



Cadence Design Unusual Bullish Call Buys

Ticker/Price: CDNS (\$89)

Analysis:

Cadence Design (CDNS) unusual November \$90 calls being bought 2000X today near \$9.45 to open, similar to bullish December call buying in peer **Synopsys (SNPS)**. CDNS calls are running 8.7X daily average volume and a name lacking much notable open interest prior to today. CDNS shares are hitting record highs with a strong candle this week off its rising 13 day moving average, Fibonacci extension targets at \$91.60 and \$98.50. The \$23.8B provider of chip design software and services trades at a premium valuation of 31.7X Earnings, 10X Sales and 35X FCF with a strong balance sheet. CDNS will present on 6-2 at the BAML Tech Conference. It has grown revenues at steady 9-10% growth the last few years and similar EPS growth rates. CDNS offers a subscription software model with high renewal rates. Cadence and its peers develop highly specialized software, hardware, and IP solutions for the automated design and verification of electronic products and systems. It sees future growth being driven by the data-driven economy with drivers including Machine Learning, Automotive, Datacenter, Mobile and Edge Computing. It has also provided steady growth in operating margins and FCF the last few years. Analysts have an average target of \$85 and short interest low at 1.6% of the float. BAML upgraded to Buy on 4-22 noting "CDNS is a leader in an Electronic Design Automation (EDA) industry that – like semis – is levered to the best markets in tech (AI, Cloud, 5G). However, its recurring sales and high correlation to R&D cycles provide attractive defensiveness during downturns. We believe CDNS is poised to grow sales/EPS/FCF at a dependable 9-12% CAGR, inline/better vs. peers. EDA toolmakers are critical in preserving the pace of innovation in semis, providing the plumbing needed for increasingly complex chip designs. Growth is indexed to global semis R&D that has grown at a 6% CAGR over the last 20 years, has only declined 3 times, and is likely to hold up well in the current environment. EDA still only accounts for ~10-15% of an R&D pool that is diversifying to systems companies such as cloud customers that are ramping up investments to alleviate pandemic induced bandwidth constraints. In a highly consolidated industry, we expect CDNS can sustainably grow sales at a high-single pace, drive 200-300bp operating leverage, and generate superior 10-12% EPS/FCF growth (~30% FCF margins) over the long-term." Wells Fargo raised its target to \$100 this morning. Hedge Fund ownership rose modestly in Q1 filings, Parnassus and Alkeon concentrated holders.

Hawk Vision:



Hawk's Perspective: CDNS and SNPS are two favorite growth theme plays and this write-up lays out the case well, two consistent names to own.

Confidence Ranking: \$\$