

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): August 8, 2023

CERENCE INC.

(Exact name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction  
of Incorporation)  
  
1 Burlington Woods Drive,  
Suite 301A  
Burlington, Massachusetts  
(Address of Principal Executive Offices)

001-39030  
(Commission File Number)

83-4177087  
(IRS Employer  
Identification No.)

01803  
(Zip Code)

Registrant's Telephone Number, Including Area Code: (857) 362-7300

Not Applicable  
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, \$0.01 par value	CRNC	The NASDAQ Stock Market LLC

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

**Item 2.02 Results of Operations and Financial Condition.**

On August 8, 2023, Cerence Inc. (the "Company") announced its financial results for the quarter ended June 30, 2023. The press release, including the financial information contained therein, is attached hereto as Exhibit 99.1, and is incorporated herein by reference.

Also on August 8, 2023, the Company used a presentation on its call with investors, discussing its financial results for the quarter ended June 30, 2023, and such earnings release presentation is furnished herewith as Exhibit 99.2. The press release and earnings release presentation include certain non-GAAP financial measures. A description of the non-GAAP measures, the reasons for their use, and GAAP to non-GAAP reconciliations are included in the press release and earnings release presentation.

The information in this Item 2.02 and the exhibit attached hereto are being furnished and shall not be deemed to be "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") or otherwise subject to the liabilities of that section, nor shall they be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any general incorporation language in such filing.

**Item 9.01 Financial Statements and Exhibits.**

(d) Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
99.1	<a href="#">Press Release announcing financial results dated August 8, 2023</a>
99.2	<a href="#">Earnings Release Presentation dated August 8, 2023</a>
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Cerence Inc.

Date: August 8, 2023

By: /s/ Thomas L. Beaudoin

Name: Thomas L. Beaudoin

Title: Executive Vice President and Chief Financial Officer

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Exhibit 99.1

## Cerence Announces Third Quarter Fiscal Year 2023 Results

### Headlines

- **On track to achieve full fiscal year revenue guidance**
- **Strategic wins for connected services for a major Japanese OEM and Emergency Vehicle Detection for a major Korean OEM's ADAS platform**
- **Two-wheeler design win for major Japanese brand; four two-wheeler manufacturers start production (SOP)**
- **Successful convertible note offering leading to approximately \$8 million in annual interest expense savings**

**BURLINGTON, Mass., August 8, 2023** – Cerence Inc. (NASDAQ: CRNC), AI for a world in motion, today reported its third quarter fiscal year 2023 results for the quarter ended June 30, 2023.

### Results Summary <sup>(1)</sup>

(in millions, except per share data)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2023	2022	2023	2022
GAAP Revenue	\$ 61.7	\$ 89.0	\$ 213.7	\$ 269.7
GAAP Gross Margin	66.0 %	72.8 %	66.2 %	73.0 %
Non-GAAP Gross Margin	66.5 %	73.7 %	67.7 %	75.3 %
GAAP Operating Margin	-13.8 %	17.7 %	-14.6 %	16.7 %
Non-GAAP Operating Margin	0.5 %	29.4 %	8.1 %	30.6 %
GAAP Net Loss	\$ (16.5)	\$ (99.3)	\$ (44.7)	\$ (80.7)
GAAP Net Loss Margin	-26.7 %	-111.5 %	-20.9 %	-29.9 %
Non-GAAP Net (Loss) Income	\$ (1.7)	\$ 17.0	\$ 10.8	\$ 55.9
Adjusted EBITDA	\$ 2.8	\$ 28.5	\$ 24.9	\$ 89.4
Adjusted EBITDA Margin	4.5 %	32.0 %	11.7 %	33.2 %
GAAP Net Loss per Share - diluted	\$ (0.41)	\$ (2.53)	\$ (1.11)	\$ (2.06)
Non-GAAP Net (Loss) Income per Share - diluted	\$ (0.04)	\$ 0.43	\$ 0.27	\$ 1.34

<sup>(1)</sup> Please refer to the "Discussion of Non-GAAP Financial Measures" and "Reconciliations of GAAP Financial Measures to Non-GAAP Financial Measures" included elsewhere in this release for more information regarding our use of non-GAAP financial measures.

Stefan Ortmanns, Chief Executive Officer at Cerence, commented, "Our focus on operational excellence and delivering on our commitments continued to drive strong results in Q3, with revenue for the quarter, as well as most of the key profitability metrics, at or above the high end of our guidance range."





"The core automotive business remained strong with the launch of three new global OEM platforms in the quarter and continued growth in emerging markets. And, we continue to make steady progress in the two-wheeler market, with four starts-of-production in the quarter and a key strategic win with a major Japanese brand."

"As we look to the future of the in-car experience, we are deeply focused on leveraging generative AI and large language models at meaningful points in the Cerence product architecture. Iqbal Arshad, Chief Technology Officer, and Nils Schanz, Chief Product Officer, are keenly focused on a product strategy that positions Cerence as the primary enabler for the coexistence of large language models and consumer tech assistants in the car, operating under a uniquely branded OEM experience that prioritizes creating true value for end users."

### Cerence Key Performance Indicators

To help investors gain further insight into the Cerence business and its performance, management provides a set of key performance indicators that includes:

Key Performance Indicator <sup>1</sup>	Q3FY23
Percent of worldwide auto production with Cerence Technology (TTM)	54 %
Average contract duration - years (TTM):	6.4
Repeatable software contribution (TTM):	72 %
Change in number of Cerence connected cars shipped <sup>2</sup> (TTM over prior year TTM)	32 %
Change in billings per car <sup>3</sup> (TTM over prior year TTM) (excludes Legacy contract <sup>4</sup> )	-6 %

- (1) Please refer to the "Key Performance Indicators" included elsewhere in this release for more information regarding the definition and our use of key performance indicators.
- (2) Based on IHS Markit data, global auto production increased 13% over the same time period ended on June 30, 2023.
- (3) The billings per car KPI has been modified to exclude professional services in the calculation.
- (4) Legacy contract is a connected services contract with Toyota acquired by Nuance through a 2013 acquisition.

### Fourth Quarter Fiscal Year 2023 Outlook

For the fiscal quarter ending September 30, 2023, revenue is expected to be in the range of \$72 million to \$76 million. The guidance includes approximately \$13 million of fixed contracts bringing the total for the fiscal year to approximately \$37 million.

GAAP Net Loss is expected to be in the range of (\$13) million to (\$9) million. Adjusted EBITDA is expected to be in the range of approximately \$10 million to \$14 million.

For the full fiscal year ending September 30, 2023, the company has raised the low end of the initial guidance with revenue now expected to be in the range of \$286 million to \$290 million. GAAP Net Loss is



expected to be in the range of (\$58) million to (\$54) million. Adjusted EBITDA is expected to be in the range of approximately \$34 million to \$38 million.

The adjusted EBITDA guidance excludes acquisition-related costs, amortization of acquired intangible assets, stock-based compensation, and restructuring and other costs.

Additional details regarding guidance will be provided during the earnings call.

### **Third Quarter Conference Call**

The company will host a live conference call and webcast with slides to discuss the results today at 8:30 a.m. Eastern Time/5:30 a.m. Pacific Time. Interested investors and analysts are invited to dial into the conference call by using the following link: [Register Here](#)

Webcast access will also be available on the Investor Information section of the company's website at <https://www.cerence.com/investors/events-and-resources>.

A replay of the webcast can be accessed by visiting the company's website 90 minutes following the conference call at <https://www.cerence.com/investors/events-and-resources>.

### **Forward Looking Statements**

Statements in this press release regarding: Cerence's future performance, results and financial condition; expected growth; opportunities; business, industry and market trends; strategy regarding fixed contracts and its impact on financial results; backlog; demand for Cerence products; innovation and new product offerings; and 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: the highly competitive and rapidly changing market in which we operate; adverse conditions in the automotive industry, the related supply chain and semiconductor shortage, or the global economy more generally; the impacts of the COVID-19 pandemic on our and our customers' businesses; the impact of the war in Ukraine on our and our customers' businesses; our ability to control and successfully manage our expenses and cash position; escalating pricing pressures from our customers; the impact on our business of the transition to a lower level of fixed contracts, including the failure to achieve such a transition; our failure to win, renew or implement service contracts; the cancellation or postponement of existing contracts; the loss of business from any of our largest customers; effects of customer defaults; our inability to successfully introduce new products, applications and services; our strategy to increase cloud offerings; the inability to recruit and retain qualified personnel; disruptions arising from transitions in management personnel; cybersecurity and data privacy incidents; failure to protect our intellectual property; defects or interruptions in service with respect to

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our products; fluctuating currency rates and interest rates; inflation; financial and credit market volatility; and the other factors discussed in our most recent Annual Report on Form 10-K for the fiscal year ended September 30, 2022, quarterly reports on Form 10-Q, and other filings with the Securities and Exchange Commission. We caution you not to place undue reliance on any forward-looking statements, which speak only as of the date made. We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise, except as otherwise required by law.

### **Discussion of 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. 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 nine months ended June 30, 2023 and 2022, our management has either included or excluded the following items in general categories, each of which is described below.

#### *Adjusted EBITDA*

Adjusted EBITDA is defined as net income attributable to Cerence Inc. before net income (loss) attributable to income tax (benefit) expense, other income (expense) items, net, depreciation and amortization expense, and excluding acquisition-related costs, amortization of acquired intangible assets, stock-based compensation, and restructuring and other costs, net or impairment charges related to fixed and intangible assets and gains or losses on the sale of long-lived assets, if any. From time to time we may exclude from Adjusted EBITDA the impact of events, gains, losses or other charges (such as significant legal settlements) that affect the period-to-period comparability of our operating performance. Other income (expense) items, net include interest expense, interest income, and other income (expense), net (as stated in our Condensed Consolidated Statement of Operations). Our management and Board of Directors use this financial measure to evaluate our operating performance. It is also a significant performance measure in our annual incentive compensation programs.

#### *Restructuring and other costs, net.*

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Restructuring and other costs, net include restructuring expenses as well as other charges that are unusual in nature, are the result of unplanned events, and arise outside the ordinary course of our business such as employee severance costs, costs for consolidating duplicate facilities, third-party fees relating to the modification of our convertible debt, release of a pre-acquisition contingency, and separation costs directly attributable to the Cerence business becoming a standalone public company.

*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.

*Non-cash expenses.*

We provide non-GAAP information relative to the following non-cash expenses: (i) stock-based compensation; and (ii) non-cash interest. These items are further discussed as follows:

- (i) Stock-based compensation. Because of varying valuation methodologies, subjective assumptions and the variety of award types, we exclude stock-based compensation from our operating results. We evaluate performance both with and without these measures because compensation expense related to stock-based compensation is typically non-cash and awards granted are influenced by the Company's stock price and other factors such as volatility that are beyond our control. The expense related to stock-based awards is generally not controllable in the short-term and can vary significantly based on the timing, size and nature of awards granted. As such, we do not include such charges in operating plans. Stock-based compensation will continue in future periods.
  - ii) Non-cash interest. We exclude non-cash interest because we believe that excluding this expense provides management, as well as other users of the financial statements, with a valuable perspective on the cash-based performance and health of the business, including the current near-term projected liquidity. Non-cash interest expense will continue in future periods.
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#### *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 other charges (credits), net, losses from extinguishment of debt, and changes in indemnification assets corresponding with the release of pre-spin liabilities for uncertain tax positions.

#### *Adjustments to income tax provision.*

Adjustments to our GAAP income tax provision to arrive at non-GAAP net income is determined based on our non-GAAP pre-tax income. Additionally, as our non-GAAP profitability is higher based on the non-GAAP adjustments, we adjust the GAAP tax provision to remove valuation allowances and related effects based on the higher level of reported non-GAAP profitability. We also exclude from our non-GAAP tax provision certain discrete tax items as they occur.

#### *Bookings.*

Bookings is defined as the amount of revenue we expect to earn from an agreement with our customers for products and services. To count as a booking, we expect there to be persuasive evidence of an arrangement, which may be evidenced by a legally binding document or documents, and that the collectability of the amounts payable under the arrangement are reasonably assured. The revenue we may actually recognize from our estimated bookings is subject to multiple factors, including but not limited to the timing of satisfying performance obligations, potential terminations, or changes in the scope of programs utilizing our technology and currency fluctuations. There is no comparable GAAP financial measure.

### **Key Performance Indicators**

We believe that providing key performance indicators ("KPIs") allows investors to gain insight into the way management views the performance of the business. We further believe that providing KPIs allows investors to better understand information used by management to evaluate and measure such performance. KPIs should not be considered superior to, or a substitute for, operating results prepared in accordance with GAAP. In assessing the performance of the business during the three months ended June 30, 2023, our management has reviewed the following KPIs, each of which is described below:

- *Percent of worldwide auto production with Cerence Technology:* The number of Cerence enabled cars shipped as compared to IHS Markit car production data.
  - *Average contract duration:* The weighted average annual period over which we expect to recognize the estimated revenues from new license and connected contracts signed during the quarter, calculated on a trailing twelve months ("TTM") basis and presented in years.
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- *Repeatable software contribution:* The percentage of repeatable revenues as compared to total GAAP revenue in the quarter on a TTM basis. Repeatable revenues are defined as the sum of License and Connected Services revenues.
- *Change in number of Cerence connected cars shipped:* The year over year change in the number of cars shipped with Cerence connected solutions. Amounts calculated on a TTM basis.
- *Change in billings per car:* The rate of growth calculated from the average billings per car based on a TTM basis, excluding professional services, legacy contract and adjusted for prepay usage.

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

To learn more about Cerence, visit [www.cerence.com](http://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 mobility world. As an innovation partner to the world's leading automakers and mobility OEMs, it is helping advance the future of connected mobility through intuitive, AI-powered interaction between humans and their vehicles, connecting consumers' digital lives to their daily journeys no matter where they are. Cerence's track record is built on more than 20 years of knowledge and 475 million cars shipped with Cerence technology. Whether it's connected cars, autonomous driving, e-vehicles, or two-wheelers, Cerence is mapping the road ahead. For more information, visit [www.cerence.com](http://www.cerence.com).

#### **Contact Information**

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**CERENCE INC.**  
**Condensed Consolidated Statements of Operations**  
(in thousands, except per share data)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2023	2022	2023	2022
Revenues:				
License	\$ 25,837	\$ 46,452	\$ 102,054	\$ 139,610
Connected services	18,583	19,990	55,903	67,475
Professional services	17,240	22,599	55,754	62,662
Total revenues	61,660	89,041	213,711	269,747
Cost of revenues:				
License	2,343	585	6,166	1,692
Connected services	5,562	5,391	18,218	16,766
Professional services	12,930	18,173	47,441	51,448
Amortization of intangible assets	103	103	310	2,879
Total cost of revenues	20,938	24,252	72,135	72,785
Gross profit	40,722	64,789	141,576	196,962
Operating expenses:				
Research and development	30,202	26,040	88,190	81,808
Sales and marketing	4,277	8,299	21,656	22,487
General and administrative	13,019	10,614	46,453	31,941
Amortization of intangible assets	553	2,862	5,297	9,151
Restructuring and other costs, net	1,172	1,197	11,075	6,586
Total operating expenses	49,223	49,012	172,671	151,973
(Loss) income from operations	(8,501)	15,777	(31,095)	44,989
Interest income	1,207	243	3,240	416
Interest expense	(4,120)	(3,815)	(11,637)	(10,602)
Other income (expense), net	(2,030)	(478)	2,757	(764)
(Loss) income before income taxes	(13,444)	11,727	(36,735)	34,039
Provision for income taxes	3,011	110,994	7,967	114,738
Net loss	\$ (16,455)	\$ (99,267)	\$ (44,702)	\$ (80,699)
Net loss per share:				
Basic	\$ (0.41)	\$ (2.53)	\$ (1.11)	\$ (2.06)
Diluted	\$ (0.41)	\$ (2.53)	\$ (1.11)	\$ (2.06)
Weighted-average common share outstanding:				
Basic	40,324	39,313	40,167	39,113
Diluted	40,324	39,313	40,167	39,113



**CERENCE INC.**  
**Condensed Consolidated Balance Sheets**  
(in thousands, except per share amounts)

	June 30, 2023 (Unaudited)	September 30, 2022
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 86,100	94,847
Marketable securities	16,717	20,317
Accounts receivable, net of allowances of \$4,048 and \$157	56,984	45,073
Deferred costs	7,585	7,098
Prepaid expenses and other current assets	51,748	60,184
Total current assets	219,134	227,519
Long-term marketable securities	13,194	11,584
Property and equipment, net	34,924	37,707
Deferred costs	20,875	22,451
Operating lease right of use assets	13,445	14,702
Goodwill	904,910	890,802
Intangible assets, net	4,644	9,700
Deferred tax assets	52,198	51,989
Other assets	48,854	52,039
Total assets	\$ 1,312,178	\$ 1,318,493
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
Current liabilities:		
Accounts payable	\$ 16,118	\$ 10,372
Deferred revenue	75,296	72,662
Short-term operating lease liabilities	5,505	5,071
Short-term debt	24,700	10,938
Accrued expenses and other current liabilities	46,802	47,990
Total current liabilities	168,421	147,033
Long-term debt	254,702	259,436
Deferred revenue, net of current portion	153,002	165,972
Long-term operating lease liabilities	9,330	11,375
Other liabilities	23,909	21,727
Total liabilities	609,364	605,543
Stockholders' Equity:		
Common stock, \$0.01 par value, 560,000 shares authorized; 40,333 and 39,430 shares issued and outstanding, respectively	403	394
Accumulated other comprehensive loss	(24,652)	(33,737)
Additional paid-in capital	1,049,173	1,029,542
Accumulated deficit	(322,110)	(283,249)
Total stockholders' equity	702,814	712,950
Total liabilities and stockholders' equity	\$ 1,312,178	\$ 1,318,493





**CERENCE INC.**  
**Condensed Consolidated Statements of Cash Flows**  
(in thousands)

	Nine Months Ended June 30,	
	2023	2022
<b>Cash flows from operating activities:</b>		
Net loss	\$ (44,702)	\$ (80,699)
Adjustments to reconcile net loss to net cash (used in) provided by operations:		
Depreciation and amortization	13,151	18,853
Provision for (benefit from) credit loss reserve	3,626	(414)
Stock-based compensation	31,801	23,020
Non-cash interest expense	1,450	3,922
Loss on debt extinguishment	1,333	-
Deferred tax benefit	1,536	103,394
Unrealized foreign currency transaction (gain) losses	(5,441)	4,854
Other	(4,004)	283
Changes in operating assets and liabilities:		
Accounts receivable	(10,951)	(21,626)
Prepaid expenses and other assets	19,902	(34,621)
Deferred costs	2,511	3,753
Accounts payable	4,799	4,638
Accrued expenses and other liabilities	(334)	(2,698)
Deferred revenue	(18,437)	(19,844)
Net cash (used in) provided by operating activities	(3,760)	2,815
<b>Cash flows from investing activities:</b>		
Capital expenditures	(3,597)	(14,418)
Purchases of marketable securities	(18,025)	(21,153)
Sale and maturities of marketable securities	20,200	31,003
Payments for equity investments	-	(584)
Other investing activities	(1,024)	1,735
Net cash used in investing activities	(2,446)	(3,417)
<b>Cash flows from financing activities:</b>		
Proceeds from revolving credit facility	24,700	-
Proceeds from long-term debt, net of discount	190,000	-
Payments for long-term debt issuance costs	(16,786)	-
Principal payments of long-term debt	(198,438)	(4,689)
Common stock repurchases for tax withholdings for net settlement of equity awards	(4,834)	(47,960)
Principal payment of lease liabilities arising from a finance lease	(355)	(289)
Proceeds from the issuance of common stock	4,687	34,943
Net cash used in financing activities	(1,026)	(17,995)
Effects of exchange rate changes on cash and cash equivalents	(1,515)	(1,377)
Net change in cash and cash equivalents	(8,747)	(19,974)
Cash and cash equivalents at beginning of period	94,847	128,428
Cash and cash equivalents at end of period	\$ 86,100	\$ 108,454



**CERENCE INC.**

**Reconciliations of GAAP Financial Measures to Non-GAAP Financial Measures**

(unaudited - in thousands)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2023	2022	2023	2022
<b>GAAP revenue</b>	\$ 61,660	\$ 89,041	\$ 213,711	\$ 269,747
<b>GAAP gross profit</b>	\$ 40,722	\$ 64,789	\$ 141,576	\$ 196,962
Stock-based compensation	163	722	2,699	3,384
Amortization of intangible assets	103	103	310	2,879
<b>Non-GAAP gross profit</b>	<u>\$ 40,988</u>	<u>\$ 65,614</u>	<u>\$ 144,585</u>	<u>\$ 203,225</u>
<b>GAAP gross margin</b>	66.0 %	72.8 %	66.2 %	73.0 %
<b>Non-GAAP gross margin</b>	66.5 %	73.7 %	67.7 %	75.3 %
<b>GAAP operating (loss) income</b>	\$ (8,501)	\$ 15,777	\$ (31,095)	\$ 44,989
Stock-based compensation*	6,974	6,253	31,801	19,020
Amortization of intangible assets	656	2,965	5,607	12,030
Restructuring and other costs, net*	1,172	1,197	11,075	6,586
<b>Non-GAAP operating income</b>	<u>\$ 301</u>	<u>\$ 26,192</u>	<u>\$ 17,388</u>	<u>\$ 82,625</u>
<b>GAAP operating margin</b>	-13.8 %	17.7 %	-14.6 %	16.7 %
<b>Non-GAAP operating margin</b>	0.5 %	29.4 %	8.1 %	30.6 %
<b>GAAP net loss</b>	\$ (16,455)	\$ (99,267)	\$ (44,702)	\$ (80,699)
Stock-based compensation*	6,974	6,253	31,801	19,020
Amortization of intangible assets	656	2,965	5,607	12,030
Restructuring and other costs, net*	1,172	1,197	11,075	6,586
Depreciation	2,462	2,314	7,544	6,823
Total other expense, net	(4,943)	(4,050)	(5,640)	(10,950)
Provision for income taxes	3,011	110,994	7,967	114,738
<b>Adjusted EBITDA</b>	<u>\$ 2,763</u>	<u>\$ 28,506</u>	<u>\$ 24,932</u>	<u>\$ 89,448</u>
<b>GAAP net loss margin</b>	-26.7 %	-111.5 %	-20.9 %	-29.9 %
<b>Adjusted EBITDA margin</b>	4.5 %	32.0 %	11.7 %	33.2 %

\* - \$4.0 million in stock-based compensation is included in Restructuring and other costs, net during Q1'22.



**CERENCE INC.**

**Reconciliations of GAAP Financial Measures to Non-GAAP Financial Measures (cont.)**

(unaudited - in thousands, except per share data)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2023	2022	2023	2022
<b>GAAP net loss</b>	<b>\$ (16,455)</b>	<b>\$ (99,267)</b>	<b>\$ (44,702)</b>	<b>\$ (80,699)</b>
Stock-based compensation*	6,974	6,253	31,801	19,020
Amortization of intangible assets	656	2,965	5,607	12,030
Restructuring and other costs, net*	1,172	1,197	11,075	6,586
Loss on debt extinguishment	1,333	-	1,333	-
Non-cash interest expense	540	1,327	1,450	3,922
Indemnification asset release	-	-	-	1,302
Other	(25)	-	(844)	-
Adjustments to income tax expense	4,144	104,487	5,107	93,768
<b>Non-GAAP net (loss) income</b>	<b>\$ (1,661)</b>	<b>\$ 16,962</b>	<b>\$ 10,827</b>	<b>\$ 55,929</b>
<b>Adjusted EPS:</b>				
<b>GAAP Numerator:</b>				
Net loss attributed to common shareholders - basic and diluted	\$ (16,455)	\$ (99,267)	\$ (44,702)	\$ (80,699)
<b>Non-GAAP Numerator:</b>				
Net (loss) income attributed to common shareholders - basic	\$ (1,661)	\$ 16,962	\$ 10,827	\$ 55,929
Interest on the Notes, net of tax	-	-	-	3,024
Net (loss) income attributed to common shareholders - diluted	\$ (1,661)	\$ 16,962	\$ 10,827	\$ 58,953
<b>GAAP Denominator:</b>				
Weighted-average common shares outstanding - basic and diluted	40,324	39,313	40,167	39,113
<b>Non-GAAP Denominator:</b>				
Weighted-average common shares outstanding- basic	40,324	39,313	40,167	39,113
Adjustment for diluted shares	-	-	197	5,046
Weighted-average common shares outstanding - diluted	40,324	39,313	40,364	44,159
<b>GAAP net loss per share - diluted</b>	<b>\$ (0.41)</b>	<b>\$ (2.53)</b>	<b>\$ (1.11)</b>	<b>\$ (2.06)</b>
<b>Non-GAAP net (loss) income per share - diluted</b>	<b>\$ (0.04)</b>	<b>\$ 0.43</b>	<b>\$ 0.27</b>	<b>\$ 1.34</b>
<b>GAAP net cash (used in) provided by operating activities</b>	<b>\$ (8,197)</b>	<b>\$ (3,928)</b>	<b>\$ (3,760)</b>	<b>\$ 2,815</b>
Capital expenditures	(1,520)	(4,433)	(3,597)	(14,418)
<b>Free Cash Flow</b>	<b>\$ (9,717)</b>	<b>\$ (8,361)</b>	<b>\$ (7,357)</b>	<b>\$ (11,603)</b>

\* - \$4.0 million in stock-based compensation is included in Restructuring and other costs, net during Q1'22.



**CERENCE INC.**

**Reconciliations of GAAP Financial Measures to Non-GAAP Financial Measures (cont.)**

(unaudited - in thousands)

	Q3FY23	Q2FY23	Q1FY23	Q4FY22
<b>GAAP revenues</b>	<b>\$ 61,660</b>	<b>\$ 68,393</b>	<b>\$ 83,658</b>	<b>\$ 58,144</b>
Less: Professional services revenue	17,240	18,667	19,847	21,048
<b>Non-GAAP Repeatable revenues</b>	<b>\$ 44,420</b>	<b>\$ 49,726</b>	<b>\$ 63,811</b>	<b>\$ 37,096</b>
<b>GAAP revenues TTM</b>	<b>\$ 271,855</b>			
Less: Professional services revenue TTM	76,802			
<b>Non-GAAP Repeatable revenues TTM</b>	<b>\$ 195,053</b>			
Repeatable software contribution	72 %			



**CERENCE INC.**

**Reconciliations of GAAP Financial Measures to Non-GAAP Financial Measures (cont.)**

(unaudited - in thousands)

	Q4 2023		FY2023	
	Low	High	Low	High
<b>GAAP revenue</b>	\$ 72,000	\$ 76,000	\$ 285,700	\$ 289,700
<b>GAAP gross profit</b>	\$ 50,500	\$ 54,500	\$ 192,100	\$ 196,100
Stock-based compensation	1,000	1,000	3,700	3,700
Amortization of intangible assets	100	100	400	400
<b>Non-GAAP gross profit</b>	<u>\$ 51,600</u>	<u>\$ 55,600</u>	<u>\$ 196,200</u>	<u>\$ 200,200</u>
<b>GAAP gross margin</b>	70 %	72 %	67 %	68 %
<b>Non-GAAP gross margin</b>	72 %	73 %	69 %	69 %
<b>GAAP operating loss</b>	\$ (5,800)	\$ (1,800)	\$ (37,000)	\$ (33,000)
Stock-based compensation	11,800	11,800	43,600	43,600
Amortization of intangible assets	600	600	6,200	6,200
Restructuring and other costs, net	800	800	11,900	11,900
<b>Non-GAAP operating income</b>	<u>\$ 7,400</u>	<u>\$ 11,400</u>	<u>\$ 24,700</u>	<u>\$ 28,700</u>
<b>GAAP operating margin</b>	-8 %	-2 %	-13 %	-11 %
<b>Non-GAAP operating margin</b>	10 %	15 %	9 %	10 %
<b>GAAP net loss</b>	\$ (12,700)	\$ (8,700)	\$ (57,500)	\$ (53,500)
Stock-based compensation	11,800	11,800	43,600	43,600
Amortization of intangible assets	600	600	6,200	6,200
Restructuring and other costs, net	800	800	11,900	11,900
Depreciation	2,100	2,100	9,700	9,700
Total other income (expense), net	(1,900)	(1,900)	(7,500)	(7,500)
Provision for income taxes	5,000	5,000	13,000	13,000
<b>Adjusted EBITDA</b>	<u>\$ 9,500</u>	<u>\$ 13,500</u>	<u>\$ 34,400</u>	<u>\$ 38,400</u>
<b>GAAP net loss margin</b>	-18 %	-11 %	-20 %	-18 %
<b>Adjusted EBITDA margin</b>	13 %	18 %	12 %	13 %



**CERENCE INC.**

**Reconciliations of GAAP Financial Measures to Non-GAAP Financial Measures (cont.)**

(unaudited - in thousands, except per share data)

	Q4 2023		FY2023	
	Low	High	Low	High
<b>GAAP net loss</b>	<b>\$ (12,700)</b>	<b>\$ (8,700)</b>	<b>\$ (57,500)</b>	<b>\$ (53,500)</b>
Stock-based compensation	11,800	11,800	43,600	43,600
Amortization of intangibles	600	600	6,200	6,200
Restructuring and other costs, net	800	800	11,900	11,900
Loss on debt extinguishment	-	-	1,300	1,300
Non-cash interest expense	1,400	1,400	2,900	2,900
Other	-	-	(900)	(900)
Adjustments to income tax expense	1,400	1,400	6,600	6,600
<b>Non-GAAP net income</b>	<b>\$ 3,300</b>	<b>\$ 7,300</b>	<b>\$ 14,100</b>	<b>\$ 18,100</b>
<b>Adjusted EPS:</b>				
<b>GAAP Numerator:</b>				
Net loss attributed to common shareholders - basic and diluted	\$ (12,700)	\$ (8,700)	\$ (57,500)	\$ (53,500)
<b>Non-GAAP Numerator:</b>				
Net income attributed to common shareholders - basic and diluted	\$ 3,300	\$ 7,300	\$ 14,100	\$ 18,100
<b>GAAP Denominator:</b>				
Weighted-average common shares outstanding - basic and diluted	40,400	40,400	40,200	40,200
<b>Non-GAAP Denominator:</b>				
Weighted-average common shares outstanding- basic	40,400	40,400	40,200	40,200
Adjustment for diluted shares	1,200	1,200	400	400
Weighted-average common shares outstanding - diluted	41,600	41,600	40,600	40,600
<b>GAAP net loss per share - diluted</b>	<b>\$ (0.31)</b>	<b>\$ (0.22)</b>	<b>\$ (1.43)</b>	<b>\$ (1.33)</b>
<b>Non-GAAP net income per share - diluted</b>	<b>\$ 0.08</b>	<b>\$ 0.18</b>	<b>\$ 0.35</b>	<b>\$ 0.45</b>

# Cerence Q3 FY23 Earnings Presentation

Stefan Ortmanns, Chief Executive Officer

Tom Beaudoin, Chief Financial Officer

Iqbal Arshad, Chief Technology Officer

Rich Yerganian, SVP of Investor Relations

August 8, 2023



# Forward-Looking Statements

Statements in this presentation regarding: Cerence's future performance, results and financial condition; expected growth; opportunities; business, industry and market trends; strategy regarding fixed contracts and its impact on financial results; backlog; demand for Cerence products; innovation and new product offerings; and 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: the highly competitive and rapidly changing market in which we operate; adverse conditions in the automotive industry, the related supply chain and semiconductor shortage, or the global economy more generally; the impacts of the COVID-19 pandemic on our and our customers' businesses; the impact of the war in Ukraine on our and our customers' businesses; our ability to control and successfully manage our expenses and cash position; escalating pricing pressures from our customers; the impact on our business of the transition to a lower level of fixed contracts, including the failure to achieve such a transition; our failure to win, renew or implement service contracts; the cancellation or postponement of existing contracts; the loss of business from any of our largest customers; effects of customer defaults; our inability to successfully introduce new products, applications and services; our strategy to increase cloud offerings; the inability to recruit and retain qualified personnel; disruptions arising from transitions in management personnel; cybersecurity and data privacy incidents; failure to protect our intellectual property; defects or interruptions in service with respect to our products; fluctuating currency rates and interest rates; inflation; financial and credit market volatility; and the other factors discussed in our most recent Annual Report on Form 10-K for the fiscal year ended September 30, 2022, quarterly reports on Form 10-Q, and other filings with the Securities and Exchange Commission. We caution you not to place undue reliance on any forward-looking statements, which speak only as of the date made. We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise, except as otherwise required by law.





# Q3 FY23

## Business Highlights

- Strong executive and company-wide focus drives operational performance
- Global production vehicle penetration (TTM) rises to 54%
- Full fiscal year guidance remains on track
- Successful Convertible Debt Offering reducing interest expense by approximately \$8M per year
- Double-digit revenue growth and strong EBITDA margins remain the company objective for FY24 and beyond

# Q3 FY23

## Sales Highlights

### Strategic Wins Drive Future Revenue

#### ▪ Competitive Design Wins

- Top Japanese OEM for Cerence Cloud
- Korean OEM for Emergency Vehicle Detection
- Large Japanese two-wheeler manufacturer for Cerence Ride

#### ▪ Major Platform Releases

- 3 global programs SOPed with luxury OEMs
- 4 two-wheeler SOPs in NA, China, India

#### ▪ Continued focus on several strategic win opportunities in Q4 including potential win-backs

# Company Priorities

**Fueling Growth by  
Creating an Immersive  
Cabin Experience**

- Continued focus on operational excellence
- Meet or exceed product performance and delivery commitments
- Maintain strong competitive position
- Capitalize on strong sales pipeline
- Deliver on FY23 guidance
- Execute on innovation roadmap

# Cerence AI

## Shaping the Future of Automotive User Experiences: The Immersive Companion

- Leveraging two+ decades of unique experience to create generative-AI powered solutions tailored for transportation
- Next-gen Cerence Assistant: intuitive & multi-modal user experiences
- Generative AI-based applications: Cerence Car Knowledge – real-time, contextual information
- Generative AI and large language model-powered roadmap for the future

# Video

# Cerence AI

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- Generative AI-based applications: Cerence Car Knowledge – real-time, contextual information
- Generative AI and large language model-powered roadmap for the future



The background of the slide is a dark, abstract image featuring vibrant, multi-colored light trails in shades of blue, purple, and pink, suggesting motion or data flow. In the distance, a city skyline is visible against a dark sky.

# Q3 FY23 Financial Details

Tom Beaudoin, CFO



# Cerence Delivers Strong Q3 Results

	Q3FY23	Q3FY23 Guidance
Revenue	\$61.7M	\$58M - \$62M
GAAP Gross Margin	66.0%	59% - 62%
Non-GAAP Gross Margin	66.5%	61% - 63%
GAAP Net (Loss) Income	(\$16.5M)*	(\$22M) – (\$18M)
AEBITDA	\$2.8M	(\$5M) – (\$1M)
Non-GAAP Net (Loss) Income	(\$1.7M)	(\$9M) – (\$5M)
GAAP EPS – diluted	(\$0.41)	(\$0.55) – (\$0.45)
Non-GAAP EPS – diluted	(\$0.04)	(\$0.21) – (\$0.11)

\* Includes a \$1.3M loss on debt extinguishment related to the Q3.23 financing



# Detailed GAAP Revenue Breakdown

In millions	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
<b>Total License:</b>	<b>\$46.3</b>	<b>\$46.4</b>	<b>\$19.0</b>	<b>\$45.4</b>	<b>\$30.8</b>	<b>\$25.9</b>
Variable <sup>(a)</sup>	\$20.2	\$22.3	\$19.0	\$26.3	\$26.2	\$25.8
Total Fixed <sup>(b)</sup>	\$25.6	\$23.3	\$0	\$19.1	\$4.6	\$0
Prepaid (cash upfront)	\$5.7	\$13.2	--	\$18.0	\$4.6	--
Minimum Commitment (no cash upfront)	\$19.9	\$10.1	--	\$1.1	\$0.0	--
Other Markets <sup>(c)</sup>	\$0.5	\$0.8	\$0	\$0	\$0	\$0
<b>Connected Services:</b>	<b>\$19.3</b>	<b>\$20.0</b>	<b>\$18.1</b>	<b>\$18.4</b>	<b>\$18.9</b>	<b>\$18.6</b>
Total New	\$11.0	\$11.6	\$9.6	\$9.9	\$10.5	\$10.2
Subscription/Usage	\$11.0	\$9.9	\$9.6	\$9.9	\$10.5	\$10.2
Customer Hosted <sup>(d)</sup>	-	\$1.7	-	-	-	-
Legacy <sup>(e)</sup>	\$8.3	\$8.4	\$8.5	\$8.5	\$8.4	\$8.4
<b>Professional Services</b>	<b>\$20.7</b>	<b>\$22.6</b>	<b>\$21.0</b>	<b>\$19.9</b>	<b>\$18.7</b>	<b>\$17.2</b>
<b>Total Revenue:</b>	<b>\$86.3</b>	<b>\$89.0</b>	<b>\$58.1</b>	<b>\$83.7</b>	<b>\$68.4</b>	<b>\$61.7</b>

(a) Based on volume shipments of licenses net of the consumption of fixed contracts.

(b) Fixed license revenue includes prepaid and minimum commitment deals.

(c) Non-transportation revenue.

(d) Customer Hosted is a software license that allows the customer to take possession of the software and enable hosting by the customer or a third party.

(e) Legacy contract is a connected services contract with Toyota acquired by Nuance through a 2013 acquisition.

# License Business Remains Strong

In millions	FY2021				FY2022				FY2023		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Fixed Contracts</b>	\$10.1	\$17.3	\$18.2	\$25.4	\$20.1	\$25.6	\$23.3	\$0	\$19.1	\$4.6	<b>\$0</b>
<b>Pro Forma Royalties<sup>(a)</sup></b>	\$48.6	\$47.4	\$42.9	\$34.0	\$39.6	\$39.7	\$41.5	\$39.1	\$41.7	\$43.1	<b>\$44.5</b>
<b>Consumption of Fixed Contracts<sup>(b)</sup></b>	(\$12.3)	(\$10.3)	(\$11.1)	(\$13.2)	(\$18.0)	(\$19.5)	(\$19.2)	(\$20.1)	(\$15.4)	(\$16.9)	<b>(\$18.7)</b>
<b>Variable (as reported)</b>	\$36.3	\$37.1	\$31.8	\$20.8	\$21.6	\$20.2	\$22.3	\$19.0	\$26.3	\$26.2	<b>\$25.8</b>
<b>IHS Production (million units)</b>	23.6	20.7	18.8	16.6	21.2	20.0	19.1	21.2	21.5	21.1	<b>22.0</b>

- Fixed contracts will be approximately \$37M for the fiscal year in line with the commitment to a \$40M ceiling for annual revenue contribution
- Estimated remaining balance of existing fixed contracts at the end of FY23 is approximately \$98M (Prepaid, \$65M and Minimum Commitment, \$33M) down from \$125M at the end of FY22
- Approximate \$10M shift of consumption from FY23 to FY24 due to contract timing variations

(a) Pro forma Royalties is a measure of the total value of licenses shipped in a quarter.

(b) Licenses shipped in the quarter associated with fixed contracts.

# Strong KPI Performance

## High Level of Engagement with Customers and Partners

- 54% Global Auto Penetration (TTM), up from 53%
- 12.2M units with Cerence technology, up 25% year-over-year and up 3% QoQ
- 12.2M includes 3.0M connected units, up 50% from the same quarter a year ago and up 7% QoQ
- 6% Decline in Billings per Car (TTM YoY)
- 28% Increase in Monthly Active Users (YoY)
- 6.4 Years Average Contract Duration (TTM)

# Fiscal Q4 and Full Year 2023 Guidance

*Low End of Full Year Guidance Raised by \$6 Million*

In millions except per share amounts	Q4FY23 Guidance		FY23 Guidance	
	Low	High	Low	High
Revenue	\$72	\$76	\$286	\$290
GAAP Gross Margin	70%	72%	67%	68%
Non-GAAP Gross Margin <sup>(a)</sup>	72%	73%	69%	69%
GAAP Operating Margin	(8%)	(2%)	(13%)	(11%)
Non-GAAP Operating Margin <sup>(a)</sup>	10%	15%	9%	10%
GAAP Net Loss <sup>(b)</sup>	(\$13)	(\$9)	(\$58)	(\$54)
GAAP Net Loss Margin	(18%)	(11%)	(20%)	(18%)
Adjusted EBITDA <sup>(a)</sup>	\$10	\$14	\$34	\$38
Adjusted EBITDA Margin <sup>(a)</sup>	13%	18%	12%	13%
GAAP EPS – diluted	(\$0.31)	(\$0.22)	(\$1.43)	(\$1.33)
Non-GAAP EPS – diluted <sup>(a)</sup>	\$0.08	\$0.18	\$0.35	\$0.45

<sup>(a)</sup> Non-GAAP excludes acquisition-related costs, amortization of acquired intangible assets, restructuring expense, and stock-based compensation.

<sup>(b)</sup> Refer to the Appendix for more information on GAAP to non-GAAP reconciliations.

# Q4 FY23 Focus

## Continue to Drive Operational Excellence

- Deliver FY23 Guidance
- Generate full year positive CFFO
- Report 2H bookings and 5-year backlog
- Provide FY24 Guidance
- Long-term objective remains double-digit revenue growth and strong EBITDA margins

The background of the slide is a dark, abstract image featuring vibrant, multi-colored light trails in shades of blue, purple, and orange, suggesting motion and technology. In the distance, a city skyline is visible under a dark night sky.

**Q&A**

# **Destination Next**



# Appendix

# License Business Revenue Recognition

Type of Contract	Description	GAAP Revenue Recognition	Cash Receipt
Variable	License applied at production	Quarter car is produced. Based on volume	Quarter following GAAP revenue recognition
Fixed (Pre-Pay)	Bulk inventory purchase (\$ based)	Full value of contract at signing. Volume independent	Standard payment terms for full value (upfront payment)
Fixed (Minimum Commitment)	Commitment to purchase (\$ based) in a specified time period. (1 – 5 years)	Full value of contract at signing. Volume independent	Based on shipment volumes over multiple years

*The fixed contracts only apply to the license business. If a car is also using our connected services, it will follow the normal billing and revenue recognition process regardless of whether a variable or fixed license was applied.*

*The fixed contracts typically provide the customer with a price discount and can include the conversion of a variable contract that is already in our variable backlog.*



# Connected and Professional Services Revenue Recognition

Connected Services	Typical Period	GAAP Revenue Recognition	Cash Receipt
Subscription Term	1 – 5 years	Amortized evenly over subscription period	Billed/collected full amount at start of subscription period (value added to deferred revenue)
Usage Contract <sup>(a),(b)</sup>	1 – 5 years	Recognized at same time of billing based on actual usage	Billed every quarter based on actual usage
Customer Hosted <sup>(c)</sup>	License	Quarter in which license is delivered to customer	Upon delivery

(a) Approximately 30% of new connected revenue is usage based and is primarily with one customer

(b) Usage can be defined by number of active users or number of monthly transactions

(c) Customer Hosted is a software license that allows the customer to take possession of the software and enable hosting by the customer or a third-party

Professional Services	Period	GAAP Revenue Recognition	Cash Receipt
Custom Design Services	Ongoing	Revenue is recognized over time based upon the progress towards completion of the project	Billed/collected on milestone completion

# KPI Measures – Definitions

## Key performance indicators

We believe that providing key performance indicators (“KPIs”), allows investors to gain insight into the way management views the performance of the business. We further believe that providing KPIs allows investors to better understand information used by management to evaluate and measure such performance. KPIs should not be considered superior to, or a substitute for, operating results prepared in accordance with GAAP. In assessing the performance of the business during the three months ended June 30, 2023, our management has reviewed the following KPIs, each of which is described below:

**Percent of worldwide auto production with Cerence technology:** The number of Cerence enabled cars shipped as compared to IHS Markit car production data.

**Average contract duration:** The weighted average annual period over which we expect to recognize the estimated revenues from new license and connected contracts signed during the quarter, calculated on a trailing twelve months (“TTM”) basis and presented in years.

**Repeatable software contribution:** The percentage of repeatable revenues as compared to total GAAP revenue in the quarter on a TTM basis. Repeatable revenues are defined as the sum of License and Connected Services revenues.

**Change in number of Cerence connected cars shipped:** The year over year change in the number of cars shipped with Cerence connected solutions. Amounts are calculated on a TTM basis.

**Change in billings per car:** The rate of growth calculated from the average billings per car based on a trailing twelve month comparison while excluding, professional services, legacy contract and adjusted for prepay usage.

# Non-GAAP Financial Measures – Definitions

## Discussion of 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. 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 nine months ending June 30, 2023 and 2022, our management has either included or excluded the following items in general categories, each of which is described below.

Cerence is not providing a reconciliation of certain forward-looking, non-GAAP financial targets to the GAAP equivalent because Cerence is unable to provide this reconciliation without unreasonable effort due to information regarding the relevant adjustments not being ascertainable or accessible. Such information could be material to future results.

# Non-GAAP Financial Measures – Definitions

## Adjusted EBITDA

Adjusted EBITDA is defined as net income attributable to Cerence Inc. before net income (loss) attributable to income tax (benefit) expense, other income (expense) items, net, depreciation and amortization expense, and excluding acquisition-related costs, amortization of acquired intangible assets, stock-based compensation, and restructuring and other costs, net or impairment charges related to fixed and intangible assets and gains or losses on the sale of long-lived assets, if any. From time to time we may exclude from Adjusted EBITDA the impact of events, gains, losses or other charges (such as significant legal settlements) that affect the period-to-period comparability of our operating performance. Other income (expense) items, net include interest expense, interest income, and other income (expense), net (as stated in our Condensed Consolidated Statement of Operations). Our management and Board of Directors use this financial measure to evaluate our operating performance. It is also a significant performance measure in our annual incentive compensation programs.

### *Restructuring and other costs, net.*

Restructuring and other costs, net include restructuring expenses as well as other charges that are unusual in nature, are the result of unplanned events, and arise outside the ordinary course of our business such as employee severance costs, costs for consolidating duplicate facilities, third-party fees relating to the modification of our convertible debt, release of a pre-acquisition contingency, and separation costs directly attributable to the Cerence business becoming a standalone public company.

### *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.

# Non-GAAP Financial Measures – Definitions

## **Non-cash expenses.**

We provide non-GAAP information relative to the following non-cash expenses: (i) stock-based compensation; and (ii) non-cash interest. These items are further discussed as follow:

- (i) Stock-based compensation. Because of varying valuation methodologies, subjective assumptions and the variety of award types, we exclude stock-based compensation from our operating results. We evaluate performance both with and without these measures because compensation expense related to stock-based compensation is typically non-cash and awards granted are influenced by the Company's stock price and other factors such as volatility that are beyond our control. The expense related to stock-based awards is generally not controllable in the short-term and can vary significantly based on the timing, size and nature of awards granted. As such, we do not include such charges in operating plans. Stock-based compensation will continue in future periods.
- (ii) Non-cash interest. We exclude non-cash interest because we believe that excluding this expense provides management, as well as other users of the financial statements, with a valuable perspective on the cash-based performance and health of the business, including the current near-term projected liquidity. Non-cash interest expense will continue in future periods.

## **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 other charges (credits), net, losses from extinguishment of debt, and changes in indemnification assets corresponding with the release of pre-spin liabilities for uncertain tax positions.

## **Adjustments to income tax provision.**

Adjustments to our GAAP income tax provision to arrive at non-GAAP net income is determined based on our non-GAAP pre-tax income. Additionally, as our non-GAAP profitability is higher based on the non-GAAP adjustments, we adjust the GAAP tax provision to remove valuation allowances and related effects based on the higher level of reported non-GAAP profitability. We also exclude from our non-GAAP tax provision certain discrete tax items as they occur.



# Q3 FY23 Reconciliations of GAAP to Non-GAAP Results

(unaudited - in thousands)						(unaudited - in thousands)					
		Three Months Ended		Nine Months Ended				Three Months Ended		Nine Months Ended	
		June 30,		June 30,				June 30,		June 30,	
		2023	2022	2023	2022			2023	2022	2023	2022
<b>GAAP revenue</b>	\$	61,660	\$ 89,041	\$ 213,711	\$ 269,747	<b>GAAP net loss</b>	\$	(16,455)	\$ (99,267)	\$ (44,702)	\$ (80,699)
<b>GAAP gross profit</b>	\$	40,722	\$ 64,788	\$ 141,576	\$ 196,962	Stock-based compensation*		6,974	6,253	31,801	19,020
Stock-based compensation		163	722	2,699	3,384	Amortization of intangible assets		656	2,965	5,607	12,030
Amortization of intangible assets		103	103	310	2,879	Restructuring and other costs, net*		1,172	1,197	11,075	6,586
<b>Non-GAAP gross profit</b>	\$	40,988	\$ 65,614	\$ 144,585	\$ 203,225	Loss on debt extinguishment		1,333	-	1,333	-
<b>GAAP gross margin</b>		66.0%	72.8%	66.2%	73.0%	Non-cash interest expense		540	1,327	1,450	3,922
<b>Non-GAAP gross margin</b>		66.5%	73.7%	67.7%	75.3%	Indemnification asset release		-	-	-	1,302
<b>GAAP operating (loss) income</b>	\$	(8,501)	\$ 15,777	\$ (31,095)	\$ 44,989	Other		(25)	-	(844)	-
Stock-based compensation*		6,974	6,253	31,801	19,020	Adjustments to income tax expense		4,144	104,487	5,107	93,768
Amortization of intangible assets		656	2,965	5,607	12,030	<b>Non-GAAP net (loss) income</b>	\$	(1,661)	\$ 16,962	\$ 10,827	\$ 55,929
Restructuring and other costs, net*		1,172	1,197	11,075	6,586	<b>Adjusted EPS:</b>					
<b>Non-GAAP operating income</b>	\$	301	\$ 26,192	\$ 17,388	\$ 82,625	<b>GAAP Numerator:</b>					
<b>GAAP operating margin</b>		-13.8%	17.7%	-14.6%	16.7%	Net loss attributed to common shareholders - basic and diluted	\$	(16,455)	\$ (99,267)	\$ (44,702)	\$ (80,699)
<b>Non-GAAP operating margin</b>		0.5%	29.4%	8.1%	30.6%	<b>Non-GAAP Numerator:</b>					
<b>GAAP net loss</b>	\$	(16,455)	\$ (99,267)	\$ (44,702)	\$ (80,699)	Net (loss) income attributed to common shareholders - basic	\$	(1,661)	\$ 16,962	\$ 10,827	\$ 55,929
Stock-based compensation*		6,974	6,253	31,801	19,020	Interest on the Notes, net of tax		-	-	-	3,024
Amortization of intangible assets		656	2,965	5,607	12,030	Net (loss) income attributed to common shareholders - diluted	\$	(1,661)	\$ 16,962	\$ 10,827	\$ 58,953
Restructuring and other costs, net*		1,172	1,197	11,075	6,586	<b>GAAP Denominator:</b>					
Depreciation		2,462	2,314	7,544	6,823	Weighted-average common shares outstanding - basic and diluted		40,324	39,313	40,167	39,113
Total other expense, net		(4,943)	(4,050)	(5,640)	(10,950)	<b>Non-GAAP Denominator:</b>					
Provision for income taxes		3,011	110,994	7,967	114,738	Weighted-average common shares outstanding- basic		40,324	39,313	40,167	39,113
<b>Adjusted EBITDA</b>	\$	2,763	\$ 28,506	\$ 24,932	\$ 89,448	Adjustment for diluted shares		-	-	197	5,046
<b>GAAP net loss margin</b>		-26.7%	-111.5%	-20.9%	-29.9%	Weighted-average common shares outstanding - diluted		40,324	39,313	40,364	44,159
<b>Adjusted EBITDA margin</b>		4.5%	32.0%	11.7%	33.2%	<b>GAAP net loss per share - diluted</b>	\$	(0.41)	\$ (2.53)	\$ (1.11)	\$ (2.06)
* - \$4.0 million in stock-based compensation is included in Restructuring and other costs, net during Q1'22.						<b>Non-GAAP net (loss) income per share - diluted</b>	\$	(0.04)	\$ 0.43	\$ 0.27	\$ 1.34
Free cash flow is net cash provided by operating activities determined in accordance with GAAP less capital expenditures.						<b>GAAP net cash (used in) provided by operating activities</b>	\$	(8,197)	\$ (3,928)	\$ (3,760)	\$ 2,815
Free cash flow is not a measure of cash available for discretionary expenditures.						Capital expenditures		(1,520)	(4,433)	(3,597)	(14,418)
						<b>Free Cash Flow</b>	\$	(9,717)	\$ (8,361)	\$ (7,357)	\$ (11,603)
						* - \$4.0 million in stock-based compensation is included in Restructuring and other costs, net during Q1'22.					

# Reconciliations of GAAP Financial Measures to non-GAAP Financial Measures

(unaudited - in thousands)

	Q3FY23	Q2FY23	Q1FY23	Q4FY22
<b>GAAP revenues</b>	<b>\$ 61,660</b>	<b>\$ 68,393</b>	<b>\$ 83,658</b>	<b>\$ 58,144</b>
Less: Professional services revenue	17,240	18,667	19,847	21,048
<b>Non-GAAP Repeatable revenues</b>	<b>\$ 44,420</b>	<b>\$ 49,726</b>	<b>\$ 63,811</b>	<b>\$ 37,096</b>
<b>GAAP revenues TTM</b>	<b>\$ 271,855</b>			
Less: Professional services revenue TTM	76,802			
<b>Non-GAAP Repeatable revenues TTM</b>	<b>\$ 195,053</b>			
<b>Repeatable software contribution</b>	<b>72%</b>			

# Q4 FY23 and Full Year FY23 Reconciliations of GAAP to non-GAAP Guidance

(unaudited - in thousands)

	Q4 2023		FY2023	
	Low	High	Low	High
<b>GAAP revenue</b>	\$ 72,000	\$ 76,000	\$ 285,700	\$ 289,700
<b>GAAP gross profit</b>	\$ 50,500	\$ 54,500	\$ 192,100	\$ 196,100
Stock-based compensation	1,000	1,000	3,700	3,700
Amortization of intangible assets	100	100	400	400
<b>Non-GAAP gross profit</b>	\$ 51,600	\$ 55,600	\$ 196,200	\$ 200,200
<b>GAAP gross margin</b>	70%	72%	67%	68%
<b>Non-GAAP gross margin</b>	72%	73%	69%	69%
<b>GAAP operating loss</b>	\$ (5,800)	\$ (1,800)	\$ (37,000)	\$ (33,000)
Stock-based compensation	11,800	11,800	43,600	43,600
Amortization of intangible assets	600	600	6,200	6,200
Restructuring and other costs, net	800	800	11,900	11,900
<b>Non-GAAP operating income</b>	\$ 7,400	\$ 11,400	\$ 24,700	\$ 28,700
<b>GAAP operating margin</b>	-8%	-2%	-13%	-11%
<b>Non-GAAP operating margin</b>	10%	15%	9%	10%
<b>GAAP net loss</b>	\$ (12,700)	\$ (8,700)	\$ (57,500)	\$ (53,500)
Stock-based compensation	11,800	11,800	43,600	43,600
Amortization of intangible assets	600	600	6,200	6,200
Restructuring and other costs, net	800	800	11,900	11,900
Depreciation	2,100	2,100	9,700	9,700
Total other income (expense), net	(1,900)	(1,900)	(7,500)	(7,500)
Provision for income taxes	5,000	5,000	13,000	13,000
<b>Adjusted EBITDA</b>	\$ 9,500	\$ 13,500	\$ 34,400	\$ 38,400
<b>GAAP net loss margin</b>	-18%	-11%	-20%	-18%
<b>Adjusted EBITDA margin</b>	13%	18%	12%	13%



# Q4 FY23 and FY23 Reconciliations of GAAP to Non-GAAP Guidance

(unaudited - in thousands)					
	Q4 2023		FY2023		
	Low	High	Low	High	
<b>GAAP net loss</b>	<b>\$ (12,700)</b>	<b>\$ (8,700)</b>	<b>\$ (57,500)</b>	<b>\$ (53,500)</b>	
Stock-based compensation	11,800	11,800	43,600	43,600	
Amortization of intangibles	600	600	6,200	6,200	
Restructuring and other costs, net	800	800	11,900	11,900	
Loss on debt extinguishment	-	-	1,300	1,300	
Non-cash interest expense	1,400	1,400	2,900	2,900	
Other	-	-	(900)	(900)	
Adjustments to income tax expense	1,400	1,400	6,600	6,600	
<b>Non-GAAP net income</b>	<b>\$ 3,300</b>	<b>\$ 7,300</b>	<b>\$ 14,100</b>	<b>\$ 18,100</b>	
<b>Adjusted EPS:</b>					
<b>GAAP Numerator:</b>					
Net loss attributed to common shareholders - basic and diluted	\$ (12,700)	\$ (8,700)	\$ (57,500)	\$ (53,500)	
<b>Non-GAAP Numerator:</b>					
Net income attributed to common shareholders - basic and diluted	\$ 3,300	\$ 7,300	\$ 14,100	\$ 18,100	
<b>GAAP Denominator:</b>					
Weighted-average common shares outstanding - basic and diluted	40,400	40,400	40,200	40,200	
<b>Non-GAAP Denominator:</b>					
Weighted-average common shares outstanding - basic	40,400	40,400	40,200	40,200	
Adjustment for diluted shares	1,200	1,200	400	400	
Weighted-average common shares outstanding - diluted	41,600	41,600	40,600	40,600	
<b>GAAP net loss per share - diluted</b>	<b>\$ (0.31)</b>	<b>\$ (0.22)</b>	<b>\$ (1.43)</b>	<b>\$ (1.33)</b>	
<b>Non-GAAP net income per share - diluted</b>	<b>\$ 0.08</b>	<b>\$ 0.18</b>	<b>\$ 0.35</b>	<b>\$ 0.45</b>	