing demand for our AI-driven solutions across our expanding customer base. The AI transformation is driving strong, broad-based performance across both *Design for AI* and *AI for Design* fronts. Given the growing business momentum and accelerating demand, we are raising our guidance for the year to 19% revenue growth, and with higher profitability, as we become more central to our customers as a strategic and trusted partner. John will provide more details on both our Q2 results and the updated financial outlook.

Let me start with the overall environment. Design activity is growing, as AI drives exponential design complexity and a new generation of system architectures, spanning hyperscaler infrastructure and Physical AI. Customers are investing aggressively in these opportunities, led by AI and HPC, and we are also seeing continued signs of improvement across the more traditional analog and consumer verticals.

Chip and system design present demanding engineering challenges that require deterministic, physics-based engines, proprietary silicon correlated data, and deep design knowledge. Our three-layer cake framework uniquely brings these capabilities together with accelerated compute and data at the bottom layer, physically accurate simulation and optimization solvers in the middle layer and AI agents and orchestration at the top layer. Agentic AI is a demand accelerator for Cadence as autonomous agents expand the design exploration space and call our underlying physically accurate engines more often, creating a durable tailwind that represents a significant long-term TAM expansion opportunity.

We extended our leadership in agentic AI with AuraStack AI Super Agent, delivering up to 15X higher productivity and 2X faster time to market for PCB and advanced packaging design. Cadence is now the only provider with agentic solutions spanning the full electronic system design flow—from digital and analog design and verification to advanced packaging and PCB. We see strong early traction across our AI Super Agent portfolio, with initial customer results demonstrating meaningful productivity improvements and better design outcomes. Our ChipStack AI Super Agent enabling higher verification productivity and faster design cycles, has more than 20 customer engagements and is already deployed in production across multiple chip designs. At Computex 2026, together with NVIDIA, we introduced the industry's first fully autonomous virtual AI Design Engineer, extending ChipStack to even higher levels of autonomy. Early customer results include more than 40X faster RTL validation, reducing a typical five-week verification cycle to less than a day on a state-of-the-art, advanced node design. In analog and custom design, ViraStack is seeing strong customer interest, with more than 25 customer engagements, achieving 2X to 10X productivity improvements compared to traditional design flows. InnoStack is also building momentum as customers adopt agentic AI for advanced-node SoC design. During the quarter, Rapidus announced a collaboration to integrate the Cadence InnoStack AI Super Agent into its AI-Agent Design Solution, targeting up to a 2X faster design turnaround.

We continued to deepen our strategic partnerships across the ecosystem. We expanded our collaboration with Intel through a multi-year engagement focused on enabling its 14A process, leveraging our design IP and agentic AI-based EDA to co-optimize tools, flows, and methodologies for next-generation HPC and mobile designs. This agreement is expected to be a meaningful driver of growth over the next few years. We also deepened our collaboration with Samsung Foundry on 2-nm and 3D-IC technologies, combining our AI-driven flows and design IP to enable next-generation AI, HPC, and mobile systems.

Now turning to our businesses, we are pleased that all product groups delivered double digit year-over-year growth. Our **IP business** had an outstanding quarter, growing over 40% year over year. AI performance is increasingly constrained by data movement, memory bandwidth, and advanced packaging, and our differentiated IP portfolio continued to see strong adoption. This was reflected in the strong demand for our Star IP portfolio in AI and HPC applications, including PCIe, UCIe, HBM, and LPDDR6. We also expanded engagements with leading memory, semiconductor, and aerospace customers. We secured our first-ever Tensilica DSP design win with STMicroelectronics, reinforcing our strength in automotive and audio applications.

Core EDA grew 18% year over year, driven by growing adoption of our AI solutions. Proliferation of our digital full flow solutions continued, and we saw expanded adoption of Tempus and Certus signoff tools on leading edge designs, with wins across hyperscalers, top semiconductor companies and startups. We also expanded our implementation and signoff footprint at frontier AI companies as well as at a marquee ASIC silicon vendor, underscoring their differentiated value in enabling the industry's most advanced designs. In analog, we had a significant competitive win with Spectre at a leading semiconductor supplier, and our FastSPICE simulator Spectre FX notched several production wins at leading customers. Our hardware business delivered another record quarter, driven by continued strength in Palladium Z3 and Protium X3. As designs approach unprecedented scale, hardware-assisted design and verification is becoming a strategic capacity layer for our customers' AI roadmaps. These customers are designing some of the most complex chips and systems in the world, and they critically depend on our scalable, high-performance hardware platforms to realize their designs.

Demand remains especially strong from AI and HPC customers, including hyperscalers and leading semiconductor companies. We added 12 new logos and saw meaningful expansions with several marquee AI customers, as well as a notable competitive win with a major AI infrastructure provider.

System Design and Analysis revenue grew 37% year over year. As AI system complexity increases, customers are increasingly turning to our advanced packaging and PCB solutions. Allegro X AI was adopted by several customers driven by significant layout design time reduction. With our 3D-IC technology and collaboration with TSMC's 3DFabric advanced packaging solutions, we are enabling customers to confidently design cutting-edge silicon for increasingly demanding AI workloads. In structural simulation, our BETA CAE business had several competitive displacements, while the integration of recently acquired Hexagon's D&E business is progressing well, with key deals closed with top customers. There's strong customer interest in our integrated full flow that combines our multiphysics products across the electrical, CFD and structural domains to best address next generation system design needs including in the emerging field of physical AI.

In summary, Q2 was a great quarter for Cadence, and I’m delighted with the continued momentum of our business. With accelerating design activity, we continue to execute strongly, and our competitive position has never been better as we lead the transformation to agentic AI in chip and system design. With that, I will turn it over to John to provide more details on our Q2 results and our updated 2026 outlook.

John Wall, Senior Vice President and Chief Financial Officer

Thanks, Anirudh, and good afternoon, everyone.

Cadence delivered excellent results for the second quarter of 2026, with accelerating momentum in AI and broad-based strength across all our businesses.

Robust design activity and customer demand drove 24% year-over-year revenue growth for Q2, with double-digit growth across all our product groups. With strong execution, we generated Q2 operating margin of 45.5%. And second quarter bookings resulted in a record backlog of $8.1 billion.

Here are some of the financial highlights from the second quarter starting with the P&L:

- Total revenue was **$1.584 billion**
- GAAP operating margin was **28.4%**
- Non-GAAP operating margin was **45.5%**
- GAAP EPS was **$1.33**
- Non-GAAP EPS was **$2.11**

Next, turning to the balance sheet and cash flow:

- Our cash balance was **$1.44 billion**, while the principal value of debt outstanding was **$2.5 billion**
- Operating cash flow was **$635 million**
- DSOs were **65 days**, and
- We used **$200 million** to repurchase Cadence shares

Before I provide our updated outlook, I'd like to highlight that it contains the usual assumption that export control regulations that exist today remain substantially similar for the remainder of the year.

For our updated outlook for 2026, we now expect:

- Revenue in the range of **$6.260 billion to $6.340 billion**,
- GAAP operating margin in the range of **27.75% to 28.75%**,
- Non-GAAP operating margin in the range of **43.75% to 44.75%**,
- GAAP EPS in the range of **$4.76 to $4.86**,
- Non-GAAP EPS in the range of **$8.05 to $8.15**,
- Operating cash flow of approximately **$2 billion**, and
- We expect to use approximately **50%** of our free cash flow to repurchase Cadence shares in 2026.

For Q3, we expect:

- Revenue in the range of **$1.595 billion to $1.625 billion**,
- GAAP operating margin in the range of **27.5% to 28.5%**,
- Non-GAAP operating margin in the range of **43.5% to 44.5%**,
- GAAP EPS in the range of **$1.11 to $1.17**, and
- Non-GAAP EPS in the range of **$2.01 to $2.07**, and

As usual, we've published a 'CFO Commentary' document on our Investor Relations website, which includes our outlook for additional items, as well as further analysis and GAAP to Non-GAAP reconciliations.

In conclusion, I'm pleased with our strong first half results and the robust pipeline and momentum heading into the second half of the year. At the midpoint, we now expect revenue growth of 19%, operating margin of 44.25%, EPS of $8.10, and operating cash flow of $2 billion for the year. As always, I'd like to close by thanking our customers, partners, and our employees for their continued support. And with that, operator, we will now take questions.

Q&A Session

- Anirudh Devgan, President and Chief Executive Officer
- John Wall, Senior Vice President and Chief Financial Officer

Prepared Closing Remarks of Anirudh Devgan, President and Chief Executive Officer

Thank you all for joining us this afternoon.

- It is an exciting time for Cadence as we enter the second half of 2026 with AI-driven product leadership and strong business momentum

- And on behalf of our employees and our Board of Directors, we thank our customers, partners, and investors for their continued trust and confidence in Cadence.

