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

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**FORM 8-K**

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**CURRENT REPORT**

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

**Date of Report (Date of earliest event reported): May 7, 2020**

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**CERENCE INC.**

(Exact name of Registrant as Specified in Its Charter)

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**Delaware**  
(State or Other Jurisdiction  
of Incorporation)  
**15 Wayside Road**  
**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)

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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
<b>Common stock, \$0.01 par value</b>	<b>CRNC</b>	<b>The NASDAQ Stock Market LLC</b>

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.

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

On May 7, 2020, Cerence Inc. (the "Company") announced its financial results for the quarter ended March 31, 2020. The press release, including the financial information contained therein, is attached hereto as Exhibit 99.1, and is incorporated herein by reference.

Also on May 7, 2020, the Company used a presentation on its call with investors, discussing its financial results for the quarter ended March 31, 2020, 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 May 7, 2020</a>
99.2	<a href="#">Earnings Release Presentation dated May 7, 2020</a>

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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.

Company Name

Date: May 7, 2020

By: /s/ Mark Gallenberger

Name: Mark Gallenberger

Title: Chief Financial Officer

## Cerence Announces Second Quarter 2020 Results

### Second Quarter Highlights

- First-half of fiscal year bookings reach a record of \$533M exceeding FY2019 full year bookings
- Record quarterly GAAP revenue at \$86.5M increased approximately 23% year over year
- Strong financial performance with GAAP EPS of \$0.33 and non-GAAP EPS of \$0.43
- Adjusted EBITDA of \$29.0M increased 55%, and adjusted EBITDA margin of 33.6% increased 26% compared to Q2FY19
- Several strategic wins including Geely, FCA and Bean Tech

**BURLINGTON, Mass., May 7, 2020** – Cerence Inc. (NASDAQ: CRNC), AI for a world in motion, today reported its second fiscal quarter 2020 results for the quarter ended March 31, 2020.

#### Results Summary (1)

(in millions, except per share data)

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019	Six Months Ended March 31, 2020	Six Months Ended March 31, 2019
GAAP Revenue	\$ 86.5	\$ 70.3	\$ 164.0	\$ 142.8
GAAP Gross Margin%	66.8%	65.2%	66.7%	65.9%
Non-GAAP Gross Margin%	70.1%	69.2%	70.4%	69.7%
GAAP Operating Margin%	13.9%	0.2%	6.0%	2.1%
Non-GAAP Operating Margin%	31.0%	23.6%	28.3%	24.3%
Adjusted EBITDA	\$ 29.0	\$ 18.7	\$ 50.8	\$ 38.8
GAAP net income margin	14.4%	0.6%	0.4%	1.9%
Adjusted EBITDA margin	33.6%	26.6%	31.0%	27.2%
GAAP net income	\$ 12.5	\$ 0.5	\$ 0.7	\$ 2.7
Non-GAAP net income	\$ 16.1	\$ 11.3	\$ 26.5	\$ 24.8
GAAP net income per share - diluted	\$ 0.33	\$ 0.01	\$ 0.02	\$ 0.07
Non-GAAP net income per share - diluted	\$ 0.43	\$ 0.31	\$ 0.72	\$ 0.68

(1) 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.

Sanjay Dhawan, Chief Executive Officer of Cerence, stated, “We delivered excellent financial results for our second fiscal quarter, exceeding most of our guidance metrics despite the initial impact of COVID-19 on the global economy in general, and the automotive market specifically. We had several significant wins in the quarter, including a major European OEM that represented the two largest contracts in the company’s history, one for license and one for cloud-connected services; Geely’s selection of Cerence ARK across all their auto brands; FCA’s adoption of Cerence technology for the all new Uconnect 5 global infotainment platform; and, Bean Tech’s adoption of Cerence ARK for Great Wall Motors.”

Dhawan added, “Our year-over-year revenue growth, led by strong growth in the cloud-connected and professional services businesses, reflects strong momentum for our products and services. While the business environment in the near term will be challenging, the largest first-half fiscal year bookings in the company’s history is a strong indication of Cerence’s long-term growth potential. These bookings and the strategic wins in

the quarter give us confidence that we will emerge a stronger company once the automobile industry begins its recovery."

Dhawan continued, "In the current environment, our first priority is protecting the health and safety of our employees. There is a team that meets daily to monitor developments, keep our employees informed and plan for the eventual return to the office in accordance with government guidelines. We have made adjustments to our business in response to the challenging conditions and believe the changes we have made will continue to support the long term growth of the company while seeking to minimize the negative impact of the virus on our operations."

#### **Statement on Guidance**

Because of the uncertainty in Cerence's served markets and that most of the company's customers and partners are no longer providing guidance for the remainder of the year due to the global economic impact of COVID-19, the company is unable to provide guidance for its fiscal Q3 and is withdrawing its previous guidance for the fiscal year.

#### **Second 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 2859818. 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 May 14, 2020. The replay dial-in number is 1.855.859.2056 (domestic) or +1.404.537.3406 (international) using pass code 2859818. 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>.

#### **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: the expected impacts COVID-19 pandemic on our business, 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 Annual Report on our most recent Form 10-K 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.

#### **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 six months ended March 31, 2020 and 2019, our management has either included or excluded items in five 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 other operating gains, and excluding acquisition-related costs, amortization of purchased intangible assets, stock-based compensation, and restructuring and other costs 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, investment income (loss), equity in net income (losses) of investees, and other income (expense), net (as stated in our Consolidated Statement of Income). 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.

##### *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 separation costs directly attributable to the Cerence business becoming a standalone public company.

*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 reconciliations to the most directly comparable GAAP measures.

**About Cerence Inc.**

Cerence (NASDAQ: CRNC) is the global industry leader in creating unique, moving experiences for the automotive world. As an innovation partner to the world's leading automakers, it is helping transform how a car feels, responds and learns. Its track record is built on more than 20 years of knowledge and more than 325 million cars on the road today. Whether it's connected cars, autonomous driving or e-vehicles, Cerence is mapping the road ahead. For more information, visit [www.cerence.com](http://www.cerence.com).

**Contact Information**

Rich Yerganian



Press Release

May 7, 2020

Cerence Inc.

Tel: 617-987-4799

Email: [richard.yerganian@cerence.com](mailto:richard.yerganian@cerence.com)

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**CERENCE INC.**

**Consolidated and Combined Statements of Operations**

(unaudited - in thousands, except share and per share data)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
<b>Revenues:</b>				
License	\$ 44,622	\$ 39,324	\$ 85,389	\$ 83,326
Connected services	23,131	18,858	46,152	36,113
Professional services	18,742	12,122	32,413	23,349
Total revenues	<u>86,495</u>	<u>70,304</u>	<u>163,954</u>	<u>142,788</u>
<b>Cost of revenues:</b>				
License	843	567	1,524	907
Connected services	8,876	9,130	17,551	20,359
Professional services	16,753	12,726	31,244	23,189
Amortization of intangible assets	2,258	2,021	4,345	4,196
Total cost of revenues	<u>28,730</u>	<u>24,444</u>	<u>54,664</u>	<u>48,651</u>
<b>Gross profit</b>	<u>57,765</u>	<u>45,860</u>	<u>109,290</u>	<u>94,137</u>
<b>Operating expenses:</b>				
Research and development	21,346	22,561	44,857	46,369
Sales and marketing	7,706	9,799	15,649	19,244
General and administrative	10,712	5,689	22,195	11,410
Amortization of intangible assets	3,125	3,132	6,256	6,264
Restructuring and other costs, net	2,870	4,329	10,424	7,456
Acquisition-related costs	—	182	—	417
Total operating expenses	<u>45,759</u>	<u>45,692</u>	<u>99,381</u>	<u>91,160</u>
<b>Income from operations</b>	<u>12,006</u>	<u>168</u>	<u>9,909</u>	<u>2,977</u>
Interest income	244	—	525	—
Interest expense	(6,699)	—	(13,497)	—
Other income (expense), net	226	266	80	250
Income (loss) before income taxes	5,777	434	(2,983)	3,227
(Benefit from) provision for income taxes	(6,718)	(20)	(3,716)	518
<b>Net income</b>	<u>\$ 12,495</u>	<u>\$ 454</u>	<u>\$ 733</u>	<u>\$ 2,709</u>
<b>Net income per share:</b>				
Basic	\$ 0.34	\$ 0.01	\$ 0.02	\$ 0.07
Diluted	\$ 0.33	\$ 0.01	\$ 0.02	\$ 0.07
<b>Weighted-average common share outstanding:</b>				
Basic	36,441,350	36,391,445	36,218,143	36,391,445
Diluted	<u>37,391,720</u>	<u>36,391,445</u>	<u>36,693,328</u>	<u>36,391,445</u>

**CERENCE INC.**

**Consolidated and Combined Balance Sheets**

(unaudited - in thousands, except share data)

	<u>March 31, 2020</u>	<u>September 30, 2019</u>
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 95,584	\$ -
Accounts receivable, net of allowances of \$1,315 and \$865 at March 31, 2020 and September 30, 2019, respectively	92,272	65,787
Deferred costs	7,220	9,195
Prepaid expenses and other current assets	<u>27,779</u>	<u>17,343</u>
Total current assets	222,855	92,325
Property and equipment, net	26,206	20,113
Deferred costs	36,142	32,428
Operating lease right of use assets	18,593	-
Goodwill	1,117,577	1,119,329
Intangible assets, net	55,107	65,561
Deferred tax assets	161,943	150,629
Other assets	14,867	3,444
Total assets	<u>\$ 1,653,290</u>	<u>\$ 1,483,829</u>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
Current liabilities:		
Accounts payable	\$ 18,786	\$ 16,687
Deferred revenue	113,111	88,233
Short-term operating lease liabilities	5,270	-
Short-term debt	9,450	-
Accrued expenses and other current liabilities	<u>42,581</u>	<u>24,194</u>
Total current liabilities	189,198	129,914
Long-term debt	237,925	-
Deferred revenue, net of current portion	234,981	265,051
Long-term operating lease liabilities	15,669	-
Other liabilities	39,138	21,536
Total liabilities	<u>716,911</u>	<u>415,701</u>
Stockholders' Equity:		
Common stock, \$0.01 par value, 600,000,000 shares authorized as of March 31, 2020; 36,457,914 shares issued and outstanding as of March 31, 2020	365	-
Net parent investment	-	1,097,127
Accumulated other comprehensive loss	(14,635)	(28,999)
Additional paid-in capital	949,916	-
Accumulated earnings	733	-
Total stockholders' equity	<u>936,379</u>	<u>1,068,128</u>
Total liabilities and stockholders' equity	<u>\$ 1,653,290</u>	<u>\$ 1,483,829</u>

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

	<b>Six Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 733	\$ 2,709
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	14,971	14,574
Provision for doubtful accounts	446	-
Stock-based compensation expense	15,529	13,367
Non-cash interest expense	2,646	-
Deferred tax benefit	(4,615)	(2,898)
Changes in operating assets and liabilities:		
Accounts receivable	(26,692)	5,584
Prepaid expenses and other assets	(13,605)	(6,848)
Deferred costs	(1,079)	2,020
Accounts payable	6,384	849
Accrued expenses and other liabilities	13,028	832
Deferred revenue	(8,481)	12,062
Net cash (used in) provided by operating activities	<u>(735)</u>	<u>42,251</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(10,145)	(2,472)
Net cash used in investing activities	<u>(10,145)</u>	<u>(2,472)</u>
<b>Cash flows from financing activities:</b>		
Net transactions with Parent	13,513	(39,779)
Distributions to Parent	(152,978)	-
Proceeds from long-term debt, net of discount	249,705	-
Payments for long-term debt issuance costs	(515)	-
Principal payments of long-term debt	(2,363)	-
Common stock repurchases for tax withholdings for net settlement of equity awards	(919)	-
Principal payments of lease liabilities arising from a finance lease	(67)	-
Net cash provided by (used in) financing activities	<u>106,376</u>	<u>(39,779)</u>
Effects of exchange rate changes on cash and cash equivalents	88	-
Net change in cash and cash equivalents	<u>95,584</u>	<u>-</u>
Cash and cash equivalents at the beginning of the period	-	-
Cash and cash equivalents at the end of the period	<u>\$ 95,584</u>	<u>\$ -</u>

**CERENCE INC.**

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
<b>GAAP revenue</b>	\$ 86,495	\$ 70,304	\$ 163,954	\$ 142,788
<b>GAAP gross profit</b>	\$ 57,765	\$ 45,860	\$ 109,290	\$ 94,137
Stock-based compensation	621	753	1,844	1,133
Amortization of intangible assets	2,258	2,021	4,345	4,196
<b>Non-GAAP gross profit</b>	<u>\$ 60,644</u>	<u>\$ 48,634</u>	<u>\$ 115,479</u>	<u>\$ 99,466</u>
<b>GAAP gross margin</b>	66.8%	65.2%	66.7%	65.9%
<b>Non-GAAP gross margin</b>	70.1%	69.2%	70.4%	69.7%
<b>GAAP operating income</b>	\$ 12,006	\$ 168	\$ 9,909	\$ 2,977
Amortization of intangible assets	5,383	5,153	10,601	10,460
Stock-based compensation	6,560	6,793	15,529	13,367
Restructuring and other costs, net	2,870	4,329	10,424	7,456
Acquisition-related costs	-	182	-	417
<b>Non-GAAP operating income</b>	<u>\$ 26,819</u>	<u>\$ 16,625</u>	<u>\$ 46,463</u>	<u>\$ 34,677</u>
<b>GAAP operating margin</b>	13.9%	0.2%	6.0%	2.1%
<b>Non-GAAP operating margin</b>	31.0%	23.6%	28.3%	24.3%
<b>GAAP net income</b>	\$ 12,495	\$ 454	\$ 733	\$ 2,709
Total other income (expense), net	(6,229)	266	(12,892)	250
(Benefit from) provision for income taxes	(6,718)	(20)	(3,716)	518
Depreciation	2,224	2,076	4,365	4,113
Amortization of intangible assets	5,383	5,153	10,601	10,460
Stock-based compensation	6,560	6,793	15,529	13,367
Restructuring and other costs, net	2,870	4,329	10,424	7,456
Acquisition-related costs	-	182	-	417
<b>Adjusted EBITDA</b>	<u>\$ 29,043</u>	<u>\$ 18,701</u>	<u>\$ 50,828</u>	<u>\$ 38,790</u>
<b>GAAP net income margin</b>	14.4%	0.6%	0.4%	1.9%
<b>Adjusted EBITDA margin</b>	33.6%	26.6%	31.0%	27.2%

**CERENCE INC.**

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

(unaudited - in thousands, except per share data)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
<b>GAAP net income</b>	\$ 12,495	\$ 454	\$ 733	\$ 2,709
Amortization of intangible assets	5,383	5,153	10,601	10,460
Stock-based compensation	6,560	6,793	15,529	13,367
Restructuring and other costs, net	2,870	4,329	10,424	7,456
Acquisition-related costs	-	182	-	417
Non-cash interest expense	1,314	-	2,646	-
Income tax impact of Non-GAAP adjustments	(12,473)	(5,571)	(13,449)	(9,612)
<b>Non-GAAP net income</b>	<b>\$ 16,149</b>	<b>\$ 11,340</b>	<b>\$ 26,484</b>	<b>\$ 24,797</b>
<b>Weighted-average common shares outstanding - diluted</b>	<b>37,392</b>	<b>36,391</b>	<b>36,693</b>	<b>36,391</b>
<b>GAAP net income per share - diluted</b>	<b>\$ 0.33</b>	<b>\$ 0.01</b>	<b>\$ 0.02</b>	<b>\$ 0.07</b>
<b>Non-GAAP net income per share - diluted</b>	<b>\$ 0.43</b>	<b>\$ 0.31</b>	<b>\$ 0.72</b>	<b>\$ 0.68</b>
<b>GAAP net cash (used in) provided by operating activities</b>	<b>\$ (10,191)</b>	<b>\$ 25,551</b>	<b>\$ (735)</b>	<b>\$ 42,251</b>
Capital expenditures	(6,533)	(1,974)	(10,145)	(2,472)
<b>Free Cash Flow</b>	<b>\$ (16,724)</b>	<b>\$ 23,577</b>	<b>\$ (10,880)</b>	<b>\$ 39,779</b>

# Q2FY20 Earnings Conference Call

Sanjay Dhawan, CEO

Mark Gallenberger, CFO



May 7, 2020

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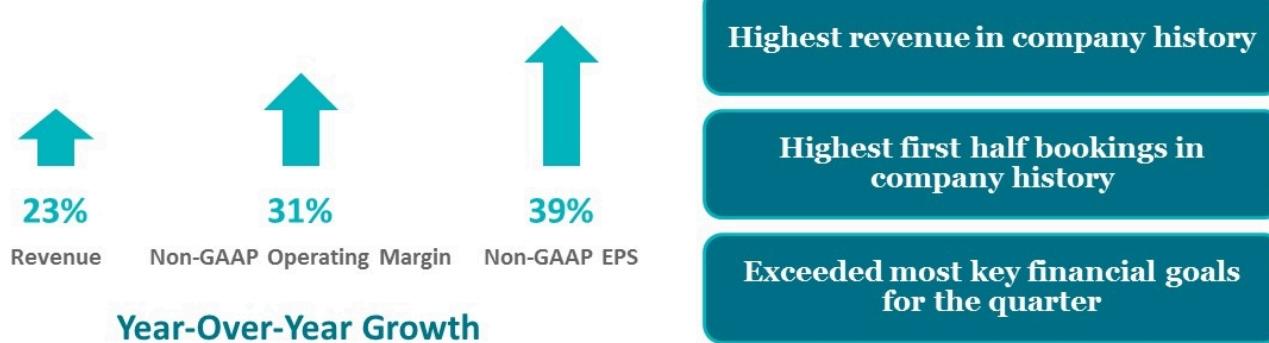


# Forward Looking Statements and Non-GAAP Financial Measures

Statements in this presentation regarding Cerence's future performance 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. There are a number of important factors that could cause actual results or events to differ materially from those indicated by such forward-looking statements, including but not limited to: the expected impacts COVID-19 pandemic on our business, 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 rate; and the other factors described in our 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.

This presentation also includes certain financial measures that are not calculated in accordance with U.S. generally accepted accounting principles, or GAAP. These non-GAAP financial measures are in addition to, and not as a substitute for or superior to, measures of financial performance prepared in accordance with GAAP. There are a number of limitations related to the use of these non-GAAP financial measures versus their nearest GAAP equivalents. We have provided a reconciliation of non-GAAP measures to the most directly comparable GAAP measures, which is available in the earnings press release and the prepared remarks furnished as exhibits to the Company's Form 8-K submitted to the SEC on May 7, 2020. This presentation should be read in conjunction with the earnings release, prepared remarks and Form 10-Q.

# Cerence Delivers Strong Q2 Results and Record Bookings



## Long Term Outlook Remains Bright Despite Near Term Covid-19 Clouds



**We are in this together**

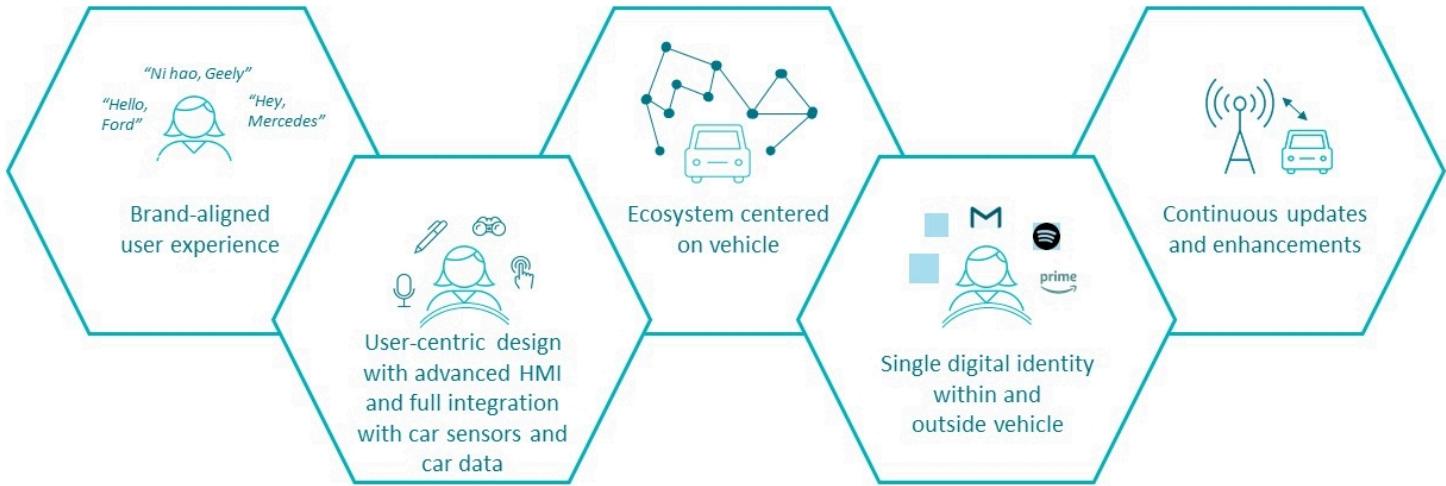
- + Top priority is the health and safety of our employees
- + Operating at 90%+ operational efficiency
- + Adjustments to business to reflect near term headwinds due to Covid-19
- + Maintaining full investment in key projects such as One Cloud, Cerence Look and Car Life

## Q2FY20 Achievements Builds on FY19 Momentum



- ✚ Historic, record first half bookings for the company
- ✚ Signed the two largest contracts in the company's history, one for Edge, one for cloud-connected services
- ✚ Strategic wins for Cerence ARK and Cerence Drive
- ✚ Competitive position remains strong

# Long Term Trends Drive Cerence's Strategic Planning



# Financial Summary



## Q2 Results Primarily Exceed Guidance

Q2FY20		
\$ in millions except per share data	Guidance	Actual
GAAP Revenue	\$80M - \$82M	\$86.5M
Non-GAAP GM % <sup>(a)</sup>	71% - 72%	70.1%
Non-GAAP Operating Margin% <sup>(a)</sup>	24% - 26%	31.0%
Adjusted EBITDA <sup>(a)</sup>	\$22M - \$24M	\$29.0M
CFFO	N/A	(\$10.2M)
FCF	N/A	(\$16.7M)
Non-GAAP EPS	\$0.27 - \$0.31	\$0.43

Footnote:

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

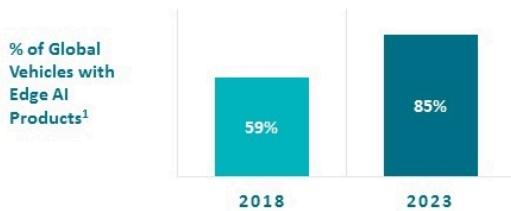
## Strong Year Over Year Growth

\$ in millions	Q2FY20 (ASC 606)	Q2FY19 (ASC 606)	YoY
License:	\$44.6M	\$39.3M	+13%
Variable	\$28.2M	\$30.6M	-8%
Prepay	\$16.4M	\$8.7M	+88%
Connected Services:	<b>\$23.1M</b>	<b>\$18.9M</b>	<b>+23%</b>
Legacy	\$15.4M	\$14.1M	+10%
New	\$7.7M	\$4.8M	+61%
Professional Services	<b>\$18.7M</b>	<b>\$12.1M</b>	<b>+55%</b>
Total Revenue:	<b>\$86.5M</b>	<b>\$70.3M</b>	<b>+23%</b>

# Increasing Market Penetration An Offset to SaaR Decline

## Increasing Market Penetration of Edge (In-Car) A.I. Products

- + Automated driving technologies are linked to the growth of edge innovations within the vehicle
- + Increased focus on limiting distracted driving and convenience of controlling the infotainment system
- + Expansion of solutions from premium to entry level



## Increasing Market Penetration of Cloud (Connected) Services

- + Cloud-based, connected technology is increasingly necessary as users want vehicles to act like rolling smartphones
- + Drivers depend on vehicles for range of information including directions, internet radio, restaurant recommendations, weather, etc.
- + Expansion of solutions from premium to entry level



(1) Source: IHS, Management estimates

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# Proactive Measures to Adjust Business for COVID-19 Impact

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- ✚ Reduction of contractors
- ✚ Workforce reduction of about 5%
- ✚ Executive team pay reductions
- ✚ Lowering of planned capex spend from \$35M to \$27M
- ✚ Additional miscellaneous expense reductions

✚ **Result: \$12M second half op-ex savings**

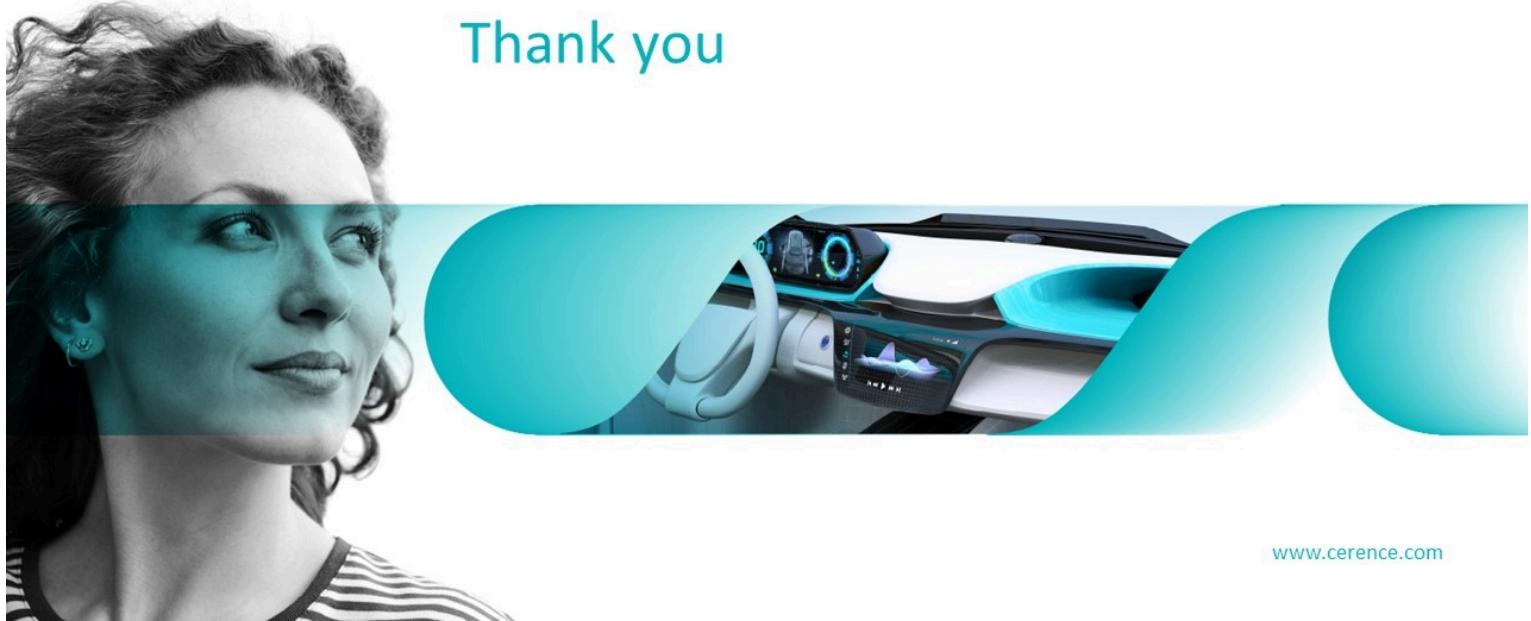
## Balance Sheet Metrics

\$ in millions	As of March 31, 2020
Cash & Equivalents	\$95.6M
Intra Quarter Cash Requirements	\$25-30M
Debt	\$267M
Leverage Ratio* (covenant 6x)	2.0x

\* Leverage ratio calculation defined as (Cash & Cash Equivalents minus \$50M)/(Trailing 12-month Adjusted EBITDA)



Thank you



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# Appendix

# Non-GAAP Financial Measures – Definitions

## Non-GAAP revenue

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. 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 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. Starting with Q1FY20 Cerence will only be reporting GAAP revenue.

## Non-GAAP operating income and adjusted EBITDA

Non-GAAP operating income is defined as operating income before stock-based compensation, amortization of acquired intangible assets, restructuring and acquisition-related costs, and acquisition-related revenue adjustments. Adjusted EBITDA is defined as non-GAAP operating income before depreciation expense.

**Stock-based compensation.** Because of varying valuation methodologies, subjective assumptions and the variety of award types, we believe that excluding stock-based compensation allows for more accurate comparisons of operating results to peer companies. We evaluate performance both with and without these measures because compensation expense related to stock-based compensation is typically non-cash and the options and restricted 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.

**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.

**Restructuring and acquisition-related costs.** 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 provide supplementary non-GAAP financial measures, which exclude certain transition, integration, and other acquisition-related expense items resulting from acquisitions and also exclude separation costs directly attributable to the Cerence business becoming a stand-alone public company. 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 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.

# Q2FY20 GAAP Results Reconciliation

(unaudited - in thousands, except per share data)	Three Months Ended March 31,		Six Months Ended March 31,		(unaudited - in thousands, except per share data)	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019		2020	2019	2020	2019
<b>GAAP revenue</b>	<b>\$ 86,495</b>	<b>\$ 70,304</b>	<b>\$ 163,954</b>	<b>\$ 142,788</b>	<b>GAAP net income</b>	<b>\$ 12,495</b>	<b>\$ 454</b>	<b>\$ 733</b>	<b>\$ 2,709</b>
GAAP gross profit	\$ 57,765	\$ 45,860	\$ 109,290	\$ 94,137	Amortization of intangible assets	5,383	5,153	10,601	10,460
Stock-based compensation	621	753	1,844	1,133	Stock-based compensation	6,560	6,793	15,529	13,367
Amortization of intangible assets	2,258	2,021	4,345	4,196	Restructuring and other costs, net	2,870	4,329	10,424	7,456
<b>Non-GAAP gross profit</b>	<b>\$ 60,644</b>	<b>\$ 48,634</b>	<b>\$ 115,479</b>	<b>\$ 99,466</b>	Acquisition-related costs	-	182	-	417
GAAP gross margin	66.8%	65.2%	66.7%	65.9%	Non-cash interest expense	1,314	-	2,646	-
Non-GAAP gross margin	70.1%	69.2%	70.4%	69.7%	Income tax impact of Non-GAAP adjustments	(12,473)	(5,571)	(13,449)	(9,612)
<b>GAAP operating income</b>	<b>\$ 12,006</b>	<b>\$ 168</b>	<b>\$ 9,909</b>	<b>\$ 2,977</b>	<b>Non-GAAP net income</b>	<b>\$ 16,149</b>	<b>\$ 11,340</b>	<b>\$ 26,484</b>	<b>\$ 24,797</b>
Amortization of intangible assets	5,383	5,153	10,601	10,460	Weighted-average common shares outstanding - diluted	37,392	36,391	36,693	36,391
Stock-based compensation	6,560	6,793	15,529	13,367	GAAP net income per share - diluted	\$ 0.33	\$ 0.01	\$ 0.02	\$ 0.07
Restructuring and other costs, net	2,870	4,329	10,424	7,456	Non-GAAP net income per share - diluted	\$ 0.43	\$ 0.31	\$ 0.72	\$ 0.68
Acquisition-related costs	-	182	-	417	<b>GAAP net cash (used in) provided by operating activities</b>	<b>\$ (10,191)</b>	<b>\$ 25,551</b>	<b>\$ (735)</b>	<b>\$ 42,251</b>
<b>Non-GAAP operating income</b>	<b>\$ 26,819</b>	<b>\$ 16,625</b>	<b>\$ 46,463</b>	<b>\$ 34,677</b>	Capital expenditures	(6,533)	(1,974)	(10,145)	(2,472)
GAAP operating margin	13.9%	0.2%	6.0%	2.1%	<b>Free Cash Flow</b>	<b>\$ (16,724)</b>	<b>\$ 23,577</b>	<b>\$ (10,880)</b>	<b>\$ 39,779</b>
Non-GAAP operating margin	31.0%	23.6%	28.3%	24.3%					
<b>GAAP net income</b>	<b>\$ 12,495</b>	<b>\$ 454</b>	<b>\$ 733</b>	<b>\$ 2,709</b>					
Total other income (expense), net	(6,229)	266	(12,892)	250					
(Benefit from) provision for income taxes	(6,718)	(20)	(3,716)	518					
Depreciation	2,224	2,076	4,365	4,113					
Amortization of intangible assets	5,383	5,153	10,601	10,460					
Stock-based compensation	6,560	6,793	15,529	13,367					
Restructuring and other costs, net	2,870	4,329	10,424	7,456					
Acquisition-related costs	-	182	-	417					
<b>Adjusted EBITDA</b>	<b>\$ 29,043</b>	<b>\$ 18,701</b>	<b>\$ 50,828</b>	<b>\$ 38,790</b>					
GAAP net income margin	14.4%	0.6%	0.4%	1.9%					
Adjusted EBITDA margin	33.6%	26.6%	31.0%	27.2%					