

A substantive forward upgrade, not merely the incorporation of an already completed quarter

1 KEY RESULTS VS. CONSENSUS			
Metric	Reported	Consensus	vs. Cons.
Revenue	\$1.633 billion	\$1.610 billion	+1.4%
Operating Income, Adjusted (vs. Year Ago)	\$720.5 million	\$637.9 million	+12.9%
Net Income (adjusted)	\$582.2 million	\$567.2 million	+2.6%
Diluted EPS (adjusted)	\$2.11	\$2.05	+2.9%
REVENUE BY LINE			
Product and Maintenance	\$1.49 billion	\$1.47 billion	+1.4%
Services	\$146.0 million	\$142.9 million	+2.2%
BACKLOG AND CASH FLOW			
Total Backlog (vs. Prior Quarter)	\$8.2 billion	\$8.1 billion	+1.2%

The notice's \$4.2 billion remaining performance obligations figure is the amount expected to be recognized over the next 12 months, not total backlog; total backlog was \$8.2 billion.

2 | GUIDANCE AND OUTLOOK

Full-year revenue guidance rose to \$6.387 billion to \$6.417 billion from \$6.260 billion to \$6.340 billion; adjusted EPS to \$8.37 to \$8.43 from \$8.05 to \$8.15. Adjusted operating margin rises to 44.2% to 45.2% from 43.75% to 44.75%. Q4 adjusted EPS guidance is \$2.19 to \$2.25; its adjusted margin midpoint remains below the prior-year quarter. Approximately \$2.0 billion operating cash flow and approximately \$240 million capital expenditures were reaffirmed. No formal 2027 targets were provided; the usual update was deferred until February.

3 | EARNINGS ANALYSIS

A SUBSTANTIVE FORWARD UPGRADE, NOT A COMPLETED QUARTER The quarterly surprise was credible but relatively modest; the stronger remaining-quarter outlook was the larger development. Core EDA grew 20%, IP 24%, and System Design and Analysis 30%, with another record hardware quarter. SDA includes acquired operations, and organic growth was not disclosed. Recurring revenue grew 18%, countering a hardware-only interpretation, but moderated from 20% in Q2. This was sustained, broad-based strength, not simultaneous acceleration across all businesses. Most of the annual upgrade reflects a stronger forward outlook, not merely Q3 outperformance.

PROFIT QUALITY LAGS REVENUE Adjusted operating margin declined 350 basis points year over year to 44.1%, despite gross-margin improvement to 88.8%; the pressure sat below gross profit. GAAP operating margin and EPS missed July guidance, and GAAP EPS was unchanged at \$1.05. Adjustments included \$144.8 million of stock compensation, an economic cost through dilution or offsetting repurchases. Most of the annual EPS upgrade is operational, but approximately \$0.07 comes from other expense and share-count changes. The recovery stays limited: Q4's adjusted margin midpoint of 44.5% remains 130 basis points below the prior-year quarter, and full-year adjusted margin including stock compensation is expected at 35.8%, stable to slightly lower rather than expanding.

CASH CONVERSION NEEDS MONITORING Operating cash flow was \$424 million; approximately \$62 million of capital expenditure left \$362 million free cash flow, approximately 62% of adjusted net income. DSOs reached 66 days versus 55 a year earlier. Repurchases of \$400 million exceeded quarterly free cash flow, while debt principal increased to \$2.650 billion and cash was \$1.452 billion. Inventory and working-capital absorption reinforce the need to monitor conversion rather than assume earnings growth flows proportionately into cash.

AI MONETIZATION REMAINS INCOMPLETE. Cadence monetizes model use, tokens, compute and engines plus orchestration across all of them. Reported evidence validates the engines, but the monetization plumbing is incomplete: direct agentic revenue, pricing, contract economics, paid deployment counts, and incremental software consumption were not disclosed. Wall said the economics of particular deployments could vary, with greater customer usage creating greater value for Cadence. The 2027 test is conversion of agent-driven workloads into larger contracts and paid capacity.

4 | KEY READ-THROUGHS

A MORE CONSEQUENTIAL COMPETITIVE THREAT TO SYNOPSYS
Synopsys (SNPS) | Negative | Potentially moderate financial significance
Cadence reported 16 new digital and signoff full-flow wins, expanding into synthesis and signoff. Integrated agents encourage workflow standardization, threatening Synopsys's wallet share and renewal economics. High fixed development costs amplify the profit impact of lost expansion. No quantified market-share loss is established; effects are more likely over approximately 12-36 months, and Synopsys's August results showed strong EDA demand.

VALIDATED ENGINES AND ORCHESTRATION CHANNEL DEMAND
Synopsys (SNPS), Siemens (SIE) | Positive | Potentially material for Synopsys; smaller at consolidated Siemens level
Recurring revenue growth of 18% supports demand for validated design engines rather than an AI-disintermediation thesis. Customer-built agents require synthesis, simulation, verification and validation. More experiments can raise consumption, capacity and adoption without headcount growth. Revenue capture depends on contract terms; use inside existing capacity does not automatically produce sales. The 2027 test is converting agent-driven workloads into larger contracts.

CUSTOM SILICON SCALE SUPPORTS BROADCOM, MARVELL
Broadcom (AVGO), Marvell Technology (MRVL) | Positive | Potentially material over several years
Approximately 45% of Cadence's business comes from systems companies, while IP revenue grew 24%. More custom-silicon programs expand demand for implementation expertise, interfaces, memory connectivity and packaging integration, supporting Broadcom and Marvell. Design starts precede production revenue, and smaller entrants need not become hyperscaler-scale programs. This corroborates previously disclosed demand; no award follows from the unnamed space-company engagement.

TSMC BENEFITS FROM DESIGN PROLIFERATION
Taiwan Semiconductor Manufacturing Company (TSM) | Positive | Potentially material over the medium term
New 2-nanometer projects and interconnected-chiplet verification support leading-edge manufacturing and packaging. TSMC can benefit whichever accelerator architecture wins, provided designs use its processes and ecosystem. Its October 15 release showed 2-nanometer at 8% of wafer revenue and anticipated a steep Q4 ramp. Cadence corroborates it, without new wafer allocations, packaging orders or capex. Conversion spans approximately 12-24 months and beyond.