December 17, 2019

# Cerence Announces Fourth Quarter and Fiscal Year 2019 Results

**Cerence Fourth Quarter and Fiscal Year Highlights**

- **Revenue and Backlog reach all-time high in FY19**
- **Revenue for the fiscal year exceeded the guidance range**
- **Design wins in fiscal year reflecting a win rate of approximately 90%**
- **Volume of customer projects at record levels as we begin FY20**
- **Cloud transactions using Cerence technology ramped significantly throughout the year**

BURLINGTON, Mass., Dec. 17, 2019 (GLOBE NEWSWIRE) -- Cerence Inc. (NASDAQ: CRNC), AI for a world in motion, today reported its fourth quarter and fiscal year 2019 results for the year ended September 30, 2019.

**Results Summary** [1] [2]
(in millions)

| | (ASC606) Q4FY19 | (ASC605) Q4FY19 | (ASC606) FY19 | (ASC605) FY19 | (ASC605) FY18 |
|---|---|---|---|---|---|
| GAAP Revenue | $ 83.0 | $ 82.5 | $ 303.3 | $ 306.5 | $ 277.0 |
| Non-GAAP Revenue | $ 84.0 | $ 83.6 | $ 308.1 | $ 311.3 | $ 281.7 |
| GAAP Gross Margin% | 67.4 % | 67.1 % | 67.2 % | 67.7 % | |
| Non-GAAP Gross Margin% | 71.1 % | 70.9 % | 71.1 % | 71.6 % | |
| GAAP Operating Margin% | 5.6 % | 5.0 % | 3.6 % | 4.6 % | |
| Non-GAAP Operating Margin% | 32.2 % | 31.8 % | 29.8 % | 30.5 % | |
| Adjusted EBITDA | $ 28.9 | $ 28.5 | $ 99.5 | $ 102.7 | $ 106.3 |
| Cash Flow From Operations | $ 19.4 | $ 19.4 | $ 88.1 | $ 88.1 | |

[1] As a reminder, effective October 1, 2018, Nuance (Cerence's prior parent) adopted the ASC 606 revenue recognition standard using the modified retrospective approach. Under this adoption methodology, the company does not recast its historical financials to reflect the implementation of ASC 606. Accordingly Cerence's results will be presented for Q4FY19 and FY19 under both ASC 605 and 606 methodologies and all relevant year-over-year financial comparisons and trends will be on an ASC 605 basis only. Moving forward the company's results will be presented under ASC606 only.

[2] Please refer to the "Discussion of Non-GAAP Financial Measures," and "GAAP to Non-GAAP Reconciliations," included elsewhere in this release, for more information regarding our use of non-GAAP financial measures.

Sanjay Dhawan, Chief Executive Officer of Cerence, stated, "Cerence is off to a fast start. The fourth quarter results reflect the strong business momentum we see in the market. A continued focus on innovation to maintain our leadership position in voice-enabled AI is

yielding very positive results for Cerence's future. Our success rate for new design wins in the quarter and fiscal year remain at a very high level. These wins represent the foundation for our continued success and revenue growth in the future."

Dhawan continued, "The expected growth in connected services is being realized through increasing levels of activity and consumer adoption. We continue to expand our product offerings in edge and connected services and see them as fuel for our continued growth at a level significantly higher than the seasonally adjusted annual rate of automobile shipments."

**First Quarter Fiscal 2020 and Full Year Outlook**
For the fiscal quarter ending December 31, 2019, GAAP revenue is expected to be in the range of $77M to $79M representing an 8% increase at the midpoint compared to the same period in the prior year. Adjusted EBITDA for Q1FY20 is expected to be in the range of $19M to $21M. The adjusted EBITDA guidance excludes acquisition-related costs, amortization of purchased intangible assets, stock-based compensation, and restructuring and other costs. Cerence reaffirms its full-year revenue guidance that was previously disclosed on September 9th, and expects GAAP revenue to be in the range of $321M to $336M. Additional details regarding guidance will be provided on the earnings call.

**Fourth Quarter Conference Call**
The company will host a live conference call and webcast with slides to discuss the results at 10:00 a.m. Eastern Time/7:00 a.m. Pacific Time today. Interested investors and analysts are invited to dial into the conference call by using 1.844.467.7116 (domestic) or +1.409.983.9838 (international) and entering the pass code 5263248. Webcast access will be available on the Investor Information section of the company's website at https://investors.cerence.com/news-and-events/events-and-presentations.

The teleconference replay will be available through December 24, 2019. The replay dial-in number is 1.855.859.2056 (domestic) or +1.404.537.3406 (international) using pass code 5263248. A replay of the webcast can be accessed by visiting our web site 90 minutes following the conference call at https://investors.cerence.com/news-and-events/events-and-presentations.

**Additional Information**
For additional information with respect to Cerence, please refer to the Registration Statement on Form 10 filed by Cerence with the Securities and Exchange Commission ("SEC"). The financial information included in this document may not necessarily reflect Cerence's financial position, results of operations and cash flows in the future or what Cerence's financial position, results of operations and cash flows would have been had Cerence been an independent, publicly traded company during the periods presented.

**Forward Looking Statements**
Statements in this presentation regarding Cerence's future performance, results and financial condition, expected growth and innovation and our management's future expectations, beliefs, goals, plans or prospects constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Any statements that are not statements of historical fact (including statements containing the words "believes," "plans," "anticipates," "expects," "intends" or "estimates" or similar expressions) should also be considered to be forward-looking statements. Although we believe forward-looking statements are based upon reasonable assumptions, such statements involve known and unknown risk, uncertainties and other factors, which may cause actual results or performance of the company to be materially different from any future results or performance expressed or implied by such forward-looking statements including but not limited to limited to: the highly competitive and

rapidly changing market in which we operate; adverse conditions in the automotive industry or the global economy more generally; our ability to control and successfully manage our expenses and cash position; our strategy to increase cloud; escalating pricing pressures from our customers; our failure to win, renew or implement service contracts; the loss of business from any of our largest customers; the inability to recruit and retain qualified personnel; cybersecurity and data privacy incidents; fluctuating currency rates; and the other factors in our Registration Statement on Form 10 and other filings with the Securities and Exchange Commission. We disclaim any obligation to update any forward-looking statements as a result of developments occurring after the date of this document.

**Non-GAAP Financial Measures**

We believe that providing the non-GAAP information in addition to the GAAP presentation, allows investors to view the financial results in the way management views the operating results. We further believe that providing this information allows investors to not only better understand our financial performance, but more importantly, to evaluate the efficacy of the methodology and information used by management to evaluate and measure such performance. The non-GAAP information should not be considered superior to, or a substitute for, financial statements prepared in accordance with GAAP.

We utilize a number of different financial measures, both GAAP and non-GAAP, in analyzing and assessing the overall performance of the business, for making operating decisions and for forecasting and planning for future periods. We consider the use of non-GAAP revenue helpful in understanding the performance of our business, as it excludes the purchase accounting impact on acquired deferred revenue and other acquisition-related adjustments to revenue. While our management uses these non-GAAP financial measures as a tool to enhance their understanding of certain aspects of our financial performance, our management does not consider these measures to be a substitute for, or superior to, the information provided by GAAP financial statements.

Consistent with this approach, we believe that disclosing non-GAAP financial measures to the readers of our financial statements provides such readers with useful supplemental data that, while not a substitute for GAAP financial statements, allows for greater transparency in the review of our financial and operational performance. In assessing the overall health of the business during the three and twelve months ended September 30, 2019 and 2018, our management has either included or excluded items in five general categories, each of which is described below.

**Acquisition-related revenue and cost of revenue.**

We provide supplementary non-GAAP financial measures of revenue that include revenue that we would have recognized but for the purchase accounting treatment of acquisition transactions. Non-GAAP revenue also includes revenue that we would have recognized had we not acquired intellectual property and other assets from the same customer. Because GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities. These non-GAAP adjustments are intended to reflect the full amount of such revenue. We include non-GAAP revenue and cost of revenue to allow for more complete comparisons to the financial results of historical operations, forward-looking guidance and the financial results of peer companies. We believe these adjustments are useful to management and investors as a measure of the ongoing performance of the business because, although we cannot be certain that customers will renew their contracts, we have historically experienced high renewal rates on maintenance and support agreements and other customer contracts. Additionally, although acquisition-related revenue adjustments

are non-recurring with respect to past acquisitions, we generally will incur these adjustments in connection with any future acquisitions.

**Acquisition-related costs, net.**
In recent years, we have completed a number of acquisitions, which result in operating expenses, which would not otherwise have been incurred. We provide supplementary non-GAAP financial measures, which exclude certain transition, integration and other acquisition-related expense items resulting from acquisitions, to allow more accurate comparisons of the financial results to historical operations, forward looking guidance and the financial results of less acquisitive peer companies. We consider these types of costs and adjustments, to a great extent, to be unpredictable and dependent on a significant number of factors that are outside of our control. Furthermore, we do not consider these acquisition-related costs and adjustments to be related to the organic continuing operations of the acquired businesses and are generally not relevant to assessing or estimating the long-term performance of the acquired assets. In addition, the size, complexity and/or volume of past acquisitions, which often drives the magnitude of acquisition related costs, may not be indicative of the size, complexity and/or volume of future acquisitions. By excluding acquisition-related costs and adjustments from our non-GAAP measures, management is better able to evaluate our ability to utilize our existing assets and estimate the long-term value that acquired assets will generate for us. We believe that providing a supplemental non-GAAP measure, which excludes these items allows management and investors to consider the ongoing operations of the business both with, and without, such expenses.

These acquisition-related costs fall into the following categories: (i) transition and integration costs; (ii) professional service fees and expenses; and (iii) acquisition-related adjustments. Although these expenses are not recurring with respect to past acquisitions, we generally will incur these expenses in connection with any future acquisitions. These categories are further discussed as follows:

(i) Transition and integration costs. Transition and integration costs include retention payments, transitional employee costs, and earn-out payments treated as compensation expense, as well as the costs of integration-related activities, including services provided by third-parties.
(ii) Professional service fees and expenses. Professional service fees and expenses include financial advisory, legal, accounting and other outside services incurred in connection with acquisition activities, and disputes and regulatory matters related to acquired entities.
(iii) Acquisition-related adjustments. Acquisition-related adjustments include adjustments to acquisition-related items that are required to be marked to fair value each reporting period, such as contingent consideration, and other items related to acquisitions for which the measurement period has ended, such as gains or losses on settlements of pre-acquisition contingencies.

**Amortization of acquired intangible assets.**
We exclude the amortization of acquired intangible assets from non-GAAP expense and income measures. These amounts are inconsistent in amount and frequency and are significantly impacted by the timing and size of acquisitions. Providing a supplemental measure which excludes these charges allows management and investors to evaluate results “as-if” the acquired intangible assets had been developed internally rather than acquired and, therefore, provides a supplemental measure of performance in which our acquired intellectual property is treated in a comparable manner to our internally developed intellectual property. Although we exclude amortization of acquired intangible assets from our non-GAAP expenses, we believe that it is important for investors to understand that such intangible

assets contribute to revenue generation. Amortization of intangible assets that relate to past acquisitions will recur in future periods until such intangible assets have been fully amortized. Future acquisitions may result in the amortization of additional intangible assets.

**Other expenses.**
We exclude certain other expenses that result from unplanned events outside the ordinary course of continuing operations, in order to measure operating performance and current and future liquidity both with and without these expenses. By providing this information, we believe management and the users of the financial statements are better able to understand the financial results of what we consider to be our organic, continuing operations. Included in these expenses are items such as restructuring charges, asset impairments and other charges (credits), net. Other items such as consulting and professional services fees related to assessing strategic alternatives and our transformation programs.

**Backlog.**
Revenue backlog consists of the following categories: (i) fixed backlog, (ii) variable backlog, and (iii) adjusted backlog. These categories are further discussed as follows:

(i) Fixed backlog. Future revenue related to remaining performance obligations and contractual commitments which have not been invoiced.
(ii) Variable backlog. Estimated future revenue from variable forecasted royalties related to our embedded and connected businesses. Our estimation of forecasted royalties is based on our royalty rates for embedded and connected technologies from expected car shipments under our existing contracts over the term of the programs. Anticipated shipments are based on historical shipping experience and current customer projections that management believes are reasonable. Both our embedded and connected technologies are priced and sold on a per-vehicle or device basis, where we receive a single fee for either or both the embedded license and the connected service term.
(iii) Adjusted backlog. The total of fixed backlog and variable backlog.

Our fixed and variable backlog may not be indicative of our actual future revenue. The revenue we actually recognize is subject to several factors, including the number and timing of vehicles our customers ship, potential terminations or changes in scope of customer contracts and currency fluctuations.

See the tables at the end of this press release for non-GAAP definitions and reconciliations to the most directly comparable GAAP measures.

**Basis of Financial Presentation**
Unless otherwise stated, the financial results and relevant metrics, year over year financial comparisons, and trends are presented under ASC 605.

Cerence, which recently spun out of Nuance Communications as an independent automotive AI company, delivers immersive experiences that make people feel happier, safer, more informed, and more entertained in their cars. Bringing together voice, touch, gesture, emotion, and gaze innovations, it creates deeper connections between drivers, their cars and the digital world around them. Cerence powers AI in nearly 325 million cars on the road globally across more than 70 languages for nearly every major automaker in the world. To learn more about Cerence, visit www.cerence.com, and follow the company on LinkedIn and Twitter.

**About Cerence Inc.**
Cerence (NASDAQ: CRNC) is the global industry leader in creating unique, moving

experiences for the automotive world. Our expertise is sophisticated AI, natural language understanding, voice biometrics, gesture and gaze technology and augmented reality. As an innovation partner to the world's leading automakers, we're helping transform how a car feels, responds and learns. This track record is built on 20 years of knowledge and almost 325 million cars. Whether it's connected cars, autonomous driving or e-vehicles, we're mapping the road ahead. For more information, visit www.cerence.com.

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**CERENCE INC.**
**Combined Statements of Operations**
(unaudited - in thousands)

| | Three Months Ended September 30, | | | Twelve Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | (ASC 606) | (ASC 605) | (ASC 605) | (ASC 606) | (ASC 605) | (ASC 605) |
| | 2019 | 2019 | 2018 | 2019 | 2019 | 2018 |
| Revenues: | | | | | | |
| License | $ 45,091 | $ 44,826 | $ 47,746 | $ 172,379 | $ 171,933 | $ 171,075 |
| Connected service | 22,860 | 23,409 | 16,207 | 78,690 | 79,637 | 60,227 |
| Professional service | 15,006 | 14,255 | 11,403 | 52,246 | 54,928 | 45,682 |
| Total revenues | 82,957 | 82,490 | 75,356 | 303,315 | 306,498 | 276,984 |
| Cost of revenues: | | | | | | |
| License | 641 | 642 | 303 | 2,069 | 2,070 | 1,156 |
| Connected service | 8,971 | 9,164 | 9,491 | 37,562 | 37,845 | 32,919 |
| Professional service | 15,083 | 14,969 | 10,215 | 51,214 | 50,512 | 41,123 |
| Amortization of intangible assets | 2,323 | 2,323 | 2,234 | 8,498 | 8,498 | 7,766 |
| Total cost of revenues | 27,018 | 27,098 | 22,243 | 99,343 | 98,925 | 82,964 |
| Gross profit | 55,939 | 55,392 | 53,113 | 203,972 | 207,573 | 194,020 |
| Operating expenses: | | | | | | |
| Research and development | 23,717 | 23,717 | 22,743 | 93,061 | 93,061 | 80,957 |
| Sales and marketing | 8,786 | 8,704 | 8,353 | 36,261 | 36,653 | 30,553 |
| General and administrative | 8,280 | 8,280 | 4,915 | 25,926 | 25,926 | 19,873 |
| Amortization of intangible assets | 3,127 | 3,127 | 3,133 | 12,524 | 12,524 | 8,840 |
| Restructuring and other costs, net | 7,257 | 7,257 | 2,733 | 24,404 | 24,404 | 12,863 |
| Acquisition-related costs | 161 | 161 | 499 | 944 | 944 | 4,082 |
| Total operating expenses | 51,328 | 51,246 | 42,376 | 193,120 | 193,512 | 157,168 |
| Income from operations | 4,611 | 4,146 | 10,737 | 10,852 | 14,061 | 36,852 |
| Other income (expense), net | 231 | 233 | 50 | 332 | 363 | (54 ) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Income before income taxes | 4,842 | 4,379 | 10,787 | 11,184 | 14,424 | 36,798 |
| (Benefit from) provision for income taxes | (90,944) | (89,938) | 2,163 | (89,084) | (87,656) | 30,917 |
| Net income | $ 95,786 | $ 94,317 | $ 8,624 | $ 100,268 | $ 102,080 | $ 5,881 |

**CERENCE INC.**
**Combined Balance Sheets**
(unaudited - in thousands)

| | September 30, 2019 (ASC 606) | September 30, 2018 (ASC 605) |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Accounts receivable, net | $ 65,787 | $ 72,084 |
| Deferred costs | 9,195 | 6,793 |
| Prepaid expenses and other current assets | 17,343 | 4,090 |
| Total current assets | 92,325 | 82,967 |
| Property and equipment, net | 20,113 | 13,406 |
| Deferred costs | 32,428 | 44,238 |
| Goodwill | 1,119,329 | 1,119,946 |
| Intangible assets, net | 65,561 | 84,812 |
| Deferred tax assets | 150,629 | 51,053 |
| Other assets | 3,444 | 1,126 |
| Total assets | $ 1,483,829 | $ 1,397,548 |
| **LIABILITIES AND PARENT COMPANY EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 16,687 | $ 6,510 |
| Deferred revenue | 88,233 | 84,862 |
| Accrued expenses and other current liabilities | 24,194 | 30,434 |
| Total current liabilities | 129,114 | 121,806 |
| Deferred revenue, net of current portion | 265,051 | 263,787 |
| Other liabilities | 21,536 | 18,636 |
| Total liabilities | 415,701 | 404,229 |
| Parent company equity: | | |
| Net parent investment | 1,097,127 | 1,017,276 |
| Accumulated other comprehensive loss | (28,999) | (23,957) |
| Total parent company equity | 1,068,128 | 993,319 |
| Total liabilities and parent company equity | $ 1,483,829 | $ 1,397,548 |

**CERENCE INC.**
**Combined Statements of Cash Flows**
(unaudited - in thousands)

| | Twelve Months Ended September 30, | |
|---|---|---|
| | 2019 | 2018 |

| | (ASC 606) | (ASC 605) |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | $ 100,268 | $ 5,881 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 28,844 | 25,765 |
| Stock-based compensation expense | 29,682 | 22,043 |
| Deferred tax (benefit) expense | (101,223) | 12,473 |
| Changes in operating assets and liabilities, net of effects from acquisitions: | | |
| Accounts receivable | 904 | 8,472 |
| Prepaid expenses and other assets | (8,836) | (2,960) |
| Deferred costs | 4,339 | (12,528) |
| Accounts payable | 10,130 | (6,291) |
| Accrued expenses and other liabilities | 6,289 | 12,946 |
| Deferred revenue | 17,674 | 49,458 |
| **Net cash provided by operating activities** | 88,071 | 115,259 |
| **Cash flows from investing activities:** | | |
| Capital expenditures | (4,517) | (6,510) |
| Payments for business acquisitions, net of cash acquired | - | (79,802) |
| **Net cash used in investing activities** | (4,517) | (86,312) |
| **Cash flows from financing activities:** | | |
| Net advancement to Parent | (83,554) | (28,947) |
| **Net cash used in financing activities** | (83,554) | (28,947) |
| Net change in cash and cash equivalents | - | - |
| Cash and cash equivalents at the beginning of the year | - | - |
| Cash and cash equivalents at the end of the year | $ - | $ - |

**CERENCE INC.**
**Reconciliations of GAAP Financial Measures to Non-GAAP Financial Measures**
(unaudited - in thousands)

| | Three Months Ended September 30, | | | Twelve Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | (ASC 606) | (ASC 605) | (ASC 605) | (ASC 606) | (ASC 605) | (ASC 605) |
| | 2019 | 2019 | 2018 | 2019 | 2019 | 2018 |
| **GAAP revenue** | **$ 82,957** | **$ 82,490** | **$ 75,356** | **$ 303,315** | **$ 306,498** | **$ 276,984** |
| Acquisition-related revenue adjustments | 1,091 | 1,091 | 1,482 | 4,759 | 4,759 | 4,704 |
| **Non-GAAP revenue** | **$ 84,048** | **$ 83,581** | **$ 76,838** | **$ 308,074** | **$ 311,257** | **$ 281,688** |
| **GAAP gross profit** | **$ 55,939** | **$ 55,392** | **$ 53,113** | **$ 203,972** | **$ 207,573** | **$ 194,020** |
| Stock-based compensation | 436 | 436 | 421 | 1,896 | 1,896 | 2,076 |
| Amortization of intangible assets | 2,323 | 2,323 | 2,234 | 8,498 | 8,498 | 7,766 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Acquisition-related revenue adjustments | 1,091 | 1,091 | 1,482 | 4,759 | 4,759 | 4,704 |
| **Non-GAAP gross profit** | **$ 59,789** | **$ 59,242** | **$ 57,250** | **$ 219,125** | **$ 222,726** | **$ 208,566** |
| **GAAP gross margin** | **67.4%** | **67.1%** | **70.5%** | **67.2%** | **67.7%** | **70.0%** |
| **Non-GAAP gross margin** | **71.1%** | **70.9%** | **74.5%** | **71.1%** | **71.6%** | **74.0%** |
| **GAAP operating income** | **4,611** | **4,146** | **10,737** | **10,852** | **14,061** | **36,852** |
| Acquisition-related revenue adjustments | 1,091 | 1,091 | 1,482 | 4,759 | 4,759 | 4,704 |
| Amortization of intangible assets | 5,450 | 5,450 | 5,367 | 21,022 | 21,022 | 16,606 |
| Stock-based compensation | 8,487 | 8,487 | 6,600 | 29,682 | 29,682 | 22,043 |
| Restructuring and other costs, net | 7,257 | 7,257 | 2,733 | 24,404 | 24,404 | 12,863 |
| Acquisition-related costs | 161 | 161 | 499 | 944 | 944 | 4,082 |
| **Non-GAAP operating income** | **$ 27,057** | **$ 26,592** | **$ 27,418** | **$ 91,663** | **$ 94,872** | **$ 97,150** |
| **GAAP operating margin** | **5.6%** | **5.0%** | **14.2%** | **3.6%** | **4.6%** | **13.3%** |
| **Non-GAAP operating margin** | **32.2%** | **31.8%** | **35.7%** | **29.8%** | **30.5%** | **34.5%** |
| **Non-GAAP operating income (from above)** | **27,057** | **26,592** | **27,418** | **91,663** | **94,872** | **97,150** |
| Depreciation | 1,872 | 1,872 | 2,307 | 7,822 | 7,822 | 9,159 |
| **Adjusted EBITDA** | **$ 28,929** | **$ 28,464** | **$ 29,725** | **$ 99,485** | **$ 102,694** | **$ 106,309** |

Source: Cerence Inc.