Q3FY20 Earnings Conference Call

Sanjay Dhawan, CEO
Mark Gallenberger, CFO

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AI for a World in Motion

Forward Looking Statements and Non-GAAP Financial Measures

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: 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 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; effects of customer defaults; 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, 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.

Innovation Engine at Full Throttle

- “Cerence Reader is quite breathtaking and will empower the next generation of our cars to interact with our customers on a whole new level.” *- Jan Dusik, Head of Development Speech Output at Audi*

- "I think voice AI is the future in technology and automotive.“ - *Nils Schanz, head of User Interaction Voice Control at Daimler*

- “Cerence Pay is a relevant module, making the travel experience that much simpler and safer through secure, voice-powered payments – a must in today’s world.” - *Andreas Reich, Executive Director, Development of Connected Car & Infotainment at Audi*

Groundbreaking Innovations from Cerence at Heart of Mercede’s MBUX

The Most Advanced and Intelligent Multimedia System

- Cerence Drive
- Biometry & First-Time UX (Adoption)
- In-Car Communication
- Emergency Vehicle Detection (EVD)
- WuW & Silent Dialog Continuation
- Cerence Text I/O Solutions
- Cerence Studio
- Multi-Seat Intelligence
- Cerence Look

Introducing Cerence Pay

Authentication

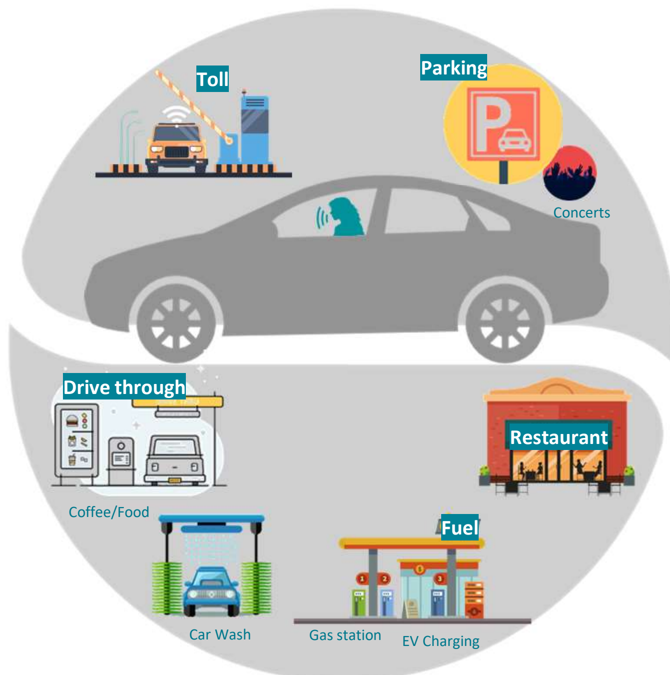
- Voice Biometry
- Facial Biometry

Integration

- Integration with head-unit and OEM companion App (push messages)

Embedded/Hybrid

- Embedded & cloud architecture for safe credential storage and linking



Innovation

- Pro-Active “Nudging” from existing domains (Navi etc.)

Agreements

- Service provider agreements with stakeholders

Experience

- UX expertise and insights into which use cases work, and how, where
- Speech/NLU/dialog domain(s) for the selected use cases

Simplified payment experience via speech

In-car commerce with extended partnerships

Cerence Delivers Strong Q3 Results Despite Impact of Covid-19

$74.8M
Revenue

28.4%
Non-GAAP Operating Margin

$23.8M
AEBITDA

$0.31
Non-GAAP EPS

Team focus leads to solid Q3 results

Second highest bookings quarter in company history

Fast pace of new product innovations

KPIs Indicate Long Term Growth Potential

	Q3FY20	Q2FY20	Q1FY20	Q4FY19	Q3FY19
% of worldwide Auto production with Cerence Technology (TTM)	54%	55%	53%	54%	53%
Average Contract Duration (TTM)	6.2	5.7	4.9	5.1	5.2

80+%

Repeatable Software Revenue Contribution (TTM)

-3%

Change in Number of Cerence Cloud Connected Cars Shipped (TTM over prior year TTM)

(change in connected cars for the same period according to IHS data is -6%)

7%

Growth in Billing / Car YTD vs. Prior Year (excludes legacy contract)

$1.36B

Backlog at start of FY20

$533M

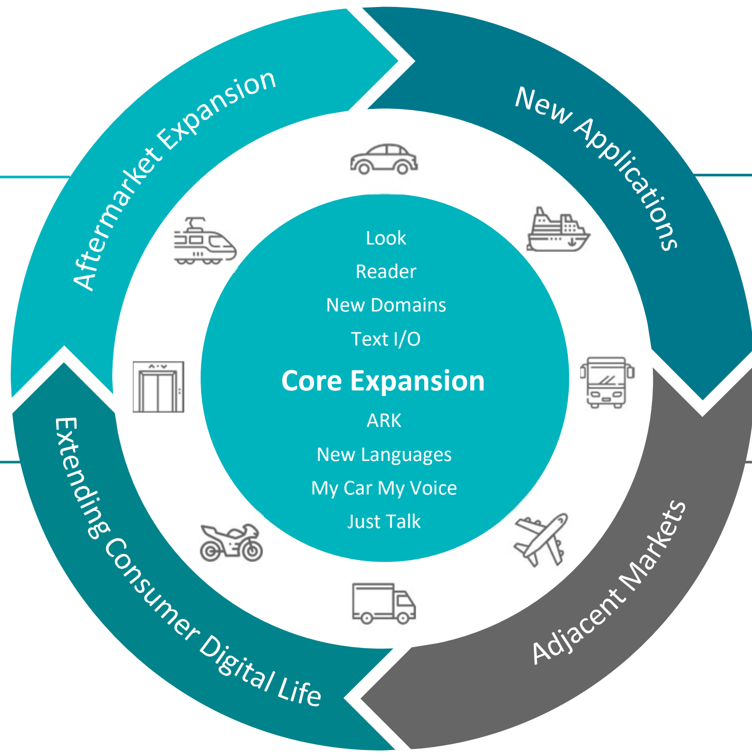
First half FY20 bookings

Strategic Plans Align With Emerging Trends

Aftermarket Expansion

Extending Consumer Digital Life

Cerence Cognitive Arbitrator



New Applications

Cerence Pay
Cerence Car Life

Adjacent Markets

Two Wheelers
Cruise
Fleets
Trains
Public Transit
Elevators

Financial Summary

Business Update for COVID-19 Impact

- All offices have technically reopened except 4 locations
- Global occupancy at ~25% and we do not expect that to change until government guidance on work from home changes (i.e., a vaccine or pandemic slows)
- China is near full capacity (~15% of global workforce)
- Lowering of planned capex spend from $35M to $27M on track
- $6M of expense reduction in Q3 achieved

Strong Connected and Professional Services Growth Offset License Softness

$ in millions	Q3FY20	Q3FY19	YoY
License:	**$32.5M**	**$44.0M**	**-26%**
Variable	$18.3M	$32.8M	-44%
Prepay	$14.2M	$11.1M	+28%
Connected Services:	**$25.0M**	**$19.7M**	**+27%**
Legacy	$15.6M	$14.8M	+5%
New	$9.5M	$4.9M	+94%
Professional Services	**$17.4M**	**$13.9M**	**+25%**
Total Revenue:	**$74.8M**	**$77.6M**	**-4%**

Q3 Delivers Solid Results Despite Challenging Environment

	Q3FY20
GAAP Revenue	$74.8M
Non-GAAP GM %[(a)]	68.7%
Non-GAAP Operating Margin%[(a)]	28.4%
Adjusted EBITDA[(a)]	$23.8M
CFFO	$19.3M
FCF	$13.4
Non-GAAP EPS	$0.31

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

Solid Balance Sheet Metrics

$ in millions	As of June 30, 2020
Cash & Equivalents	**$132.8M**
Intra Quarter Cash Requirements	**$25-30M**
Debt (Convert Note + Term Loan A)	**$300M**
Secured Leverage Ratio*	**0.7x**

* Secured Leverage ratio calculation defined as (Total Secured Debt minus $50M of unrestricted cash)/(Trailing 12-month Adjusted EBITDA)

Q4 FY20 Guidance

$ in millions except per share data	Q4 FY20	
	Low	High
GAAP Revenue	$76M	$80M
Non-GAAP GM %[a]	68%	70%
Non-GAAP Operating Margin%[a]	27%	29%
Adjusted EBITDA[a]	$23M	$26M
Adjusted EBITDA Margin [a]	30%	32%
Non-GAAP EPS	$0.30	$0.35

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

Thank You!

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.

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 and nine months ended June 30, 2020 and 2019, 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 Market car sales data.
- Average contract duration: The weighted average 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.
- Repeatable software contribution: The percentage of repeatable revenues as compared to total GAAP revenue in the quarter. 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 YTD vs. prior year: The rate of growth calculated from the average billings per car on a year to date basis as compared to the prior fiscal year excluding legacy contract.

Q3FY20 Reconciliations of GAAP to non-GAAP Results

(unaudited - in thousands, except per share data)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
GAAP revenue	$ 74,810	$ 77,569	$ 238,764	$ 220,357
GAAP gross profit	$ 47,207	$ 53,894	$ 156,497	$ 148,031
Stock-based compensation	2,141	327	3,985	1,460
Amortization of intangible assets	2,063	1,979	6,408	6,175
Non-GAAP gross profit	$ 51,411	$ 56,200	$ 166,890	$ 155,666
GAAP gross margin	63.1%	69.5%	65.5%	67.2%
Non-GAAP gross margin	68.7%	72.5%	69.9%	70.6%
GAAP operating (loss) income	$ (4,696)	$ 3,261	$ 5,213	$ 6,238
Amortization of intangible assets	5,183	5,111	15,784	15,571
Stock-based compensation	17,425	7,828	32,954	21,195
Restructuring and other costs, net	3,301	9,691	13,725	17,147
Acquisition-related costs	-	366	-	783
Non-GAAP operating income	$ 21,213	$ 26,258	$ 67,676	$ 60,935
GAAP operating margin	-6.3%	4.2%	2.2%	2.8%
Non-GAAP operating margin	28.4%	33.9%	28.3%	27.7%
GAAP net (loss) income	$ (28,181)	$ 1,770	$ (27,448)	$ 4,479
Total other income (expense), net	(25,954)	(150)	(38,846)	100
(Benefit from) provision for income taxes	(2,469)	1,341	(6,185)	1,859
Depreciation	2,540	1,837	6,905	5,950
Amortization of intangible assets	5,183	5,111	15,784	15,571
Stock-based compensation	17,425	7,828	32,954	21,195
Restructuring and other costs, net	3,301	9,691	13,725	17,147
Acquisition-related costs	-	366	-	783
Adjusted EBITDA	$ 23,753	$ 28,095	$ 74,581	$ 66,885
GAAP net income margin	-37.7%	2.3%	-11.5%	2.0%
Adjusted EBITDA margin	31.8%	36.2%	31.2%	30.4%

(unaudited - in thousands, except per share data)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
GAAP net (loss) income	$ (28,181)	$ 1,770	$ (27,448)	$ 4,479
Amortization of intangible assets	5,183	5,111	15,784	15,571
Stock-based compensation	17,425	7,828	32,954	21,195
Restructuring and other costs, net	3,301	9,691	13,725	17,147
Acquisition-related costs	-	366	-	783
Non-cash interest expense	1,379	-	4,025	-
Loss on debt extinguishment	19,279	-	19,279	-
Income tax impact of Non-GAAP adjustments	(6,252)	(5,839)	(19,701)	(15,451)
Non-GAAP net income	$ 12,134	$ 18,928	$ 38,618	$ 43,725
Weighted-average common shares outstanding - basic	36,509	36,391	36,315	36,391
Weighted-average common shares outstanding - diluted	39,556	36,391	37,649	36,391
GAAP net (loss) income per share - diluted	$ (0.77)	$ 0.05	$ (0.76)	$ 0.12
Non-GAAP net income per share - diluted	$ 0.31	$ 0.52	$ 1.03	$ 1.20
GAAP net cash provided by operating activities	$ 19,312	$ 26,408	$ 18,577	$ 68,659
Capital expenditures	(5,930)	(396)	(16,075)	(2,868)
Free Cash Flow	$ 13,382	$ 26,012	$ 2,502	$ 65,791

	Q3FY20 (ASC 606)	Q2FY20 (ASC 606)	Q1FY20 (ASC 606)	Q4FY19 (ASC 606)	Q3FY19 (ASC 606)	Q2FY19 (ASC 606)	Q1FY19 (ASC 606)	Q4FY18 (ASC 605)
GAAP revenues	$ 74,810	$ 86,495	$ 77,459	$ 82,957	$ 77,569	$ 70,304	$ 72,484	$ 75,356
Less: Professional services revenue	17,360	18,742	13,671	15,006	13,891	12,122	11,227	11,403
Non-GAAP Repeatable revenues	$ 57,450	$ 67,753	$ 63,788	$ 67,951	$ 63,678	$ 58,182	$ 61,257	$ 63,953
GAAP revenues TTM	$321,721	$324,480	$308,289	$303,314	$295,713			
Less: Professional services revenue TTM	64,779	61,310	54,690	52,246	48,643			
Non-GAAP Repeatable revenues TTM	$256,942	$263,170	$253,599	$251,068	$247,070			
Repeatable software contribution	80%	81%	82%	83%	84%			

Q4FY20 Reconciliations of GAAP to non-GAAP Guidance

(unaudited - in thousands)

	Q4 2020	
	Low	High
GAAP revenue	$ 76,000	$ 80,000
GAAP gross profit	$ 48,050	$ 52,050
Stock-based compensation	1,800	1,800
Amortization of intangible assets	1,900	1,900
Non-GAAP gross profit	$ 51,750	$ 55,750
GAAP gross margin	63%	65%
Non-GAAP gross margin	68%	70%
GAAP operating (loss) income	$ (200)	$ 2,700
Amortization of intangible assets	5,000	5,000
Stock-based compensation	15,100	15,100
Restructuring and other costs, net	500	500
Acquisition-related costs	-	-
Non-GAAP operating income	$ 20,400	$ 23,300
GAAP operating margin	0%	3%
Non-GAAP operating margin	27%	29%
GAAP net loss	$ (3,755)	$ (855)
Total other income (expense), net	(3,700)	(3,700)
Benefit from income taxes	(195)	(195)
Depreciation	2,600	2,600
Amortization of intangible assets	5,000	5,000
Stock-based compensation	15,100	15,100
Restructuring and other costs, net	500	500
Acquisition-related costs	-	-
Adjusted EBITDA	$ 22,950	$ 25,850
GAAP net income margin	-5%	-1%
Adjusted EBITDA margin	30%	32%

(unaudited - in thousands, except per share data)

	Q4 2020	
	Low	High
GAAP net loss	$ (3,755)	$ (855)
Amortization of intangible assets	5,000	5,000
Stock-based compensation	15,100	15,100
Restructuring and other costs, net	500	500
Acquisition-related costs	-	-
Non-cash interest expense	1,300	1,300
Income tax impact of Non-GAAP adjustments	(4,800)	(5,500)
Non-GAAP net income	$ 13,345	$ 15,545
Weighted-average common shares outstanding - basic	36,879	36,879
Weighted-average common shares outstanding - diluted	43,908	43,908
GAAP net loss per share - diluted	$ (0.09)	$ (0.02)
Non-GAAP net income per share - diluted	$ 0.30	$ 0.35