Nuance

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Mark Benjamin: Good morning, everyone. Thank you all for joining me today. I hope everyone is continuing to remain safe during these unprecedented times. Of course, I want to start by extending my continued gratitude to all the frontline workers and personnel who continue to risk their lives for the safety and well-being of our communities.

As some of you may know, today marks my second time presenting here at JPM. Since joining you as CEO and since my last presentation two years ago, I couldn't be more excited with the progress we have made as a global leader in conversational AI and ambient technology as we progress on our path forward.

With growth at scale in FY21 and beyond, the Nuance story has truly reached an exciting chapter. I hope to shed some light on that today.

Jumping to slide 3, for those of you who are less familiar with Nuance, we are a pioneer in conversational AI solutions helping professionals work more efficiently and effectively every day. We do this across two-key businesses -- healthcare, which is of course about two-thirds of our business, and enterprise, which is about a third of the business.

In enterprise, our solutions are used by leading brands worldwide to deliver superior customer services. I would venture to assume that many of you have dealt with Nuance enterprise products on many occasions unknowingly because we provide mission-critical technology for intelligent customer engagement and many of the leading brands across financial services, telco, retail, and other end markets.

While the focus of today's presentation will be on our healthcare division, we are very excited about the growth opportunities we have in front of us in enterprise, particularly in the realm of digital engagement, insecurity, and biometrics.

In healthcare, we help unburden clinicians, radiologists, and care teams with efficient ways to capture clinical information, applying real-time intelligence for better decision-making across the continuum of care.

With intelligence that keeps technology in the background and patients at the forefront, we are constantly innovating to meet the evolving needs of both our providers and patients, which I'll touch on more shortly. These two highly strategic businesses both have a sustainable competitive advantage.

And this is a product of the significant portfolio rationalization efforts that have taken place over the past few years. We have been laser-focused on both simplifying and aligning our portfolio to our strategic growth areas, which is why we recently announced the plan sale of our non-strategic HIM and EHR services businesses in healthcare.

Not only does this position us well to fully execute on our strategic goals with a growth-oriented healthcare portfolio, but it translates into an impressive financial profile as you'll see on the next slide.

First, we have quite a scaled market position serving as a trusted provider to 90 percent of U.S. hospitals and 85 percent of Fortune 100 companies. Our Dragon Medical solutions are used by over 550,000 physicians globally. Nuance solutions are used to create four out of five radiology reports.

This trust wasn't something we accomplished overnight. We have built a great foundation over multiple decades by delivering meaningful, quantifiable outcomes to our customers. We certainly consider ourselves to be in quite an enviable position, which is reflected both in our recent financial performance, despite the impact of COVID, and the guidance we provided in our most recent earnings release.

As a quick snapshot, when you look at Nuance on an organic basis, after the divestiture of our HIM and EHR services businesses, we are expecting revenue growth of 3 to 7 percent in fiscal '21, while guiding for 66 percent gross margins and 25 to 26 operating margins.

Additionally, the superiority of our solutions has consistently been recognized by third-party research firms, such as Forrester, who ranked Nuance as the 2020 leader in conversational AI for chatbots.

Before diving further into our suite of healthcare products, it's important to provide a bit of context on the healthcare landscape and the challenges facing these institutions today, which we have laid out on slide 5.

More than ever, healthcare organizations are facing pressure from all sides, from clinician burnout and administrative overload to compliance risk and revenue pressures. This is in large part due to the major pain point of clinical documentation. As some of you may be familiar with, hospitals are reimbursed for the care that is documented, not the care delivered.

Physicians and care teams are burdened with administrative tasks, spending twice as much time documenting encounters as they do with patients. This is creating a significant burnout crisis. This also creates an existential issue for hospitals, who are struggling to deal with burnout and attrition, not to mention an aging population that comes with more chronic diseases, all while running on razor thin margins and increasing pressure to drive patient volume, throughput, and satisfaction.

Importantly, the figures shown here on the slide are pre-COVID. These issues are only being amplified by the pressures of the pandemic, which has been particularly detrimental to physician burnout and fatigue. Additionally, the postponement, and at times, cancellation of so many elective procedures during the pandemic has caused even more financial strain on these health care systems.

Certainly, these are pressing matters and the challenge of tackling these issues is what motivates us every day, as outlined on the next slide.

Through our suite of deeply verticalized healthcare solutions, we unburden clinicians, radiologists, and care teams. We do this by delivering efficient ways to capture more than 300 million patient stories a year and delivering real-time intelligence for better decision-making across the continuum of care. You can get a sense of the magnitude of the effect we have on our clients with some of these highlights shown here.

I might add, none of these metrics consider the supplemental benefits of our new solution, DAX, which I'll touch on in a bit.

For years, we've consistently delivered outcomes for our clients, from financial and quality integrity to improved patient and care team experiences, including less time on documentation and the capture of appropriate reimbursement through accurate patient acuity and case mix index improvements.

In our radiology segment, we are capturing the reading of radiology studies and ensuring that incidental findings get the appropriate follow-up, and enabling efficient image sharing so that duplicate images are not needed.

The superiority of these solutions has truly established us as a market leader. To further build upon our established position, we have identified several strategic focus areas listed on slide 7 that will enable us to unlock growth and expand our addressable markets.

I'll touch on the specific drivers you see here as we continue through the presentation, but taken together, you can think of our growth moving forward stemming from our large installed base as we convert clients to cloud solutions, and drive ARPU uplift by cross-selling add-on solutions on top of our extensive AI platform.

We also continue to tackle greenfield opportunities as we pursue historically underpenetrated markets such as ambulatory and community as well as international markets. Finally, we are leveraging our scaled integrated platform to develop and sell new disruptive innovations on top of our core products.

Diving a bit deeper into these drivers on the next slide, I'll start with cloud conversion. Traditionally, in healthcare, we sold our offerings on premise, either through term or perpetual licenses. Over the past few years, we have been laser focused on transitioning our existing portfolio to the cloud.

We have adopted a cloud-first mentality on our go to market and selling motions and we are actively converting our installed base. We have made excellent progress in transitioning our Dragon Medical base, with 43 percent of the entire US physician base now on Dragon Medical One.

Our radiology and clinical documentation improvement offerings in the cloud are in the earlier stages of conversion, but we have made good progress there as well. By adopting a cloud-based model, we not only benefit from ratable, highly recurring revenue and attractive unit economics, but also the ability to easily layer-added intelligence, creating an attractive platform play which I'll touch on shortly.

As we start to reach the tail end of converting our Dragon installed base to the cloud, we are pursuing other vectors of growth, focusing on areas that have been underserved historically.

International expansion, we are aggressively pursuing these markets and standing up international clouds.

As of our Q4 earnings, we announced DMO is available in 14 international countries. The ability to serve these 1.3 million additional global physicians allows us to more than double our addressable market for Dragon Medical One alone.

Ambulatory community markets. We have also stood up dedicated sales teams to sell into ambulatory settings and community settings as well, where we have historically had very little penetration, with our focus primarily being on the larger IDN space.

We have significant runway ahead to expand our DMO footprint in these markets. As we continue to expand our footprint, we can leverage our wide user base across clinical documentation and radiology to upsell added intelligence into our core platforms, unlocking meaningful TAM expansion, which you see here illustrated on slide number nine.

In the clinical documentation space, we can upsell integrated intelligence, such as our Computer-Assisted Physician Documentation or CAPD, which is effectively enhanced AI capabilities for the physician to create more complete and accurate notes, driving increased revenues to these hospitals.

By selling CAPD into our DMO base, we double our TAM, creating a meaningful opportunity. Similarly, we can leverage our 80 percent market share in radiology to sell added intelligence and decision support, such as Follow-up Manager, which helps track follow-ups on incidental findings.

Together, these add-on offerings expand this addressable market by two and a half times. Not only is this improving our ARPU and creating a highly attractive platform effect, but it is enhancing the value proposition for our end users, not to mention saving lives in the process.

This is just the beginning of the opportunity we see from this platform approach. Our R&D teams continue to work on innovative ways to amplify our clients' ability to help others, launching 20 new products in fiscal year 2020 alone.

One of those products which I'll focus on in the next few slides is our state of the art Dragon Ambient Experience, or DAX solution. Launched late in February in partnership with Microsoft, DAX enables high quality clinical documentation that writes itself.

While some of you have previously seen a demo on our DAX solution, we wanted to give all of you in attendance this morning the opportunity to sign up for a demonstration so you can really get a feel for the sophistication and incredible power of the product.

We have provided a link on this slide that will direct you to a link to sign up. The link is easy to remember, so go to nuance.com/daxinvestordemo to register for this demonstration, which will be held on January 21st.

While the technology behind the scenes is certainly revolutionary for health care, the user experience is very straightforward. DAX's ambient recording process allows a physician to focus all of her attention on the patient for the entire interaction, whether virtually or in person rather than spending time taking notes.

DAX does all the work from there and the doctor receives a completed clinical note shortly thereafter that just requires the doctor's final review and sign off. DAX eliminates the burden of documentation, freeing clinicians to focus on what they got into medicine for in the first place, helping patients.

The benefits go even further than that, giving them back time in their day, improving satisfaction, and decreasing burnout. We have heard firsthand from physicians how life-changing this product is. It allows them to have dinner with their families and it restores the joy of practicing medicine.

Turning to the next slide, let me describe in a little more detail how DAX works. During an in-person or telehealth encounter, the conversation between clinician and patient is securely recorded, diarized, and automatically converted into a clinical note and then populated into the EHR.

Physicians can speak completely naturally and key information is translated into clinical terminology through intelligent summarization. Technology is able to learn with each patient encounter, creating a continuous AI learning loop.

After going GA just under a year ago, DAX is now available in 14 specialties. You can see this creates a significant market opportunity, which we estimate to be between four to eight billion dollars.

As I previously said, this product can be utilized both in person and in telehealth settings, which as you all know has risen to the forefront for many health care systems across the country. The

same process of recording and diarizing can be accomplished with telehealth using the DAX mobile app and any telehealth platform.

We are working to have more deeply embedded integrations into telehealth solutions in the future. For example, this fall, in continuing our partnership with Microsoft, we are excited to announce DAX's integration with Microsoft Teams, allowing for an even more seamless DAX telehealth experience.

Given our deep customer relationships and technical prowess driven by over 3,000 terabytes of data, DAX is already trusted by many large hospital systems today. We are seeing many of our clients start by rolling out the product to 10, 20, 30 doctors, with plans to expand from there after proving out the ROI.

As an example, last week, we announced that Rush University Medical Center is expanding its use of DAX to 14 different specialties across the health system. Across our client base, we're seeing DAX drive impressive, measurable results in operational efficiencies as well as provider satisfaction and patient satisfaction, just some of which are outlined on slide 12.

Institutions are measuring the ROI of the solution in a multitude of ways, including enhanced patient experience, more sustainable physician experience, documentation quality improvement, and increased operational efficiency. These results in the physician quotes that you see here are outlined in further detail in the white paper we published on DAX, which can be found on our IR website.

Taking all of these growth drivers together, they are not only contributing to the meaningful TAM expansion, but they are also driving significant cloud ARR growth, as represented on slide 13 in the 30 to 40 percent CAGR for our midterm outlook. We see cloud ARR as the most important metric for us as we track our cloud conversion and transition to highly recurring revenue.

With regards to DAX, we're excited about the early progress we have made and have provided ARR targets of 10 to 20 million in FY21, accelerating to between 100 and 250 million at the end of FY23, reflecting our confidence and excitement in the offering.

While the TAM opportunity from DAX is sizable and incredibly enticing for us, you can see that the majority of our ARR growth will come from our core healthcare cloud offerings, such as DMO and PowerScribe One.

Turning to slide 14, as we grow our ARR, this in turn will flow to our top line cloud revenue, which is increasingly driving our overall growth as we see here in our healthcare division. In fiscal year '20, the success of our cloud offerings resulted in an impressive year-over-year cloud revenue growth of 37 percent. In 2021, we have guided 29 to 33 percent growth.

Our expectations for significant ARR growth in the midterm will drive further cloud revenue growth as manifested in our guidance. In fiscal year '21, we expect almost 60 percent of our healthcare revenue to come from the cloud, up from just under 50 percent last year.

While we are very pleased with the progress we have made to date transitioning to a ratable revenue model, we still have quite a bit of runway to go. On top of our excitement of our ARR and cloud revenue growth, and the portfolio as it stands today, we have several other cutting-edge innovations that are coming down the pipe which I wanted to give you all a flavor of today.

On the left side of slide 15, we have our AI marketplace that ties into our radiology business. With this unique ability to connect AI algorithm developers and end users with their existing workflow, the AI marketplace puts the radiologist in control of their AI experience. It starts with a trusted network of connecting AI developers and Nuance radiology users across 8,000 facilities.

With our AI marketplace offering, we can connect subscribers or users of AI to the developers or AI suppliers, all within the daily workflow of the radiologist's reporting desktop in an innovative two-sided network that can be utilized by a wide range of groups.

Another very exciting offering we have in the works is our patient-engagement solutions which we formally announced this morning with our first contract. By leveraging our enterprise division's Intelligent Engagement technology, we can actually power the modern digital front door for patients.

With appointment management and patient support, organizations can automate omnichannel communication for patients, improving both patient satisfaction and clinical outcomes. Again, these products are in very early stages, but we are very excited about their potential as we continue to build out these offerings as extensions and adjacencies to our core platform products.

Before I turn things over to Q&A, I wanted to summarize our competitive advantage on our final two slides. Beyond our constant innovation and state-of-the-art technology, our clear vision, portfolio, and collective AI capabilities, and clinical expertise means Nuance has this credibility and power to deliver outcomes no one else can.

Our position as a trusted advisor in the industry is due to the relations we have built for many decades and not an easy feat to replicate. We continue to have industry-leading recognition accuracy, consistently recognized across the conversational AI industry, driven by vast stores of healthcare-specific data we have accumulated over 20-plus years.

We also leverage our strong partnerships to tightly integrate into the workflow of our users across clinical environments, which requires deep verticalization as well as strong partnership with other healthcare IT vendors. Finally, we have an extensive global network of a direct sales force, channel partners, and partnerships that enable broad coverage of our solutions.

Overall, I couldn't be more pleased with our position as we move forward into 2021. Between the underlying industry fundamentals driving a great need for our solutions, to our TAM expansion opportunities and new vectors of growth, I feel that we are well poised in our path towards unlocking exciting growth and innovation.

As a final point, I wanted to mention one last achievement that I'm incredibly proud of. Since joining as CEO, I've continued to take pride our commitment to the people who work here at Nuance. We have made significant strides in this category over the last few years.

That is why I'm very honored to announce that Nuance was ranked number one on the Built in Boston Best Places to Work for 2021. This is a tremendous honor and one that we plan to build upon in 2021 and beyond. With that, I'd like to turn it over for Q&A.

[pause]

Dan Tempesta: OK, for everybody who's listening, and if you want to ask any questions, there is a question option on the website. We'll get those questions and we're happy to take any questions you might have.

[pause]

Dan: Mike, do we see any coming in at this time?

Michael McGuire: It may just take a minute for them to populate. Maybe give everyone one or two minutes.

Dan: OK.

Michael: We'll give them a couple of minutes.

Mark: I guess I was that thorough.

Michael: You were that thorough, Mark.

[pause]

Dan: Maybe another 15-30 seconds here and see if anyone has any questions, and then otherwise we may wrap it up.

[pause]

Michael: We have one question that came through. One of the challenges of adopting new technologies is its integration with EHRs and building or hard wiring new practice behaviors. How, if any way, do we support that here at Nuance?

Mark: Pete, do you want to take that?

Peter: Yeah, sure. It's a great question. One of the advantages that we have is based on the long history of our solutions, especially on the drug and medical front that Mark alluded to, we already have connections to pretty much every EHR in the market.

With approximately 60 percent of all clinicians using our technology, we have this last-mile infrastructure already in place that works with Epic, Cerner, Meditech, Athena, ClinicalWorks, etc. One of the advantages that we can do is we can just layer in new intelligence and content into that platform.

As Mark alluded to, our computer-assisted physician documentation is basically using those last-mile [indecipherable] to deliver intelligence that improves the quality of documentation, on top of the Dragon medical footprint. It's never an easy thing to do, but we are in a really good position to just, again, leverage the footprint that we've built up over the last two decades.

Michael: Great. We have another question. This is more for Mark and Pete. Can you discuss a little bit more about who you think the target market is for that digital front door offering? We'll

start with that part and then go to the second half.

Peter: Hey, Mark. You want me to take that? Yeah. The great thing for us is, as you know, pretty much every health system in the country is worried about reimagining their engagement strategy with patients. This was happening before COVID. We haven't been in a C-suite. We do probably 100 C-suite meetings a year with our clients.

About two or three years ago, the digital front door really became a high priority. COVID just massively accelerated that. I'm not overstating it, I haven't talked to a client literally in the last couple of years where this has not been a priority. We really accelerated our efforts to do that. Every client's at a little bit different position in terms of their maturity in handling this.

Obviously, telehealth has been a huge priority just to survive COVID as all the care went virtual. There is a much larger set of opportunities, so for us, this is a very active set of discussions with the vast majority of our clients today already.

Michael: That's helpful. That also answers one of the questions about the feedback in the early days. We do have a question on how this could translate into Microsoft Teams or telehealth? Maybe more broadly, is there a way that Microsoft, the partnership there, could be helping us with that digital front door offering?

Peter: Mark, you want me to take that or you want to take?

Mark: Yes, you're doing great.

Peter: A couple of things, if you think of the digital front door, in a simplistic way, there is use cases. Pre-visit, during the encounter, whether it's virtual or not, and post-visit. When we talk about the digital front door, it's also the back door in a way.

A sort of funny way to think about it, but we think about this as engaging patients before they come into see a doctor or other caregiver, during the encounter, and post the encounter. With DAX, we've initially focused clearly on during the encounter with Microsoft. As you know, Microsoft has been making a big push into the patient experience and patient engagement.

We are already actively in a number of deals with them where our technology is sitting on top of Azure, connected to Teams, and having a number of discussions around that. There are also opportunities to extend that integration into their entire Microsoft Dynamics and Power platform

that they have. We see a big opportunity to expand our partnership with Microsoft in this area.

It's early, as we just announced the solution today, so much more to come on that. We see a lot of synergy there too, in addition to the work we've already done on DAX.

Michael: We had a question about the hospitals and their return to normalcy. I'll also add onto this. We're 10 months into COVID. How is the hospital systems, based on your experiences, out there selling in the market? What level of normalcy are they at.

Then also, what are some of the intentional Accelerated demand opportunities within the healthcare space that are out there because of the products that we sell here at Nuance?

Mark: Maybe I'll start and Pete can follow on. I think we've discussed this on all of our calls really through the pandemic. What we started to see is the systems being able to manage their COVID inflow with non-COVID or perhaps their more standard patient volumes. Certainly, with this more recent surge, we do see some of the systems challenged with COVID volumes.

They've been really effective at being able to manage the two sides of the patient care continuum, if you will. Fortunately, we've been able to support our customers as well as continue to provide them with solutions that help on productivity, that help on efficient patient care.

As I mentioned in my remarks, we see the value proposition actually quite bright in the current environment and accelerating a bit as we exit COVID hopefully these next couple of quarters. The systems are definitely been challenged, but had been really able to cope rather well. Pete.

Peter: Just to add what Mark said, it's a very challenging situation for our clients as you know. We've talked to a lot of our clients, we have a lot of personal friends in there. It's pretty serious right now, but as Mark said, we've been doing extremely well during this period.

None of us can predict the future exactly. The reason that is is because our solutions deal with problems that...critical, burning platform problems these folks have. They really center around three areas.

Number one is clinicians were burned out before the pandemic. Now, they are completely fried. Anything that can help bring some level of support to clinicians, and this involves for us DMO, DAX, PowerScribe. We really attack that problem head on.

Secondly as you know every health system is under tremendous financial strain. We have a whole set of solutions that directly affect the revenue capture that these institutions have. For the visits that they have, they want to make sure they get the appropriate reimbursement.

Third is because of this new virtual care environment, they have to have full cloud-native capabilities so they can support this very distributed and virtualized care environments. All of our cloud products do that.

Although we can't predict exactly what will happen, we feel very well aligned with critical needs that our clients have. That's what has allowed us to continue to perform very well despite this once in a century situation.

Michael: We're getting a question on the enterprise business. How do you see the enterprise business evolving...Do you expect there to be a move to more of a cloud-based revenue model there over time as well?

Peter: We appreciate the question. We're really pleased with the performance of that business, too. As an example, this morning's announcement of our patient engagement, which is a way that we leverage our suite of services offered in the enterprise business into the healthcare industry.

In many of those products that we've launched around out intelligent engagement or security and biometrics are cloud-base. We'll continue to benefit from that and benefit from leveraging the solution in healthcare and cloud enabling many of their solutions.

They're probably in their earlier innings of that transition, but certainly the new products and go-to market, while they may not only be cloud-based meaning we still have the ability for customers to host their own solution, we are seeing pretty good take up with the cloud products.

Michael: We have a bunch coming in on DAX, so I'll maybe do this a little bit rapid fire. Can you describe the sale cycle for DAX, just a little bit more granular level, either Mark of Pete.

Mark: Pete, you want to...

Peter: It varies a little bit on client in terms of what their position is and how bad COVID is in their environment. We've definitely seen it accelerate in over last number of months. Even though COVID's gotten worse, I think the pressure on these sites, as I mentioned in one of my previous answers, to helping their clinicians has really accelerated.

We've gotten more and more proof points around DAX that again, that we've alluded to in the white paper. I would say on average, what we're seeing now on the sale cycle is somewhere between 60 and 120 days give or take.

We also have the situation as Mark and Dan had talked a lot about is that we have got these two phases of land and expand. When I talk about that sales cycle, I'm really talking about the land phase. On the expand side, we're really starting to see some acceleration there. Often, that can happen relatively quickly depending on the client.

What we're seeing right now is within a few weeks of deployment, the client starts to get tremendous positive feedback in general from their clinicians. Then the question becomes how fast can they move on the expand side. I don't know Mark, if you wanted anything to that?

Mark: I think everything Peter said and more, I think we're a little cautious here just because we're in a window right now that's not easy for us to talk more than we have.

I would say that echoing Peter's comments as well as our previous comments from our prior quarter on the expand phase, I would say that continues to be something we're seeing as far as the early adopters continue to expand.

You saw us publicly announce Rush moving to 14 specialties. We continue to be focused on both land and expand. We're seeing good uptake really on both aspects.

Michael: Again, another one on DAX. Can you talk a little about the competitive landscape there and specifically how often are you seeing head-to-head competition with any of the other players that may be out there in the space trying to do what DAX does.

Mark: Peter.

Peter: It's a great question. We're always paranoid, but right now on the vast majority of environment, there really is no one that has a directly competitive solution that's as advanced as we have. Generally, the competition is status quo. Are they ready to make the move? Are they ready to put a new solution in? Are they ready to take the next step in technology?

There are a number of players out there that are in the space that people are aware of, but really our big focus and with our clients is getting those first ones in, and then having them see the ROI

and move forward.

Again, the biggest competition we've seen is just with all the other things going on, are they ready to jump in? Again as Mark alluded to, we're seeing good acceleration with clients jumping in both on the land and expand side. I don't know Mark, if you wanted to add anything to that?

Mark: I think that's well said.

[crosstalk]

Michael: Two minutes left, we have...Sorry, go ahead Mark.

Mark: Probably time for one more question.

Michael: Yup, that's exactly what I was about to day. Could you maybe expand a little bit more on the Rush release that came out today and the expansion that they had. Specifically, was there any color that they gave in terms of reasons...were there specific reasons for the confidence that they had in the expansion when they were adding to the number of users of DAX?

Peter: Rush is a phenomenal client of ours. They are basically a Nuance shop through and through. Was the first partner we signed on for DAX awhile back, but their reasons are very similar to everyone else. Everyone has a slightly different twist.

It all comes down to the same set of metrics, generally speaking, which is, "Are my docs happier? Are they more productive? Can they see more patients? Can my physicians go home at night not completely burned out? Am I improving patient experience?"

It's around provider satisfaction, patient satisfaction and revenue uptake. Every client has a little bit different mix of how they look at that, but those are the same metrics that Rush looked at when making that decision. We've seen that consistently across each client using DAX, although the mix of what they consider most important will vary a little bit.

Mark: That's right. I thank you, Peter. I think that's all the time we have this morning, but I want to invite anyone who's interested in any follow up discussions to reach out through the IR channel with Michael McGuire here. Of course we'll do our best to make ourselves available when we can. I thank you for joining us today. Have a great rest to your day.

Peter: Thanks, everybody.

Michael: Thank you.

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