

## Cadence Design Systems, Inc.

US CORE HOLDING\*

Recommended since 22.08.24

09.01.2025



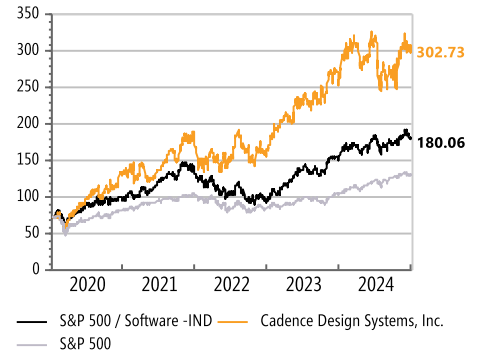
Country	US	Market capitalization (bn)	USD	83,0	Perf. since reco. (%)	
Sector	Technology	Free float		99,7%	Cadence Design Systems, Inc.	9,9
Factset	CDNS-US	Closing price	USD	302,73	Sector	5,4
ISIN	US1273871087	ESG Risk score*	14,5	Low risk		



\*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

## Profile

Cadence Design Systems, founded in 1988, is a company specializing in electronic design automation (EDA) tools for the semiconductor industry. The group has expanded its offerings to include advanced simulation and verification solutions, becoming a key leader in the integrated circuit design cycle. Through strategic acquisitions, Cadence has strengthened its leadership position in EDA and system design solutions.



Source: Factset

## Market - competition - positions - barriers to entry

The total addressable market for Cadence is estimated to exceed \$20 billion in 2024, with an annual growth rate of over 10%, driven by the increasing complexity of semiconductors. Cadence primarily competes with Synopsys and benefits from high barriers to entry, such as technological complexity, significant R&D investments, and established customer relationships, ensuring a strong and sustainable competitive position.

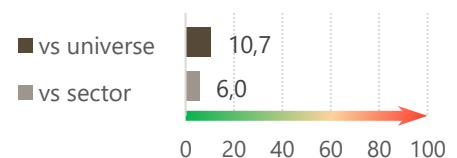
## Investment case

- ❖ Cadence, initially focused on electronic design automation (EDA), has expanded its portfolio to include advanced tools for simulation, verification, and physical analysis, thereby strengthening its key position in the design of complex integrated circuits. By integrating artificial intelligence and machine learning into its solutions, Cadence is capitalizing on the increasing complexity of chips and the growing demand for robust verification tools. The company is well-positioned to benefit from the sustainable growth of the semiconductor industry, with a projected revenue CAGR of over 15% over the next five years.
- ❖ Sales are distributed across five distinct divisions: as of FY2023, 22% came from the Custom IC & Simulation division, 27% from Digital IC Design & Signoff, 27% from Functional Verification, 12% from IP Blocks, and 12% from System Design & Analysis. Each division contributes to the pre-production design cycle, covering the creation of a logical schematic, simulation, transformation into physical elements, and verification.
- ❖ The semiconductor industry is shaped by several major trends: advances in memory chips (NAND, DRAM), miniaturization (5nm, 3nm, 2nm), advanced packaging, architectural transitions (from FinFET to GAA), and more broadly, the AI boom (GPU chips and ASICs). These developments impose increasingly complex design requirements, enhancing the value of Cadence's solutions. Additionally, as semiconductor manufacturing processes reach their physical limits, it becomes essential to maximize performance and reduce power consumption through optimal designs. Overall, EDA and IP blocks account for 2-3% of total semiconductor industry spending; these budgets are steadily increasing and are rarely reduced during economic downturns.
- ❖ Strategically, Cadence regularly makes targeted acquisitions to expand its portfolio. Recently, the company has strengthened its presence in industries requiring complex simulations through the integration of Numeca, Cascade, and BETA CAE (included in System Design & Analysis).
- ❖ Cadence boasts a strong balance sheet and stands out in the technology sector with its structural growth (sales, EPS, FCF) and unique positioning. Although the stock trades at a high forward P/E ratio (43x), we believe the company is capable of exceeding growth expectations, with revenue growth of 15-17% (2025-2028) and continued margin expansion.

## ESG - risks and key points

- ❖ Cadence's ESG risk level is low, with its management of ESG issues aligning with industry standards in the technology sector.
- ❖ As a provider of essential solutions for semiconductor design, Cadence must ensure the security and reliability of its products to prevent any negative impact on its clients. The company's exposure to China poses a risk in the event of a deterioration in US-China relations.
- ❖ Given the importance of innovation and competition, Cadence must attract and retain highly skilled talent to maintain its competitive advantage.

## ESG risk vs. universe &amp; sector (percentile)\*



Source: Sustainalytics

## Valuation\*\* in USD

Current price	Value Bordier Scenario
303	311

Our scenario includes U.S. 10-year Treasury rates at 3.5%, accelerating sales growth (2025-2027), and continued margin expansion.

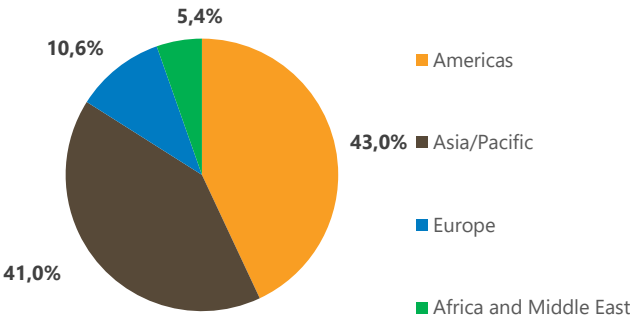
\*\* The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of USD	2022	2023	2024e	2025e	2026e
Sales revenue	3 562	4 090	4 601	5 222	6 006
Sales growth %	19,2%	14,8%	12,5%	13,5%	15,0%
o/w organic	19,0%	14,5%	12,5%	13,5%	15,0%
EBIT adjusted	1425	1718	1965	2298	2697
% of sales	40,0%	42,0%	42,7%	44,0%	44,9%
Net income	1 200	1 451	1 639	1 932	2 296
Adjusted EPS	4,42	5,38	6,12	7,21	8,57
Adjusted EPS growth	77,3%	21,7%	13,6%	17,9%	18,8%
Capex/Sales	3,5%	2,5%	4,8%	4,8%	4,8%
Free cash-flow	1 119	1 247	1 600	1 892	2 255
FCF/Sales	31,4%	30,5%	34,8%	36,2%	37,5%
Dividend per share	0,00	0,00	0,00	0,00	0,00
Dividend yield	0,0%	0,0%	0,0%	0,0%	0,0%
ROCE - WACC	36,5%	33,7%	30,3%	22,7%	18,3%
ROE (%)	43,7%	42,6%	38,6%	31,3%	27,1%
Net debt/Ebitda	-8,6%	-19,3%	-53,4%	-120,4%	-178,8%

Source: Factset, Bordier estimates

Sales breakdown - 12/2023



Ratios

Cadence Design Systems, Inc.		S&P 500	
		Sector	Market
PE (x)***		Software	S&P 500
2024e	56,2	38,3	23,5
2025e	49,5	35,2	24,8
2026e	42,0	31,1	21,6
P/B (x)***			
2024e	24,4	12,6	4,8
2025e	19,6	10,8	5,0
2026e	13,4	8,6	4,6
Beta (2Y, daily) vs market:			1,03

\*\*\*) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premi-ums representing the quality of the company's business model.

Governance and ownership structure

Since 2021 Anirudh Devgan CEO.

Agenda

4Q 2025 results on 18/02/2025.

Key shareholders (if any):

Vanguard 8.84%, BlackRock 5.61%, SSgA 4.33%.

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements, etc.):

None

Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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