



Cadence Calls Active as New Products Drive TAM

Ticker/Price: CDNS (\$66.82)

Analysis:

Cadence Design (CDNS) trading 5.5X average calls with late day buyers of the September \$70 calls for \$1.00 to \$1.05, over 4300X, sending IV30 higher by 7%. CDNS has seen buyers recently in the Sept. \$75 calls over 1500X while the December \$75 calls with 600 bought in April and remain in OI. CDNS shares have pulled back from 52-week highs may in July and forming a bull wedge back at a low June volume node at \$66.75. The \$19.5B company trades 29X earnings, 8.6X sales, and 31.9X FCF with mid-teens EPS growth. CDNS sees 6.8% and 6.32% revenue growth the next two years. CDNS sees tailwinds from growth in the data-driven economy including storage, transmission, and storage as the proliferation of mobile, edge computing, automotive, and machine learning grow. The company is expanding their Intelligent System Design strategy which builds out their TAM including the \$3B embedded safety and security space. They also entered the \$4.5B market for System Analysis with their new product, Clarity 3D Solver which uses next-gen electromagnetic field simulation. Analysts have an average target for shares of \$65. Credit Suisse out on 7-23 with a \$70 PT, up from \$62, seeing operating margin expansion in FY20 and share gains despite what looks like full valuation. They think CDNS has the broadest product portfolio that is required for designing products all the way from chip design to complete systems. The company is a near monopoly in custom design (80%+ share) and has strong presence in most EDA markets. We view the EDA sector as a compelling mix of cyclical-hedge and secular leverage. Short interest is 2.7%. Hedge Fund ownership fell 9%. AQR, Alkeon Capital, and Smith Asset Management top holders.

Hawk Vision:



Hawk's Perspective: CDNS has the China overhang and chart looks like it may continue lower with the 20-day resistance recently. I'm watching for a reversal off that \$65 level from April/May.

Confidence Ranking: \$\$