MICHAEL CHERNY: Good afternoon, everyone. Thanks for joining us for this session at the BofA Securities Virtual Health Care Conference. My name’s Michael Cherny. I'm the health care technology distribution analyst. It's my pleasure to have with us, Nuance Communications.

We have Dan Tempesta, who is the CFO, and Peter Durlach, who is the senior vice president of Health Strategy & New Business Development. And I think you have a whole bunch of other responsibilities on your plate that come with those titles. And then Tracy Krumme, who heads up IR for the company. We're going to have a nice little hopefully casual fireside chat here with the virtual fire that we can imagine.

But so maybe, Dan, I guess just to kick things off, Nuance, especially, given some recent corporate actions, it's been much more of the focus of health care investing in the health care community. Can you maybe just for anyone who's not familiar, give a quick overview of what Nuance does?

DAN TEMPESTA: Sure, sure. Thanks, Michael. And by the way, thanks for having us. We really appreciate it. So Nuance is a leader in speech recognition natural language understanding and conversational AI technology solutions. So today, our revenues are around $1.5 billion. And we're really made up of two businesses. The first is, we have a $1 billion health care business. That business creates workflow and AI solutions for clinical documentation. Those products are used by doctors and radiologists. That business is really a cloud-first approach historically and on premise business moving to the cloud. Of that billion by the end of this year, you should think of us having around a $350 million cloud subscription business.

That business creates workflow and AI solutions for clinical documentation. Those products are used by doctors and radiologists. That business is really a cloud-first approach historically and on premise business moving to the cloud. Of that billion by the end of this year, you should think of us having around a $350 million cloud subscription business.

A big, big thing that we track is our recurring revenue, so really moving that business to the cloud. Enterprise is the second division. That's around a $500 million revenue business. In here, we use our technologies to work with the largest companies in the world that have millions of customers to automate their customer engagement in their customer care. So historically this has been sort of, think of the automation through a phone call, a voice call in a virtual attendant.

But more and more, that business is now very focused on digital engagement with consumers interacting with large companies through the web, through mobile interaction and chat. And we also have a really exciting and growing security and biometrics set of offerings there as well. So those are products that can be deployed either in the cloud or on premise.

Health care and enterprise-- two very strong growing markets. And we have a great market position in each. In health care, over 90% of the US hospitals are using our products. So think about more than half of the US doctors are customers. And 80% of US radiologists are customers as well. And then in the enterprise space, say, 85% or more of the Fortune 100 companies are customers.
And we really focus on the high end. They're building large integrated systems for customer care. So 8,000 employees in our company with a real focus on AI innovation with 1,500 engineers, 1,000 professional services people, 3,000 patents. AI is really in our core.

MICHAEL CHERNY: That's great. And I guess to put it and take it a step further, the last couple of years, I know there's been a significant amount of transformation across the entire organization. Can you talk a little bit about what you've accomplished so far, maybe the checkmarks that have been put on the corporate scorecard? And then relative to what you want to accomplish for your long-term strategy, where are you in that planning?

DAN TEMPESTA: Absolutely. So let me give a little bit of history. So Nuance has been around for around 20 years. During that time, it was very acquisitive. And up until around two years ago, we had five divisions. And because we were so diversified, we really struggled to drive organic growth.

So two years ago, Mark Benjamin joined as our new CEO. And he really looked at the strategy with fresh eyes. And his first and foremost priority was to focus on the highest growth opportunities. And in order to do that, we had to simplify the company. So we had several divestitures. We started to wind down some non-core businesses.

We just recently, as of October 1, spun off our automotive business into a public company traded on Nasdaq. So we really shrunk the company from $2 billion to $1.5 to get down to the two divisions that we have right now. We've improved governance. We did a board refresh. And we've been really focused on capital allocation during that period of time, paying down both debt and buying back stock.

So today, we're a much smaller, more simplified company, very well-positioned for growth. Strategically to get that growth, we're really focused in call it five areas. Number one, we're expanding our key international markets. We think we can double our TAM from doctors in the US (which are around a million) with picking the right countries in Europe and Australia to double that to another million docs.

The second is expanding down market our products into community hospitals and ambulatory settings. Right now, we're very focused in the acute space. But we're expanding our sales force into those down-market opportunities. Number three, as I mentioned, moving our health care products to the cloud and getting that recurring revenue business.

Fourth is putting new AI that sits on top of these cloud platforms to make our products even better and that much more intelligent. And then lastly, the other big growth and investment area strategically is in a new product called DAX, which is called Dragon Ambient Experience. This is where the technology is listening to the patient and doctor encounter in writing the clinical note real time. So, very exciting. And we can get into that a little bit more. Pete can certainly talk about those areas.

MICHAEL CHERNY: Yeah, I'm going to save that for a little bit later. I want to make sure we're funneling down as much as possible. So, you talked about having a billion-dollar health care
business. You talked about your cloud transition-- leader in speech recognition. Can you talk a little bit about why that's important in health care and specifically what differentiates your solutions from some of the competition, both technological, as well as also just, I would say, human manpower?

PETER DURLACH: Yeah, thanks. This is Pete. I'll take that. Again, thanks for the time. So really, it's great to be here and talk to health care folks. As Dan mentioned, we have a significant client footprint, and the value of that, is we sit in what we call the clinical revenue cycle. So, this is the intersection of where delivery of clinical care meets how health providers get paid and measured.

And so as many of you know, you don't get paid for what you do in health care. You get paid for what you document you do. So, we sit at the intersection of how to make clinical teams more effective and efficient while also driving appropriate and optimal reimbursement for kind of disease management, acuity, quality, et cetera.

And so the way we do that is we have three product lines that - think of them all as platforms that we build upon - Dan talked a little bit about this - that deal with slightly different parts of that problem. So let me start first with our core clinical documentation business. And this is led by a product called Dragon Medical One that Dan referred to, which is our lead cloud product in that arena. And that product alone has about 550,000 physicians that use it.

So, this product is used in workflow inside the EHR in real time to document an encounter. And as many of you know, one of the existential issues in health is clinician burnout. On average, 50% of all docs are burned out, and physicians spend twice as much time dealing with administrative burdens as they do seeing patients. And clearly this is bad for physicians. But also, it's bad for patient throughput in terms of driving more volume.

So Dragon allows you to basically cut a couple hours of time a day away from this administrative time and focus on accurately producing a high quality document and note. And on top of that, we add this next generation of computer-assisted physician documentation, where we use AI to look at the chart and say, does this accurately represent what's going on with the patient or whether it's correctly documented.

And that drives significant revenue capture. So that's the first platform that we have. As Dan mentioned, our big growth initiatives there are around taking Dragon into new markets internationally and down market, taking it to the cloud, and adding these CAPD solutions that I just mentioned. The other big piece of this is just within that product line itself, we're expanding the Dragon Medical Cloud TAM from about $600 million to $2.6 billion through international expansion and the addition of CAPD solutions, which will also allow us to capture more ARR.

And to wrap up on this on the Dragon side competitively, the system just outperforms everyone else. It's faster. It's more accurate. It deeply integrates the workflow of EHR that they use. So that's our Dragon platform. The second big platform that we have is our diagnostics business led by a product called PowerScribe. This is used by 80% of the radiologists in the US.
So they use it to produce their documentation, which, again, is the output of their profession and how they get paid and how they deliver value to other clinical teams. And that product, again, like Dragon, we just launched PowerScribe One, which is, we're in the middle of this cloud transition for that - early on in that journey as part of that platform transition.

And we also have a whole set of surrounding applications around image sharing, workflow analytics, et cetera, on top of that that drive incremental value on top of that platform, much like CAPD does on the Dragon side. And then the third pillar of the health business, again, a platform is our CDI business. This is clinical documentation improvement. This is technology that sits in the workflow for coders and CDI specialists to make sure the documentation accurately reflects the care delivered to get paid properly. And all your quality scores are properly reflected in all the public scorecards.

So this product, again, we're taking a legacy on premise to the cloud and then infusing this with AI. So effectively, the way we differentiate against, in addition to Dragon, all of these - our products just produce superior outcomes, whether it's physician time, revenue uplift, cost reduction. And we stand head to toe with any competitor in that space. And clients buy us for the outcomes that we deliver across that customer base.

MICHAEL CHERNY: And maybe just to get a better understanding of Dragon Medical. Is the way to think about this as essentially like the central hub that filters out and builds upon all these other solutions and services that you have? I guess maybe just to make sure I understand it right- does PowerScribe not exist without Dragon Medical already being a core functionality?

PETER DURLACH: Not exactly. Think of us as, in the health care division, we are a B2B provider, offering AI-driven clinical documentation and decision support solutions to the health care market. And at the low level, we have this incredible speech technology that underpins Dragon Medical, PowerScribe and all our speech products. And the engine that is in there is called Dragon.

So the actual core engine is called Dragon. But then it manifests itself in different applications, one of which is called Dragon Medical, the namesake product. But also PowerScribe and other products also use that same engine. So from a speech core technology, it's the central technology enabler. But Dragon Medical, the product, think of that really as a platform.

Effectively what you have is you have almost 600,000 physicians in the US alone that are connected to our cloud, deeply embedded in Epic, Cerner, Meditech, Athena, and all the other EHRs. And so it's basically a virtual assistant for all these clinicians to help them complete their documentation. And then over time, we just insert more intelligence on top of that speech dial tone such as the computer-assisted physician documentation.

So you're not only dictating or transcribing what the position's saying, you're saying, hey, based on the clinical information that's in the patient chart, it looks like this patient actually has a more significant disease, or you haven't properly documented this. Is this something you should consider? And that then manifests itself in millions of extra dollars for the health care institution,
because every physician in the US pretty much and every organization under-documents how sick their patients are. And they leave millions of dollars on the table.

And especially with COVID now, as all the hospitals look to their revenue recovery period, they just can't afford to leave money on the table. So it's not just making it faster for the docs, it's making it more complete and generating incremental revenue that they should have captured before.

MICHAEL CHERNY: And maybe just having mentioned PowerScribe, can you just talk about how the launch has gone, and what some of the early use case and feedback is from the market?

PETER DURLACH: Yeah, so let me just talk about radiology in general. So as I mentioned and Dan mentioned before, the anchor product here is a product called PowerScribe. It's a long tradition. That product came out in the early ’90s and has the highest market share of any product that we have. Actually it's close to 80% of all radiologists use PowerScribe to produce their report. So it just is incredibly high-performing solution.

So what we've done is we've built on that platform. And much like Dragon as a platform-- Dragon Medical-- PowerScribe's a platform. So we've done two things. We've taken that to the cloud to build our cloud recurring revenue model with a product called PowerScribe One. So that's the cloud equivalent of PowerScribe just like Dragon Medical One is the cloud equivalent of Dragon. And we're seeing tremendous uptick in that solution today.

We're getting very good traction on that because, again, much like the Dragon Medical One, conversion was very rapid. We went from zero users to 400,000 in four years. The value of the cloud product is just much more significant in terms of functionality, cost, and performance. But in addition to just taking the core product to the cloud, the other exciting part is we've surrounded that with a set of other applications that are really important to radiologists.

This has to do with analytics, image sharing, workflow orchestration, and some other AI tools. So in addition to flipping the client from an on-premise to a cloud conversion and getting the same 2 to 2 and 1/2 times economics that we did with Dragon Medical One when we took that product from on premise to cloud, we also have all these add-on applications that we can sell back into the base using PowerScribe One as the platform for that. So super excited about that product, and, again, very early good early results.

MICHAEL CHERNY: And maybe talk a little on CDE One, as well, just to make sure we're wrapping up the whole product portfolio.

PETER DURLACH: Sure, perfect. Same theme here. I go back to the top. Underneath health care, there are these three major growth solution pillars-- Dragon Medical One, PowerScribe One, and CDE One. So CDE One, same playbook-- taking an on-premise solution, infusing it with AI, taking it to the cloud and then adding technology around it.

So CDE One competes directly with folks like 3M, for their CDI and coding workforce to use to drive outcomes. And we've seen very good results from this. And what this product does is, it
uses AI to look through the entire patient chart and automatically surface up opportunities where
they've under-documented to drive revenue, quality, and patient safety.

And we're seeing clients that are generating $20, $30, $40, $50 million of appropriate
reimbursement capture per year by just having this technology in place. And, again, both
radiology and CDE One are extremely early in these cloud transitions. We've converted less than
5% of the cloud opportunity for that and even in Dragon, although we've done a good job in the
US, as Dan mentioned, we have driven significant growth in international.

So overall, we've only captured 20% of the cloud conversion opportunity in DMO and less than
5% in radiology in CDE One. So think of these as part of this transformation about going from
on premise to cloud and then building applications around these core platforms.

MICHAEL CHERNY: And then let's talk a little bit about the DAX platform. It's seems really
interesting, unique. And I could also imagine that given an incredible hyperfocus right now on
patient safety and on patient cleanliness and whatnot that this could have even further
incremental use cases. Can you maybe give a little sense on how the launch has gone, and what's
some of the feedback that you're getting from the field?

PETER DURLACH: Yeah, super happy. It's early still. So we don't want to get ahead of
ourselves. And, as many of you know, we haven't put into guidance around this product. But this
is one of the, if not the most exciting new product we've launched in a long time, because it
really gets at the heart of this clinician burnout problem, which is they just want to see patients
and have the software do the res... And that's basically what DAX to a large extent allows us to
do.

So we did launch that in February. We had a number of early clients. The results so far have
been quite good. A couple of quick metrics: on average, clinicians are 88% more are happier
with their day in their clinical documentation with DAX than without. They're seeing
approximately 15% to 20% more patients during a day with DAX. And they've reduced their
clinical documentation time, this administrative burden that drives them nuts, by between 50%
and 75% based on the client.

So we are aggressively rolling this out across multiple specialties. We've got eight today. And we
have a plan to increase that to 30 over the next couple of years, as we move forward. We have
tremendous interest in this. In a weird way, COVID's accelerated the interest for two reasons.
One is, as I mentioned before, clinicians were burned out going into COVID. Now, they're
completely fried.

And so tools to enable them to have some sanity are really important. And secondly, every client
is looking for revenue recovery. And DAX, by driving more.. enabling providers to see more
patients and helping them produce more accurate notes, is absolutely directly connected to
increasing their revenue. And the last thing that we've seen is this pitch, this move towards
telehealth, which you all know has exploded.
We've announced DAX support for telehealth. So you can now use DAX with any of the telehealth applications to basically create the note as a result of that telehealth business. And the last thing I'll mention on this is we announced in October of last year, we've done a strategic partnership with Microsoft to fold an effort that they had in this arena together with us.

They're working exclusively with us to support us. And DAX basically merged an engineering team with us. And they are also pushing us from a go-to market. So we're starting to see significant synergy with Microsoft, both on the technical front and on the go-to market front. So, again, it's early. We've got a lot to prove in the space. But the early feedback’s been very good.

MICHAEL CHERNY: Yeah, if we can look to pivot a little bit. We spent a lot of time talking about the health care offering. Clearly that's 2/3 of the revenue following the automotive spin-off. The enterprise side, I believe, has had some evolution over the years as well. Can you talk a little bit and give a little bit more flavor of what some of the use cases are for your enterprise-based technology? And then also from an end-market perspective, where are the key upside, downside trends you see?

DAN TEMPESTA: Sure, sure. So, as we talked about a little bit before, enterprise does serve that very large company base. And what they do is they provide channels into these customers and millions and millions of customers themselves and these channels into the large companies provide support. So that could be voice calls, web chats, mobile application, messaging.

There's a whole host of ways customers and consumers engage with large companies. So first, it's a really transactionally-intensive type of a business. To give you some perspective, last year, we had around 31 billion customer transactions running through our platforms. And almost half of those are now running through that digital platform that I mentioned.

So historically, we really were just providing the voice IVR. That's where the roots of the company were for many years. And that business today is mature. There are less phone calls, if you will, coming into large organizations. A lot of times, people would much rather engage over the web on a mobile app in a whole host of other digital means.

So we're seeing that growth. And that's where we're investing. So these digital offerings, like, providing automation to chat environments or security and biometrics-- think of a financial institution using voice biometrics for fraud detection. That's really where we see the growth and where we're putting our investment dollars.

So this year, we refer to the digital engagement and security & biometrics. We call that intelligent engagement. And that makes up about 45% of our enterprise revenue. We predict and expect in the next three years that that will grow from 45% to 55% while maintaining a very nice mature voice business as well. So that's where the broader ends are pushing the market-- more digital solutions. And that's where we're investing, to just keep on driving that customer engagement.

MICHAEL CHERNY: It wouldn't be a call at this conference without discussing COVID and COVID outbreak. Can you give us a little bit more flavor about how COVID's impacted the
Nuance business, some of the discussions you're having with your customers about ways it's impacting their business and how Nuance can help. And then also, how do you think about the medium-term impact on the rolling reopening and what it means for your organization?

DAN TEMPESTA: Sure, this is Dan. Let me start with some financial information and what we saw in Q2 and then to Q3. And then Pete will definitely go a little bit deeper on the opportunities that we see, actually. So we just finished Q2. And our performance was really strong. Our March quarter is our second quarter. And those results were basically unaffected by COVID.

When you look at enterprise, during March, we actually saw increased volumes in those industries, like I mentioned, with financial services and telecommunications. We saw increased travel through transactions due to cancellations. But then going into April, we started seeing travel decline, because, of course, there are much less new reservations being booked.

So when we look at enterprise, it's very strong and robust right now. It's a really sturdy business. And there are pluses and minuses. But it's doing very well in this time, not really much adjustment--very excited about some of those leading industries. In health care, it's been a little bit more pronounced, of course.

So in March, we have insight into transactions that are flowing through the hospital, whether it be through our transcription engines, or we can see radiology reports being generated. Some of these have a direct correlation to revenue. But just to give you some insight, which isn't necessarily revenue-driven, but insight into the hospital, here's what we saw.

We started to see a decline in March. And between the middle of March to the middle of April, we saw volume lows in our transcription business. So there were less lines being transcribed from normal levels--call it--50% of normal levels when we hit the middle of April. And then for radiology reports running through our systems, those were down 55% off of normal levels, again, in the middle of April.

Since then, we've really seen an uptick in, say, the last four weeks. So from those lows, both of these business are now, really, we're seeing them off only 35% from those normal levels. So, again, not a one-to-one correlation to revenue, but just some insight into the activities within a hospital. So there is an uptick. Of course, that relates to elective procedures and coming back in different parts of the country.

We're also seeing a slowing of deals being converted into bookings, not energy around the deals or momentum and interest, but just slowing of conversion into a booking. We're seeing some of that. That's reflected in our guidance, as well as deferring certain professional services that a hospital may have deprioritized right now while they're focused on other items.

So big picture for us financially. We really do see this as a short-term impact on the business. We continue to feel very good. And we reiterated our mid-term guidance. So we feel good about mid and long-term where we are. I'll let Pete address any other things he's seeing.
PETER DURLACH: Yeah, I mean, just real quick to wrap up, I agree with Dan. I think we're in a weird sort of way, even though COVID's been horrendous on many levels, we're actually feeling more confident about the business. Again, there's some unpredictability in the short term. And it's really due to a couple of things I mentioned earlier.

Hospitals before COVID could only focus on a few things. After COVID, they could certainly only focus on a few things. And two of those things directly relate to our core business, which is revenue recovery and supporting their clinical teams that are burned out. And those things are intertwined. And our ability to help clinicians see more patients and survive the day and between all of our products, generate more revenue for the client, even see a single more patient, are what they have to focus on besides PPE and ventilators and things like that.

So we're already starting to see acceleration in some deals where they have to get this stuff deployed or expanded just to get their revenues back as close to where they were before as possible. I think there'll be some choppiness as reflected in our guide basis. But we feel very good about where things are going.

MICHAEL CHERNY: And I guess we're coming close to the end. One other thing I want to make sure we don't forget about is capital allocation. From where I sit, you have a pretty strong cash balance, historically, the practice of purchasing your stock, delevering the company. Has anything changed either on a short-term basis tied to the uncertainty that COVID has brought across the entire market or a long-term basis now that you’ve spun off automotive about how you think about prioritizing capital allocation?

DAN TEMPESTA: It's a great question. We have been very balanced recently the last, like I said, a couple of years on our approach to capital. And we have been, as we've been getting smaller, we've been buying back or repurchasing and settling our debt and repurchasing our common stock. And that's really where we've been using our capital.

We continued to even do that into the second quarter and until COVID hit at which time we put a pause in all that, of course. I think, like most companies, we've decided that liquidity prudence is really where you should focus and balance sheet prudence at this time. There is uncertainty. We need to watch it carefully.

Because of that and out of just the abundance of caution, we drew down our revolver. So we put $230 million of extra cash on our balance sheet. So right now we have almost $530 million of cash. We're in a very comfortable cash position to manage through some of this period of uncertainty. We do think that our health care DSOs will, of course, increase during this period of time, as hospitals have to use their cash wisely.

We do think that all of this is temporary, and we’re feeling very good about our liquidity position. And then once this period is behind us, of course, the next plan would be to pay that revolver down and then probably get right back when times are less volatile to our historical methodologies around capital allocation.
MICHAEL CHERNY: And last question to wrap up, as you think about what COVID has inflicted on your customer base, what do you see as the long-term implications of the COVID outbreak? And does it change anything that you plan to address or strategic priorities for your organization?

PETER DURLACH: Yeah, I'll just talk about health care real quick if Dan wants. I don't know. I think we touched in my last response how we see things. The only thing I'll just double-click on here in addition to their focus on revenue recovery and physician burnout is going to be drivers to just to re-emphasize the telehealth opportunity for us. As you know, telehealth has exploded. And it's here to stay.

And all of our core providers have deployed telehealth in droves. And they all want to drive DAX into a telehealth environment. So basically what you will do is you'll have a telehealth visit. You'll invite DAX to the session. It's a piece of software. But you'll actually invite DAX into the conversation with patient consent. And the DAX will produce the note as an artifact of that opportunity.

So we're super excited about that based on all the telehealth moves. And the rest is really consistent with what I said before. And Dan, if you wanted to add anything on the enterprise side or overall.

DAN TEMPESTA: Yeah, I would just re-emphasize that the telehealth opportunity-- our products and our cloud and mobile products fit really well into in that current or future ecosystem. And then as it relates to enterprise, I do think there is a real renewed appreciation for the importance of automating customer engagement during a period of time like this. And that's why we see the enterprise business staying really strong right now. So I think those are two important trends.

MICHAEL CHERNY: Excellent. Well, I think we're out of time. So I'm going to wrap it there. But thank you so much for joining us and thank you for all the time and work your spending helping your customers navigate through this outbreak.

DAN TEMPESTA: Thanks, Michael. I really appreciate-- Yeah, thank you very much.

MICHAEL CHERNY: Absolutely. Hope everyone has a great time.


[PIANO MUSIC]

AUTOMATED VOICE: The host has placed this conference on hold.

[PIANO MUSIC]