

Cadence Design Systems, Inc. CDNS (NAS)

Last Close	Industry	Sector
12.00 USD	Software - Application	Technology

Profile

Pricing data through 09 Feb 2012

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Morningstar Equity Research
 +1 (312) 696-6869
 nasdaqrequest@morningstar.com

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Cadence Design Systems, Inc. was organized as a Delaware corporation in June 1988. It licenses software, sells or leases hardware technology and provides engineering and education services throughout the world to help manage and accelerate electronics product development processes. Its customers use its products and services to design and develop complex integrated circuits, or ICs, and electronics systems. The company combines its products and technologies into four branded “platforms” for design activities: Functional Verification; Digital IC Design and Implementation; Custom IC Design and Verification and System Interconnect Design. Functional Verification offerings are comprised of two categories of offerings: Logic Verification and System Design and Verification. Digital IC offerings include two categories of offerings: Logic Design and Implementation. The custom IC Design and Verification offering is comprised of a range of Virtuoso(r) custom design platform capabilities and certain DFM product capabilities. The Custom IC Design and Verification offering includes the environment, IC layout and simulation capabilities within the Virtuoso(r) custom design platform. Finally, System Interconnect Design offerings include the following capabilities within the Allegro system interconnect design platform: PCB, IC package, SiP, design management and collaboration. In addition, the company augments these platform product offerings with a set of designs for manufacturing, or DFM, products that service both the digital and custom IC design flows. The products and technologies that comprise its platforms are combined with services, elements from kits and other associated components that provide solutions for low power, mixed signal, enterprise verification and advanced node designs. The company offers a number of fee-based services, including engineering and education services. These services might be sold separately or sold and performed in conjunction with the sale, lease or license of its products. The company’s main competitors in the EDA market are Synopsys, Inc., Mentor Graphics Corporation and Magma Design Automation, Inc. The Company competes in the EDA industry for products and maintenance primarily with three companies: Synopsys, Inc., Mentor Graphics Corporation and Magma Design Automation, Inc.

Cadence Design Systems, Inc. CDNS

Sales USD Mil 1,091 **Mkt Cap USD Mil** 3,268 **Industry** Software - Application **Sector** Technology

<p>Cadence Design Systems creates electronic design automation systems that are used by the semiconductor industry to design chips. Based in San

Jose, Calif., Cadence was founded in 1987 and went public in 1990.

The firm is primarily known for the strength of its custom analog design software. Cadence has been acquiring digital design and

2655 Seely Avenue Building 5 San Jose, CA 95134 Employees: 4600
Phone: 1 408 943-1234
Website: <http://www.cadence.com>

Morningstar Rating **Last Price** 12.00 **Fair Value** **Uncertainty** **Economic Moat™** **Stewardship Grade**
per share prices in USD



Growth Rates	Compound Annual				
	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue %	9.8	-16.6	-6.8	-3.1	
Operating Income %	—	—	—	—	
Earnings/Share %	—	-22.0	24.6	9.7	
Dividends %	—	—	—	—	
Book Value/Share %	156.7	-48.3	-30.8	-12.0	
Stock Total Return %	23.6	38.2	-10.0	-7.8	
+/- Industry	19.7	11.7	-17.2	-14.4	
+/- Market	21.2	22.4	-8.8	-9.3	

Profitability Analysis	Current	5 Yr Avg	Ind	Mkt
	Return on Equity %	7.2	—	14.0
Return on Assets %	1.4	-11.2	7.6	9.5
Fixed Asset Turns	4.0	3.5	9.6	7.5
Inventory Turns	4.9	6.3	11.9	16.1
Revenue/Employee USD K	237.1	203.1*	—	1050.6
Gross Margin %	83.0	82.9	68.3	38.4
Operating Margin %	4.5	-26.9	18.1	16.7
Net Margin %	2.2	-30.9	12.1	11.2
Free Cash Flow/Rev %	19.4	—	18.9	0.1
R&D/Rev %	36.8	0.4	—	9.7

Financial Position	12-10 USD Mil		09-11 USD Mil	
	Cash	557	696	
Inventories	39	47		
Receivables	216	152		
Current Assets	879	958		
Fixed Assets	285	260		
Intangibles	338	372		
Total Assets	1732	1861		
Payables	16	—		
Short-Term Debt	143	149		
Current Liabilities	698	650		
Long-Term Debt	406	421		
Total Liabilities	1455	1484		
Total Equity	277	377		

Valuation Analysis	Current	5 Yr Avg	Ind	Mkt
	Price/Earnings	133.3	—	31.6
Forward P/E	13.9	—	—	13.5
Price/Cash Flow	13.7	21.8	16.2	7.4
Price/Free Cash Flow	15.3	—	19.9	17.0
Dividend Yield %	—	—	0.1	2.0
Price/Book	8.7	7.5	4.2	2.0
Price/Sales	3.0	2.1	3.8	1.2
PEG Ratio	0.9	—	—	1.4

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	YTD	Stock Performance
-46.2	52.5	-23.2	22.5	5.8	-5.0	-78.5	63.7	37.9	25.9	15.4	Total Return %
-22.8	26.1	-32.2	19.5	-7.8	-8.5	-40.0	40.3	25.1	25.9	7.9	+/- Market
-6.4	-18.6	-41.5	20.2	-13.3	-8.1	-41.1	12.7	11.4	30.3	-1.0	+/- Industry
—	—	—	—	—	—	—	—	—	—	0.0	Dividend Yield %
3170	4730	3733	4800	4969	4732	938	1610	2207	2832	3268	Market Cap USD Mil

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Financials
1430	1293	1119	1197	1329	1484	1615	1039	853	936	1091	Revenue USD Mil
75.2	80.7	80.6	81.1	82.8	84.7	86.7	79.8	80.2	83.3	83.0	Gross Margin %
240	175	-10	101	119	225	318	-1573	-124	-29	49	Oper Income USD Mil
16.8	13.5	-0.9	8.4	8.9	15.1	19.7	-151.5	-14.5	-3.1	4.5	Operating Margin %
141	72	-18	74	49	143	296	-1854	-150	127	24	Net Income USD Mil
—	0.27	-0.07	0.25	0.16	—	1.01	-7.29	-0.58	0.48	0.09	Earnings Per Share USD
—	—	—	—	—	—	—	—	—	—	—	Dividends USD
—	268	267	306	314	312	296	254	258	266	269	Shares Mil
6.17	5.98	6.29	6.50	6.12	7.48	0.73	0.40	1.04	1.38	1.38	Book Value Per Share USD
251	350	171	373	426	421	402	70	26	199	235	Oper Cash Flow USD Mil
-154	-128	-83	-62	-72	-76	-84	-100	-42	-37	-24	Cap Spending USD Mil
97	222	88	311	355	345	319	-29	-16	162	212	Free Cash Flow USD Mil

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Profitability
—	3.5	-0.7	2.6	1.5	4.2	8.1	-66.8	-9.7	8.1	1.4	Return on Assets %
—	5.2	-1.1	4.5	2.8	8.1	15.7	—	—	65.7	7.2	Return on Equity %
9.9	5.6	-1.6	6.2	3.7	9.6	18.3	—	-17.6	13.5	2.2	Net Margin %
—	0.62	0.43	0.41	0.42	0.43	0.44	0.37	0.55	0.60	0.61	Asset Turnover
—	1.5	1.8	1.8	1.8	2.0	1.9	16.5	13.0	6.3	4.9	Financial Leverage

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	09-11	Financial Health
163	247	360	521	670	764	744	390	453	182	309	Working Capital USD Mil
—	53	420	420	600	730	500	500	436	406	421	Long-Term Debt USD Mil
1121	1659	1572	1700	1845	1699	2080	102	108	277	377	Total Equity USD Mil
—	0.03	0.27	0.25	0.33	0.43	0.24	4.91	4.02	1.47	1.12	Debt/Equity

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Valuation
43.7	—	55.3	105.3	—	16.8	—	—	17.2	114.9	133.3	Price/Earnings
2.4	4.3	3.5	4.0	3.8	3.1	0.9	1.8	2.4	2.6	3.0	P/E vs. Market
1.9	3.0	2.2	2.6	2.9	2.3	5.0	14.9	8.0	7.5	8.7	Price/Sales
9.0	28.1	11.3	12.3	13.4	12.5	13.3	60.2	11.0	11.9	13.7	Price/Cash Flow

Quarterly Results						
Revenue USD Mil	Dec 10	Mar 11	Jun 11	Sep 11		
Most Recent Period	249.0	266.1	283.3	292.5		
Prior Year Period	220.3	221.9	227.1	237.9		
Rev Growth %	Dec 10	Mar 11	Jun 11	Sep 11		
Most Recent Period	13.1	19.9	24.8	22.9		
Prior Year Period	-3.1	7.6	8.2	10.1		
Earnings Per Share USD	Dec 10	Mar 11	Jun 11	Sep 11		
Most Recent Period	-0.14	0.02	0.10	0.10		
Prior Year Period	0.01	-0.04	0.18	0.48		

Industry Peers by Market Cap					
	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%	
Cadence Design Syste	3268	1091	133.3	7.2	
Synopsys	4362	1536	20.6	10.5	
Mentor Graphics Corp	1613	1002	22.0	10.0	

Major Fund Holders		% of shares
		—
		—
		—

*3Yr Avg data is displayed in place of 5Yr Avg

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.



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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. LIP-BU TAN	CEO/Director/President,Director	366,105	06 Feb 2012	-
JAMES J. COWIE	General Counsel/Senior VP/Secretary	142,736	06 Feb 2012	-
CHI-PING HSU	Senior VP, Divisional	137,367	06 Feb 2012	-
THOMAS A. COOLEY		131,394	07 Feb 2011	-
DR. JOHN B. SHOVEN,PHDDirector		125,000	03 Aug 2011	-
NIMISH H. MODI	Senior VP, Divisional	120,492	06 Feb 2012	-
CHARLIE HUANG	Senior Executive VP, Divisional	114,526	06 Feb 2012	-
GEOFFREY G. RIBAR	CFO/Senior VP	96,332	06 Feb 2012	-

*Report date represents the date on which the owner's common shares held was audited.

Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Dodge & Cox Stock	QQQ	7.14	0.55	0	31 Dec 2011
Dodge & Cox Balanced	QQQ	1.93	0.45	0	31 Dec 2011
Vanguard Explorer Inv	QQQ	1.61	0.50	-1,080	30 Sep 2011
Calamos Growth A	QQQ	1.32	0.51	0	31 Oct 2011
T. Rowe Price Small-Cap Stock	QQQQ	1.36	0.58	-800	31 Dec 2011
Concentrated Holders					
Lannebo Vision	QQ	0.06	2.88	0	30 Sep 2011
PowerShares Dynamic Software	QQQQ	0.05	2.67	15	31 Dec 2011
Nordea Tillväxtbolagsfond	QQ	0.25	2.64	0	31 Dec 2011
Nordea Invest Global Vækst	QQ	0.01	2.57	-2	31 Dec 2011

Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Brandywine	Q	0.84	1.85	2,286	31 Dec 2011
SSgA S&P MidCap 400 Index Strategy	QQQ	0.57	0.23	1,135	30 Jun 2011
American Century Equity Growth Inv	QQQQ	0.49	0.71	650	30 Sep 2011
ZI Schroder ISF US Smaller Companies		0.22	0.77	606	30 Jun 2011
Brandywine Advisors Midcap Growth	Q	0.11	2.54	301	31 Dec 2011
Top 5 Sellers					
T. Rowe Price New Horizons	QQQQQ	1.18	0.43	-1,272	31 Dec 2011
Vanguard Explorer Inv	QQQ	1.61	0.50	-1,080	30 Sep 2011
T. Rowe Price Small-Cap Stock	QQQQ	1.36	0.58	-800	31 Dec 2011
Harbor Small Cap Growth Instl	QQQQ	0.20	1.20	-233	31 Dec 2011

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Industry Focus: Application Software

From Data Centers to Private Clouds 29 October 2010

Sunit Gogia
Senior Stock Analyst

Three companies are poised to be acquired as private clouds soar.

The mergers and acquisitions wave sweeping through technology-land could get larger before it subsides. The tangible economic benefits of cloud computing are driving IT investments as traditional enterprise data centers are transformed into private clouds. With server and storage virtualization as the core building blocks, private clouds offer large enterprises a step change in the efficiency of their data centers without the perceived risks associated with evolving lower-cost public cloud services. The IT industry had long expected these investments in private clouds, but

Oracle's ORCL aggressive efforts to capture a larger portion of the IT spending has left most of its competitors on the defensive. Oracle's strategy of selling integrated hardware plus software solutions has exposed the software gaps in competitors' portfolios, as can be seen in the graphic below, and is forcing them to revisit their own strategies. Already IBM IBM has made an acquisition offer for Netezza NZ to combat the tremendous market success of Oracle's Exadata appliance, and Hewlett-Packard HPO has installed a new CEO and a new chairman, both long on software industry experience. We expect a continuing wave

of hardware and software acquisitions as rivals including IBM, HP, Dell DELL, Cisco CSCO, and EMC EMC design competitive responses to Oracle's integrated solutions approach. All acquisition candidates are not created equal--the ownership imperative is weak in some areas (such as operating systems), and sheer size and ownership considerations render some targets impractical to acquire (such as SAP SAP and SAS Institute). Additionally, stocks of some companies such as Isilon ISLN have already run up on acquisition rumors and are unlikely to offer significant acquisition premiums over their current market prices. Among potential takeouts, we think Teradata TDC, BMC BMC, and Compellent CML are likely candidates that offer investors the prospect of reasonable acquisition premiums to their current market valuations. **Teradata**

An acquisition of Teradata could help HP or Dell compete head to head with Oracle's Exadata or IBM/Netezza's business analytics appliances. The business analytics market is heating up as enterprises try to extract information from mountains of data. For example, Oracle has stated that the pipeline for its Exadata product has grown to \$1.5 billion from \$1 billion sequentially over the past two quarters. Teradata also has proprietary database technologies that could be useful beyond its data warehousing specialty. Any vendor attempting to compete with Oracle across the entire computing stack needs a credible database to offer its clients. This can be a tough nut to crack--independent proven database technologies that can reliably support high-end enterprise computing workloads are scarce. A lack of compelling database technology could well become the Achilles' heel of less capable rivals. IBM's DB2, combined with its pending acquisition of Netezza, will hold that vendor in good stead, and SAP's recent acquisition of Sybase should reduce its dependence on Oracle in the long run. HP could continue to rely on its long-standing partnership with Microsoft to provide solutions based on SQL Server. However, a partnership approach might prove insufficient for Microsoft, HP, Dell, and other data center vendors if Oracle is able to gain Apple-esque innovation advantages from its ownership of database appliance hardware and

	Oracle	IBM	HP	Dell	Microsoft	Cisco, EMC, VMware*	Acquisition Candidates
Business Analytics	●	●	○	○	○	○	SAS Institute, TIBX, MSTR
Application Software	○	○	○	○	○	○	SAP, JDAS, LWSN, TDC, EPIC, PEGA, OTEX, AU
Middleware	●	●	○	○	○	○	RHT, TIBX
Database Software	●	●	○	○	○	○	PostgreSQL, Ingres
Operating System	●	●	○	○	○	○	RHT, NOVL
Virtualization (x86)	●	○	○	○	○	○	CTXS, RHT
Systems Management Software	●	●	○	○	○	○	BMC, CA, SWI, QSFT, CPWR
Application Delivery Systems	○	○	○	○	○	○	FFIV, CTXS, RDWR
Storage Solutions	○	●	○	○	○	○	ISLN, CVLT, CML, NTPA
Server Hardware	●	●	○	○	○	○	—
Networking	○	○	○	○	○	○	BRCD, JNPR
Security	○	○	○	○	○	○	CHKP, FIRE, FTNT, WBSN

*Cisco, EMC and VMware are combined for this analysis due to their ACADIA joint venture and Cisco's equity stake in VMware. Source: Morningstar

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Industry Focus: Application Software

software. Hardware vendors could look at piggybacking on some open-source database initiatives including PostgreSQL, but expensive acquisitions to gain access to talent could be hard to justify to shareholders. Teradata would offer an acquirer proven, purpose-built analytics appliances as well as database expertise that could provide the foundation for new software solutions. Comparable transactions in the business analytics space include Hyperion's acquisition by Oracle for an enterprise value (EV) of 3.4 times trailing 12-month (TTM) sales, SAP's acquisition of Business Objects for 4.5 times EV/TTM sales and IBM's acquisition of Cognos for 4.1 times EV/TTM sales. We estimate that an acquirer of Teradata would have to pay an EV of at least 4 times TTM sales, or \$51 per share. **BMC**

BMC would catapult a potential acquirer into a leadership position in IT infrastructure management tools. We see Dell, Cisco, and EMC as the most likely potential acquirers for BMC. Comprehensive enterprise data center solutions require management tools to provision and manage IT assets. HP and IBM already have the most comprehensive management toolsets and are unlikely to venture beyond small acquisitions of niche technologies. Oracle needs to beef up its management tools portfolio, but BMC's mainframe management business (40% of revenues) would be a complete misfit in Oracle's stated strategy. Dell, Cisco, and EMC need stronger management toolsets to position themselves as one-stop shops for data center infrastructure. Dell has assembled an impressive portfolio of server and storage infrastructure organically and through acquisitions, but a lack of comprehensive infrastructure management tools leaves it competitively disadvantaged relative to HP and IBM. The Cisco/EMC partnership similarly lacks proprietary management tools that extend beyond network and storage systems, and an acquisition of BMC by a competitor would put their ambitions of a larger role in data centers at risk. An acquisition of BMC would have negative implications for competitor CA. CA has one of the largest management tools businesses, but we think the firm's desirability to potential acquirers is compromised by its significant exposure to mainframe management revenues (60% of total revenues). CA has been attempting

to diversify its revenue sources, and distributed systems management tools now account for 40% of the firm's revenues. Undoubtedly, CA would face a tougher competitive environment in the distributed systems segment, and we would reassess our current valuation assumptions for the company. BMC shares are currently trading near our fair value estimate, but an acquisition of the company would likely fetch a higher multiple to current valuation levels. Past acquisitions in the systems management software space have commanded a wide range of multiples: HP acquired Opsware and Mercury Interactive for 13.8 times and 5.3 times EV/TTM sales, respectively, and BMC bought BladeLogic for 10.1 times EV/TTM sales. BMC is much larger compared with these takeouts, and we expect the company to command a lower premium. Applying an EV/TTM sales multiple of about 4.5, we expect BMC to command an acquisition price of about \$10.9 billion, or \$61 per share. **Compellent**

An acquisition of Compellent's midrange storage arrays would enable Dell to capture a larger portion of customer's IT spend while creating value for shareholders by adding much-needed distribution prowess to Compellent's technology. After the bidding war that Hewlett-Packard and Dell fought over storage firm 3PAR, the entire market is evaluating the few remaining storage entities. Compellent and Isilon are the most likely takeout candidates, and Isilon's stock has already run up on rumors that the company is in acquisition talks with storage giant EMC. Compellent's midrange storage technology would make it an attractive target for Dell, which is committed to building its data center portfolio and lost the bidding war for 3Par. We think Compellent's storage solutions would be an easy sell into Dell's existing customer base, allowing the firm ample opportunity to create shareholder value even if it has to pay premiums in line with recent acquisitions. Having said that, we expect the acquisition premium for Compellent to be lower than levels seen in recent transactions because we don't foresee a bidding war breaking out for the company. Large storage specialists EMC and NetApp already possess or are in the process of developing competing products, and server vendors IBM and

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HP are likely content with their current storage products and internal development efforts. Oracle has expressed an interest in building out its midrange storage portfolio, but we expect the firm to prefer an acquisition of Pillar Data Systems, which is slightly higher-end and happens to be owned by Oracle CEO Larry Ellison. Recent acquisitions in the storage space have included the acquisition of EqualLogic by Dell for 12.3 times EV/TTM sales, HP's proposed acquisition of 3Par for 11.2 times EV/TTM sales, and EMC's acquisition of Data Domain for 7.1 times EV/TTM sales. We estimate Compellent could command an EV/TTM sales multiple of about 8, translating to about \$43 per share.