THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

NUAN - Q2 2020 Nuance Communications Inc Earnings Call

EVENT DATE/TIME: MAY 07, 2020 / 9:00PM GMT

OVERVIEW:

Co. reported 2Q20 revenues of $370m and non-GAAP EPS of $0.21. Expects FY20 revenues to be $1.405-1.485b and non-GAAP EPS to be $0.76-0.86. Expects 3Q20 revenues to be $302-328m and non-GAAP EPS to be $0.10-0.14.

CORPORATE PARTICIPANTS

Daniel D. Tempesta *Nuance Communications, Inc. - Executive VP & CFO*

Mark D. Benjamin *Nuance Communications, Inc. - CEO & Director*

Peter Durlach *Nuance Communications, Inc. - Senior VP of Strategy & New Business Development - Healthcare Division*

Robert Dahdah *Nuance Communications, Inc. - Executive VP & Chief Revenue Officer*

Robert Weideman *Nuance Communications, Inc. - Executive VP & GM of Enterprise Division*

Tracy H. Krumme *Nuance Communications, Inc. - SVP of IR*

CONFERENCE CALL PARTICIPANTS

Daniel Harlan Ives *Wedbush Securities Inc., Research Division - MD of Equity Research*

Jeffrey Lee Van Rhee *Craig-Hallum Capital Group LLC, Research Division - Partner & Senior Research Analyst*

Saket Kalia *Barclays Bank PLC, Research Division - Senior Analyst*

Sanjit Kumar Singh *Morgan Stanley, Research Division - VP*

Vikram Kesavabhotla *Guggenheim Securities, LLC, Research Division - Analyst*

Yi Fu Lee *Oppenheimer & Co. Inc., Research Division - Associate*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Nuance earnings call. (Operator Instructions) I would now like to turn the conference over to Tracy Krumme. Please go ahead.

Tracy H. Krumme - *Nuance Communications, Inc. - SVP of IR*

Good afternoon, and welcome to our second quarter 2020 call. I hope everyone is healthy and remaining safe during these times. With safety in mind, we are utilizing a virtual approach and exercising social distance while conducting this call. Joining me on the call today to discuss our results and response to the coronavirus global pandemic is Chief Executive Officer, Mark Benjamin; and Chief Financial Officer, Dan Tempesta. During the Q&A portion of the call, we will be joined by Rob Dahdah, Chief Revenue Officer; Robert Weideman, Executive Vice President of Enterprise; and Pete Durlach, Senior Vice President of Healthcare.

Before we begin, I would like to remind everyone that our discussion includes predictions, estimates, expectations and other forward-looking statements. These statements are subject to risks and uncertainties that could cause material differences in our actual results. Please refer to our recent SEC filings for a discussion of these risks. All references to income statement results are non-GAAP, unless otherwise stated. As noted in our press release, we issued prepared remarks in advance of this call, which are available on our IR website. That material is intended to supplement our comments on this call today. And with that, I'll turn the call over to Mark.

Mark D. Benjamin - *Nuance Communications, Inc. - CEO & Director*

Thank you, Tracy, and good afternoon, and thank you for joining us. Before we kick off the call, please note that my thoughts and those of our entire Nuance community are with all of those who are struggling and have been affected by COVID-19. We also want to extend our deepest gratitude for all of those who are working on the front lines, especially doctors, nurses and clinical staff who are working around the clock to care for those in need, while also risking their own health and well-being. These are unprecedented and challenging times that are affecting all of us in profound ways as we each learn how to live and work within the new reality. As a leadership team, we are, first and foremost, committed to protecting the health and well-being of our employees, their families and our communities. And so we made the decision in early March to transition our global workforce to work-from-home. We are pleased to share that this has gone incredibly smoothly, a testament to the resiliency and spirit of our employees as well as our infrastructure and preparedness across the company. While working remote has its unique challenges, our team has remained engaged, highly productive and committed to driving business results. Our actions have also enabled us to dramatically mitigate the spread of the virus amongst our Nuance team. In fact, the number of our employees worldwide who have contracted COVID-19 to date is in the single digits, and I'm very relieved that they are all doing well.

Additionally, we have increased the resources available to our employee assistance programs, enhanced our benefit offerings to further support our employees and their families. We are also acutely aware of the significant challenges many of our customers are experiencing, and we are working around the clock to support them. Our customers operate in the most critical of industries, healthcare, financial services, telecommunications, logistics and travel and enabling them to serve their customers and communities is paramount, especially during these unprecedented times.

We've taken a number of actions to partner with and provide exceptional support to our customers, and we are in regular contact with them to better understand how we can help alleviate the massive amounts of pressure and volume they are experiencing. Based on those conversations, we've designed several new offerings to support them during these challenging times, which I'd like to briefly highlight. We are offering free add on Dragon Medical licenses and COVID-19 Content Packs for all Dragon Medical customers. By simplifying documentation and enabling nurses and physicians to capture the patient story using their mobile phones, these add-on licenses are instrumental in boosting provider efficiency and ensuring the capture of crucial data points for COVID-19 patients.

To date, we have provided nearly 50,000 free licenses across the country to help keep clinicians from sharing microphones, provide support to additional medical staff, and most importantly, outfit mobile hospital units, such as the Javits Center in New York City. Additionally, we are providing complementary services and access to our solutions to help navigate the current environment, including free PowerMic Mobile and PowerScribe mobile app licenses, which enable radiologists to read diagnostic images and dictate reports remotely. Similarly, our enterprise customers are facing increasing pressures as contact center employees are working from home, while organizations cope with large surges in calls and digital volumes. We've responded quickly to these challenges by providing temporary volume spike capacity and delivering solutions that automate self-service with the expansion of digital virtual agents. Our ability and willingness to do the right thing and support one another, our communities and our customers is unparalleled. Whether it's going above and beyond to make sure our customers have what they need to care for patients as efficiently as possible, handle increasing call volumes despite major spikes or transferring our entire workforce to a home environment in a short period of time, these are incredible accomplishments, and I couldn't be more proud of our Nuance team. The strategic decisions we made in prior years and quarters, such as simplifying our portfolio, pivoting to the cloud and paying down debt have resulted in a highly recurring revenue model and a strong balance sheet. We are confident that these decisions have positioned Nuance well from both a financial and operational perspective, enabling the company to weather any near-term headwinds.

Importantly, we believe the markets we serve will continue to be critical to our economies, and we will confidently retain our market leadership. As a result and despite some near-term challenges, we feel confident that we will emerge from COVID-19 well positioned and actually stronger as a company. Specifically, we believe that the world will look back on COVID-19 as a key turning point in the shift to cloud based technology, digitalization and automation with AI solutions at the core. As more people turn to tele-health, we see a market expansion opportunity for new subscriptions for our Dragon Ambient eXperience, or DAX solution. Regardless of any near-term challenges that both healthcare and enterprise customers face, we remain confident in our strategic positioning and importance to our customers' revenue and customer service offerings is critical. Even in a worst-case scenario where some hospitals and enterprises were to close, we don't envision a scenario where the number of doctors change or the demand for customer service automation goes down over the mid- to long term. Our end markets may experience some short term disruptions, but our positioning within them has never been stronger. And when they return to normalcy in whatever form that ultimately takes, we believe we will emerge stronger and more integral to our customers than ever before.

Turning now to our Q2 results. Despite COVID-19 challenges, we had another strong quarter. Pointing out a few highlights. We exceeded the high end of our guidance for revenue, margins and EPS. We made continued progress in our pivot to the cloud with strong Dragon Medical One performance which has contributed to our solid first half ARR growth. We had another strong quarter for enterprise with 19% year-over-year organic growth, the highest in over 10 years driven largely by strong performance in Intelligent Engagement. We launched DAX and have already had clients reporting significant improvements in physician satisfaction, patient throughput and time required for completion of their clinical documentation. Our international markets continue to scale as we launched Dragon Medical Cloud in 5 new European countries. And finally, in line with our focus on capital allocation, we paid down $170 million of debt and repurchased 3 million shares before these programs were put on hold when the COVID-19 outbreak became a pandemic in March. To preserve liquidity, we paused our share repurchase activity for the near term. Despite volatility within the broader markets, we remain very confident in our liquidity position and the overall strength of our business model. As a reminder, a significant and growing part of our revenue is recurring, which provides an element of stability in this unprecedented time and gives us visibility into future performance.

In this regard, during the quarter, we took several key actions to also protect our financial strength and positioning. First, we greatly reduced our hiring across the company, except for strategic priorities and initiatives. We deferred all merit increases for all employees worldwide, we limited all discretionary spend across the organization, and finally, we drew $230 million from our revolving credit facility, bringing our cash balance to over $500 million at quarter end. Dan will speak to these actions in further detail, but we feel these steps were prudent and responsible to preserve cash during this time.

Turning now to our healthcare business. Despite COVID-19 challenges, we delivered another solid quarter of growth, with Q2 revenue up 10% year-over-year. In particular, we benefited from notable strength in Dragon Medical One, which was up 46% year-over-year. In spite of the surrounding turbulence, our strategy for accelerating AI innovation and ML based tools to improve workflow and productivity remain intact. We were excited to announce during the quarter the general availability and accelerated delivery of our DAX, Ambient Clinical Intelligence, or ACI solution. Although HIMSS was canceled due to COVID-19, we were able to live stream the demo to over 300 customers from more than 150 organizations. I'm extremely proud of our team for quickly pulling together this alternative plan. The demos went flawlessly, leaving our customers impressed as well as adding to their level of interest, which continues to remain very high. Novant Health, Rush University Medical Center and SSM are among the many leading healthcare organizations that have signed up for DAX. healthcare organizations, such as Nebraska medicine and others are already realizing the benefits of the technology, reporting an 88% increase in provider satisfaction scores for clinical documentation and patient consent rates of more than 90%. In the quarter, we also announced a partnership with the American Medical Association, or AMA, to integrate DAX with their integrated health model initiative. We believe this collaboration is further validation of our solution and serves as another key step to increase market adoption.

I would now like to highlight a few other exciting healthcare developments beyond DAX. We continue to execute on our international market expansion, launching Dragon Medical Cloud in 5 new European countries: Germany, Austria, Denmark, Finland and Sweden. This is on the heels of our recent launch in France, Belgium, the Netherlands and Australia. Additionally, we continue to have success with our new cloud-based PowerScribe One platform with numerous wins in the quarter. PowerShare, our cloud-based image sharing solution also had a strong quarter. Overall, I'm pleased with the progress we've made on these initiatives and the positive feedback we continue to receive from our radiology clients.

Before moving to the enterprise business, I'd like to briefly highlight the near-term impacts of COVID-19 on our healthcare business. While we don't expect a material impact from our subscription-based businesses, we expect our HIM and PowerScribe volumes to decrease given the significant reduction in elective and non-COVID related procedures. Additionally, we expect near-term pressure on new bookings as our healthcare customers reprioritize projects to focus on COVID-19. We continue to monitor our sales pipeline closely and maintain engagement with customers throughout this process. Dan will speak to the financial implications in more detail in a few minutes, and Rob Dahdah will be available for Q&A for any go-to-market questions.

Moving to the enterprise business. Nuance delivered a record quarter with Q2 revenue up 19% year-over-year. Our performance was in line with the trends and initiatives laid out at our Investor Day in December. Specifically, IVR voice performed in line with expectations. We saw strong growth in Intelligent Engagement, and strength in our security and biometrics and digital engagement solutions. We had multiple security and biometric wins from both existing and new customers including Desjardins and Wings financial. We also saw increased demand in new markets, such as large grocery stores where customers like Albertsons transitioned to online ordering models. In April, we launched our cloud-based Mic DIY tool set, which enables organizations to integrate conversational AI into self-service workflows. As global organizations increasingly look to integrate conversational AI into their digital and voice customer engagements, the ability to build a conversational experience once and deploy it across channels and modalities has become critical. This solution has already been successfully deployed through a customer beta program, including a large airline putting Nuance Mix at the center of its VA or virtual assistant and IVR omnichannel strategy; and an entertainment company using it to power of voice control in its gaming consoles.

We are incredibly excited to watch more success stories unfold as organizations integrate this cloud agnostic technology into their work streams. Now I'd like to shift gears to discuss the near-term COVID-19 effects on the enterprise business. While our enterprise revenue can fluctuate from period-to-period based on customer service volumes, we have a diversified customer base, providing stability during these challenging times. Furthermore, while some of the voice and digital volume surges we experience are transient in nature, we expect the broad shift to digital to remain a key theme that emerges out of this pandemic, instilling confidence in our Intelligent Engagement growth strategy and go to market.

In conclusion, despite the uncertain near-term operating environment, our long-term fundamentals and growth opportunities remain very strong. While we continue to exercise prudence in managing this environment, we are not taking our foot off the gas, and we will continue to execute against our focused strategy of advancing our state of the art conversational AI and ambient technologies. We remain highly confident in our long-term trajectory and continued progress of our goals and initiatives. Despite making some changes to our near term guidance, we are reiterating our midterm outlook that we provided at Investor Day. I truly believe our markets are going to expand post COVID-19 as customers appreciate the critical need for our AI-based solutions, remote access capabilities for healthcare workers, and increased demand for telehealth and security and fraud protection. This is the value we provide each and every day, and we are in a great position to meet and exceed our customers' needs now and in the future.

We remain an incredibly resilient company, and I'm confident that we will not only weather these near-term challenges, but that we will emerge from this pandemic stronger than ever. Now I'd like to turn the call over to Dan to discuss our financial results and guidance.

Daniel D. Tempesta - *Nuance Communications, Inc. - Executive VP & CFO*

Thanks, Mark, and thanks, everyone, for joining us today. I'll spend a minute talking through our Q2 results. Then I'll spend the balance of my time discussing how we expect the current COVID situation to impact our results as well as provide some analysis to help you understand our liquidity position. Our Q2 reported results were strong with revenues of $370 million and earnings per share of $0.21, both coming in above the high end of our guidance range. Our healthcare business grew 10% and generally performed in line with our high expectations, while our enterprise business grew 19%, which was better than we expected. Our healthcare results were driven by very strong Dragon Medical Cloud revenue growth of 46% in line with our expectations. Additionally, we saw revenue growth in PowerScribe 1 and CDE 1 as our early customers in these cloud offerings have begun to go live. We also experienced growth in our radiology and other category, driven by the timing of multiyear term license renewals, which was higher this quarter than a year ago.

I would like to remind you that the revenue in this category will continue to be lumpy in the near-term due to the timing of term licenses as well as the effect of converting our radiology and CDI on-premise installed base to our new cloud solutions. Until the COVID situation really took hold in March, the quarter was progressing nicely across all categories. Once the healthcare system started to become taxed, we saw reduced volume activity in our HIM transcription business as well as our on-premise PowerScribe radiology reporting business. However, these reductions only had a modest effect on our second quarter. Our Healthcare segment margins were 32%, driven primarily by the ratio of high-margin cloud business relative to our lower-margin HIM transcription and EHR implementation services.

Turning to Enterprise. The business grew 19% year-over-year as we saw strong revenue from our digital engagement and security and biometrics offerings. Similar to Q1, we experienced very strong licensing and related implementations from a couple of large on-premise customers. We are pleased with these results, especially with the demand in our Intelligent Engagement business lines. However, as a reminder, enterprise remains a lumpy business, subject to fluctuation from period-to-period due to the timing of large license activity. Lastly, for Enterprise, our segment margins were 28% and benefited from strong license revenue. At March 31, we had cash and marketable securities of $526 million, which included $230 million from our revolving line of credit, which we drew down at the end of March. Had we not drawn on the revolver, our cash and marketable securities balance would have landed at the midpoint of our cash guidance range of $250 million to $350 million. While DSO was 54 days and very strong this quarter due to better-than-expected collections in Enterprise, we did see some hospitals begin to slow payment towards the end of March, which I'll discuss more in a few minutes.

Turning to ARR. As you will recall, we ended fiscal 2019 with ARR of $298 million and guided growth for fiscal year 2020 of 26% to 34% or a midpoint growth rate of 30%. Due to the uncertainties created by COVID, we are adjusting our guidance to a growth rate of 13% to 21%. While debt in these assumptions meets our broader guidance range in a few minutes, I think it's important to note that we've already booked enough ARR so far this fiscal year to hit the low end of our revised range, leaving us very confident in the adjusted growth expectations.

Now let's step back and discuss the path forward. As Mark pointed out, we feel very good about the long-term health of our business, especially as it relates to our critical positioning within the health system and enterprise customer engagement. The basic tenets of the business model laid out during our Investor Day still hold true when you look past the virus impacts. Our 2020 progress through the beginning of March only reinforces our confidence. Furthermore, we do not foresee a mid- or long-term reduction in the number of doctors, demand for hospital procedures or patient encounters and therefore, we believe that any COVID impacts on our business will be short term in nature. With that said, we do expect a few near-term headwinds that I'd like to walk you through: First, hospitals are reprioritizing some of their projects to address their immediate needs related to the virus. While our sales, professional services and implementation teams have proven to be very effective working remotely, this reprioritization by hospitals will likely cause near-term pressure on bookings and will, therefore, impact our new ARR growth. Second, hospitals are seeing a reduction in their elective procedure volumes. This impacts us in the following ways. With fewer elective procedures and patient encounters to transcribe, our HIM transcription revenues are expected to be down more than originally planned for the year. Beginning in the middle of March, we saw a sharp decline in HIM lines transcribed, dropping to a level as low as 50% of normal volume by the middle of April.

Since that time, we've seen a slight uptick in volumes, although we are not ready to say the uptick represents the start of a recovery. Similarly, imaging activity in a hospital has a direct correlation to the volume of elective procedures. Therefore, we expect the amount of radiology reports generated will also come down. This will impact the portion of radiology business where revenues are recorded on a per report basis. We saw a comparable decline to that of HIM with radiology reports being reduced by as much as 55% from normal levels through the middle of April. And consistent with HIM, we have recently seen a slight uptick in activity. We have also seen some electronic health record implementations being deferred. This can be due to both the change in the hospital's priorities as well as the requirement to be on-premise for these types of services. This should lead to some short-term pressure on our professional services revenues, particularly with our EHR implementation services. All these trends have an obvious and significant financial impact on our hospital clients. Since elective surgeries and procedures provide high profit margins to hospitals, reductions in procedure volume negatively impact hospitals, profitability and cash flows. We see these financial pressures impacting our various segments in the provider space differently. For smaller hospitals and ambulatory centers, which are not capitalized to the same extent as their larger peers, we would expect this segment to be more susceptible to financial stress in the near term. This is a small portion of our healthcare customer base. In fact, hospitals with 100 beds or less that are not affiliated with the large hospital system represent approximately 3% of our healthcare revenue, and unaffiliated physician practice customers represent approximately 4% of our healthcare revenue. With larger hospitals and systems, they tend to operate with higher margins and have more access to capital than their smaller peers. They can also reallocate cash previously earmarked for large capital projects to focus on operations and business continuity in the near term. In both segments, hospitals are likely to request extended payment terms from their vendors to bridge their own cash flow gaps, and we have started to see these requests come in from a small number of our customers. Our policy with these types of requests is to support our customers in the best way possible, while ensuring we don't jeopardize our own business.

With that said, we do expect our healthcare DSOs to expand during our third and fourth quarters. Shifting to our Enterprise business for a moment. As Mark mentioned, we have seen strength from customers in some industry verticals, offset by weakness in other industry verticals. We expect this trend to continue into the second half of our fiscal year. Although we anticipate the licensing portion of this business to remain lumpy, the furloughing of call center agents is driving the need for increased automation. Our diversification across various industries provides us with an attractive hedge as the decline in volumes from industries like travel and hospitality are more than offset by strength in financial services and telecommunications. From a cash collection standpoint, we do expect some extension to our enterprise DSOs, but not to the same level as that in healthcare.

Turning to guidance. We are providing revenue and earnings per share guidance for both Q3 and full year 2020, taking into consideration the recent trends I just discussed. We are also providing wider ranges than normal due to the uncertainties that exist in the current environment. Lastly, while we will continue to provide full year healthcare and enterprise revenue guidance, for now, we are collapsing our healthcare revenue business line guidance into fewer categories, given the wider range of variability within those individual lines. Please note that we will continue to provide guidance on our Dragon Medical Cloud revenue line item, which you can find in our prepared remarks document.

Our guidance framework, starting with healthcare, includes the following assumptions: For ARR, as previously discussed, the low end of our guidance assumes no new bookings are required from this date forward, whereas the high end assumes continued new bookings activity, albeit at significantly lower levels during the second half than we originally planned.

For our cloud subscription-based businesses like DMO, PowerScribe 1 and CDE one, there is no material revenue impact from COVID-19. In fact, despite reducing our ARR outlook, we are raising our Dragon Medical cloud revenue forecast by $3 million. While we do not currently break out revenue from PowerScribe One, CDE 1 in the remaining emerging ARR businesses, we are expecting similar overachievement across all healthcare cloud subscription businesses due to a strong first half and faster time to go live than originally planned. For volume-driven businesses like HIM and parts of our on-premise radiology business, the low end assumes that volumes continue at their April lows for the remainder of the fiscal year. The high end assumes a continuation of the improvement trends we saw at the end of April and into early May. For our book and ship business like Dragon Medical licenses, the low end assumes a meaningful reduction from our original plans, whereas the high end assumes a gradual return of bookings activity over the course of the fiscal year. For our services business, the low end assumes that noncritical healthcare workers continue to be prevented from entering the hospital whereas the high end assumes an easing of those regulations and a gradual return to on-premise activity throughout the year. And finally, for our enterprise business, our low assumes some license and implementation deferrals by our clients through the second half of the year. For the high end, our plans remain largely unchanged as we have a natural hedge occurring within industry segments, as I previously discussed. Taking all that into consideration, our revised fiscal 2020 revenue guidance is a range of $1.405 billion to $1.485 billion. Compared to our previous guidance, this represents a decline of $70 million of revenue at the midpoint of the range and almost half of that reduction relates to our nonstrategic, low-margin HIM transcription and EHR implementation services business.

We are also revising our operating margin and earnings per share guidance based on the lower revenue expectations, offset by certain expense reductions. While we are committed to our strategic priorities and investments in the second half of fiscal 2020, we are significantly cutting costs by eliminating certain discretionary spend items, reducing hiring across the company, deferring all merit increases for employees and vastly reducing our travel budgets. The net impact is a revised operating margin guidance range of 23% to 24% and earnings per share of $0.76 to $0.86. Our Q3 guidance also takes these factors into consideration as well as the incremental visibility we have, since we are already 5 weeks into the quarter. For Q3, we are expecting revenue of between $302 million and $328 million and earnings per share of $0.10 to $0.14. With regards to cash flow, while we have confidence in receiving payments from our customers, we are withdrawing our full year cash flow guidance due to the uncertainty related to the timing of payments from our hospital customers. With only 2 quarters left in our fiscal year, the range of possible outcomes related to timing of payments is considerable and therefore, potentially too wide to predict. However, to help you understand our liquidity position under a severe stress test, we wanted to provide you a framework. If you were to assume the low end of our revenue and profit guidance, and you also assumed a situation where healthcare DSOs tripled through the remainder of our fiscal year, we would still have ample liquidity with cash and marketable securities in excess of $300 million at the end of our fiscal year.

This analysis provides us high confidence that our current cash balance of $526 million positions us well to withstand extreme liquidity circumstances if required. As Mark discussed earlier, we are encouraged by the resilience of our business, and we remain confident in our mid- and long-term strategic outlook.

With that, I'd like to turn the call back over to the operator to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Saket Kalia from Barclays.

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Maybe first for you, Mark. Can you just talk a little bit about your conversations with healthcare customers on maybe how their technology workflows might change after COVID? I guess the short-term impacts are understandable now with sort of less elective procedures, but maybe longer term, how do you think the COVID experience might change how clinicians want to use tools like Dragon Medical One or ACI?

Mark D. Benjamin - *Nuance Communications, Inc. - CEO & Director*

Sure, sure. So I appreciate the question. Yes for starters, my conversations with our healthcare customers over these past several weeks have gone from, can you help us with PPE and other critical supplies to now the conversations in most of our markets have shifted to how they reopen their hospitals and start to bring back elective and nonessential procedures and patient visits. So we are certainly seeing that return as far as the topic of discussion, but more importantly, to your question and sprinkled through my comments here on the call already is that the conversation really, in many ways, gives us great confidence that we're in the right place with the right solutions and technology. And that, unfortunately, while COVID-19 is a terrible event, the importance of efficiency and workflow and productivity in using our solutions with AI-based capabilities is really super critical. So I think that is just -- the physicians were already largely burned out and suffering. And certainly, this is now highlighted yet again that we need to free up positions to higher value work, which is obviously being with their patients. So I think that's one. Two, certainly, the capabilities of cloud and remote capabilities of the workforce is critical. And certainly, healthcare, I think that gets in many ways, accelerated, and we're seeing examples of that, not just with our own solutions, moving to the cloud. But even with our large radiology base, that's largely on-prem, just the sense that we're going to accelerate the cloud transitions and the digital transitions within the hospital systems. And I'd say probably, Saket, one out of many others is telemedicine. So a solution that's been out in the market with very low adoption and some use. Certainly, the ability for patients to be -- to meet with their clinicians and their physicians without perhaps going into a facility and getting treated over a phone, over a computer screen is going to become, I think, very rapidly utilized. And our solutions, bundled in with telemedicine with the massive reduction in clinical documentation, among other things, will become an expansion opportunity for us, and we're already working with many different telemedicine solutions and companies that provide these channels, if you will, to put DAX embedded into them. So I think we're going to see -- I think, a great value opportunity coming out of this.

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Got it. That makes a ton of sense. Maybe for my follow-up for you, Dan. Obviously, a lot of recurring revenue here that's helping to weather the storm, but I want to maybe touch on how big the variable parts of the business are. And I think you touched on those with some of them like HIM transcription, but I'm interested in maybe the radiology part of the business and Enterprise. Can you just maybe give some broad brush strokes on how much of those businesses are sort of volume dependent or nonrecurring, if you will?

Daniel D. Tempesta - *Nuance Communications, Inc. - Executive VP & CFO*

Sure. Thanks, Saket. Good question. When we think about Enterprise, and we've talked about this in the past, about 65% of that business is recurring and over 40% of the business now is hosted. Now that's variable hosted, but that's been doing very, very well. And then if you add professional services, which you have to book well in advance, you're over 80% of that business. They have very good recurring visible types of business there. So that leaves you with less than 20% that are licensed-type activities that you might have to go get. In healthcare, if you think about the recurring invisible businesses like hosting, our cloud subscription businesses, professional services and term license, you're well over 80% in that area. So I think the variable business that you were referring to, we discussed in the guidance discussion. Number one, of course, is the HIM transcription activities, which we laid out. Number two is the Dragon Medical licenses. A lot of that you have to book in period and score. We've disclosed that and that number shrinks as we make our move to the cloud. And then the last place really is in that radiology and other line, and there's -- and we talked about some of the radiology reporting activities, the in-period activities, that to a smaller extent, has some variability to it. So I think that's the summary as it relates to healthcare.

Operator

Next question will come from Sanjit Singh from Morgan Stanley.

Sanjit Kumar Singh - *Morgan Stanley, Research Division - VP*

Hope everyone is staying safe and healthy. And congrats on a strong Q1. I really liked what I saw across the board. Maybe just to talk a little bit about guidance. And then you did a great job sort of laying out the underlying assumptions behind the guidance. And I understand almost everything, especially around sort of the near-term obstacles or risks in the healthcare business, the HIMs business, parts of the radiology business, license business, all of that makes sense. What I'm a little confused on is the commentary around the DMO business being more resilient and yet the healthcare ARR coming down by roughly 10%. I was wondering if you could help me align those 2 statements, particularly with the overall healthcare ARR revenue guidance holding in -- actually moving up by $3 million. Can you give us some context around the ARR guidance for the year? I think that would be really helpful.

Daniel D. Tempesta - *Nuance Communications, Inc. - Executive VP & CFO*

Sure. I think -- well, let me start with the ARR guidance very quickly. This is Dan by the way. Thanks, Sanjit. The ARR is really a function of Rob's sales organization going out there and booking in period and scoring that ARR, and then of course, implementing the DMO offering. And that, as we've said in the past, can take 90 days or so. That's our assumption. Sometimes it's faster, sometimes it's slower. But that, of course, is getting impacted mainly by deferrals, not by losing deals in this period of time. So we're seeing the ARRs come down. But the good news is, we've done such a good job booking earlier in the year as well as the backlog of DMO that we've had that as that's coming online because of that timing, we're able to maintain and even beat on that revenue guidance. So that's the delta there, where you book today, but you don't get it up and running for some period of time. And that lag, while impacting ARR, has not really had a big impact to our P&L.

Sanjit Kumar Singh - *Morgan Stanley, Research Division - VP*

Understood. That's certainly helpful. And then in terms of -- as we think about sort of the medium-term over the next, call it, 2 to 4 quarters, however long this lasts. Tracking medical or transcription as a category from Nuance, any way to sort of frame how much of the IT budget that represents for your customers? I mean, is this a big budget category that people are looking to really rationalize in a more conservative spend environment? Or is this not a large part of the budget. And all things equal, they would like to grow or even expand this category?

Mark D. Benjamin - *Nuance Communications, Inc. - CEO & Director*

Yes. So Sanjit, this is Mark. And maybe because we have Peter Durlach on the call, he'll add a comment. I would say that our solutions themselves have incredibly high ROI. And it's not just on the P&L of a hospital or of a practice, it also manifests itself on physician satisfaction and many other aspects. But relative to how we price our solutions to other costs within the healthcare systems, we certainly don't typically make the first page of a cost algorithm, if you will. So this is not necessarily something that healthcare would look to reduce costs. This is something very embedded within a very complex workflow environment where we have the EMRs, you have the devices, you have many different aspects within a system. So it's certainly not near the top. It's an important part for sure. So Pete, you have any comments to add here?

Peter Durlach - *Nuance Communications, Inc. - Senior VP of Strategy & New Business Development - Healthcare Division*

Yes. Yes, Mark, thanks. Yes, in addition to reinforcing Mark's point about where we sit in the hierarchy of payments, I think, and certainly not on the first page, I think to build on his first point, which is really critical is we sit in the middle of their revenue cycle. So we directly affect their ability to generate revenue from 2 reasons: One is we increase the productivity of a clinician, so they can see more patients, and we also increased the quality of the notes that drive how they get paid. So we're one of the last things that someone would cut as they think about all moving into kind of revenue recovery mode, which is where most of the clients are today as they transition, many of them, out of the COVID world. And just to add a little bit onto Dan's prior comment that may just need reinforcement, we're not seeing any reduction, and I'm sure Rob will add to this, in interest for DMO at all. The issue is just as they went into crisis mode to keep their providers safe and take care of patients, they just didn't have the bandwidth to worry about certain things. They had to survive, right? So that's really where the guidance is coming from. And again, Rob may add to that later.

Operator

Your next question will come from Daniel Ives from Wedbush.

Daniel Harlan Ives - *Wedbush Securities Inc., Research Division - MD of Equity Research*

And I assume Rob's on as well, right, on the call.

Mark D. Benjamin - *Nuance Communications, Inc. - CEO & Director*

Yes.

Daniel Harlan Ives - *Wedbush Securities Inc., Research Division - MD of Equity Research*

Great. Great. So Rob, maybe -- I mean you, Mark, you hit it. Just walk through sales cycles today? I mean, from your perspective, like how are you navigating almost day-to-day? Maybe just get a little more granular in terms of, obviously, no face-to-face, meaning some of these more complex sales cycles now going all virtual. Maybe you can just hit on that and just pivoting, just given the current environment?

Robert Dahdah - *Nuance Communications, Inc. - Executive VP & Chief Revenue Officer*

Yes, sure. Well, first off, it's been a great learning experience for everyone, not just oft said sellers, but the buyers and just the entire system. I'm extremely proud -- no smoke. Extremely proud of how our team was able to pivot very quickly. This is a heavy-duty sales force that's used to getting on a plane and closing a deal, but they very, very -- I would call it almost seamlessly made the transition to working remotely and virtually, but what was really important is we were able to -- even though we were not maybe selling directly or closing the deals down because of the bandwidth that Peter mentioned earlier, we were staying very much in contact for other reasons to support them with licenses and other things that they needed. So we were very much engaged with our customers even throughout. There was no period where they just said, "Hey, come back in 3 or 4 months and talk to me." So we kept the level of conversation going and that was really important for a number of reasons. First off, we were able to support our customers, which is really the most important thing, but it helped the team morale. And it meant that what they were talking about every day mattered because a lot of this is psychological in sales, and they were having really positive feelings about their ability to help and support in a very difficult time. So that's kind of the foundation of it, but how it impacted the cycle? Absolutely, as Peter mentioned earlier, it's really a matter of bandwidth more than anything. Not a single in-flight deal did we take off of our forecast or our pipeline. We just moved it out in our forecast. And so we believe what we were talking about before has even more relevance in the future. And in some cases, as different markets open back up, we're starting to actually see that kind of motion back in the right direction probably even faster than we thought. So it depends on the area, the market. As you know, you can -- you have access to some of the same information. You see some hotspots, and those are, as you would imagine, probably not the place that's engaging right now, but there are other places that are opening back up. Other places that weren't hit the same. And so we have an opportunity to have a conversation as it relates to the healthcare side. But on the enterprise side, it's a completely different story where a lot of what we have to sell matters more than ever, and it's helping them weather these storms. And so they need to talk to us because we're creating the opportunity for them to be able to go remote, to be able to scale with their own bandwidth as they take on additional volume. And so we had an opportunity all across the board to maintain relevance. And we think that, that will matter as we go back into whatever the new normal looks like going forward and our ability to pick back up on sales velocity.

Mark D. Benjamin - *Nuance Communications, Inc. - CEO & Director*

Yes, Dan. Dan, this is Mark. So hope you're well. Rob doesn't usually let me answer any sales question. So I'll sneak one in at the end of his comments. A lot of our solutions, when we talk about CAPD -- surgical CAPD as one example. A lot of the specialists are not active in the hospital systems today. While the ICUs and the EVs are slammed, obviously, with COVID impacts, in certain regions, in New York, certain geographies, obviously are -- have been slammed, not many markets have had the same effect. So the sales force, impressively, has really taken advantage of a lot of these specialties that have downtime and they've turned this into opportunities to educate and really spread the word about some of our solutions. So one example that still -- it blows me away is we held a webinar series for surgeons for our new surgical CAPD solution, relatively new. We had over 1,000 surgeons attend the webinar. And that's just one example Dan. So enterprise is doing the same with its new Mix platform. So there's just -- while there is -- there's obviously a lot of work still to be done, the opportunity to capture mind share right now, and what Rob is doing with his sales force, is pretty impressive. I mean -- and that's putting it lightly. So I think the pipeline is definitely going to be positively affected here and deal timing is just a question of when.

Daniel Harlan Ives - *Wedbush Securities Inc., Research Division - MD of Equity Research*

Great. And is there -- are there examples, especially on the cloud side where the current environment accelerates deals?

Peter Durlach - *Nuance Communications, Inc. - Senior VP of Strategy & New Business Development - Healthcare Division*

Yes. I mean, it accelerates the relevance. Obviously, the fact that we -- it's in rare situations at the initial point of contact here. Everyone's just trying to assess what their overall needs are, and this is part of it. But even in some markets, in international markets, it actually -- absolutely -- they called it out as a reason because they had the opportunity to move more quickly on funding. So that's on the health care side. And then on the enterprise side, I think, again, it was just -- it was a matter of like life and death for the actual companies themselves to make contact with their customers. So they needed what we had. And if anything, it definitely accelerated not only what, obviously our pipe, but our ability to help them.

Mark D. Benjamin - *Nuance Communications, Inc. - CEO & Director*

Yes. And maybe I'll ask Robert Weideman, Dan, who runs our enterprise business to comment just really briefly on this as well because I think it's a great question.

Robert Weideman - *Nuance Communications, Inc. - Executive VP & GM of Enterprise Division*

Sure. And hello. So we -- what we saw happen in the enterprise business is especially during the acute phase of what was going on, call volumes just went to record levels across the board around the world. People were on hold for 2, 3, 4 hours. That increased demand for our self-service solutions, but more importantly, it was -- and we helped shift people from being sent to the IVR and being sent instead to the digital channel. So we expanded in a number of our customers, not only the number of agents that could service the digital channel, but also increased the number of applications. We deployed 9 COVID specific virtual assistants that answered questions. So for financial services, people were calling about how do I access the funds in my 401(k) based on the government programs that are allowing that. In insurance, very similar activities. In fact, the social -- we have large customers and government agencies and social services around the world. They've really accelerated their digital footprint in terms of number of agents. We actually helped a large telco move 2,500 agents that were working in the centralized contact centers -- 3 centralized contact centers in India to a work from home configuration in 3 days. And so I think you're seeing some of the results in enterprise -- I know some of the results in enterprise are -- our ability to do that with our distributed 800 person professional services team and our cloud infrastructure made it very, very flexible for us to pursue these opportunities.

Operator

Your next question comes from Jeffrey Van Rhee from Craig-Hallum.

Jeffrey Lee Van Rhee - *Craig-Hallum Capital Group LLC, Research Division - Partner & Senior Research Analyst*

Great. So a couple from me. Maybe on the healthcare side, I just want to touch on DAX. Obviously, HIMSS cancellation wasn't the -- the timeliness wasn't great for that launch, but you got a lot of demos done and as you said, I think it's demoing extremely well. Given you're able to get docs in these virtual demos, can you talk a little bit more about what you've seen there in terms of a, adoption. What have you done in terms of wins? Talk a little more precisely about the magnitude of the pipeline, just a bit more color there.

Mark D. Benjamin - *Nuance Communications, Inc. - CEO & Director*

Yes. Jeff, this is Mark. With DAX, obviously, as I said and as you followed on, I mean, it was disappointing not to get the HIMSS in Orlando event because that is obviously is an exciting place for us with DAX, but we were certainly able to do -- literally reach hundreds of customers. We did live demo. We've done taped demos. We have demos being created now over multiple specialties. So I think the pipeline is certainly building as we'd expect it to be. Certainly, there'll be a little bit of lag on decision-making just given the distractions that the hospitals are under. So there's no question that the interest is incredibly high. We've had examples of doing demonstrations where the CEO or the chief of a certain special department says, "well, once I'm out of this COVID environment, we've got to get going with this". So we feel great, Jeff. I mean, we're really on track. We're now available in heat specialties. So I know on the last call, I mentioned the 1 to 2 per month. And certainly, we're on track to meet those commitments and additional specialties. But I think we'll certainly have a lag on decisions, but we're still getting decisions, and we're still building pipeline. Maybe I'll let Rob comment if he's got any additional brief color on it.

Robert Dahdah - *Nuance Communications, Inc. - Executive VP & Chief Revenue Officer*

Yes. I don't like to follow-up on Mark's very comprehensive statements typically. I'll just add that we were obviously very excited to be able to go to HIMSS and display. And when we weren't able to do that, the team reacted very quickly, was able to go remote and use a lot of that material to help us continue to spread the word. We have a fairly healthy still pipeline of interest in what we're looking to do. And so I think that hasn't -- although maybe people in terms of being able to come in and physically see the product live. Obviously, it's not possible now. We're still having regular and in-depth conversations with multiple institutions and so obviously, there's a lot of activity around that. But as you can imagine, COVID definitely has put somewhat of a kind of a slowness in the system, but not in interest. We have people still exploring. We have people basically coming off their iPhones if they have to, to do it. So it's been exciting to still have that pretty heavy level of interest.

Jeffrey Lee Van Rhee - *Craig-Hallum Capital Group LLC, Research Division - Partner & Senior Research Analyst*

Yes. Just a follow-up on that. How do you envision sort of the likely sales cycle because I think back, I know a couple of quarters ago, maybe even further back than that, but a lot of customers had some exposure to the product. And I think your comment was we haven't had a customer who's seen it that doesn't want it. So it sounded like you have a lot of pent-up demand. You've got some people out there that are fairly visible in talking about how it's working. And now that it's gone GA, is it a situation where that pent-up demand was sort of 90% of the way to the finish line, and you got a lot of them there or was it really more of a "we needed to have it live GA" [audio gap] build cycles. Are we sort of more one or the other of those two?

Mark D. Benjamin - *Nuance Communications, Inc. - CEO & Director*

Well, we had -- obviously, we have customers using it now. So it's not -- this wasn't like kind of tucked away and then we just unveiled it. And so we have customers using it. I think we definitely had momentum. This is not just a replacement of Dragon. This is a comprehensive system. And when we come in and deploy, it requires a fair amount of thought on the side of the institution. They definitely have the interest. They just have to have the kind of the organizational readiness as this comes in. And I think there's -- again, not one group has come in and said, "Hey, this isn't for me." Either resources or timing, organizationally it might not make sense till like next week, but everyone stays engaged. No one comes off of a conversation. It's just a matter of when they're ready to deploy. I think there definitely some of the specialties matter, but I think we're really well positioned. So I just want to -- Pete, why don't you make a comment here?

Peter Durlach - *Nuance Communications, Inc. - Senior VP of Strategy & New Business Development - Healthcare Division*

Yes. Just to add on that, Jeff, a couple of other things. The -- in addition to kind of momentum we have, the telehealth thing, as you know, has really exploded. So we've gotten tremendous interest in deploying this against the tele-health use case, you may have seen, I'm sure, the announcement that we made that we're supporting that. So there's a tremendous ability now to deploy this even in the cases where the physical volume takes a while to get back. The second point I'd like to make, as Rob knows, we started to see significant momentum being created by the Microsoft relationship on the channel side. So we have calls every week. We have many, many clients that have been driven to us by Microsoft or co-worked on. So we're really starting to see significant activity pickup on this. And the other big piece of this is not just tied to DAX itself, but we have this -- because of our HIM and DMO volumes where we have 90% of all hospitals and 60% of all physicians, we have effectively what's a fish finder that we use with Rob's -- we could see on a daily basis, volume increases or decreases on a site-by-site or state-by-state basis. So I'm actually looking at a map of the country in front of me right now, where I can see hour by hour, day by day, where volume is coming back. So we can then focus our team not on just going after those DAX accounts, but any of the accounts, again, to drive up the re-momentum on the bookings ARR side. So we are -- as we've said, we are very optimistic about the mid- to long term here. It's just a question of how fast these sites come up. And what we're going to be doing is picking on those sites that are coming back faster and have more bandwidth to reengage fully effectively on closing these deals, whether it's DAX or something else.

Operator

The next question will come from Vikram Kesavabhotla from Guggenheim Securities.

Vikram Kesavabhotla - *Guggenheim Securities, LLC, Research Division - Analyst*

I just wanted to start on the reiteration of the midterm outlooks, particularly as it relates to the healthcare ARR. And I'm curious, just based on the current kind of uncertainty you're seeing in the purchasing environment and the revised outlook that you have for this year, how you're thinking about the cadence of growth over the next few years as we think about achieving some of the goals you have out for 2023? Any color there would be very helpful.

Mark D. Benjamin - *Nuance Communications, Inc. - CEO & Director*

Yes. Vikram, this is Mark. So Dan may have a follow-on. I mean, we feel very good about the mid- and the long term views that we gave back in December at Investor Day, also, just remembering that ARR, while it will come down in our full year guide, obviously, COVID impacted, as we've mentioned. We don't see anything that would suggest that we won't continue to win at the rates we're winning business. It's just really a question of timing. And the conversion cycles of the cloud solutions that drive ARR, with the exception perhaps of PowerScribe 1 that has a longer cycle, but not as large or meaningful impact to the midterm. You can ultimately make up for any lost timing. And certainly, we think we'll do just that. So we don't think that the reguide, which, by the way, we're still really happy with and really confident about. I mean the bottom of the ARR bend at 13%, basically, assumes that Rob sales force doesn't sell in anything from today forward for the fiscal year. So I mean, there's a lot of confidence, and we think there'll be equally an emergence and acceleration from the pipeline growth we're seeing.

Vikram Kesavabhotla - *Guggenheim Securities, LLC, Research Division - Analyst*

Okay, great. And maybe just the sales force. You obviously made some adjustments here in the past few quarters around the size of the team and aligning some of the incentives. I'm curious if the current environment has affected how you're managing that strategy overall and the overall size of the team and some of the alignments there? Any color there would be great.

Daniel D. Tempesta - *Nuance Communications, Inc. - Executive VP & CFO*

Yes. I mean, obviously, we're being thoughtful about all of our hires, but we still have backing for investment in the team. We've realigned how we market the actual marketing side, where we spend our money there, where we spend our time. I think the -- there's no letting off the gas in terms of being able to connect with the market. Again, across all the businesses, enterprise and health care, we are having meaningful conversations every day. And so we're -- we feel like, again, we're well positioned. This is not a situation where we have to send half the team home at all. And if anything, we continue to invest where it's appropriate, given the timing.

Mark D. Benjamin - *Nuance Communications, Inc. - CEO & Director*

Yes. So Vikram, this is Mark. So that wasn't the intended of our comment -- intention of our comments is that we're still investing. I mean, we think that the growth opportunity here across the 2 businesses and with the solutions we have released in these last couple of quarters, just this quarter and the previous quarter and mix within enterprise and our Intelligent Engagement Solutions, DMO internationally, DAX. I mean, we continue to believe that there's a really bright future here. So taking our foot off the gas relative to the critical areas like sales, like R&D investments would be, in our view, a mistake and it would be very shortsighted. So we're not making that mistake, at least under my watch, and certainly, all of us feel the same way. So we're going to continue to drive. We're going to emerge. And we said it in our comments, we think we're going to come out of here accelerated and stronger.

Operator

The next question comes from Yi Fu Lee from Oppenheimer.

Yi Fu Lee - *Oppenheimer & Co. Inc., Research Division - Associate*

Hope everyone is safe and healthy as well, and congrats on the strong quarter. I just have one quick question. And it's in regards to the free Dragon Medical license on the 50,000 users. Can you just comment on the feedback received so far? And in your opinion, how much do you think you're able to convert these users after things return back to normalcy based upon the trends we've learned from the HIMSS conference demos? And that's all for me.

Mark D. Benjamin - *Nuance Communications, Inc. - CEO & Director*

Rob, you want to take that?

Robert Dahdah - *Nuance Communications, Inc. - Executive VP & Chief Revenue Officer*

Yes, this is Rob. Yes. Actually, we've had incredible gratitude actually for being very fast-to-market to help our customers with very limited red tape to get these things deployed with services, obviously, along with it. And so across the entire scope of business that we're able to do that, we moved very quickly, and we literally had scores of thank you notes for what we were able to do. And frankly, we did it because it was the right thing to do, not because we went out there with any kind of pitch. We put them out there. There are no strings attached. They're designed to help our customers in a difficult time. So whether they convert, we think there's opportunity because there will be volume after the fact, yes. But in certain situations, we know these are temporary licenses that we deployed just to help them in a difficult period, but we feel very positive that the effort that we undertook in a scenario where many of our competitors were largely absent will be remembered. But regardless, we know it was the right thing. So we -- it was important to our customers, and it was important to our team, frankly, to be able to participate and to contribute during that time. But we'll know more in the coming months, but some percentage of that will convert. But that wasn't why we did it. And we're just -- we're happy we're able to help.

Yi Fu Lee - *Oppenheimer & Co. Inc., Research Division - Associate*

Thank you for the detailed comments, Rob. Hope everyone stays healthy and safe.

Operator

I have no further questions in queue. I turn the call back over to the presenters for closing remarks.

Mark D. Benjamin - *Nuance Communications, Inc. - CEO & Director*

Okay. So I just want to thank everyone for joining us. And of course, we wish a safe passage to you and your families and your loved ones, and we'll talk to you soon. So thank you for joining us.

Operator

Thank you, everyone. This will conclude today's conference call. You may now disconnect.
