

Q2FY21 Earnings Conference Call

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May 10, 2021

AI for a World in Motion

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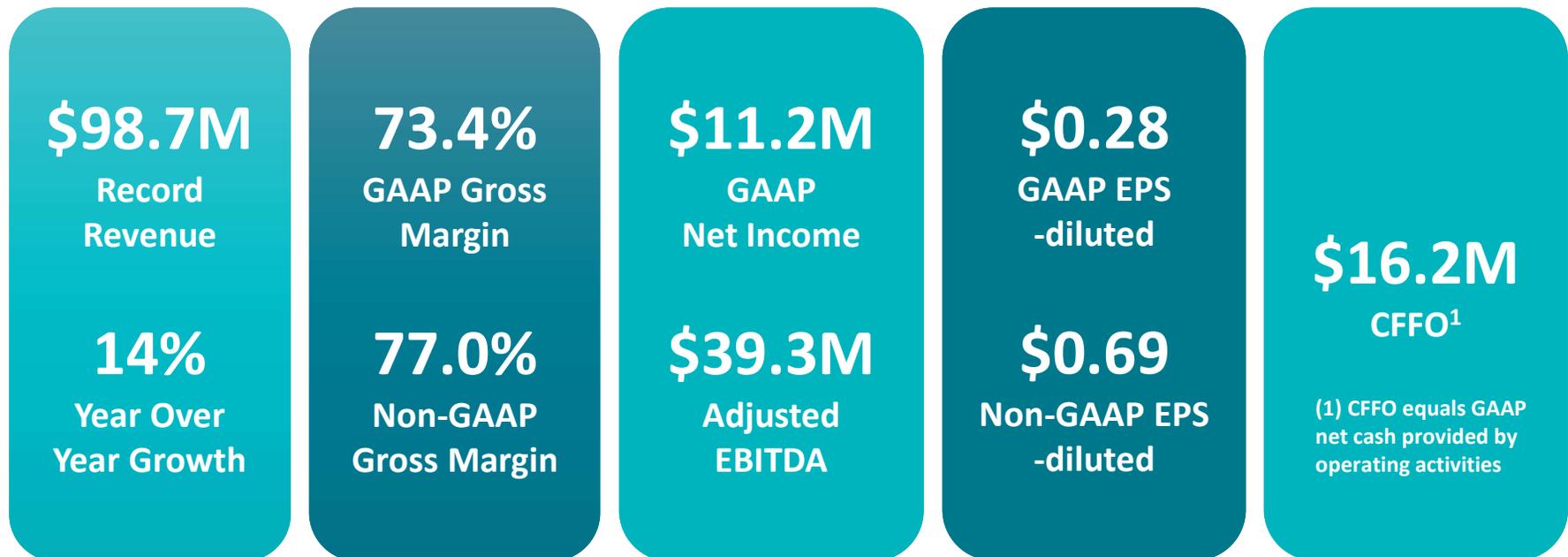


Forward Looking Statements

Statements in this presentation regarding Cerence’s future performance, results and financial condition, expected growth, business and market trends, 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: impacts of the COVID-19 pandemic on our and our customer’s businesses; the highly competitive and rapidly changing market in which we operate; adverse conditions in the automotive industry, the related supply chain, or the global economy more generally; our ability to control and successfully manage our expenses and cash position; our strategy to increase cloud offerings; 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; effects of customer defaults; our inability to successfully introduce new products, applications and services; the inability to recruit and retain qualified personnel; cybersecurity and data privacy incidents; fluctuating currency rates; and the other factors discussed in our most recent Annual Report on Form 10-K, quarterly reports on Form 10-Q, 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.

Cerence Delivers Strong Q2FY21

Exceeded company quarterly guidance on all financial metrics



NOTE: Refer to the Appendix for more information on GAAP to non-GAAP reconciliations

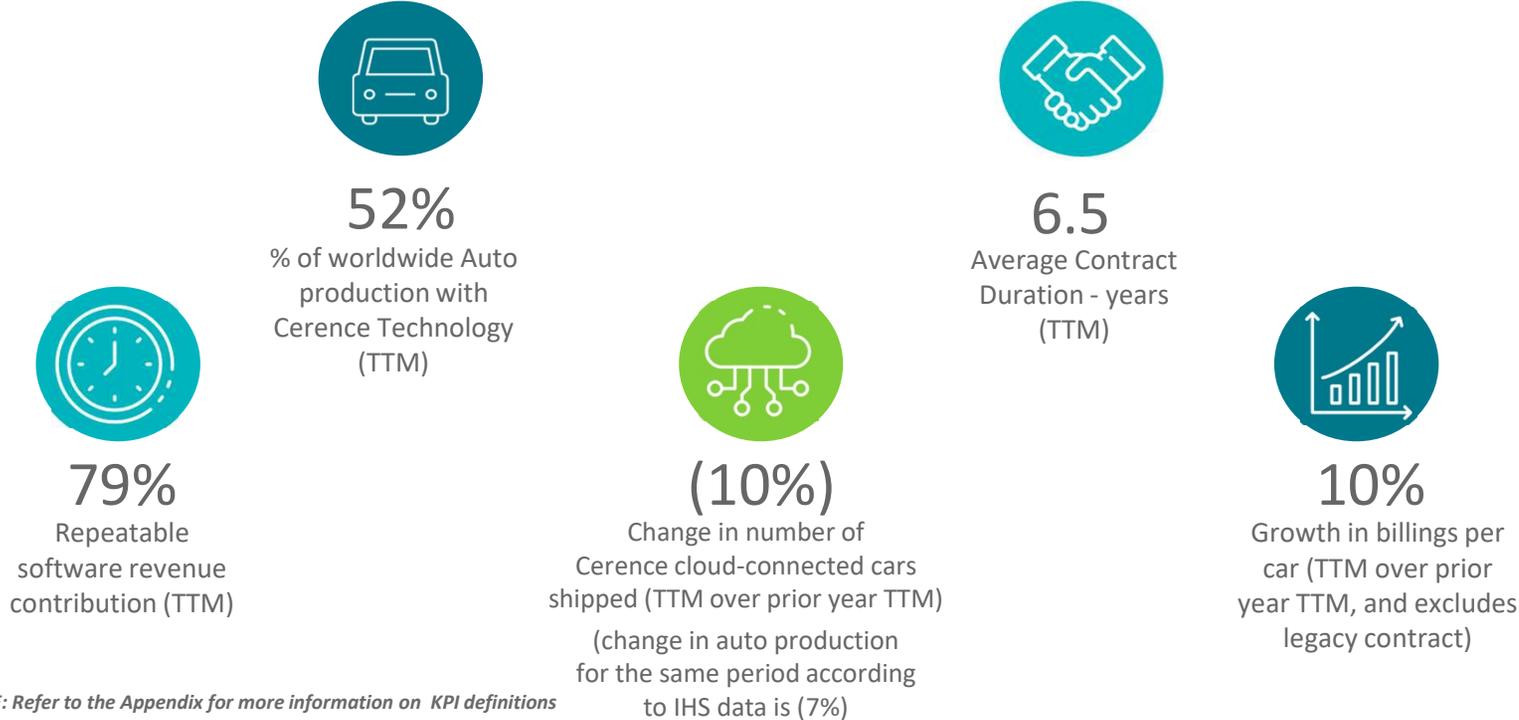
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Recent Notable Events



- Dynamic AI Electric Vehicles – **Hyundai IONIQ 5 and Daimler EQS**
- **AI Leadership** Recognized by Project Voice
 - Voice/AI Company of the Year
 - Voice Developer of the Year (co-winner)
 - Voice/AI Executive of the Year (Sanjay Dhawan)
 - Outstanding Achievement Award (Cerence spinoff)
 - Best Use of Synthetic Voice: (Cerence Q4 Earnings call)
 - Automotive Voice/AI Developer of the Year: (MBUX)
- Strategic Investment in **CerebrumX** for Data Monetization
- Cerence Conversational AI Platform Now Available on **Android Automotive OS**

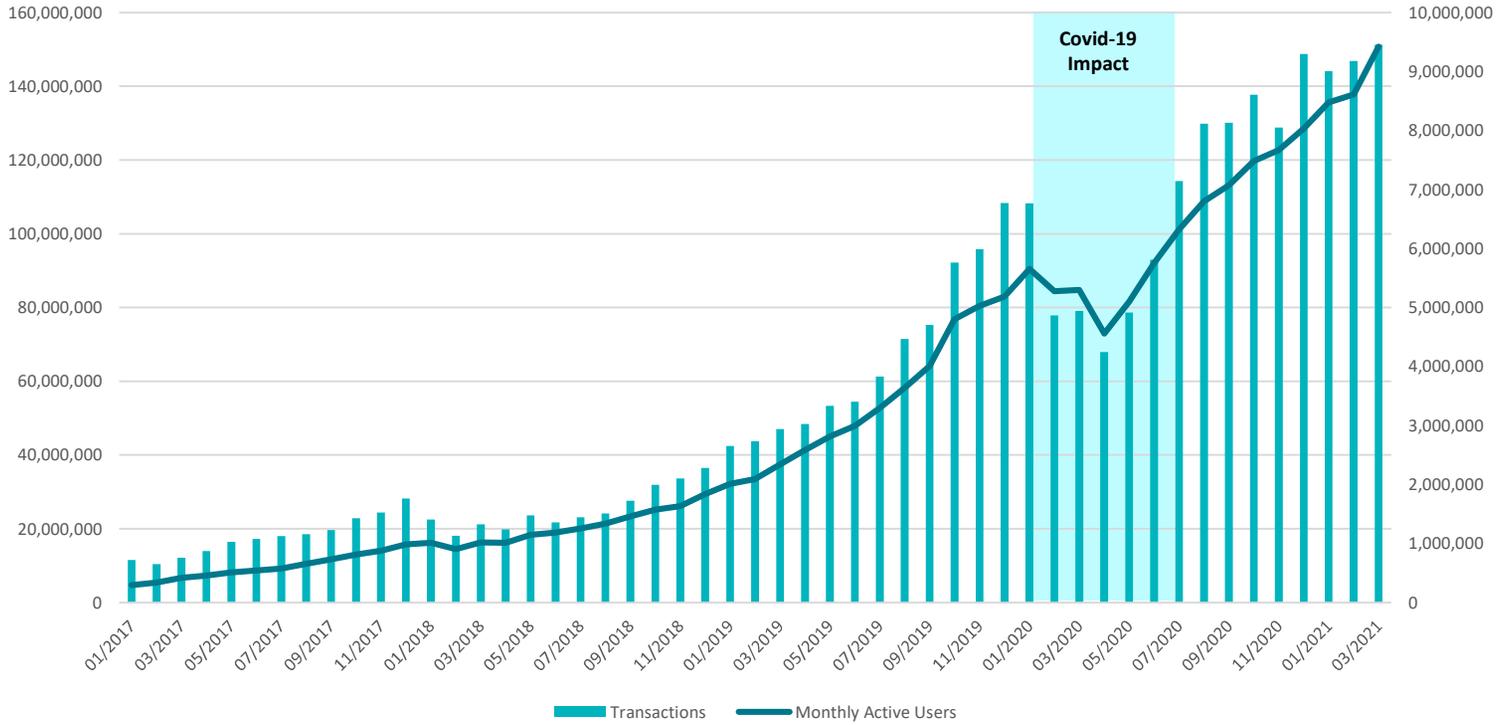
KPIs Indicate Sustainable Growth Potential



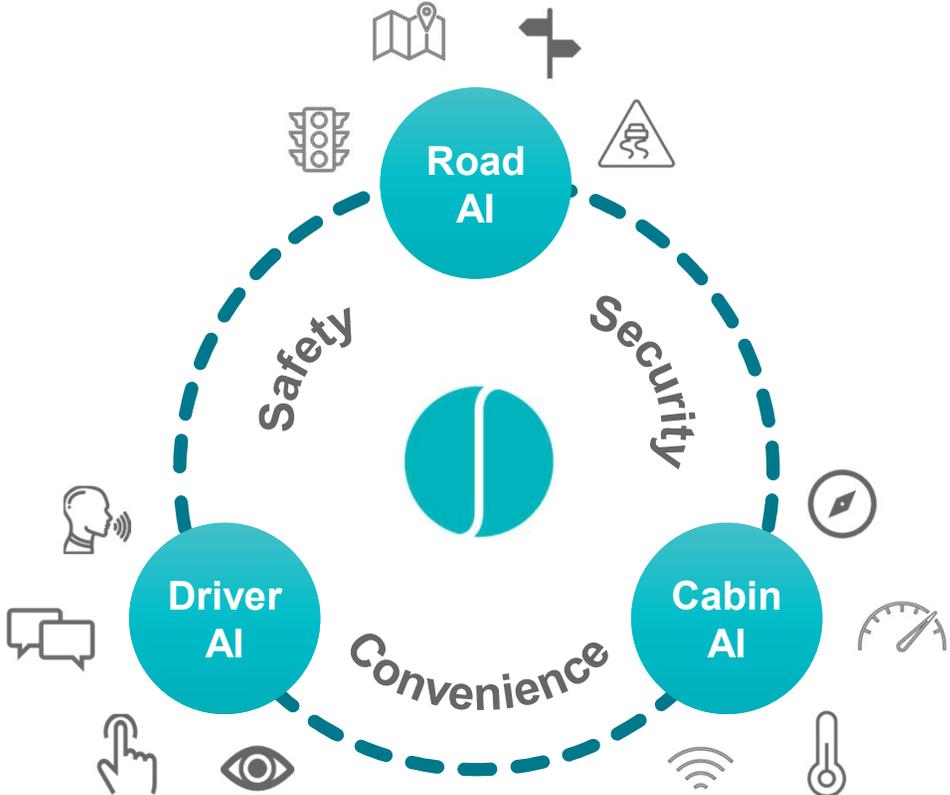
NOTE: Refer to the Appendix for more information on KPI definitions

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Adoption KPIs on a Strong Positive Trend



Cerence Long Term Strategic Direction



Financial Summary

Q2 Exceeded Street Guidance on All Key Financial Metrics

	Q2FY21 Actual Results	Q2FY21 Guidance	Q2FY20 Actual Results
Revenue	\$98.7M	\$92M - \$95M	\$86.8M
GAAP Gross Margin	73.4%	71% - 72%	66.9%
Non-GAAP Gross Margin ^(a)	77.0%	74% - 75%	70.2%
GAAP Operating Margin	17.6%	14% - 17%	14.2%
Non-GAAP Operating Margin ^(a)	37.6%	34% - 36%	31.3%
GAAP Net Income	\$11.2M	\$5M - \$6M	\$12.8M
Adjusted EBITDA ^(a)	\$39.3M	\$34M - \$37M	\$29.4M
Adjusted EBITDA Margin ^(a)	39.9%	36% - 38%	33.8%
GAAP EPS – diluted	\$0.28	\$0.12 - \$0.16	\$0.34
Non-GAAP EPS – diluted ^(a)	\$0.69	\$0.50 - \$0.55	\$0.44
CFFO	\$16.2M	n/a	(\$10.2M)

Footnote:

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

(b) Refer to the Appendix for more information on GAAP to non-GAAP reconciliations

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Strong License and New Connected Revenue Drive Growth

	Q2FY21	Q2FY20	YoY Growth
License:	\$54.4M	\$44.6M	↑ 22%
Variable	\$37.1M	\$28.2M	↑ 32%
Fixed (Prepay)	\$17.3M	\$16.4M	↑ 5%
Connected Services:	\$27.7M	\$23.5M	↑ 18%
Legacy	\$15.6M	\$15.4M	↑ 1%
New	\$12.1M	\$8.0M	↑ 51%
Professional Services	\$16.6M	\$18.7M	↓ (11%)
Total Revenue:	\$98.7M	\$86.8M	↑ 14%

Q3 Guidance Shows Strong Rebound from Last Year Trough

	Q3FY21		Q3FY20	YoY	
	Low	High	Actual	Growth	
Revenue	\$94M	\$97M	\$75.2M	↑	25% - 29%
GAAP Gross Margin	73%	73%	63.3%	↑	970bps
Non-GAAP Gross Margin ^(a)	76%	77%	68.9%	↑	710 – 810bps
GAAP Operating Margin	13%	16%	(5.7%)	↑	1870 – 2170bps
Non-GAAP Operating Margin ^(a)	34%	36%	28.7%	↑	530 – 730bps
GAAP Net Income	\$3.8M	\$5.2M	(\$28.1M)	↑	114% – 119%
Adjusted EBITDA ^(a)	\$34M	\$37M	\$24.1M	↑	41% - 54%
Adjusted EBITDA Margin ^(a)	36%	38%	32.1%	↑	390 – 590bps
GAAP EPS – diluted	\$0.10	\$0.13	(\$0.77)	↑	113% – 117%
Non-GAAP EPS – diluted ^(a)	\$0.52	\$0.57	\$0.33	↑	58% -73%

Footnote:

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

(b) Refer to the Appendix for more information on GAAP to non-GAAP reconciliations

Positive Update to FY21 Guidance

Second upward revision this year for revenue and profitability

	FY21 (New)		FY21 (Original)		FY20	YoY
	Low	High	Low	High	Actual	Growth
Revenue	\$380M	\$390M	\$360M	\$380M	\$331.0M	↑ 15 – 18%
GAAP Gross Margin	73%	73%	69%	71%	67.4%	↑ 560bps
Non-GAAP Gross Margin ^(a)	76%	77%	72%	74%	71.6%	↑ 440 – 540bps
GAAP Operating Margin	15%	17%	13%	16%	6.8%	↑ 820 – 1020bps
Non-GAAP Operating Margin ^(a)	35%	36%	31%	33%	32.3%	↑ 270 – 370bps
GAAP Net Income	\$35M	\$42M	\$18M	\$31M	(\$18.3M)	↑ 291% - 330%
Adjusted EBITDA ^(a)	\$143M	\$152M	\$122M	\$135M	\$116.2M	↑ 23% - 31%
Adjusted EBITDA Margin ^(a)	38%	39%	34%	36%	35.1%	↑ 290 – 390bps
GAAP EPS – diluted	\$0.90	\$1.08	\$0.50	\$0.79	(\$0.50)	↑ 280% - 316%
Non-GAAP EPS – diluted ^(a)	\$2.22	\$2.37	\$1.81	\$2.05	\$1.70	↑ 31% - 39%
CFFO	\$70M	\$74M	\$62M	\$70M	\$44.8M	↑ 56% - 65%

Footnote:

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

(b) Refer to the Appendix for more information on GAAP to non-GAAP reconciliations

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Thank You!

Appendix

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 months ended March 31, 2021 and 2020, 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.

Non-GAAP Financial Measures – Definitions

Restructuring and other costs, net.

Restructuring and other charges, 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 duplication facilities, and separation costs directly attributable to the Cerence business becoming a standalone public company.

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:

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.

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.

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.

Non-GAAP Financial Measures – Definitions

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.

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.

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 March 31, 2021, 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 calculated on a TTM basis.
- Growth in billings per car: The rate of growth calculated from the average billings per car based on a trailing twelve month comparison while excluding legacy contract and adjusted for prepay usage.

Q2FY21 Reconciliations of GAAP to non-GAAP Results

(unaudited - in thousands, except per share data)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2021	2020	2021	2020
GAAP revenue	\$ 98,662	\$ 86,823	\$ 192,305	\$ 164,528
GAAP gross profit	\$ 72,438	\$ 58,093	\$ 139,193	\$ 109,864
Stock-based compensation	1,645	621	3,237	1,844
Amortization of intangible assets	1,879	2,258	3,758	4,345
Non-GAAP gross profit	\$ 75,962	\$ 60,972	\$ 146,188	\$ 116,053
GAAP gross margin	73.4%	66.9%	72.4%	66.8%
Non-GAAP gross margin	77.0%	70.2%	76.0%	70.5%
GAAP operating income	\$ 17,343	\$ 12,334	\$ 34,887	\$ 10,483
Stock-based compensation	14,144	6,560	27,469	15,529
Amortization of intangible assets	5,062	5,383	10,099	10,601
Restructuring and other costs, net	537	2,870	1,017	10,424
Non-GAAP operating income	\$ 37,086	\$ 27,147	\$ 73,472	\$ 47,037
GAAP operating margin	17.6%	14.2%	18.1%	6.4%
Non-GAAP operating margin	37.6%	31.3%	38.2%	28.6%
GAAP net income	\$ 11,163	\$ 12,812	\$ 32,104	\$ 1,529
Stock-based compensation	14,144	6,560	27,469	15,529
Amortization of intangible assets	5,062	5,383	10,099	10,601
Restructuring and other costs, net	537	2,870	1,017	10,424
Depreciation	2,261	2,229	4,848	4,370
Total other income (expense), net	36	(6,229)	(5,982)	(12,892)
Provision for (benefit from) income taxes	6,216	(6,707)	(3,199)	(3,938)
Adjusted EBITDA	\$ 39,347	\$ 29,376	\$ 78,320	\$ 51,407
GAAP net income margin	11.3%	14.8%	16.7%	0.9%
Adjusted EBITDA margin	39.9%	33.8%	40.7%	31.2%

(unaudited - in thousands, except per share data)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2021	2020	2021	2020
GAAP net income	\$ 11,163	\$ 12,812	\$ 32,104	\$ 1,529
Stock-based compensation	14,144	6,560	27,469	15,529
Amortization of intangible assets	5,062	5,383	10,099	10,601
Restructuring and other costs, net	537	2,870	1,017	10,424
Non-cash interest expense	1,224	1,314	2,454	2,646
Adjustments to income tax expense	(3,051)	(12,543)	(20,467)	(13,813)
Non-GAAP net income	\$ 29,079	\$ 16,396	\$ 52,676	\$ 26,916
Adjusted EPS:				
GAAP Numerator:				
Net income attributed to common shareholders	\$ 11,163	\$ 12,812	\$ 32,104	\$ 1,529
Interest on Convertible Senior Notes, net of tax	-	-	3,614	-
Net income attributed to common shareholders - diluted	\$ 11,163	\$ 12,812	\$ 35,718	\$ 1,529
Non-GAAP Numerator:				
Net income attributed to common shareholders	\$ 29,079	\$ 16,396	\$ 52,676	\$ 26,916
Interest on Convertible Senior Notes, net of tax	978	-	1,977	-
Net income attributed to common shareholders - diluted	\$ 30,057	\$ 16,396	\$ 54,653	\$ 26,916
GAAP Denominator:				
Weighted-average common shares outstanding - basic	37,743	36,441	37,583	36,218
Adjustment for diluted shares	1,434	951	6,147	475
Weighted-average common shares outstanding - diluted	39,177	37,392	43,730	36,693
Non-GAAP Denominator:				
Weighted-average common shares outstanding - basic	37,743	36,441	37,583	36,218
Adjustment for diluted shares	6,111	951	6,147	475
Weighted-average common shares outstanding - diluted	43,854	37,392	43,730	36,693
GAAP net income per share - diluted	\$ 0.28	\$ 0.34	\$ 0.82	\$ 0.04
Non-GAAP net income per share - diluted	\$ 0.69	\$ 0.44	\$ 1.25	\$ 0.73
GAAP net cash provided by (used in) operating activities	\$ 16,200	\$ (10,191)	\$ 27,009	\$ (735)
Capital expenditures	(2,812)	(6,533)	(5,181)	(10,145)
Free Cash Flow	\$ 13,388	\$ (16,724)	\$ 21,828	\$ (10,880)

Calculation of Repeatable Revenue Software Contribution

(unaudited - in thousands)

	Q2FY21	Q1FY21	Q4FY20	Q3FY20
GAAP revenues	\$ 98,662	\$ 93,643	\$ 91,242	\$ 75,197
Less: Professional services revenue	16,555	21,299	19,457	17,360
Non-GAAP Repeatable revenues	\$ 82,107	\$ 72,344	\$ 71,785	\$ 57,837
GAAP revenues TTM	\$ 358,744			
Less: Professional services revenue TTM	74,671			
Non-GAAP Repeatable revenues TTM	\$ 284,073			
Repeatable software contribution				79%

Q3FY21 and FY21 Reconciliations of GAAP to non-GAAP Guidance

(unaudited - in thousands)

	Q3 2021		FY2021	
	Low	High	Low	High
GAAP revenue	\$ 94,000	\$ 97,000	\$ 380,000	\$ 390,000
GAAP gross profit	\$ 68,200	\$ 71,200	\$ 276,200	\$ 286,200
Stock-based compensation	1,500	1,500	6,200	6,200
Amortization of intangible assets	1,900	1,900	7,500	7,500
Non-GAAP gross profit	\$ 71,600	\$ 74,600	\$ 289,900	\$ 299,900
GAAP gross margin	73%	73%	73%	73%
Non-GAAP gross margin	76%	77%	76%	77%
GAAP operating income	\$ 12,500	\$ 15,500	\$ 57,200	\$ 66,200
Stock-based compensation	12,700	12,700	52,400	52,400
Amortization of intangible assets	5,100	5,100	20,200	20,200
Restructuring and other costs, net	1,200	1,200	3,100	3,100
Non-GAAP operating income	\$ 31,500	\$ 34,500	\$ 132,900	\$ 141,900
GAAP operating margin	13%	16%	15%	17%
Non-GAAP operating margin	34%	36%	35%	36%
GAAP net income	\$ 3,800	\$ 5,200	\$ 35,200	\$ 42,400
Stock-based compensation	12,700	12,700	52,400	52,400
Amortization of intangible assets	5,100	5,100	20,200	20,200
Restructuring and other costs, net	1,200	1,200	3,100	3,100
Depreciation	2,600	2,600	10,000	10,000
Total other income (expense), net	(3,500)	(3,500)	(13,100)	(13,100)
Provision for income taxes	5,100	6,700	8,800	10,600
Adjusted EBITDA	\$ 34,000	\$ 37,000	\$ 142,800	\$ 151,800
GAAP net income margin	4%	5%	9%	11%
Adjusted EBITDA margin	36%	38%	38%	39%

(unaudited - in thousands, except per share data)

	Q3 2021		FY2021	
	Low	High	Low	High
GAAP net income	\$ 3,800	\$ 5,200	\$ 35,200	\$ 42,400
Stock-based compensation	12,700	12,700	52,400	52,400
Amortization of intangibles	5,100	5,100	20,200	20,200
Restructuring and other costs, net	1,200	1,200	3,100	3,100
Non-cash interest expense	1,300	1,300	5,000	5,000
Adjustments to income tax expense	(2,200)	(1,400)	(22,300)	(22,800)
Non-GAAP net income	\$ 21,900	\$ 24,100	\$ 93,600	\$ 100,300
Adjusted EPS:				
GAAP Numerator:				
Net income attributed to common shareholders	\$ 3,800	\$ 5,200	\$ 35,200	\$ 42,400
Interest on Convertible Senior Notes, net of tax	-	-	-	-
Net income attributed to common shareholders - diluted	\$ 3,800	\$ 5,200	\$ 35,200	\$ 42,400
Non-GAAP Numerator:				
Net income attributed to common shareholders	\$ 21,900	\$ 24,100	\$ 93,600	\$ 100,300
Interest on Convertible Senior Notes, net of tax	1,000	1,000	4,000	4,000
Net income attributed to common shareholders - diluted	\$ 22,900	\$ 25,100	\$ 97,600	\$ 104,300
GAAP Denominator:				
Weighted-average common shares outstanding - basic	37,800	37,800	37,800	37,800
Adjustment for diluted shares	1,400	1,400	1,500	1,500
Weighted-average common shares outstanding - diluted	39,200	39,200	39,300	39,300
Non-GAAP Denominator:				
Weighted-average common shares outstanding - basic	37,800	37,800	37,800	37,800
Adjustment for diluted shares	6,100	6,100	6,200	6,200
Weighted-average common shares outstanding - diluted	43,900	43,900	44,000	44,000
GAAP net income per share - diluted	\$ 0.10	\$ 0.13	\$ 0.90	\$ 1.08
Non-GAAP net income per share - diluted	\$ 0.52	\$ 0.57	\$ 2.22	\$ 2.37