[NUAN] - Nuance Communications, Inc.
Q1 2021 Results Conference Call
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Officers
Mike Maguire, Head of Investor Relations
Mark Benjamin, Chief Executive Officer
Dan Tempesta, Chief Financial Officer
Rob Dahdah, Chief Revenue Officer

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Stephanie Davis, SVB Leerink
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Jeff Van Rhee, Craig-Hallum

Presentation

Operator: Good morning, and welcome to the Nuance Communications first quarter earnings call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note this event is being recorded.

I would like to turn the conference over to Mike Maguire, Head of Investor Relations. Please go ahead.

Mike Maguire: Good afternoon, and welcome to our Q1 2021 call. I hope everyone is remaining healthy and safe during these times.

Joining me today to discuss our Q1 results are CEO Mark Benjamin and CFO Dan Tempesta. Additionally, during the Q&A portion of the call, we will be joined by Chief Revenue Officer Rob Dahdah.

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 uncertainty 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, and all references to year-over-year financial comparisons on a continuing operations basis, unless otherwise stated.

As noted in our press release, we have issued prepared remarks in advance of this call, which include a full reconciliation of continuing operations to total operations, and 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 Benjamin: Thanks, Mike, and thank you all for joining us this afternoon. I hope that everyone is staying safe, and my thoughts remain with those whose lives have been affected by COVID-19. I'd also like to speak on behalf of our entire Nuance community in expressing my deepest gratitude to all those who are working on the front lines to keep our global communities safe.

As I have stated before, 2021 in many ways marks a new era for Nuance, with a clear path towards growth and execution against our strategic and financial initiatives. And we got off to a great start in Q1, with strength on both the top-line and bottom-line, as revenue and EPS exceeded the high end of our guidance ranges at $346 million and $0.20, respectively.

I'd also like to congratulate our sales force on their strong execution in this ever-important start to our fiscal year.

In Healthcare, the dedication of our sales force to our cloud-first approach resulted in a robust ARR performance, starting the fiscal year on strong footing. This execution led to a solid performance across all core cloud platforms, growing Healthcare cloud revenue 28% year-over-year.

In particular, we generated strong year-over-year growth in Dragon Medical and DAX Cloud revenue, as we move our installed base to the cloud and pursue underpenetrated markets for DMO, and execute on the early stages of our land and expand strategy for DAX.

Additionally, today we announced the acquisition of Saykara, an impressive startup that will help to further enhance the long-term product roadmap for our DAX solution.

And finally, we launched our omnichannel Patient Engagement virtual assistant platform, powering Healthcare's 'Digital Front Door,' which leverages an established area of expertise in our Enterprise business to address a critical healthcare trend.

In Enterprise, we delivered a record revenue quarter, as we continued to execute on our AI-first approach. Underlying this strength was particularly healthy performance in Intelligent Engagement, with one of our strongest quarters ever for our Security & Biometrics solutions.

And lastly, I am honored to announce that last month, Nuance was ranked the #1 Best Place to Work for in 2021 by Built In Boston.

As most of you know by now, creating a culture where our employees are supported and able to do their best work is incredibly important to the executive team and me. And I'd be remiss if I didn't take this opportunity to congratulate our talented employees, who are the bedrock behind our incredible culture at Nuance. It's their shared passion that keeps us on the cutting-edge, delivering superior outcomes for those we serve, as evidenced by our strong financial performance and Q1 results, which I'd like to highlight now in greater detail.

Looking at our Healthcare business, Q1 marked yet another strong quarter for our clinician platform, with Dragon Medical and DAX Cloud revenue growth of 22% compared to Q1 of last year. We continue to expand our Dragon Medical One footprint through a combination of transitioning our installed base to the cloud, and increasing our market share in underpenetrated markets, such as ambulatory and international.

On the international front, this quarter we completed a key Clinical Safety Compliance milestone for DMO in the UK, marking an important step in the expansion of our presence in that market. Overall, we saw strength in the quarter in the UK, Germany, and France, with key wins at Manchester University Foundation Trust and The Joint Management of Vendee Public Hospitals. Building on this momentum, we also launched Dragon Medical One in 2 new international countries, Ireland and Spain.

Importantly, we are leveraging this growing base of DMO users to seamlessly layer in additional solutions, including our Computer Assisted Physician Documentation, or CAPD, to organizations such as McLeod Health in South Carolina, who adopted our surgical CAPD solution to improve costs and ensure accurate reimbursements. Beyond these financial outcomes, organizations leverage CAPD's great functionality for a range of additional benefits, such as Kettering Health in Ohio, who selected CAPD to improve both patient safety and overall outcomes in emergency room care.

Moving beyond our core Dragon Medical One platform, we continue to see positive traction with our state-of-the-art Dragon Ambient eXperience solution, or DAX. The Private Diagnostic Clinic of Duke Health, San Joaquin Hospital, Mercy Health, and Blaydes Eye Clinic, among others, are selecting DAX to reduce physicians' administrative workloads, increase patient throughput, and improve the patient experience by allowing the doctor to completely focus on the patient.

In addition to the strong value proposition, our DAX momentum is also due in part to our robust digital marketing efforts and the resilience of our sales force in embracing virtual selling. In fact, quarter-over-quarter, we saw a 48% increase in virtual DAX demonstrations delivered to prospects.

And while we remain laser-focused on landing new clients for initial deployments, we are encouraged to see early progress with client expansion, as 40% of the deals signed in this quarter were for existing DAX customers to expand to additional physicians. As an example, last month we announced that Rush University Medical Center expanded use of DAX to 14 clinical specialties. And we are excited to see similar traction with organizations such as WellSpan Health, Connecticut's Children Hospital, and Cooper Health, all who are expanding their DAX usage.

Finally, we continue to expand the reach of DAX to even more physicians, with the offering now available in 16 specialties, including the recent rollouts of oncology and rheumatology.

Overall, we are highly encouraged by the early traction of DAX, and view this positive momentum as a testament to the strong value proposition and ROI of the solution.

Solving the pain point of clinical documentation, reducing burnout, and restoring the joy in practicing medicine is what motivates us here at Nuance every day. With that in mind, I am excited to announce our acquisition of Saykara, a Seattle based start-up that shares our strong sense of purpose in combatting the epidemic of physician burnout through the development of mobile AI technology that automates clinical documentation for physicians.

With this acquisition, we are bringing together the best and brightest minds in AI, machine learning, and ambient technology for healthcare by adding Saykara's leading scientists and developers to our world-class R&D team. This talent includes Saykara's founder, Harjinder Sandhu, who is very familiar with Nuance, having previously served here as an executive in R&D, and whom we are very excited to have rejoin our Nuance family. We are confident that Saykara's complementary technology will not only benefit our portfolio, but also enhance our multiyear product roadmap for DAX, as we remain committed to solving some of healthcare's largest challenges.

Moving on to our Radiology business, we continue to see strong demand for our cloud-based solutions and add-on offerings. We were able to showcase some of these exciting offerings at the annual meeting of the Radiological Society of North America, which took place in an all-virtual format this year. The sales and marketing team maximized this virtual event, with Nuance-sponsored presentations, as well as an online demonstration of our AI-powered, cloud-based Radiology Experience of the Future, which showed how the capabilities of our diagnostics portfolio combine to transform radiology reporting for a changing world.

We continue to bring disruptive innovations to the market, including our AI Marketplace offering for radiologists, which I recently discussed at the JP Morgan Healthcare Conference. With the AI Marketplace, our deep existing integration into the workflow of radiologists affords us the unique ability to connect AI algorithm developers and end users within their existing workflow. The AI Marketplace gives radiologists a convenient, one-stop shop to select, prove, and use AI in their workflows.

And the most recent innovation that we first announced last month is our new Patient Engagement platform. Leveraging our extensive experience in customer engagement with the globe's largest customer services companies like American Airlines and Rakuten, our Patient Engagement platform enables healthcare organizations to deliver world-class engagement experiences to their patients. With an estimated 84% of patients under 40 looking for a provider that uses advanced patient engagement technology, we are excited to help organizations address the urgent need to transform the access and delivery of care in the modern age of digital medicine. And we feel we are perfectly positioned to naturally extend our customer engagement solutions into our strong base of hospital systems.

The satisfaction and positive experience of our Healthcare customers is a crucial driver behind our success, and that satisfaction was further validated in recent weeks. First, Nuance scored its highest Net Promoter Score to date, coming in at 59, well above the software industry average of 30. And second, our Dragon Medical One platform was recognized by KLAS Research as the winner of the 2021 Best in KLAS award, a direct result of the clinician praise we received in helping to deliver improved patient care.

Along with this recognition, we are also pleased to have won the Best in KLAS for our Quality Management solutions for the sixth time in KLAS's annual Software and Services Report. These impressive milestones are a testament to our relentless focus on customer satisfaction, and we continue to build upon this success across all of our business lines.

Turning now to our Enterprise business, we achieved a record level of Enterprise revenue, beating our previous high from Q1 one year ago. With the world increasingly operating on digital channels, an unfortunate consequence is the increased number of opportunities for fraudsters and bad actors to try to infiltrate customer accounts. This has only been exacerbated by the pandemic, during which current Nuance Enterprise customers have seen the volume of fraud attacks increase by 200% to 400%. And with the shift to digital-only accelerating, we have seen an increased demand for our Security & Biometric solutions, particularly in financial services, telecommunications and the mid-market, as enterprises seek to protect customer safety and enhance customer loyalty.

For example, in Q1, the Industrial Bank of Korea, or IBK, deployed our market-leading voice biometrics technology to create the industry's first biometric solution for video calls. By leveraging Nuance AI, IBK is protecting more than 100,000 customers from fraud by authenticating their identities during both video and phone conversations.

And we continue to expand our capabilities beyond just authentication, signing our first deal in the Digital Identity Management space with Verizon. As part of this joint venture with other leading telecommunication companies, Verizon has developed an application named Zenkey that works to identify the creation of fake accounts by fraudsters and bots. Zenkey will utilize Nuance's voice biometrics solution to identify and authenticate customers in a secure and seamless way, marking an important new use case for this offering.

Beyond this success in Security & Biometrics, during the quarter, we saw strong traction with our broad portfolio of omnichannel Enterprise solutions, as we delivered our AI-First capabilities to strengthen the customer experience. A great example of this is through our involvement in the nation's health insurance open-enrollment process that takes place each fall.

Once again, in conjunction with one of our partners, we were a trusted vendor for the Center of Medicare and Medicaid Services, or CMS, who is responsible for ensuring that all eligible parties are enrolled with the proper health insurance for the upcoming year. Over the 8-week period leading up to and during open enrollment, our digital solutions left almost 18 million automated messages to over 5 million distinct customers, transacting about 750,000 calls each day. Our digital customer engagement portfolio continues to help brands deliver the streamlined, frictionless, and fast conversational experiences that consumers expect and appreciate.

Another important example of this is our recent international win with SpiceJet, one of the largest airline providers in India, who selected Nuance to launch Pepper, the first bilingual, AI-powered virtual voice assistant in the Indian airline industry.

The hard work of our Enterprise team has positioned us to become one of the strongest brands in the Customer Engagement space, and this has not been overlooked by third-party research organizations. Just last week, Nuance was named the top vendor by Opus Research in their 2021

Decision Makers' Guide to Enterprise Intelligent Assistant Report for the fourth consecutive year, recognized for our unmatched omnichannel deployments, superior platform, and rich APIs.

In addition, Nuance's Gatekeeper solution received Info Security PG's 2020 Global Excellence Award for Service of the Year, AI in Security. These prestigious global awards recognize cybersecurity and information technology vendors with advanced, ground-breaking solutions that help set the industry bar higher, and we look forward to raising this bar even further in years to come.

Beyond our many successes across Healthcare and Enterprise this quarter, we continue to make great strides in creating a work environment where our employees are supported and rewarded for their important contributions. That's why I'm extremely proud that in addition to being ranked #1, Best Place to Work In Boston, we also ranked as the top company for Best Perks and Benefits and one of the Best Paying Companies in Boston as well. This is on the heels of other impressive accomplishments, including being named one of The Boston Globe's Best Places to Work last month, scoring 100% on the Corporate Equality Index, and being named one of the Best Places to Work for LGBTQ Equality for the third year in a row by the Human Rights Campaign Foundation.

We view these external recognitions as a tremendous honor, both vital and strategic to our ongoing success as market leaders in conversational AI technology. We are building Nuance for the future, and as part of that, we are constantly looking to attract, grow, and retain the world's best and brightest minds. So making investments in our culture and employees will remain a top priority for us.

We are extremely proud of what we've achieved to date, but make no mistake: We will continue to strive for further excellence as we move through 2021 and beyond.

So in closing, Q1 marked a great quarter of solid execution against our strategic initiatives, and I want to both congratulate and thank our employees for their hard work and unwavering commitment to our mission.

And with that, I'd like to pass it off to Dan to discuss our financial performance.

Dan Tempesta: Thanks, Mark, and thanks, everyone, for joining us today. I want to start by echoing Mark's comments that our thoughts continue to be with those who have been affected by this trying pandemic. And we are extremely grateful for the hard work and resilience of the front-line workers through these unprecedented times.

I also want to take a moment to recognize all our employees for their dedication to building a supportive culture in our work environment, one that I'm incredibly proud to be part of.

Turning now to our results, I will begin with a discussion of our Q1 2021 performance, followed by an update to our fiscal year 2021 guidance.

Overall, we are pleased with our strong start to fiscal year 2021. We generated $346 million of total revenue in Q1, coming in above our guided expectations, and resulting in a 4% decline year-over-year. This decline was primarily due to a non-strategic Healthcare Coding contract with the Government that did not renew, which we discussed during our last earnings call in November, creating a difficult compare versus Q1 of last year.

Our profit margins had an excellent start to the year, with non-GAAP gross margins at 65.2% and non-GAAP operating margins at 26.4%. And our non-GAAP earnings per share were $0.20 for Q1, also landing above our guidance expectations for the quarter.

Shifting to our segments, our Healthcare revenue declined 7% compared to Q1 a year ago, again, driven by the government coding contract that did not renew. However, as a result of a recent request by the government for an extension, we now expect to receive additional revenue from this contract in fiscal year 2021, which I will touch upon when I highlight our updates to guidance.

Outside of this contract, we saw strength in our Healthcare business in Q1, particularly from our cloud offerings. As Mark mentioned, Healthcare cloud revenue grew 28% year-over-year in the quarter, driven by strong performance from our Dragon Medical One and CDE One offerings. This growth was partially offset by declines in our on-premise offerings, as we transition our current installed base to a stronger, cloud-based recurring revenue model for the Healthcare business. This cloud transition is tracking well, and we remain confident in the full year revenue and ARR guidance we have provided, which I will also touch upon shortly.

Our Healthcare segment profit in Q1 was very strong and came in at 37.5%, up over 6 percentage points quarter-over-quarter, and 3 percentage points compared to Q1 of last year. These higher profits are the direct result of the mix shift away from our on-premise coding business and towards high-margin cloud revenues, particularly within Dragon Medial One.

Moving to the Enterprise business, we had another strong quarter with record revenue of $139 million, which was flat year-over-year due to a strong Q1 a year ago. The performance this quarter was driven primarily by strength in Security & Biometrics, as we continue to expand our use cases and adoption for these solutions. This strength was offset by lower IVR license revenue versus a year ago, due to a tough compare.

Enterprise segment profit in Q1 was 29.8%, up 7 percentage points quarter-over-quarter, but down 40 basis points compared to Q1 of last year. As a reminder, Enterprise revenues and its corresponding segment margins are subject to quarterly fluctuation due to the timing of license activity. And while we are pleased with our strong execution and pipeline during the quarter, I would encourage investors to analyze our Enterprise segment performance on an annual basis.

Turning now to our balance sheet, we ended the quarter with a cash and marketable securities balance of $374 million, above our minimum cash balance target range of $200 million to $300 million. Our cash flow from continuing operations in the quarter was $55 million, up on a year-over-year basis.

And finally, last week, we closed a 5-year extension of our revolver, extending the maturity to 2026, while also upsizing the credit facility from $242 million to $300 million.

Overall, our Q1 results position us well to achieve our financial objectives through the rest of fiscal year 2021, and I remain encouraged by our momentum in executing against our strategic growth initiatives.

Let's now turn to guidance. First, I would like to point out, consistent with last quarter, our Q2 and fiscal year 2021 guidance contemplates the current environment with respect to the impact of COVID on our end markets.

Second, with regards to the planned non-renewal of the government coding contract, the corresponding government agency has recently requested an extension of that contract through a portion of fiscal year 2021. Therefore, our updated guidance reflects approximately $15 million of incremental revenue from this extension, the majority of which will be recognized during Q2. Thereafter, our guidance assumes no further extension or renewal of this contract.

Taking this into consideration, we are providing the following updated guidance for the year. For fiscal year 2021, we now expect total revenue in the range of $1.342 billion to $1.382 billion, up $15 million compared to our previous guidance range, implying organic growth of 5 to 8% year-over-year.

Our full year EPS guidance remains unchanged at $0.71 to $0.77 despite the higher revenue expectations, due to accelerated R&D and sales investments and an increase in our diluted share count to 318 million shares. I would remind investors our diluted share count is impacted by our stock price, which is currently trading above the conversion price of our outstanding convertible notes.

Additionally, we are reiterating our full year cash flow from operations and free cash flow guidance ranges of $270 million to $310 million and $215 million to $250 million, respectively.

Turning to our segment guidance, taking into consideration the government coding contract extension, we now expect Healthcare revenue for fiscal year 2021 in the range of $782 million to $802 million, implying 9% to 11% growth year-over-year.

All other full year guidance ranges for Healthcare and Enterprise remain the same.

Additional color on our Q2 and updated full year guidance can be found in our Prepared Remarks document available on our Investor website.

Before opening the call to questions, I would like to let you know that we will be attending the SVB Leerink Global Healthcare Conference on February 25th and 26th, and the Morgan Stanley Technology, Media, and Telecommunications Conference on March 1st. Both conferences will be held virtually, and we hope to see you there.

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

Questions and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions). Sanjit Singh with Morgan Stanley.

Sanjit Singh: Nice start to this fiscal year. I have two questions. I want to start first on from a macro perspective. You mentioned on DAX, you saw 40% of the deals in the quarter were expansion deals, which was nice to see. But broadly, when you think about the country going through vaccinations and sort of the workload that puts on hospitals, has that sort of impacted deal activity, or people getting out of pilots in the quarter? Any sort of view on how vaccinations and how that's going to play out over the next couple of months could impact deals getting done.

Mark Benjamin: Yes, sure. Hey, Sanjit, it's Mark. Thanks for the question. I'll start and I'll hand it maybe over to Rob to give additional color but -- and we agree, we're off to a great start, so we're really thrilled. We obviously watch the hospital systems quite closely, and throughout COVID, we've had kind of these peaks and valleys based on case counts. And the vaccinations have certainly, I think, added to a quote, unquote "distraction" at the systems, but obviously, it's one that we all welcome over everything.

So I think we've seen just a kind of continuation of the COVID effect, if you will. And we haven't seen anything, I think, turn against us or for us in any significant way, rather than just a more consistent COVID impact. And I'll let Rob comment on anything else.

Rob Dahdah: Yes, so -- and I think Mark said it well. I think overall, there's definitely -- it's a welcome distraction, if it is one, but each system is dealing with it a little differently. There's not a straight blueprint that we could just point to and say, hey, we're going to expect this across the whole space. So thankfully, it actually hasn't been a distraction to us, and we've been working through it system by system. And again, if it is a distraction, we're happy to have it for the potential outcome.

Mark Benjamin: Yes, Sanjit, one other thing that may also give you a new data point is that we watch volumes across certain parts of our healthcare business. And the volumes that we're able to measure have essentially stayed flat; they're not yet at pre-COVID levels, if you will. But you remember over the last couple of quarters, we've talked about it returning to roughly 90% of the pre-COVID levels, and we're seeing the same result through the past 90 days, so if that gives you any sense for how the systems are handling it.

Sanjit Singh: That's great color, Mark, and really good to hear. So and maybe talk a little bit about the Saykara acquisition. Saykara definitely came up in our own work around DAX, around AI in terms of the clinical documentation workflow more generally. Is the right way, Mark, to look at Saykara as sort of an acqui-hire, or is it bringing some new capabilities to DAX, to Nuance more broadly?

And if I could add just one more to that, if you could address is, what does this acquisition say about the form factor that's likely to dominate over the next 5 to 10 years? Is it going to be more of the embedded hardware-software appliance, or is it going to be more of the mobile form factor? Does this acquisition speak to those trends in any meaningful way?

Mark Benjamin: Yes, sure, so it's a great question. Obviously, we're really excited about Saykara. To begin, their founder, Harjinder Sandhu, is an ex-Nuance leader within the R&D group. So I would say we remained friends and the engineering teams have remained quite friendly over many years. And when you get very smart teams of scientists working on really one of the hardest problems in HealthTech, if you will, you have a lot to discuss. And in our view, and obviously in theirs, it became somewhat of we have an opportunity here to, I think, combine the world's brightest and smartest scientists on trying to solve this problem. So we obviously spent some time with them.

We felt like we could gain an incredible group of 25, near 30, members to the DAX team, which is great for the solution and the roadmap, as well as we really did feel like some of their not just IP, but their capabilities and some of the feature functionalities that they were perhaps more focused on than us in these early days, would be all additive to ultimately the DAX solution going forward. And I think those attributes will manifest themselves over time.

So for us, as we've said to you and others, we view this as very much a long-term journey. So we're just really thrilled I think to have his team and his company kind of come back to Nuance and really complement ours.

On the modality, let me -- I forgot that second part. On the modality factor, I would say that we're approaching the market with DAX. And I know Saykara, with the use of the mobile phone, many of our DAX users are still using the app versus the unit on the wall. And so I think ultimately, that's going to become more of our customer choice, rather than the form factor that having one leading with the other. Certainly, telehealth creates another form factor where the integration into a team's platform, if you will, is right there within the desktop. So I think this is something that's going to support all types of modalities and use cases from the phone to hardware in the room to other use cases.

Sanjit Singh: Appreciate the thoughts, Mark. Thank you very much.

Operator: Saket Kalia with Barclays.

Saket Kalia: Mark, maybe first for you on DAX, that was a great data point just on 40% of the deals this quarter coming from existing customers sort of expanding the number of doctors. Maybe the question there is what specialties do you find are growing in adoption? And how is that sort of changing that average footprint for hospital -- the average footprint per hospital, understanding that it's still very early, but does that all make sense?

Mark Benjamin: Yes, hey, Saket. It does in and at the fear of frustrating you with my answer because we're seeing like a variety of cases across our early DAX customers that are now expanding. For example, in the quarter, you saw us talk about Rush, where they're expanding a number of different specialties on lower doc counts, and we have -- we announced 4 expansions in this quarter.

There are others as well because none of the customers are buying DAX with the intention of just starting and keeping at the, call it, low levels, call it, that we talked about, the [10, 20] initial deployment. So what we're seeing is an expansion of customers staying within early specialties and expanding the doc counts. And we're also seeing, I would say, equally the same specialty expansions within our early DAX customers.

So we're watching it very closely because we'd love to find that trend line, and Rob would love to focus as precisely as he could to accelerate growth. But we feel very good about it, and I think the fact that we announced this quarter, call it, 40% of the DAX bookings on expansion cases, that's a super-encouraging sign for us this early I think in DAX's life.

So again, I'm not maybe giving you a precise answer because we're really seeing, I think, a variety of ways our customers are really focused on adding to the population using it.

Saket Kalia: No, that makes sense, that makes sense, and it's good to hear as well. Dan, maybe for the follow-up for you, it was helpful to hear some of the strength in Intelligent Engagement within the Enterprise business, that is. Can you just remind us what you've said about how big Intelligent Engagement is in the context of the broader Enterprise business, and maybe how the revenue components inside of Intelligent Engagement are different than the IVR part of the business?

Dan Tempesta: Sure, hey, Saket, nice to hear from you. And yes, Enterprise had a terrific quarter this quarter, so we were really pleased. When you think about Intelligent Engagement, it represents around 45% today of the broader Enterprise business and that will grow over time.

We talked about IVR voice being flattish over time, and the growth, the longer-term growth, at 47% over the mid-term really coming from the Intelligent Engagement business. When you think about the components, historically, the voice IVR business has been primarily license, M&S and professional services, so a traditional license-type business. The Intelligent Engagement is a real mix and it can really span across all the different revenue categories and delivery types of method. But the largest category is the hosting category and so we're very focused on the cloud in that space.

Saket Kalia: Very helpful. Thanks, guys

Operator: Stephanie Davis with SVB Leerink.

Stephanie Davis: As always, congrats on the quarter, now (inaudible) being raised. So I wanted to continue on the Saykara question. The deal accelerates your headcount for a space where it's traditionally been very tough to recruit. Does that mean you'll be able to leverage and accelerate your back-end improvements around DAX for quality review automation, or are you planning for now to keep the teams relatively separate?

Mark Benjamin: Well, let me start with the last part of the question, and I'll work into the beginning. The teams will definitely be integrated and they've already begun that process, so we're very excited about that. And I think as far as roadmap acceleration and product sophistication, if you will, acceleration, we have a very aggressive roadmap to begin with. So if my R&D leaders were here, they would say please don't answer the question with acceleration, and I think they're right. I think we're still trying to solve a very hard problem.

And relative to automation, I think certainly, having 25, 30 new members of the team that have spent many years trying to solve the same problem, is obviously incredibly helpful. And so I think time will ultimately tell if we can get there faster.

At the same time, Saykara does bring not just these talented employees, but it also does carry with it some IP that we feel is additive to the capabilities of DAX over the kind of mid-term, if you will. So for us, it was really just quite natural and of course, when you're able to welcome someone back to the company that knows everything about our culture, and has really developed a lot of his own capabilities and cultures at a different company, it kind of fits real nice.

Stephanie Davis: Before I continue my next question, I have one jab. How are you going to keep him in the company this time? He keeps leaving and developing more stuff you guys are buying.

Mark Benjamin: Well, perhaps, but I feel pretty good. I've gotten to know Harjinder a little bit, and I know that -- I think for this to have worked, I think there had to be a very mutual respect of the two companies' directions, the two companies' capabilities. And I really said -- I think I said it earlier -- I think finding a set of scientists [and who are] incredibly smart individuals that are trying to solve a similar problem to another equally smart and bright set of scientists, I think that's where the magic can really be created and happen. And I think that's the opportunity here, so more to come. I think it will be a real positive path here.

Stephanie Davis: Understood. And one last one out of me. Just given how we are monitoring Saykara, and they've had a lot of wins on the med group side, could this expand your reach a bit more into the ambulatory practice side of the world, or is that still TBD?

Mark Benjamin: Listen, I think Saykara's strength is really building on the engineering and product capability side. And I think one of the complementing factors here is really putting our go-to-market along with their capabilities as well so -- and as you know, Stephanie, we've been focused ourselves on that mid-market ambulatory space with good results. So I think they complement each other. I think largely, the reason this made sense was less about customer footprint because that's certainly, it's super early days for all of us. But I think what I mentioned earlier is really the appeal.

Stephanie Davis: Understood. Super-helpful and congrats again on the continued execution.

Operator: Daniel Ives with Wedbush Securities.

Daniel Ives: So first for Rob, and you Mark, obviously, as well, when you're seeing a lot of these DAX deployments, what sort of surprised you as you're sort of now getting into some of these sales cycles and expansions? Does it feel like the expansions are happening quicker than expected, the types of customers, whether it's specialists or hospitals. Can you maybe just dive a little deeper into some of these interactions with customers on DAX?

Robert Dahdah: Yes, so this is Rob. Thanks for the question, Dan. So if there are any surprises, they're really to the upside. I think probably the -- not a surprise, but what's really been gratifying and reassuring is that pretty much universally, when the physicians use it, they experience immediate increase in their quality of life. And it comes across in varying ways in terms of how they give us the feedback. But like right at the user level -- and it's not like weeks into using it, it's like days into using it. So I think that's been really a strong positive for us here early on, and it's great to have them helping us as we go through the selling cycle. So I think that's been really positive.

Certainly, having launched something as game-changing as this solution is right into the pandemic, that part we learn every day because we're really selling. The entire selling cycle has occurred in a non-standard environment. That's from the -- leveraging the great skill set of an experienced sales team with a new solution in the market, and so we still learn in that respect every day. But I would say again, it's a positive in terms of like what we didn't expect, the resilience of the solution, the tenacity of these conversations that continue through all these different challenges, which you well know. So I think overall, it's been positive.

And the expansions only validate what the team thought of when they first conjured the idea and brought it to market. And so we feel fortunate we're able to have folks not only buy once, but buy again.

Daniel Ives: Great. Could you sort of expand on Microsoft as a partner, especially when we think about everything they're doing on the ACI front; and how they play into spreading the gospel just in terms of the next-gen technologies.

Robert Dahdah: Yes, so I'll stay on that, if I could. We've been -- we just continue to be super-pleased and grateful that we have the opportunity to work as closely with them as we do. I think we think about the market in similar ways, and so, it's really -- we go to market together in a complementary manner. And it's not just on the Healthcare side; it's across our whole business. We have opportunities to work closely together and to really enhance much of what they're doing.

So we think it's a big draw because it's not just a chance to go to market, so to speak, but -- and get more distribution for our stuff, but our stuff we think helps create great interest in some of the stuff that they sell. So it truly is a complementary offering on Enterprise and Healthcare. It's still early, but we have dedicated teams on both sides and we have great levels of access within their organization. I get to meet with the top levels of their teams across the whole enterprise of Microsoft.

And so when I see that level of interest at this stage of the game, I know we're onto something really good and every week we find a new nugget somewhere. And we are working on ways to work that efficiently to the benefit of our mutual customers really at the end. And that's where -- once that starts to kind of become a regular process, I think we're going to really see great results.

Daniel Ives: Great. And Mark, any additional thoughts? Thanks.

Mark Benjamin: Hi, Dan. No, I think Rob hit it. Certainly, on the DAX side, we're seeing very promising results. We continue to obviously measure the data and some of the data that we saw early continues to really hold quite strong. There's the whole patients side of DAX and really the many benefits that we don't speak a lot about, but kind of data points where patients are feeling 95%, 98% more time spent with their physician who is not focused on the computer, greater satisfaction in the employment. So there is just -- there continues to be just in many ways like contributing data points that we learn, that obviously will help shape our product roadmaps, but help us learn of the value that the solution can create. And it's different per physician and at times, per institution.

The Microsoft relationship, I'd say from day one, we've continued to really I think appreciate and benefit from that partnership mutually and I think that continues, as Rob said, certainly on the go-to-market side where quota can be shared and targets can be worked together in a very complementary ways, as well as the access to great capabilities on the tech side, in the core tech side, I think are meaningful to us for the future. So I'd say all very positive, Dan.

Daniel Ives: Awesome. Thanks, everyone.

Operator: Vikram Kesavabhotla with Guggenheim Securities.

Vikram Kesavabhotla: I wanted to start on DAX, and in particular, I'm just curious if you have any updated thoughts on the pricing strategy there, if you've learned anything through these initial expansion discussions, or maybe your latest feedback from customers and through the pilots and through your demonstration? Just any updated thoughts on the pricing model.

Robert Dahdah: Yes, this is Rob. Thanks for the question. Yes, I think largely, we still are enjoying kind of a similar trajectory in terms of the pricing right now we're focused on. And based on customer feedback also, on subscription models that really benefit them with understanding how they're going to pay and creating a more predictable pattern of payment, we learn though every day on how they want to consume it and so we continue to be responsive. But overall, I think we're in a really good position in terms of leveraging their feedback, putting out something that resonates with them, and is around the same price point that we've been discussing over the past -- since the launch, essentially.

Mark Benjamin: Yes, Vikram this is Mark too. Just a little more color on that. So for starters, I think you heard it from Rob, just to make sure that the price points we discussed are still the price points and there's no change to that. And I think additionally, what we're learning -- and again, we're sensitive to our customers' needs and quite honestly, Nuance has built its great healthcare franchise with this level of sensitivity, just given the margin profiles and the expense and budget process that may take place within these systems.

And certain specialties may have different volumes of patient throughput, office hours, exam hours, surgical hours. So we try to work within, I'd say, a very controllable model on our side that has low cost of administration and execution. But also I think gives the end customer what they need relative to DAX and DAX pricing.

Vikram Kesavabhotla: Okay, great. And then maybe just one follow-up on that point. You obviously kept the DAX ARR guidance for this year in fiscal 2-21. Just curious if any of the deals that we've talked about so far, are they contributing to that DAX ARR number so far this year? And just how should we think about the cadence of execution on that front throughout 2021? Any color there would be helpful.

Mark Benjamin: Yes, hey, Vikram, so this is Mark again. So we're still holding the full year ARR guide. We gave the DAX guide for the full year of $10 million to $20 million. We're not changing those numbers so -- but of course, everything we do every day, every week, every month and every quarter contributes to those ARR numbers. So it goes in no matter what, and obviously, Rob's success contributes entirely to that.

So we did get off to a very good start, as we've mentioned, and it is a very good start and meaning it's Q1 and it's probably a little bit early. I think we need a little more time, a bit more execution over the next, call it, 100, 120 days to really -- to know if our full year opportunities have changed.

Vikram Kesavabhotla: Okay, great. Thank you.

Operator: (Operator Instructions). Jeff Van Rhee with Craig-Hallum.

Jeff Van Rhee: A couple from me -- Mark, as it relates to DAX, I'm just curious, as you've watched the opportunity evolve, your execution evolve, your technical capabilities evolve, how has your thinking on the addressable TAM changed? I'm sure you had a lot of question marks maybe about specialties, about some capabilities, how many of those million docs really ultimately were going to be addressable. But I wonder if there are few milestones, as you've been walking down this journey, where there were kind of light bulbs that went on, and said, okay, it's different than what I originally thought?

Mark Benjamin: Hey, Jeff, good to hear from you. I would say it's probably still early days. Yes, I'd say that we continue to make very good progress on the AI automation of the clinical note. And I think that's obviously the bedrock of the solution maturity, if you will. And I'd say that we're seeing very good results in those early specialties that have the volumes moving through them. And as we've explained in the past, the add-on specialties actually require less data as you start to cascade through, call it, all the -- kind of the ambulatory specialties, including primary care, which we also have in the market today, so very good progress there.

And I think ultimately, that keeps the TAM quite big for us and we'll learn more, I'd say, in the next several quarters as these expansion cases begin to really, I think, blossom because we learn something when a customer goes from 10 to 20 docs within the same specialty. And we also learn something when a 25-provider DAX customer goes to 75 and spreads the specialties to 3 additional. So there's just a number of, I think, use cases that we're learning, educating and actually focused on that will ultimately yield in probably a more prescriptive response to you, Jeff.

But for the moment, the TAM-SAM conversation is probably a bit premature. But it will ultimately be something that, rather than us do too much speculation on, will ultimately I think yield.

Jeff Van Rhee: Yes, fair enough. Any change or kind of variance from expectations on your key cloud migrations, whether it's DMO, radiology or CDE One, where you look at either the pace of the migrations or the retention along the path of migration?

Mark Benjamin: I'll let Dan comment because I know he's dying to say something. But no, I would say that getting off to a great start was our number one goal for the year. And as you know, Jeff, in these high-recurring SaaS businesses, that's super-critical, not just to feel good, but obviously, for the full year. We continue to, I think, do very well against the portfolio that's still transitioning to cloud, as well as I think the new organic or strategic growth vectors of the cloud solutions.

So whether that's DMO internationally or in the mid-markets here or transitioning the legacy Dragon base on to DMO, I think all things there, we checked the box on and feel very good about our radiology transition, which is still very early moving to the cloud with PowerScribe One, and getting the benefits of the platform there, continuing to do, I think, as we expected.

So I would say all in all, CDE One, we'd include in that, which again is a smaller base that we've transitioned quite successfully early. So I'd say we feel good. Dan, do you want to add any color?

Dan Tempesta: Listen, I would love to add some more color to that, but Mark did a great job. I think we have a great start for the cloud this quarter. Everyone -- everything hit, so we're feeling really good about the start, Jeff.

Jeff Van Rhee: Yes. Maybe if I could sneak one last one in there, Rob; I didn't get to get to you. So on the budgets, the buyer budgets, if you will, and sales cycles, what have you witnessed sort of last 90 days on either of those? Any lengthening or shortening of cycles and anything surprising in terms of kind of how people are approaching the budgets?

Robert Dahdah: Yes, so it's -- certainly, and the environment hasn't been easy on any budgets on either side of the house, Enterprise or for Healthcare. But I think one of the things that we benefited from is, there is spending, and our stack rank stays pretty high on the project list. So I think because of what we bring to the organizations that we serve, we're in the fight for whatever dollars are available. And it's up to us to prove that out in terms of the ROI that we bring in.

So again, it hasn't been great. It's not -- there's no easy money out there, but we have solutions that really make a difference for our customers. So we stay in the hunt all the way through. So no change, call it, but we're out there earning it.

Vikram Kesavabhotla: Good, good, sounds good. I appreciate it. Thanks, guys.

Operator: This concludes our question-and-answer session. I'd like to turn the conference back over to Mark Benjamin for any closing remarks.

Mark Benjamin: Okay. Well, I just want to thank everyone for joining us. And of course, I wish everyone great safety and good health during these tough times. And we'll speak to you very soon. So thank you.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.