



# Cerence Investor Presentation

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# AI for a world in motion



## Vision

A safer, more enjoyable journey for everyone



## Mission

Empower an automotive ecosystem with digital platform solutions for connected and autonomous vehicles

# A Strong Heritage *and* Fresh Voice for the Industry



**20+**

Years of industry expertise and leadership



**325M**

Cars on the road worldwide with Cerence



**1550+**

R&D and services professionals dedicated to innovation



**1250+**

Patents on voice and AI technology



**70+**

Global languages and dialects supported



**65+**

Global automotive customers and partners

# Cerence Investment Highlights

## 1 Provider of Key Human-Machine-Interface Software Products Enabling the Consumer's Digital Life in the Automobile

- Market leading platform used by customers to build virtual assistants
- Driven by innovative technology: ASR, NLU, Voice Biometrics, Multi-modality

## 2 Global Leader in AI and Voice-Powered Assistants Across All Automotive OEMs

- Customers include all major automobile manufacturers or their tier-1 suppliers worldwide
- High touch "OEM Solutions" business model, trusted advisor to OEMs

## 3 Strong Strategic Position

- "Designed In" solutions that are strategically important for the automotive industry
- Cognitive arbitration: virtual assistant interoperability
- Scale and language coverage

## 4 Business Model Supported by Broad Secular Trends and Increasing Penetration

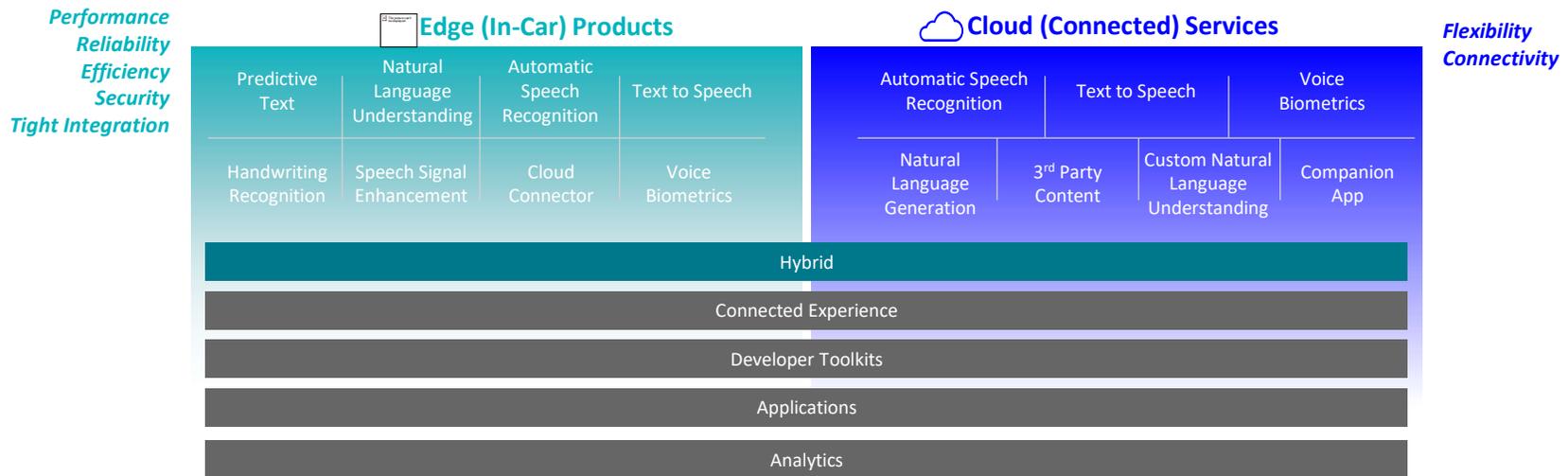
## 5 Compelling Financial Profile

- Visibility: ~\$1.4B backlog (as of 9/30/19 not including H1'20A bookings)
- Momentum: \$533M bookings in H1'20A highest in history
- High growth & profitability

# 1 Provider of Key Human-Machine-Interface Software Products Enabling the Consumer's Digital Life in the Car

Premier provider of AI-powered assistants and innovations for connected and autonomous vehicles

- Cerence's Market Leading Platform: used by customers to build virtual assistants that can communicate, find information and take action
- Cerence's platform is comprised of award winning technologies: speech recognition, NLU, speech signal enhancement, much more
- Hybrid Edge / Connected architecture



## 2 Global Leader in AI and Voice-Powered Assistants Across All Automotive OEMs

- **Customers** include all major automobile manufacturers (“OEMs”) or their tier 1 suppliers worldwide, including BMW, Daimler, FCA Group, Ford, Geely, GM, Renault-Nissan, SAIC, Toyota, Volkswagen Group, Aptiv, Bosch, Continental, DENSO TEN and Harman
- High-touch OEM solutions, unique to customers and their brands
- OEM maintains control of data
- Tight integration into vehicles; future platform pull-through and global language support
- Cognitive arbitration supports multiple voice assistants through an OEM-branded interface
- Increase value per vehicle through future collaborative innovation model

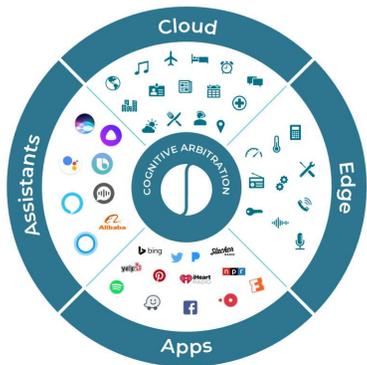
### All Major OEMs Worldwide



# 3 Strong Strategic Position

## Competitive Advantages

- ✓ “Designed In” solutions
- ✓ High-Touch “OEM Solutions” business model
- ✓ Trusted and independent advisor to OEMs
- ✓ Pioneer in NLU, AI and Deep Learning innovation
- ✓ Broadest language and dialect coverage
- ✓ Cognitive Arbitration – seamless interoperability with multiple 3rd party virtual assistants



## Coexistence with Large Technology Companies

- **Cognitive arbitration** supports **interoperability** through consistent OEM-branded interface
- **Open, neutral platform**
- Cerence Edge Superiority
- Deep, singular focus on the automotive market

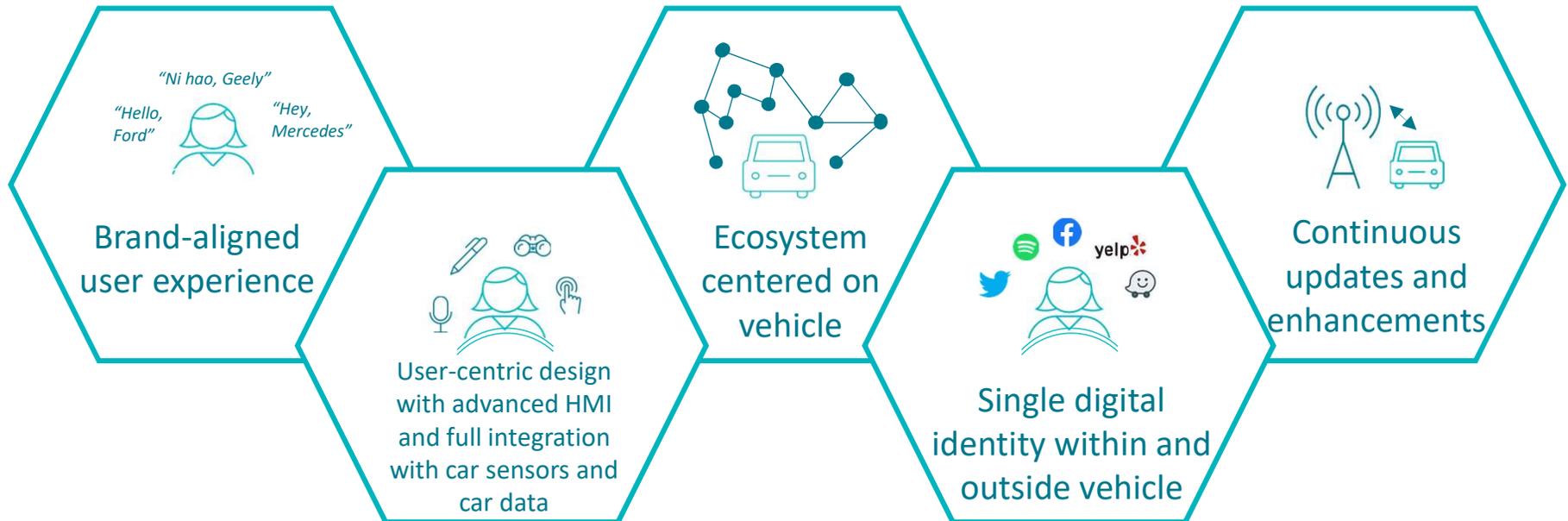


## Competition versus Niche Market Participants

- Superior technology: **benchmark results**
- Significant **scale**
- Far-reaching, global team
- **Broad portfolio of compatible languages**



## 4 Business Model Supported by Broad Secular Trends and Increasing Penetration



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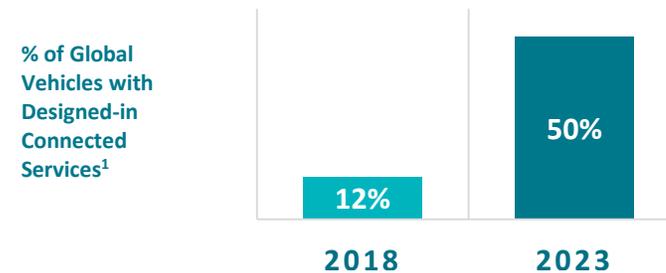
### Increasing Market Penetration of Edge (In-Car) A.I. Products

- + 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



# 5 Compelling Financial Profile

## Financial Pillars



### 1 Strong Growth Trajectory

- Expanding revenue base with innovative new offerings
- Broad base of industry-leading customers



### 2 Excellent Long-Term Revenue Visibility

- ~\$1.4B backlog (as of 9/30/19)<sup>1</sup>
- Strong bookings of \$533M in H1'20A, exceeding full year FY'19A bookings
- Long-term customer contracts and designed-in technology provide strong revenue visibility
- High switching costs and strong customer relationships

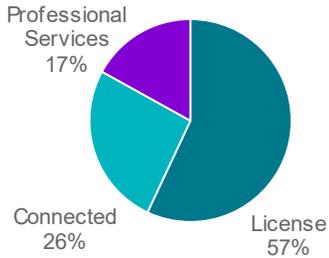


### 3 High Profitability

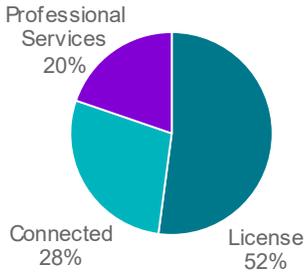
- High margin business drives strong operating leverage

## Robust and Diversified Revenue Streams

FY19A Revenue Mix



H1'20A Revenue Mix



### License Revenue

- Revenue recognized on unit shipment or on prepayments

### Connected Revenue

- Deferred revenue recorded, amortized to revenue over duration of service contract

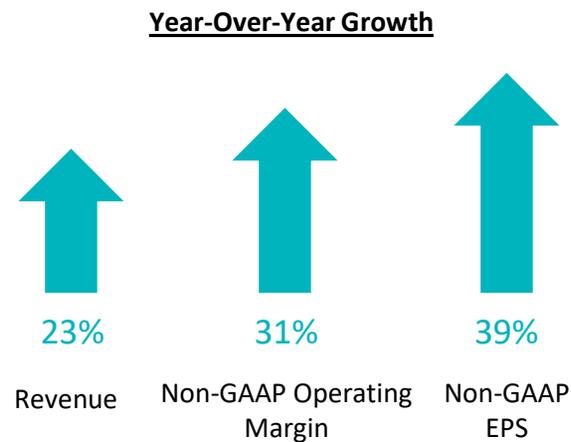
### Professional Services Revenue

- Revenue recognized on percentage of completion

(1) These figures are estimates and based on existing customer contracts and management estimates about future vehicle shipments, and the revenue we actually recognize from our backlog 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.

# 5 Q2 FY20 Achievements Builds on FY19 Momentum

## Strong Q2 Results and Record Bookings



Highest revenue in company history

Highest 1H bookings in company history

Exceeded most key financial goals for the quarter

Signed the two largest contracts in the company's history

Strategic wins for Cerence ARK and Cerence Drive

### Representative Wins



## 5 Q2 FY20 Achievements Builds on FY19 Momentum (cont'd)

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

## 5 Cerence Has Significant Available Liquidity

### Proactive Measures to Adjust Business for COVID-19 Impact

- Reduction of contractors
- Workforce reduction of about 5%
- Lowering of planned CapEx spend
- Executive team pay reductions
- Additional miscellaneous expense reductions
- **Result: \$12M second half op-ex savings and \$8M of CapEx savings**

### Pro Forma Capitalization for \$150M Convertible Offering

- The Convertible Note offering along with the proceeds of additional bank capital that the company intends to raise shortly following the offering will be used to refinance the company's current debt facilities generating significant interest expense savings and improving financial flexibility

(\$ in millions)	As of March 31, 2020	Pro-Forma <sup>1</sup>
Cash & Equivalents	\$95.6M	\$95.6M
Term Loan B <sup>2</sup>	\$268M	\$118M
Convertible Senior Notes	--	\$150M
Leverage Ratio <sup>3</sup>	2.0x	2.0x
Secured Leverage Ratio <sup>4</sup>	2.0x	0.6x

Note: Pro-Forma calculations exclude fees and transaction expenses

1. PF for \$150M convertible notes offering
2. Includes unamortized issuance cost and discount of \$20.2M at March 31, 2020
3. Leverage ratio calculation defined as (Total Debt minus \$50M of unrestricted cash)/(Trailing 12-month Adjusted EBITDA)
4. Secured Leverage ratio calculation defined as (Total Secured Debt minus \$50M of unrestricted cash)/(Trailing 12-month Adjusted EBITDA)

5

## Debt Refinancing Expected to Drive Significant Savings 52% Cash Savings and 16% non-GAAP EPS accretion

<i>in millions except EPS</i>	TLB Actual 6-month YTD	Convert/TLA Proforma 6-month YTD	Savings 6-month YTD	Savings annualized	% Savings	
Cash interest expense	\$ 10.9	\$ 5.2	\$ 5.7	\$11.3	52%	Annualized cash savings (before tax impact)
Non-cash interest expense	\$ 2.6	\$ 0.6	\$ 2.0	\$ 4.0	75%	
Total interest expense	\$ 13.5	\$ 5.8	\$ 7.7	\$15.3	57%	
	TLB Actual 6-month YTD	Convert/TLA Proforma 6-month YTD	Accretion 6-month YTD	Accretion annualized	% Accretion	
GAAP net income	\$ 0.7	\$6.6	\$5.8	\$11.6	794%	
GAAP EPS	\$ 0.02	\$0.18	\$0.16	\$0.32	794%	
Non-GAAP net income	\$ 26.5	\$30.6	\$4.1	\$8.3	16%	Annualized non-GAAP EPS accretion (after tax impact)
Non-GAAP EPS	\$ 0.72	\$0.83	\$0.11	\$0.23	16%	

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**Notes:**

1. Expected savings subject to successful completion of Term Loan A agreement.
2. GAAP and non-GAAP net income and EPS are tax adjusted.

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# Appendix