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CRNC.OQ - Cerence Inc Corporate Analyst Meeting

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PRESENTATION

Mike Fitzgerald;NASDAQ;Relationship Manager

Good morning and welcome to NASDAQ. My name is Mike Fitzgerald. I'm the NASDAQ Relationship Manager for Cerence. I'm delighted to be the first to welcome you here today for today's opening bell.

To kick things off, I'd like to introduce our NASDAQ Executive Host, Chief Client Officer, Joe Brantuk. Joe, come on up.

Joseph Brantuk;NASDAQ;Chief Client Officer

All right. Thanks, Mike. All right. Well, good morning, everyone. All right. Not bad for a packed house here.

It is truly my great pleasure to welcome Cerence and its CEO and Director, Sanjay Dhawan, to the NASDAQ market site. Now I'd also like to extend a warm, warm welcome to members of the management team, employees and, frankly, to all our distinguished guests this morning. We are truly, truly excited that you could all join us right here from the crossroads of the world in Times Square, New York as we get set to ring today's opening bell.

Now there is certainly a lot to celebrate this morning, and I would like to start off by congratulating all of you on the successful spin-off from Nuance and listing on NASDAQ. This is certainly a major, major milestone, and we are thrilled to be celebrating with you today. Congratulations, guys. What do you say? I think that deserves a big round of applause.

So Cerence is the leader in voice and AI assistance for the automotive world. As the innovation partner to the world's automakers, you have truly transformed how our cars feel, respond and learn. With decades of leadership, putting more than 325 million voice-enabled cars on the road, I could say without question that Cerence is mapping the road ahead for us all, and the horizon sure looks bright.

So Sanjay, we know that this is certainly a team effort, so congratulations again to you and the entire team on all your success. We are exceptionally proud to be your partner, and we are certainly looking forward to supporting you as you continue to grow and continue to innovate as a NASDAQ-listed company.

And now please join me in welcoming Sanjay to the podium. Come on up.

Congratulations. [I'm really happy for you.]

Sanjay Dhawan - *Cerence Inc. - CEO & Director*

Thank you so much. So thank you, Joe, and thank you to NASDAQ for inviting Cerence to open the market today.

As a newly formed public company, we are very excited to unleash Cerence, our market leader in voice and AI, to revolutionize voice assistance in a car and to dramatically change the relationship between people and their vehicles.

At Cerence, our vision is to create a safer, more enjoyable journey for everyone. We achieve that by allowing drivers to speak to their car in more than 70 language and dialects, phone calls, navigation, music, e-mail or text, flight information or restaurant reservations, all through voice, all powered by Cerence.

We are the #1 supplier of this AI technology with almost 325 million cars on the road today and another 45 million to 50 million being added each year. In fact, last year, 1 of 2 cars sold around the world relied on Cerence technology. For all you drivers out there, you know firsthand that user experience inside the car is becoming a key feature and an important brand differentiator. Our role in all this is to help our customers, the world's carmakers, deliver the most efficient enjoyable and safe driving environment for all of you.

Each year, more and more cars makes and models are adding voice assistance as part of their driving experience. And these cars are now increasingly connected. This is one of the key reasons why we're growing at a much faster rate than the annual production of cars. On top of that, we are innovating faster than ever, you might say at Formula 1 speeds, introducing new forms of integration such as gestures, eye tracking, emotion detection for your next car purchase. These are exciting times for Cerence.

I want to thank you, Joe, for -- and all of NASDAQ for being such a strong partner of Cerence.

Before departing, I want to offer my heartfelt thanks to our employees around the world. I'm here in New York with 10 people from my leadership team today, but there are another 2,000 Cerence team members in all of our offices through Europe, Asia and North America. I wish I could have every one of them on the stage with me today, but obviously that's not possible. It's through their energy, their innovation and their drive that we are able to stand here today. So once again, thank you so much. Our future is bright and the horizon is vast. Go Cerence!

Joseph Brantuk;NASDAQ;Chief Client Officer

Great job. Well, as a car buff, I just want to say thank you just for increasing the user experience. It really is remarkable. I also want to thank you for your trust and partnership in NASDAQ. We can't think of a better way to celebrate all your success than having you and your entire team and also the team watching on the webcast, joining us this morning to ring today's opening bell.

Sanjay Dhawan - *Cerence Inc. - CEO & Director*

Thank you.

Joseph Brantuk;NASDAQ;Chief Client Officer

To commemorate that, I would like to present you with the opening bell crystal. Congratulations.

Sanjay Dhawan - *Cerence Inc. - CEO & Director*

Thank you.

Richard Yerganian - *Cerence Inc. - VP of IR*

All right. Well, I think the walls are coming down, but we can start as those proceed. Welcome, everyone, to the NASDAQ mark site to Cerence's inaugural Analyst Day. It's very exciting to have you all here. We really appreciate you're taking the time to join us today. We have a very full and exciting schedule for you, and I'm hopeful that you'll find that they're very productive.

A few housekeeping things to start with. Number one, the format of the presentations are going to be prepared remarks and then followed by Q&A. So we just ask you that while the speaker is speaking that you hold your questions until we get to that point in time. We've allotted 20 minutes for prepared remarks and 10 minutes per speaker for Q&A. So we know how important that is.

Second of all, we will be serving lunch at noon right next to us. But it's going to be a working lunch. So what we're going to ask you to do is quickly go grab some lunch and come back to your seat because we have, again, a very full schedule. We want to make sure we get everything in and get everyone through on time.

If you need to go to the men's room or ladies room, that door over there is the exit to get there. So we don't have any breaks built into the schedule other than that time at noon for grabbing lunch. So just please discreetly, if you need to go, go out that door and then come back in.

Okay. So that's the logistics of the event. I will start now just by forward-looking statements, safe harbor statement. So just -- I ask everyone to certainly understand the risk factors, all of our SEC filings, identify those. We will be talking about future events or products or business models. We feel no obligation to update those -- that information, so we please ask you take care of looking -- spending the time to look at our forward-looking statements and safe harbor statement.

Okay. With that, I'm sure all of you have come here with goals in mind in terms of what you hope to get out of the day. I just want to share what my -- with a few comments from me because you don't really want to hear from me. You can talk to me. I've talked to most of you already. You're going to hear from everyone else mostly today. But what I'm hoping that you'll do today is come away with a few different things. Number one, that you see that there's a very experienced, knowledgeable, extended executive team here that has the ability to implement the vision that our CEO, Sanjay, will be talking to you about.

Secondly, we're a relatively new company. And so what I hope to be able to do for everyone, either listening on the webcast or here today, is to level-set in terms of what are the capabilities to products, the go-to-market strategies that we have as a company so that you have a really thorough understanding of that. And also an understanding of our competitive position and the advantages that we feel we have and the strong competitive moat that we have primarily because of the innovation that we continue to apply to the industry and to our products and also just from focusing on this particular industry; and finally, pulling that all together, that we're able to do all that and deliver a profitable growth story. And that's something that we'll wrap up in the final presentation with the finances -- financial discussion from our CFO, Mark Gallenberger.

So if there aren't any other questions or any questions, we'll kick things off. Okay. So our first speaker is Arun Sarin. He's our Chairman of the Board. And so we're very excited to have him here joining us to kick things off. Arun served as Chief Executive Officer of Vodafone Group from 2003 until his retirement in 2008. He began his career with Pacific Telesis Group in 1984, where he progressed through various management positions there; and at AirTouch Communications, which Pacific Telesis has spun off in 1994. He was named President and Chief Operating Officer of AirTouch in 1997. AirTouch merged with Vodafone in 1999. He left Vodafone in 2000 to become Chief Executive Officer of InfoSpace. And from 2001 and until 2003, he served as Chief Executive Officer of Accel-KKR Telecom. After his retirement in 2008, he served as a senior adviser to Kohlberg Kravis Roberts & Co. for 5 years. Arun currently serves as a Director at Cisco Systems, The Charles Schwab Corporation and Accenture. He previously served as a Director of Safeway from 2009-2015 and Blackhawk Network Holdings from 2009 to 2018. He holds an MBA from -- [in] Master of Science from University of California-Berkeley and a B.S. from the Indian Institute of Technology in Kharagpur, India.

So with that, I'd like to welcome Arun up to the dais.

Arun Sarin - *Cerence Inc. - Independent Chairman of the Board*

First Cerence Analyst Day. It's a big day for us. Some things never change, and that is the folks who come here first get to get the best seats, and most of the best seats are in the last row there. And people who showed up here at 10:29 all have to sit in the front row. So things change, but some things really don't change that much.

Look, we've got a great program for you. We've got the Chief Executive and his senior management team here. There were just 3 or 4 points that I wanted to make to you. One is, as you know, we're a spin-off from Nuance. We are off and running. We have our Board in place. We have our management team in place. We have established processes. So if some of you are thinking about, look, this is a new company, it's a spin-off, there are obviously some interdependencies between us and Nuance. And over a period of time, they'll sort of wear away. I'm here to basically say that this company now runs like any other mid-cap-sized public company. And I'm very pleased to be part of this team and very pleased to be part of the Board.

We have a very accomplished and well-qualified and diverse Board. And we have 2 former CEOs on the Board. We've got 3 former CFOs on the Board. So I feel like the Board has the qualifications and the diversity of thought and ideas in terms of making this company and governing this company properly.

We have all the committees, the Audit Committee, the Non-Gov committee, the Comp committee, et cetera. So we are good there. In terms of the kinds of things that we're spending time on thinking about these days in the Board have to do with strategic issues. As you know, this is a fragmented industry. A lot of things are changing as we move into sort of the digital car world with electrification and over a period of time, autonomous, et cetera. So we spend a lot of time thinking about our position and other people's positions, and therefore, how is the cookie likely to crumble.

We also think a lot about the operational metrics, how we're doing on a day-in, day-out, month-in, month-out basis. We worry about the talent pool and the human resource issues that the company has to face. And finally, we monitor the financial health of the company, making sure we're sort of monitoring that and moving the company along over a period of time.

I'm particularly proud of the team that has been assembled by Sanjay. There's a very good mix of former Nuance folks who are now Cerence folks and then some people from the outside who bring a fresh perspective on the whole digital auto sector and cloud and other things. So I think that's a very good sort of combination. And we also have a -- this is -- even though it's a mid-cap company, it's a genuinely global company. We've got, obviously, employees here in the United States, but we've got a large group in Canada. We've got a large group in Germany and in Europe. We've got a large group in China. So we are actually quite a global company, and the management team reflects that.

So in summary, the company is off and running. It's being governed. It's being managed, and I'll now turn it back to Ritch for you to hear from management and spend the remaining 3 or 4 hours asking them where the world is going and where we are going in the digital car world.

So thank you very much for your time, and welcome again.

Richard Yerganian - *Cerence Inc. - VP of IR*

Okay. Our next speaker is Sanjay Dhawan, our Chief Executive Officer. With more than 30 years of technology leadership and extensive experience in the automotive industry, Sanjay brings a deep understanding of AI and machine learning and applications with a particular focus on developing solutions at the intersection of devices, sensors, cloud solutions and data integration.

Prior to joining Cerence, Sanjay served as President of the Connected Services Division and Chief Technology Officer of Hartmann Industries International (sic) [Harman Industries International] until 2019. Previously, he served as President and Chief Executive Officer of Symphony Teleca Corporation since 2010.

Sanjay holds a Master's Degree in Electrical Engineering from Brunei University, England -- Brunel University, England and a Bachelors Science Degree in Electronics and Communications from REC Kurukshetra, India.

(presentation)

Sanjay Dhawan - *Cerence Inc. - CEO & Director*

Perfect. Good morning. Good morning, everyone. Good morning. Now firstly, a very warm welcome to all of you. Thank you for taking the time from your busy schedules to come and join us in here.

Our story. We, myself, I am Sanjay Dhawan. I'm CEO of Cerence. I'm going to be joined by my whole management team, many of us who are presenting to all of you with regards to how we see our business moving forward. So we're really excited to basically share that with all of you.

Today was a very exciting day for us for many reasons. Number one, we did our NASDAQ bell ringing. So pretty exciting in the morning, a lot of adrenaline flowing and so on and so forth. But more importantly, we're -- we were really excited and looking forward to sharing our thoughts with all of you.

And also, we'll be joined today on the stage by one of our key customers, Mercedes Benz. Nils came all the way from Stuttgart, Germany to share his views with all of you as well. So I'm really excited about that as well.

So as I get started, as many of you know, Cerence is -- we're entering our fifth month as an independent company. We're standing strong post the spin that became effective on October 1 more and off to the races, and we're going to share the details with all of you. The main reason for the spin basically was to have Cerence focus exclusively in the automotive space. So we, as a company, are totally focused on transportation and mobility. We were embedded inside the bigger Nuance. And as the technologies were diverging and then the focus was being lost, a decision was taken by Nuance to spin the business into an independent company so that we can focus on transportation and mobility, especially in the automotive space.

So we're a company that -- we use a tagline that says, "We're a company, [we're] AI, we are the AI for the world of motion." We have a key focus to bring human-machine interactions through voice inside the cars. And as the day goes, you'll see why 1 out of 2 cars basically ship with our technology.

Our, obviously, vision is to have a more safer and enjoyable journey for everyone. Voice plays a very important role in the car. It's nice to have voice on your -- in your home or on your phone or in your business interactions. But when you're driving, your hands are supposed to be on the wheel and your eyes are supposed to be on the road. So voice becomes a key interaction mechanism for the digital car.

What's really interesting basically is that if you look at the automotive sector, we're right in the middle of it. I think one thing that is very clear is that the car is getting more and more digital. As car gets more connected, car gets more autonomous, car gets more electric. Digital technologies are going to be playing much, much more important role inside the car. And the human-car interaction is what's going to be the center of our AI platforms that we basically bring inside the car.

So we pretty much work with every OEM on the planet. They use, I mean, our technology to basically enable that voice and digital interaction inside the car. We work with almost all the Tier 1s. And also, we work very closely with the content providers and the big tech companies out there. So right -- sits right in the center of the whole automotive ecosystem.

Although we're a young company, we have a very strong heritage. Like I said, we were spin -- we were a spin from Nuance 5 months ago, 4 months ago. And -- but the company has technology and has created a leadership in the voice platforms for the last 20-plus years. Very strong IP portfolio, 1,250-plus core patents. In fact, we believe we own the wake-up word. So when you hear, "Hey, Mercedes" or "Hey, BMW" and some of the other tech companies also basically use that, the whole wake-up word concept is -- was very early patented by Cerence. So we have a very strong IP portfolio.

The piece on this slide that I want to draw your attention to is 325 million cars have -- we have shipped with our technology. We're shipping at about 12 million cars per quarter, about 48 million cars a year. We're adding to this. So as we finish 2020, with this number, we'll be close to 400 million cars plus. So you can imagine there is a lot of installed base. And what you'll hear is how do we plan to kind of add on more products onto our core voice platforms and monetize this for our shareholders. That's many of you here in this room.

Very strong R&D team. We're now the right size. Previously, when we were part of Nuance, where we were 1 of the 3 and the smallest division of Nuance. And like I said, the focus was getting lost a little bit. Now that we are an independent company, we are very focused on automotive, very focused on transportation and mobility. And we have almost 1,500-plus R&D and professional services engineers. So it's a right size where we can basically focus them to innovate. And you'll hear about the nice and cool things that we're building.

One thing that is very important in voice platforms is language coverage. When you talk to our OEM customers, you'll hear basically that they really want to build a single platform that they can ship across the world. And our language coverage is better than even any other bigger tech companies, 70-plus languages covered.

Great leadership team. Like Arun said, it's a nice mix of experience from the past and also some new talent that has come in. Most of the colleagues are here today to basically present to you and interact with you. So feel free to ask us any questions.

Also very honored to be working with a great Board. Like Arun said, there are 2 ex public company CEOs. Arun obviously led Vodafone and many other companies. We also have Sanjay Jha, who led Motorola as its CEO until Motorola was sold to Google. And then we have 3 public company CFOs on the Board. So you can imagine, right, in terms of the compliance and governance and so on and so forth, we're already very thorough as a team.

I want to make a point very loudly to all of you, which is that Cerence is a completely independent company. We were spun out of Nuance, but we are trying to build our own culture. If you look at my background, you will see a lot of start-ups in my background. I'm based in Silicon Valley for the last 30-plus years, and I've led 4 different private companies. And my last one -- including 2 companies, 2 private equity-owned companies, a KKR company. And my last one was acquired by Harman. Not Hartmann, Ritch. It was acquired by Harman, and I was part of the Harman's management team for 4.5 years, including the transition of Harman from public company to -- from a private -- from a public company to Samsung.

And the -- having said that, the core in me is all about kind of start-up and innovation. Because in technology companies, you have to kind of innovate and innovate at a fast speed. And that is what we are trying to do. We're very agile as a management team as a -- including our 2,000-people employee base. We're very innovative, and you'll see the direction that we are taking, and extremely customer-focused. It starts with me. As the CEO of this company, I have to basically set the culture. And I have done that kind of -- that was my first step that I took once I joined Cerence to basically create with the management team, with the key employees as to what is Cerence going to stand.

So this slide here basically captures some of our kind of key things that we are focused on: very customer-focused, very employee-focused. Transparency, trust, respect are the key cornerstones of how we operate. Speed of innovation is very, very important to us. We implement -- many of you may have heard OKRs, Objectives and Key Results. So I publish my OKRs to my whole company, and it basically kind of goes down to make sure that there is complete transparency and in our operational rhythm as we all kind of try to move our business forward.

We're off to a very good start. We just, last week, announced our earnings. The spin from Nuance is all but complete. Like Arun said, we are standing strong as a completely independent company. The Q1 results were good. We met or exceeded all the consensus numbers and our own guidance. And we're staying very extremely focused on both the strategy that we have defined that we'll share with you today and also the execution, which is equally extremely important.

I think we've -- I've talked earlier about the major trends in the car and how we become center to those trends. Voice and multi-modality-based interactions is key. We use AI, deep learning, machine learning, deep into our core algorithms as a technology to basically enable these interactions inside the car and obviously, work very closely with all the OEMs. We're -- and with that, basically enable key functionality inside the car, whether it's virtual voice assistant or helping with distracted driving or helping with other major trends in the car.

This space is moving very well in terms of -- if you basically look at any data, more than 50% of the car owners are using voice in the car. 58% are -- is going to increase as we look forward here basically. And more than 62% people are telling us that they -- the digital component and how human-machine interface works inside the car, including voice, is a key consideration when they buy a car. And I think that basically gives us a very strong foundation for our future growth.

As I told you earlier, we're very focused on innovation. And so you'll hear from our CTO today in terms of the new areas that we are thinking about innovating and so on and so forth. You'll hear from our -- head of our core products business, Stefan, about why 325 million cars are -- have been shipped so far with our technology and what's -- and how we are further kind of enhancing our platforms.

So what I want to now focus on is how are we going to deliver further value to our shareholders. Many of you are our key shareholders here, and I want to tell you that there are 3 key things that we are very focused on.

Number one, launching new products. We want to increase our content in revenue per car, and I'll talk about that in a minute a little bit more. We want to drive and add new opportunities. With a huge installed base, we want to basically add and layer in new products. And now I will chat about that in a second. And finally, on the operational side, we want to improve the efficiencies.

So let me take one by one. In terms of launching new products, you will hear from my colleagues many new examples of new products that we'll be launching. And pay close attention to the presentation that Stefan and then Charles will make, and you will see kind of the sort of new products that we're bringing in. Our goal is to double our revenue per car. So that's one key kind of broad metrics that we are very focused on.

We're expanding our portfolio. And the presentations -- the next few presentations that you will see basically will give you examples of -- some of these new products we have announced. These were built up towards CES, and we had a very successful CES. But -- and there are more products coming as we move forward.

Second piece is that from a growth driver standpoint is that we're enhancing the business model of our products. And what I mean by that is that today, we are aligned with the COGS of a car. So we are one of the line items on the cost of goods sold. And obviously, like I said in my previous slide, we want to increase that by adding new products, new functionality for our customers. But once we have done that, what we are also doing basically is that some of our new products, we want to ship. We want to ship it in SaaS model, which basically means that we want these products to be tied to the life of a car. So today, our revenue is tied to the revenue ship -- the new car shipment. But as soon as we kind of tie our products to the life of a car, it -- obviously, the TAM, you can multiply it by 7 to 10x, right? The -- we announced one such product called Car Life, and I will have our colleagues talk a little bit about it; and we have a few others planned as we look forward here basically.

So we're also looking at adding certain products into cars, which have already shipped but may not have the technology ours or other voice technologies. So we're also looking at how do we add some of this new technology into cars which have already been shipped. So we'll talk about that as well with you.

Finally, improving efficiencies is a very important focus for us. We're -- we, as a management team, are very operationally focused. I drive myself and the management team around KPIs. I mentioned, okay, the objectives in the results is key to us. And we drive ourselves by the numbers. And so here, obviously, we're looking at how do we further improve our various different operational efficiencies.

Today, we spend almost 28% of our revenue on R&D as we scale further and as we optimize our R&D spend. We see this kind of stabilizing around 25%. And that is not reducing the spend. That is basically making the spend more optimal. I want to make it very, very clear. We're a technology company, and R&D is core to us to kind of keep us competitive and innovative from an investment standpoint. And we continue to plan to do that.

We're also looking at how do we improve margins and so on. On pro services side, our utilization -- bill utilization is a little low, and we want to basically improve that. We want to reduce some of our COGS line item when it comes to our hosting costs and so on and so forth. And as you hear from my colleagues who are going to follow me, you will see how we, as a company, are improving our operational efficiencies so that we can kind of deliver better results.

And towards the end, Mark, our CFO, will be presenting to you kind of how we see all this kind of add up in terms of top line growth and how does all this add up towards the margin expansion as well.

So with that, I'm absolutely very, very excited with welcoming all of you in starting our journey that we started about 4 months back. This is our first Analyst Day and just extremely excited that all of you have decided to join us and hear us on through our journey.

We're very focused on growth. We are very focused on accelerating and contributing through innovation, new technology for our customers. And we're also very committed to financial excellence in terms of how all this kind of translates into better growth and better profitability for our company.

So with that, I would welcome any questions, please. Thank you so much.

We have, Ritch, time for a few questions, right? So I think the format that we have is that after every speaker, we'll do Q&A, just so that any questions on anybody's mind is not lost. Any thoughts -- any questions that anybody wants to share?

QUESTIONS AND ANSWERS

Sanjay Dhawan - *Cerence Inc. - CEO & Director*

Back there.

Unidentified Participant

Can you talk a little bit about your inorganic [store] cash on both driving some of those new opportunities? And then maybe if you can expand a little bit further on some of the ways that you're adding revenues (inaudible) Saas model. On cost of goods sold, you have the ability (inaudible) right?

Sanjay Dhawan - *Cerence Inc. - CEO & Director*

Sure. Very good questions. So firstly, organic versus inorganic. Our #1 focus as a team is to deliver organic growth. We -- I firmly believe that any company has to first figure out how to grow organically. And what you will see is basically, today, what we're going to share with you is our organic growth plan for our company.

Having said that, the automotive ecosystem is transforming. And one of the biggest change that's taking place is that, just like what happened on the PC or on the phone, that hardware and software are being decoupled. And the reason that decoupling is very important basically is because with that decoupling, you can then go and upgrade and add new capability independent of each other, right?

And so we want to participate in that opportunity as it materializes. So like Arun said, at the Board level, we're very focused on strategy, both in the management team and the Board, to look at as that transition happens in our segment, do we need to do any inorganic additions as well to our company.

At this stage, we, as a management team, have not taken anything to the Board on the inorganic side because we have been saying -- we have been very focused on kind of, a, standing up the company strong and also focusing on the organic growth part.

Your second question was about the -- any little bit more details about the new business model, the SaaS business model. So let me use Car Life as an announced product that we have already announced and how does that work, right? And I'll tell you the OTA/cloud part. Because remember, in our platform, we have 2 components. We have embedded piece of our software that runs inside the car, but then we also have cloud piece that

runs in the cloud. And because we have our software running in the cloud, many of the new functionality we can add through the cloud. So in some -- certain functionality, yes, we need the OTA support. And we have to work with the OEM to bring that software down into the car. But some of the new capability, we can basically enable it through cloud. Right?

So in this case, Car Life is basically an add-on product, which enables the OEM to support the complete life cycle of the car. And what I mean by that basically is that once the car is built, the first thing that happens is the OEM has to sell the car. There are many studies done that the salesman who basically sits and tries to describe the future of the car doesn't know more than 1/3 of the features, right? Wouldn't it be great to kind of have a virtual salesman which is enabled through the voice command, who can basically then tell you about that car. Right?

Once the car is sold, the first thing that the new driver does is onboarding. Many of the times, once the car is sold, they just kind of going to hand you the key and say, "Okay. Good luck", right? Wouldn't it be great to kind of do a quick-start guide, which is onboarding a driver through cloud again, right, and voice as a channel.

I have been driving 40 years now. Started at 3. No, just kidding. And I've owned 10, 15 cars probably, right? And every time I buy a new car, I say to myself, "You know what, this time, I'm going to read the manual, and I'm going to learn my car and so on and so forth." How many times have I done that? Zero. And every time I ask this question, right, it's the same answer. Won't it be great to kind of basically, through voice, have these modules -- learning modules that are available to you that while you are driving and you have some time and sort of listening to radio or something else. You say, hey, in the first 6, 9, 12 months of the car ownership, tell me about my car, right, and so on.

The next part in the journey of car ownership basically is if something goes wrong, you want to basically kind of go and ask the car, "Hey, how do I measure tire pressure? How do I do this? How do I do that," right? And so we have an AI-based QA, question-and-answer module, which is part of this product, which can basically enhance that, right?

And last piece is service scheduling, which is basically attaching to the DMS, some of the dealer management system to schedule service and so on. So this is a complete life cycle product, which can be added through cloud into -- onto our existing platforms.

Any other questions?

Unidentified Participant

The first question would be, can you talk a little bit about -- with the R&D, is this sort of Cerence-driven? Or are these coming from requests from automakers [just from, yes?] And then, I guess, building on top of that with some of the new business models, the automakers, I guess, are sort of notoriously bureaucratic in their ways in terms of purchasing. I mean, what's sort of been the reception to change basically how you charge for your product with them?

Sanjay Dhawan - *Cerence Inc. - CEO & Director*

Sure. So the R&D is driven by both customers and us. So we have a dedicated product management team, about -- almost about 30 people in our product management team, led by a gentleman by the name of Christophe. And he's our Head of Product Management. And he basically -- he and his team work very closely with our OEM customers to basically define the product road map, which then gets implemented by our 700-plus-people R&D team.

The other 700 people -- you saw a number, 1,500 number. The other half of the engineering team basically works with our OEM customers to take our products and basically integrate it as the new car gets created. Okay? So very mutual where we have our own thoughts, but then we work very closely with the OEMs to define a product road map.

Second piece -- second part of your -- what was the second question? Sorry, the...

Unidentified Participant

Automakers.

Sanjay Dhawan - *Cerence Inc. - CEO & Director*

Yes. The buying patterns basically of the automakers. The -- yes, OEMs do have -- and we have one sitting here, but they have very strong purchasing teams. And yes, because traditionally, we are part of a COGS line item, every vendor goes through that.

I sold my last company, which was Harman's largest acquisition. And I experienced it myself in the 4.5 years that I was part of that team that every Tier 1 kind of goes through that same purchasing team just like we do. Having said that, in some of the new products, we're moving away from COGS line item more into kind of driver enablement, more the marketing side of the car, more on the operational side of the car. And that, we're hoping that we'll have a little bit more flexibility on pricing and so on and so forth with our OEM customers.

Any other questions? One last one. I guess we have 41 seconds.

Unidentified Participant

Can you just talk about competitive landscape? And who your main competitors are? And how you're going up against them?

Sanjay Dhawan - *Cerence Inc. - CEO & Director*

Sure. So we have -- on the competitive side, we will talk in a little bit more detail as the presenters come, but I'll just kind of touch it at a high level. We have certain companies whom we compete with. There is a Silicon Valley company called SoundHound, which is a spinout of Stanford. They are a good competitor. Nine out of 10 times we win. So we think we are better, obviously. There is a company -- a Chinese company called iFlytek. So there is about half a dozen kind of smaller companies. But when it comes to automotive space, transportation, mobility, we're very strong in terms of -- if you look at our win rate and adoption and so on and so forth.

One other thing that is very misunderstood about us is how do we coexist with the big tech companies. Obviously, you hear about Google, you hear about Alexa and so on and so forth. And car is an important part where these companies also want to be present inside the car. And the thing that's most misunderstood about us is that we -- the story of Cerence is us or big tech companies. The reality is that it's us "and." The reason I say that basically is because just think about it, you, as a consumer, each of you are a driver. Each of you is an end customer of what we do. Every day, you use your Apple devices. You use Apple services. You use Google services. You use Amazon. You use Microsoft and others. You don't use one or the other. You want car to be an extension of your digital life whatever your digital life outside the car is. And what we are trying to do is basically enable that.

We announced a new product today, since we were meeting with all of you. It's our cognitive arbitration in a product, which basically is like a voice router inside the car and will enable the OEMs to offer private-label services, white-label services but also provide a mechanism to interface with the other tech ecosystems which exist outside the car.

Here in the U.S., we think about Google and Amazon. But if you're a Chinese consumer -- and by the way, 1/3 of the new cars, shipped to China. You basically have to think about Alibaba or Tencent or Baidu as an ecosystem. If you want to ship your car into Russia, you have to think about Yandex, right? You don't have to think about Google or Amazon. So what we do is, basically kind of through this cognitive arbitration, enable the internal voice ecosystem to be extended to the outside world.

Other piece, some of you on the analysts side have written that the competition to us is with Android Auto and Apple Car Play. You know what, I can give you dozens of cars that have shipped today which enable Android Auto and Car Play but also has a license that Cerence is deriving its

revenues from those. And you'll hear about some of our new products. You'll hear about a product called Cerence ARK, which would further kind of add capabilities for very low -- voice capabilities for very, very low-end cars, right? Where the Android Auto or CarPlay can't even exist because there may not be a display or the processing power to basically implement Android Auto and CarPlay. And we will have basically a solution for voice-enabled assistance for those low-end cars as well.

So I think this is one area that's very misunderstood about us. But if you talk to our customers and if you talk to go people into the space, you'll see kind of how we operate.

Thank you so much, and again, welcome to all of you. Thank you.

Richard Yerganian - *Cerence Inc. - VP of IR*

Thank you, Sanjay. Our next speaker is Dr. Stefan Ortmanns. He's an Executive Vice President and Head of the core business that we have within Cerence. Stefan joined Nuance in 2003 and has served as its Executive Vice President and General Manager of the Automotive division since March 2018. As GM, he was responsible for hybrid conversational AI-powered solutions for the digital car and automotive-related services that are used by almost all of the world's leading automotive manufacturers.

He previously held other positions at Nuance, including Senior Vice President of Engineering and Professional Services for the former Mobile division. Stefan started working in the speech industry in 1993. But before joining Nuance, he worked at Philips Speech Processing, Bell Labs, Lucent Technologies and the University of Technology Aachen. He holds degrees in mechanical engineering, computer science and a PhD in computer science. Stefan?

Stefan Ortmanns - *Cerence Inc. - EVP*

Thank you. Also a very warm welcome from my side. I'm delighted to be here in the city today to present our capabilities, our core capabilities and the foundation of our hybrid AI platform solutions.

Over the next couple of minutes, you will hear a bit more about our strong fundamentals, about our go-to-market strategy. I personally believe that we are uniquely positioned here in this field.

And when looking at the growth drivers, I see actually 5. Of course, the first one is expanding our strong position in the market, driving disruptive AI solution. And when saying disruptive, you will see it later on.

The other one, for sure, is helping our OEMs creating rapid AI prototypes that can be done in the prepackaged way or do-it-yourself, so that we can also accelerate here the deployment cycle for the OEMs becoming more and more important. The other one is another important aspect. You know that we have built over the last 2 decades a strong network of partners. We are still expanding this, and you will also hear more about this.

And the last one is actually operational efficiency. Sanjay already mentioned it. I think we need to lift this cost envelope, which is actually outstanding for R&D. We are investing much more, but we need to do also this transformation that we can put more investment into novel innovations and, on the other hand, reducing the costs. And we just announced also that we have a new offshoring site, a big one in Pune. So you see that we're doing also here is the right steps for being innovative and driving also costs.

You have seen in the video clip at the beginning that we have actually a great year in 2019. We paved the way, actually, for Cerence in an excellent way. What you see here are the numbers from last year, 2019. I think this is very impressing, having more -- almost 130 SOP cars. That means cars -- new cars with our solutions on board.

Overall, we did better than the market. Roughly 47.2 million, 48 million of new cars shipped worldwide are using pieces or the complete solution from Cerence. And what you see also here, we see also a huge appetite for hybrid speech solution in 2019 fiscal year, roughly 600 million.

And now compare it with our Q1. We had a fabulous start here, almost 40 SOPs. That means year-over-year, plus 40%. Twelve million new cars in the first quarter in our fiscal year. When looking into the details, you see 9 million are more on the edge side. So advancing edge computing is all embedded, running on the head unit. And hybrid, that's the connection, it's between edge and cloud versus so-called smart arbitrator in between. And when just looking at the 3 million, that's a year-over-year growth of roughly 75%.

You see also here, and this is even more important. Last year, fourth quarter, 600 million transaction. Now, in the first quarter, we have already almost 295 million transaction. So within the next 2 to 3 quarters, I'm pretty sure that we will hit our hurdle of 1 billion in car automotive transcription. Also, here, we are leading.

Now looking at the competitive landscape and the go-to-market strategy. Our approach is based on OEM-friendly approach. It's hybrid asset, meaning edge, so what's running on the head unit and in the cloud. This platform is open and flexible and very important also for our lead OEMs, doing with them together joint innovations.

So -- and then we have a very rich ecosystem via the arbitrator. So we can bring in content. We can bring in the solutions from the big guys here. And our advantage, again, is that we have a global solution. We are just not focusing on the U.S. market or European market. So we are acting as a worldwide global supplier of our solution.

This is very important also, at least for China, right, where these guys, Google or Amazon, they have no access currently through the Chinese market. And we are collaborating with Alibaba, we are collaborating with Baidu and Tencent. And you will hear more from Charles about this collaboration. And we have deployed already some of this solution with Geely's [side], including cognitive arbitration.

The other important aspect is that I believe we are superior in the field of edge computing. So we own the complete set, including noise cancellation, very important. We're using this so-called speech signal enhancement technology also for multi-seat use cases, so that you can also interact in the back, for example. And we are going to combine this also as a multi-x solutions, and I will talk about later through this.

You see here, there are, of course, as Sanjay mentioned, some of the other players. I don't want to say that are niche players, but sometimes they are only visible in China or in the Western world, right? So we have this complete solution and the complete stake, from noise cancellation, wake word -- wake-up word, for example, hybrid speech, in combination with conversational AI and also augmented by emotional AI.

Our business model is actually based on a high-touch OEM in the operation. So you see here, our philosophy is that the OEM owns the data, owns the brand, owns the consumer and, equally important, owns the business logic, yes? Though we have the say, what will go in or not, right? And we'll provide the complete solution also for the so-called voice interoperability with all the other players.

Another important aspect is that we are tightly integrated in the head unit, in the platforms. That we have access to the sensors, right, the very sensitive data. And we have also developed new features like Cognitive Arbitration, in combination with Just Talk, meaning we have a conversation in the car, we're talking, "Blah, blah, blah" and then someone say, "Navigate to..." And the system has the intelligence to say, "Okay, that will trigger an intent for my navigation system." Yes? And for privacy reason, everything runs on zim but the head unit. Nothing goes into the cloud and in real time.

Before tapping into the core of our hybrid AI platform, let me also share with you some of our design principles, yes? This is actually a brand-new architecture. We call it One Cloud. It goes hand-in-hand with our approach for One NLU and One ASR, meaning we have the same technology embedded, so for edge and in the cloud. This gives us a lot of productivity, scalability improvements, right? We can easily build one domain and then it's available on the head unit in the car and in the cloud, yes?

Beyond this, what does it mean for the consumer, right? The system has to be assisted, connected for sure. We understood also, for sure, right, and then be productive, be safe and be delighted. So sometimes you need also to bring a bit more fun into the car, yes? And we're doing this also with some of our big partners here.

You see at the bottom, that's all of our core technology stake, yes? So input AI is everything about speech. Then we have also, on the other hand, text to speech, yes, including natural language generation. All of our technology builds -- are built on deep learning solutions. And we have conversational AI, the complete reasoning, dialogue management, in combination also with emotional AI. And as Sanjay referred to, I think the natural interactions also with gaze, gesture AI, you see a warning light and then you just say, "Oh, what is that?" Yes? And you would expect a very good answer from the system here.

Another important aspect is audio. Here we have also superiority worldwide, as everything is going beyond, actually, hands-free communication, going beyond noise cancellation. You can do kind of [badge] in. You can do also multi-seat intelligence. This is all based on audio AI, in combination with voice biometrics. So the voice is my password, yes?

Then you see here the next level is the platform level, yes? And more importantly is the middle one, it's all in one menu. You can say whatever you like. And especially with new features and technologies, like Push Talk, you have complete flexibility. You can still say a wake-up word, yes? But I think it's annoying if you say always, "Hi, Alexa. Hi, Siri. And hi, BMW," whatever, right? You would like to have a seamless interaction with your solution, yes?

And you see also here, what I said at the beginning, we have to help also our OEMs. We are building tools so that they can create their own domains, yes? And you'll hear -- you will hear a bit more from our colleagues from Daimler later today. This can be then easily interoperated with the complete solutions without being a speech expert, without being NLU expert. That's very important.

And then on the top, we can do this also or in combination with the OEMs. We can bring in our Cerence Drive User Experience, yes? So it's a complete interaction, multimodal, with gaze, with gesture UIs. And you will hear later on also about our prepackaged solution, we call it Cerence ARK. And then at the end, the OEM decides whether they want to create a custom voice with our help to have their OEM-branded -- custom-branded digital assistant experience.

Coming now to the 5 pillars of our growth story for the core business unit. So what I said here, we are really in a good position currently with all the cars in the market using our technology. Also think about a platform pull-through, right? We have created a solution, and then it's easy to take this solution for the next generation, right? So we have some advantages also then in lead time.

The other one, I will talk a bit more about our AI innovations. It's going a bit beyond speech. Yes, we're thinking also here about, for example, emergency vehicle detection, yes, in a very cost-effective way for the OEMs. We are using still the same microphones in the car, right? And then we can detect the various sirens.

Rapid AI development. Prototyping becomes also more and more important to show a fast progress into the car and to the system here. And also here, we have a lot of ideas what we're going to do. You will hear more about Cerence ARK but also about our Cerence Studio later today.

And then, that's also very important, right, collaborating with these players, with huge players in the market. You know that we have a great relationship, for example, with Harman. We have a great relationship also with a small German digital first-tier supplier called e.solutions, super important for Volkswagen. We are their preferred partner when it comes to speech.

And then there are also some big players. We have seen maybe the press release from Microsoft that we are the preferred partner for their Microsoft Connected Vehicle Platform solution. And you will see a bit more later on also for another important first-tier supplier, LG.

And then number five is drive growth internally. As Sanjay said, we have a very strong R&D organization with a real focus on automotive applications, mobility, transportation applications here. And this team tries also new ideas and trying also in parallel to be very efficient when it comes to costs.

So that's the first one. And what you see here, in short, is -- I mean, maybe you have made your own experience with design and speech solution, yes? We said at the beginning 2014, 2015, the experience was not great, period. Yes? And we had here 2016 our first breakthrough when we launched, together with BMW, the so-called 35up solution. That was a first hybrid solution in the market.

In the same year, a bit faster, actually, we created for SAIC, who is the head of Banma, a novel solution, together with Alibaba, using our speech technology and NLU solution. And we saw already that the take rate or the retention rate was much, much higher but still not sufficient or, actually, it's still not in a certain range where we could say, yes, it's great.

Now with our latest releases in 2019. So SOP counts -- these new programs in 2019, you see here a retention rate of 90%, yes? So just think about, you have seen it in the movie, in the videos at TiEcon, these kind of cars, right? So I think we have made great progress also with the help, for example, of one of our lead innovation partner, Daimler, yes?

You see also here that, as Sanjay said, we need to increase the value per car, the value for the consumers, for the drivers and passengers here, right? We -- our solution is OTA-capable, meaning that we can easily bring in new technologies, new features, new solutions. And you see also that we can easily add more domains to a current solution, right, to make it more sexy and better than in the past.

The other one is disruptive AI solutions, yes? when comparing us, for example, with the big guys, I would see -- I would say that we are here actually leading with our multi-x solution stack here, multisensor, multimodal, multiseat, multi-assistant solution, yes? We can easily integrate all of the big players here. And we are supporting rear-seat infotainment with speech, for example. We have the cognitive arbitration, the arbitrator, in combination with Just Talk capabilities already launched in China, for example. And here is a focus also on regulatory innovations, meaning, for example, EVD, Emergency Vehicle Detection. To give you also some figures here, currently, our solution is capable of [handling] 400 different silent tones. And we have designed this for 15 languages, including the U.S., including China or the big player, Japan and Korea.

Another important aspect is, for us, we need to make a system much more intelligent, right? So why not combining some conversational AI with emotional AI, yes? Frustration detection, for example, in the car can also help the car or the user for better assistance and better interaction, yes? And then, as Sanjay already said, Car Life, that's a new product. And maybe I can keep it very brief and short. I think for the end user, it's very important to have a seamless buying experience and a post-maintenance experience, yes? That's actually given.

And what you see here, we have actually 2 surface here. The inner one is related to a system, yes? How can we improve the system? We have all the OTA capabilities so we can easily refresh the experience in the car, better domains, yes, also optimized and personalized, yes? And then we have here the outer circle, that's related to the life cycle management. As Sanjay said, we have actually 3 phases. The onboarding, in short, is more or less a better salesperson, so it's a better intelligent sales tool. You can also do with this, for example, creating scheduling appointments for a test ride. Sometimes it's really hard for doing this. Then when it comes to the onboarding, the system is more or less a kind of proactive teacher, right? And then postboarding is all about the typical maintenance stuff.

As said, this is actually our rapid AI development solution. Very important is the new open cloud platform with the new NLU stack and the new ASR. So it's smaller, so much more cost-effective when it comes to hosting, yes? You see here some also indications here. With our new approach, we can reduce costs, yes? And another important aspect, we are actually platform-agnostic. We're supporting more than 25 automotive solutions, for example, Alion, that's from Alibaba. QNX, different Android freewares, right? Automotive Grade Linux is all covered by us.

Yes. Then, as I said, expanding our partner network and maybe that just play the message here from I.P. Park. I.P. Park is the CTO and President of LG.

Il-Pyeong Park - *LG Electronics Inc. - VP & Head of CTO SW Center*

Hello, everyone. My name is I.P. Park. I'm the Chief Technology Officer of LG Electronics. I'm really happy to be part of today's event for a very special partner of ours, because Cerence and LG share the same vision to drastically transform the user experience in the car. At CES 2020 last month in Las Vegas, we introduced 4 levels of AI experience, aiming to share a structured framework for AI technologies across the industries. These 4 levels are: efficiency, personalization, reasoning and exploration, in the increasing order of intelligence. And I call this the AIX framework.

Cerence and LG have formed a strategic partnership to work closely together on this AI framework, to create use cases and collaborate on developing key technologies. We will integrate Cerence ARK and LG's webOS Auto to build a full-stack infotainment platform for a truly amazing AI-enabled

experience, starting with AIX Level 1, to drastically simplify the driver or the passengers' interaction with the car, moving on to Level 2 and 3 for truly personalized in-car AI experience.

Cerence is unquestionably one of the most innovative AI companies that will transform the automotive industry. And no else can do this better than CEO, Sanjay Dhawan. So congratulations, and I really look forward to our continued great partnership. Thank you.

Stefan Ortmanns - *Cerence Inc. - EVP*

Maybe 30 seconds more here. As Sanjay said, right, we are currently in a transformation process of our R&D organization. What you see here, that was at the last days at Nuance for us, at Cerence, right? You see the focus on innovation was only 35%. Now, a year later, we're already at 64%, which is good, right? And you see here our key focus on the core, yes? We had actually a very scalable, productive and cost-efficient solution for the complete ASR, NLU stick, cloud and edge, right? Then adjacent focus this year on cognitive arbitration, you see Car Life, multimodality. And then we hope that we can also drive much more innovations much faster than within the next few quarters here, yes?

So maybe I stop here. Just to sum up, for us, is we are really a true partner of the OEMs and first-tier supplier. For us, it's very important that the OEM controls their business logic, and we are enabling them to do so. And with our, let's say, end-to-end hybrid platform, you saw it also this retention rate, we have made significant progress also in terms of quality. So I stop here and open the discussion for questions.

Richard Yerganian - *Cerence Inc. - VP of IR*

So we're now available for questions.

Unidentified Analyst

On your Slide #8, when you talked about the retention rate, transactions per user per month, two questions. One is, could you just address in 2019, how many of those transactions were for -- or transcriptions were for cloud interactions versus the embedded? And then the more general question is, do the OEMs -- are they tracking this number? Is this a key metric for them? Do they share your goal of getting the interactions up? Or how important is it to them? And how should we...

Stefan Ortmanns - *Cerence Inc. - EVP*

Yes. Okay. So that's very important. So I think the lion's share goes, actually -- it's a mix between embedded and cloud, yes? Currently, I would say, embedded is a bit dominating, 60-40, roughly, yes? For our OEMs, it's very important to have this information. We have also a so-called tool-like hybrid analytics so they can see, okay, what is working, what is not working. And at the end, they can also think about how they can monetize this data, right? So it's super important for the OEMs. And this is also a big differentiator here. Because when working with Google and Amazon, you don't have access to those data.

Unidentified Analyst

Can I just follow-up in terms of, I guess, on this topic, in terms of the domains, it looks like there's many, many types of domains that can be acquired by the user in the car. What are some of the most popular domains? Is it navigation? Is it music? So can you say specifically like, how you're monetizing the [square region?]

Stefan Ortmanns - *Cerence Inc. - EVP*

So the top 4 or 5 domains are, for example, dialing, yes, still a domain. Navigation, in my view, is the most important domain here. And we are supporting here hybrid navigation, unified destination entry. You can actually say whatever you like in a very natural way, yes? Music is a very important one. And you see also the demand for texting, yes, by voice.

Unidentified Analyst

And who are like the key partners in navigation and music, the domains that you're...

Stefan Ortmanns - *Cerence Inc. - EVP*

We are here quite open, right? So for example, in Europe, we are using, for example, here -- our TomTom solutions here. In China, it's quite different.

Unidentified Analyst

There's a slide where you talked about the Microsoft partnership. Can you just expand on that a little bit?

Stefan Ortmanns - *Cerence Inc. - EVP*

I think from Microsoft, they have this so-called connectivity vehicle platform recently announced, yes? And they have asked us for providing our intelligence when it comes to speech. And you already know that they have their own solution, Cortana, but they believe that our solution is much, much better, including cognitive arbitration.

Richard Yerganian - *Cerence Inc. - VP of IR*

Other questions? Thank you, Stefan.

So what we're going to be doing now is we're going to be taking a lunch break. So these walls will magically rise. And so you can grab your lunch next door. And we have a few minutes. So if you need the restroom or grab your lunch, that's fine. And then what we're going to do is come back in here, and we'll start around 12:15 with the rest of the agenda. So thank you, and we'll be back in a few minutes.

(Break)

PRESENTATION

Richard Yerganian - *Cerence Inc. - VP of IR*

Everyone, we're going to be starting up, so if everyone can make their way back in. Watch out. Okay. We have to keep on track. That's my main responsibility for today, so I'm trying to do that. What we are going to do, though, is leave these doors open a little bit. So people who need to get up and stretch a little bit, you'll have that opportunity.

All right. Our next speaker, we're very excited to have with us and very appreciative of, who's taken the time to travel here, Nils Schanz.

As Mercedes-Benz R&D Head of User Interaction and Voice Control, Nils was responsible for the Mercedes-Benz User Experience, MBUX, and Hey Mercedes! His team develops the MBUX voice assistant that serves millions of transactions each month around the globe. Nils started to work with

Daimler in 2008 and held several leadership positions in product management, in R&D in Germany and Silicon Valley. He helped to build up the digital division of Daimler, including new hubs in Seattle, Berlin and Tel Aviv. Nils made an apprenticeship in computer science and studied international management at the University of Karlsruhe, Germany.

(presentation)

Nils Schanz;Daimler AG;Head of Voice Control

All right. So good afternoon, ladies and gentlemen, and welcome to the future of voice AI at Mercedes-Benz. I think the video made one point: tech in the car is all about the interface.

My name is Nils. I'm responsible for the group at Daimler which develops the MBUX system, our Mercedes-Benz User Experience. Thanks for inviting me today to the Cerence team. It's a pleasure to be here, and I hope I can give you some insights about how we develop our UX at Mercedes-Benz.

The car you're seeing here is our vision avatar. Our CEO, Ola Kallenius, presented this car at this year's CES keynote, and it's showing the future design language of Mercedes-Benz. Of course, I will not talk about design today, but I wanted to show you one thing. If you look into the interior of this car, there is just 1 single control element for steering everything in this car. There is no more gas pedal, no more steering wheel, no more buttons, no more switches. Just this one. And you can imagine what kind of a major role voice AI will play in the future design of our cars if you look at this.

And yes, as seen in the video, right, it all began with literally a wooden stake as the first human machine interface. And we went through generations of generations of dashboards to a fully digital cockpit today, our MBUX. So we have launched that back in 2018. We have developed it together with Cerence, and it's now in thousands of cars already available. You see here our EQC, fully EV car we have launched last year. And of course, the highlight is our voice assistant, Hey Mercedes!

What is MBUX capable of? So first of all, it can be updated over the year. We are doing this constantly. We serve customers with new services and updates when it's needed in different markets. Second, we see MBUX as part of the IoT. Means we have integrated third party solutions, services and a lot of content, and we are doing this constantly during the time. Third point, it's based on artificial intelligence. So we are learning of the behavior of our customers, how they use the system, what they're doing, what they're asking for and can do proactively suggestions to them in all the different domains.

Another point is, we have a powerful chip from NVIDIA in the system. We have the best graphics, so our customers can experience their car in 3D renderings real-time in the system. So that's pretty unique. We are the only ones offering that, and we are pretty proud of that. Of course, it's easy to use. And as I said, you can talk to it in a natural way like you would do it to your friends.

And this is how we actually see the whole game, right? Let's take the industry view here. Our device is the car. Our platform, you can also say the operating system, is MBUX. And on top of that, we built our own voice assistant, Hey Mercedes! So if you compare that to the industry view -- let's take a tech giant, let's take Apple. The device is the iPhone, the platform is iOS and the system is Siri. We see it exactly the same way. And this shows to you that we have our own strategy here, means we are not looking for third-party solution or an out-of-the-box solution. We develop our own ecosystem, our own system here, and we need it customized and being a perfect fit for our brand and our portfolio.

Looking at that, that was an S-Class we have launched 1996. So basically, we have been pioneering in voice. It was the very first car in the industry offering voice recognition, and our customers were able to initiate a phone call out of their S-Class. The funny thing in this year that we -- exactly this year in 2020, we'll launch a brand-new S-Class again, and it will be fully packed with innovation based on voice AI. We are currently developing that together with the teams of Cerence, and we will launch it later this year.

Why is voice so important for us? And why do we focus on it? And why it's a focus area for us? You see it here, right? So customers say it's much easier to search for information, to find products, it's much faster. And maybe the most exciting one, and the most interesting one is the last one. So we are asking our customers over the last couple of years, every year, what is your favorite input HMI methodology? What do you prefer most

when controlling your car? And since 2019 last year, it's our voices assistant, Hey Mercedes! So our customers around the globe, say, it's more important than a touch display or a button on the steering wheel or a touchpad or whatever. And we see this basically in all major markets. We see this in the U.S., we see this in China, we see this in Germany, in Korea and so on and so forth. So somehow, this world is changing, and it underlines and confirms why we have focused on that a lot over the last couple of years.

And of course, you can talk to it in a natural way. So via keyboard activation, Hey Mercedes, the system is up and you just talk like to a human. And this makes it so strong. So imagine, you're on a drive with your family, searching for a restaurant. Family's hungry, your child don't like sushi, but you want to have an Asian restaurant. You can just say, "Hey Mercedes! Drive me to an Asian restaurant but not a sushi one, which has WiFi and is child-friendly." So imagine, you have to type that in on a keyboard on your touch display while driving. I would say it's almost impossible. At least, it would distract a lot. Our system is capable of doing that, such complex queries. And somehow, our system is so unique and very powerful of doing that, and our customers are loving that.

What are the challenges when it comes to in-car voice control? And what is the reason why we need special partners here? Some of them is, of course, noise and cross-talk. So noise is coming from the engine, from wind, from people talking in the car. So it's pretty tough to make it a great experience with -- in these conditions when developing that. Of course, it was mentioned before, sometimes you have limited connectivity, right? Our system is also running embedded and in the cloud, as mentioned before, and can perfectly interact in the 2 worlds. You have limited embedded resources, of course. And always, cost is a factor when it has to become automotive grade and you have to have the ability of updating it. And this is actually where we think Cerence has really the power and the unique know-how expertise to support us here. There are not that many players who can help you out with all of these points on this slide. And we have made very good experiences here with Cerence together of handling that. Because each and every car model is different, right? So the position of the microphone is different. We have convertibles, we have SUVs. And to make this a premium experience and that it really feels good, feels premium, feels luxury, you have to really focus a lot into these topics to make them happen.

What else? Our highlights of our voice assistant, which are -- which is on the market since 2018. Of course, NLU, I mentioned that the system is also capable of handling non-native speech. This means that for instance, a customer from China coming to the U.S. can still control the system in English with a Chinese dialect. The system is capable of understanding that. And it's super important for us because the system is used around the globe by a very, let's say, international customer group.

Another highlight is the recognition of the passengers. So we know whoever is talking in the car. So it means if the co-driver is saying, "Hey, turn on the [massage,] " we know it's coming from the co-driver side and will only turn on the [massage] on this side. This is also a great feature. Our customers love that because then we can really answer the queries very direct and very to the point.

Indirect speech is another highlight. So it's enough that you say, "Okay, do I need an umbrella tomorrow in New York? Or hey, I'm freezing. I'm feeling cold." The system understands that and is capable of giving an answer here.

And better than cloud, I said that already. And then very important point, in my opinion, is the interaction between graphics and voice. That's also quite a challenge to make this a really premium and luxury experience. Voice output, at the same time you're showing something on the display, add some value or some information there, which our customer need. I have brought you one example here. And there you see also how much we go into the details when we develop together a new domain. This is ski weather. So if you are on the, on a trip to your favorite ski resort and you ask for the weather or for the ski weather forecast, you will not get -- not only get voice output with all the information. We have also the graphics on the display with a lot of important information, like, I don't know, the last snowfall, how many lifts are open and things like that. So you see it's not only offering the weather. It's making this experience when a customer is asking for weather really the best. So we go into the details. We add a lot of information. We make it nice that it shows beautiful and is joyful to use also.

Another example I brought to you is, again, our EQC car. So here, the idea is, okay, how can we make an EV journey for our customer best? And you see here, with these use cases we are supporting, you have to deeply integrate into the EE architecture of the car. So you need the AD, the safety domain, the comfort domain, the body control of the domain and, of course, the EV domain. And our assistant is connected with all these domains. We have all the interfaces, right?

This is an example showing you that a third-party solution would never be capable of doing that, right? I mean, the customer can easily say, "Hey, I want my car ready tomorrow and charged to 80% and please precondition it." Things like that. I mean, there, you need all the interfaces in the car, and you need a very, very deep integration to make this a great experience than inside the car, and of course, also outside of the car, because our customers can only remote -- also remotely control their car via mobile app. So if I do an adjustment here via voice in the car, of course this should be reflected in the app as well. If I do it in the app, then the system should respond correspondingly and saying something to that. So this kind of interaction between the car, between the outside world and then going specifically in all of these domains, this is a very specific thing where we think only we can develop that.

Another strength. I mean, this is also one of the main reasons why we partner with Cerence is to create language support. So it was mentioned before, our system right now is available in 23 languages around the globe. And of course, that's super important for us because we are selling our cars around the globe, right? A Mercedes, you can sell almost everywhere, right? And we have many, many markets, which are super important for us, like Korea, for instance; like China, for instance. And of course, there, it's important to support the local dialect, the local languages. So alone in China, we are supporting 4 different dialects. Our customers can talk to the system in Sichuanese, in simplified Cantonese, in traditional Cantonese and in Mandarin. We're the only one doing that, and our customers love it. Because they feel, okay, they buy a Mercedes, and it's really customized for them.

I brought one more example. This is our smart Home domain. It's not yet live. We are currently developing it, but why I brought the solution is to show you how we developed it. So first of all, this domain will allow our customers to control their smart home from their car. And you might wonder, "Hmm, why is Mercedes doing that? I mean there are other players out there which are pretty strong in the field, right?" But what we see now is there is a big interest from smartphone aggregators, from smart device manufacturers, to integrate into our ecosystem of Mercedes. So they don't say, "Okay, we are in Alexa. This is all our customers need. They are pretty interesting -- interested in getting into our cars so that our customers from their Mercedes can control their smart home." We will launch this domain in a few weeks. And for the market start, we will have the big players in the different regions available, like in China, Europe and the U.S.

And the interesting thing is here, how we developed it. So we use Cerence Studio. That's a powerful tool where we can customize our voice AI. We can train our own NLU models with our customer data specifically for this domain. And this is very strong, right? Because the question is always how can we differentiate to our competitors? And they are super important for us that the way the system is talking to our customers or the way a customer can talk to the system when it comes to the dialogue, that this is Mercedes-Benz specific. And this tooling here allows us, that we do it for our own, so my teams are developing that. With the support, of course, from Cerence and with the tooling from Cerence. And then it can be easily integrated through this tooling into the cloud and deploy it to our customers.

All right. So you see how, with the application of voice AI, we are shaping the future of mobility at Mercedes-Benz. To the benefit of our customers, we are doing this today with the strong support from Cerence, and we will continue to do so in the future. And with this, I wish you a great day. Thank you very much.

Richard Yerganian - *Cerence Inc. - VP of IR*

Okay. Thank you, Nils. So Sanjay is coming back up to the stage. We're going to have a little fireside chat session, where Sanjay will engage with Nils with some questions. And we will also welcome questions from the audience. So you could be thinking if you have any questions for Nils, now would be a great time. Sanjay?

QUESTIONS AND ANSWERS

Sanjay Dhawan - *Cerence Inc. - CEO & Director*

Thank you. Thank you, Ritch. Nils, firstly, thank you so much for joining us on this great day. And I know many investors here in this room and others, were really looking forward to kind of hearing directly from one of our key customers. So thank you so much. I know how busy you are. I know how

busy our joint teams are. And Nils talked to all of you about this new S-Class that's launching soon and the SOP dates are right in front of us and taking the time out from your busy schedule to come here. We really appreciate it. Thank you so much.

Nils Schanz;Daimler AG;Head of Voice Control

Pleasure.

Sanjay Dhawan - *Cerence Inc. - CEO & Director*

Let me start with asking you about your views on, now that you've worked with Nuance for many years and now that Cerence has spun out into an independent company, what changes, if any, do you see over the last 5 months?

Nils Schanz;Daimler AG;Head of Voice Control

I mean, first of all, here, I think that it's making total sense, right, to focus only on automotive. I think this is the right direction to go for. It will help you kind of in prioritizing. And we feel that already when we are discussing our programs and our future strategy, right? It's somehow that we are speaking in the same language here. And so this is one thing. On the other side, I see that since Cerence was founded now, there is an even more and strong direction into becoming a software-driven company, an AI-driven company, right? You underlined that several times here. And this is what we are feeling. And last point, maybe, it's good that you joined, personally. And others in the leadership team, with kind of the start-up and Silicon Valley background, this helps a lot because we have to be super-fast when developing our programs. Customer needs, requirements are changing every day. And there, we need a partner which can really adjust together with us. We need a partner, and I'm saying partner, right? I'm not saying supplier or something. So this changed a lot. It's not that we asked Cerence for something and then we get something back in a few years. Our teams are mixed up. They are working together on a daily basis, right? They are somehow sitting together in the same locations sometimes. And there, we have to be really fast to adjust to that.

Sanjay Dhawan - *Cerence Inc. - CEO & Director*

No, totally right. I think just to share with the group here, the -- as we work on the next-gen together, we're co-locating in Berlin, right? And we won't -- you won't -- you can't tell the difference between Mercedes-Benz engineers and Cerence engineers because they're co-located. Same thing right now Stuttgart, where we try to kind of be very close proximity to do our core customers so that we can kind of work in a very agile fashion, right? Can you talk a little bit about what role do you see the Apple CarPlay and Android autoplay, right, in a MBUX experience?

Nils Schanz;Daimler AG;Head of Voice Control

We are, first of all, offering Apple CarPlay and Android auto, so it's nothing where we against -- so customers in all our car lines, not only with MBUX, also with the previous systems, they can buy Apple CarPlay. So we are selling it to them, and it's good that it's there, right? And we think that the customer should choose then the best way for him or her how to control the system. But what is interesting here, since we have launched MBUX, of course, we are looking into the data on how many customers are using it, actually. And there, it's not that much. So we're seeing around 5% to 10% more or less of our customers using CarPlay and Android auto together. But of course, it's depending a lot on the region and on the market. So it's completely different in the different regions. But overall, it's around 5% to 10%. So it means, at the same time, 90% are still using MBUX. And so somehow, this gives us, right, that a fully integrated solution where you can control almost all domains in the car, which is a luxury and a branded experience, former seat dispense. This seems to be still something our customers want to have and they like.

Sanjay Dhawan - *Cerence Inc. - CEO & Director*

Right. I think I was standing back there and thinking about some of the use cases that you shared with the audience here. I mean, those are absolutely not possible if you have a pure phone in the car, especially the electric vehicle example that you shared, right? I mean there's -- and that's one key thing that our platform interfaces would integrate with almost 200-plus sensors in the car. And in those use cases then get enabled because of those sensor integration, which a phone just can't do it, right, because it's a different device, right?

Let me ask you 1 or 2 more questions, and then we'll just open up for the audience, if anybody has any more questions. There is -- what are the key considerations that you have in evaluating edge or connected services in a best fit for Daimler's goals?

How do you evaluate kind of which domains, what services and if there are any new areas that you think, both Cerence, as a company, we should focus on?

Nils Schanz;Daimler AG;Head of Voice Control

I mean there, the most important question is always that whatever we develop, what we come up with, I mean there should be value -- added value for our customers. So we do not just develop because it's, I don't know, a new topic or something where, I don't know, someone is recommending a start-up to us or things like that. So there should always be a value for our end customer when we launch a new service, a new product or integrate content. That's the first thing. And then second, of course, it should be fitting into our portfolio and to our brand. So there, we are also really looking at, okay, what will help us to make this luxury experience even better one. And last but not least, of course, there should be a business case behind. So we are not doing that just for free. We want to make money at Mercedes, and this is why there must be a business case behind that, of course; and then, of course, to really serve our customers in each and every market specifically. So there are different needs in China than in Germany maybe. And this is super important to consider that. Talk there to our local teams, look into the data, look into what customers want, what they need, what they like to use and then develop on top of that.

Sanjay Dhawan - *Cerence Inc. - CEO & Director*

Of course. Makes sense. It's -- as we talk about car becoming more and more autonomous, how do you think the user experience is -- architecture is going to change in the car? And what's your view on -- as a road map, we as a company are looking at combining kind of a bunch of other multimodal interactions. How do you see some of that kind of getting adopted in an autonomous and nonautonomous mode?

Nils Schanz;Daimler AG;Head of Voice Control

I mean, multimodality is for sure also a key area where we focus on, right? We have some stuff already in the car, and now with the new generation of the S-class, this will be even more. And so there, we will combine several things together.

Autonomous driving, I would say that right now is a very hot topic. And this is my personal opinion now, very hot topic. I think in 5 or 10 years, maybe in 10 years, it will be somehow a commodity that all car OEMs in specific areas will have that, that in a specific area, this will be used.

And what is then, again, making the difference? This is the question for us. And there, we think the user experience in the car is again key because there, we can differentiate to others. There, we can reach our customers, and our customers will enjoy or will not enjoy the experience in the Mercedes-Benz cars. And of course, what will change then in AD is that people will have more time in their car, so focus is no longer driving. And there, there will be super, super areas where we can do new business, where we can integrate and develop new services like video streaming, music streaming, gaming, education, productivity, all these new areas. I mean there's a lot of potential to come up with new stuff.

Sanjay Dhawan - *Cerence Inc. - CEO & Director*

Right. That makes sense. Perfect.

Nils Schanz;Daimler AG;Head of Voice Control

Thank you.

Sanjay Dhawan - *Cerence Inc. - CEO & Director*

All right. Let's do some Q&A.

Richard Yerganian - *Cerence Inc. - VP of IR*

We'll open it up, but please wait for a microphone so that the people here in the webcast can hear.

Sanjay Dhawan - *Cerence Inc. - CEO & Director*

Yes. We have a overflow room as well, which is full, and the complaint during lunch that I got was that the Q&A, please use the microphone so that they can hear the question.

Unidentified Participant

A question regarding a slide you put up with this visual data as well as audio data for the ski mountain. How do you connect to get the data? And is it different for you versus if I use CarPlay or Android auto?

Nils Schanz;Daimler AG;Head of Voice Control

I mean, first of all, the graphics you've seen here, we're developing in-house, so at Mercedes. So my teams are also developing these graphics, and then we are just looking at, okay, what is the use case about? Does it make sense for this use case to add graphics, yes or no? So we have also pure voice cases where we say, okay, a graphic would not add value. So it's depending on the use case. And then, I mean, we are just combining that, right? And the parts of it, as I said before, is running them embedded in the car, parts of it in the cloud when it comes to integrating data here. But we have to make sure that also without connectivity, both worlds are still -- work together and that still something appears on the display, which makes sense, right? So this is kind of the way how we do that.

Unidentified Participant

And how do you choose a service provider for the data between the edge and your cloud?

Nils Schanz;Daimler AG;Head of Voice Control

Depending also on the data. Let's take, for instance, navigation. So there, in our system today, a customer can input destination also without connectivity. It means there is a database also running embedded. But then when it comes to cloud and there is connectivity, we will add even more data and choose then the best picks, right? So I don't know, we have, for instance, integrated the Yelp ratings in our system. This will only appear if you have the cloud connection. If there is no cloud connection and we will recommend a restaurant then without the Yelp ratings in this case because there, it's coming from the cloud. And of course, the data and the storage resources embedded are limited. So with the cloud, it's always the better experience. But we make sure that at least a basic experience is there where we can say, we help our customers here. And this is also, I mean, comparing it to CarPlay or others, they're not capable of doing that at all.

Unidentified Participant

I wanted to ask about the connected home products. Can you talk a bit about who the key integrations are with there? I mean, obviously, Google and Amazon are pretty big in connected home. Are they white labeled? I mean, is it sort of a direct integration? Like how do you get the data from those players? And will you?

Nils Schanz;Daimler AG;Head of Voice Control

So I cannot talk about the main set because we want to do announcements with each and every partner here, but it will not be white labeled. So customer will -- I mean today, the world is like that. So I have a smart home. I'm using a specific smart home aggregator or a company there, right? And then of course, if I order a Mercedes, I want to integrate specifically this smart home company because I have it at home, right? And so this means that the -- our customer can actually then integrate and do account linking with his provider. And from then onwards, in the car, you will be able to talk to your system via voice. And there, we chose the biggest players in the market. So we focused on the U.S. We focused on China because China is always very specific. And on Europe, and we'll integrate there for the market launch the 3 biggest players, in our opinion, the 3 biggest players then for the market launch. And then, of course, the whole system, the whole architecture is flexible. So we can add more and more providers then in the future.

Unidentified Participant

Could you talk a little bit about how you see the ongoing opportunity for services over the life of the car? And how you -- if you can bound it at all, are you -- is Mercedes going to sell the ongoing services and white label with others? Or will there be other brands that come in? And how do you assess the willingness of the consumer to pay. I mean, how much money is available over a 7-, 8-year lifetime value of a car? I'm just trying to get a sense of -- because there's lots more that I think Cerence wants to do with you, but I'm trying to understand how you view the opportunity with your customer base.

Nils Schanz;Daimler AG;Head of Voice Control

I mean, it's a focus area. So we have really 1 department at Daimler right now focusing exactly on that. So how can we, during the life cycle, add more services and make money out of it. And there are different ways, right? We sometimes integrate a service, completely white label it so that the third party is not at all existing. We are just using their technology or their data. Then there are areas where we do it together. And same what I explained right now is true with Cerence, right? There are areas where we do it together. So we bring something in, Cerence is bringing something in, or another partner, and sometimes we just completely take over from third party. So I can give you one example. So in the next days or weeks, we will launch Amazon Music in our cars. And there, I mean, we fully integrated Amazon Music so that with the voice assistant of Mercedes, you can control Amazon Music in a Mercedes-Benz car. Of course, we have not adjusted now the Amazon Music experience because it's good as it is. We just take over from Amazon, implemented natively in our car, so that then our customers can control it within -- without plugging in a smartphone. So it's depending on service by service. It's depending on what the expectation of the partner is also. And then there are sometimes ways where we find together or not. So this is basically the way, yes? But as I said before, when it comes to the integration of third-party content and new services, we also want to have a positive business case at the end. So it's about on our side or sharing with the partner, so it's both. Same is true for the data, by the way.

Unidentified Participant

Could you share or maybe describe what's been your experience with Cerence's professional services team, whether it's I guess the level of integration, the types or duration of projects, the expertise Cerence is bringing that you don't have in-house or any other aspect, I guess?

Nils Schanz;Daimler AG;Head of Voice Control

I mean, there are several stacks in the technology where we have not the know-how in-house at Mercedes. We are building it up not in every area, but we are building it up constantly. So we also have a huge area focusing on software overall. We are hiring hundreds of people there, have new locations and so on. But there are certain areas we will not enter, right? And they're clearly on the Cerence's side now in this case. ASR, NLU, these are things we will take over from their side. The challenges I talked about, right, with noise cancellation while driving and things like that. This is an area where we do not have the expertise in a way like Cerence is having it. And there, we clearly partner up with them and take over. What is important to know is that in all our cars worldwide, we have Cerence technology included. So there's not one car, not one market where we don't have that. And the experience with the professional services is quite good. So this is something where we saw a big improvement over the last couple of years and also now since Cerence became an independent company. So our teams are literally right now working together. So we have them in Ulm, we have them in Aachen, we have them in Stuttgart, we have them now in Berlin, and they are teaming up there. Same is true in China, same is true in Korea. This means really, they work in one Scrum team together. So a PO for a domain like navigation; there is one PO from Cerence, one PO from Daimler, from my team. And they partner up, have their development team and develop this domain for each and every market with the local teams then. So it's really hand-in-hand. This is what I meant. It's not longer, "Hey, can you do this?" And then we get something back. It's really pretty agile and pretty flexible and really hand-in-hand.

Sanjay Dhawan - *Cerence Inc. - CEO & Director*

I'll add a little bit to it. I've been in auto industry for a very long time and I consider Mercedes-Benz, you guys, to lead technology in the car. For many, many years, you have done that and you are doing it. I obviously can't talk much about the new S-class. Let me tell you, I'm buying one because it's just absolutely amazing car, right? So the reason I'm saying this is because what this means is that in this partnership with you, Nils, and Mercedes-Benz, you guys drive us hard, because you drive us to the edge of kind of what's possible and basically because you want kind of leadership in the industry. And there are times when it's tough. But you know what? We love it internally here at Cerence because what that's doing is it's helping our products become better and obviously kind of making sure that we are the leading edge and so on and so forth. So that's kind of my view of how the pro services teams, et cetera, are working. And Prateek will tell you, it's -- we're burning 24/7 right now, right? As you know, right, 7 days a week, that's the mode that we are in to kind of get the new cars out.

Richard Yerganian - *Cerence Inc. - VP of IR*

All right. Last question?

Unidentified Participant

You talked about Cerence being in every Mercedes-Benz car that's shipped globally. Can you talk a little bit about how SoundHound complements Cerence and why you decided to have both of them in some cars versus others? If you go to the SoundHound website, they talk about Mercedes as being a platinum partner and stuff like that. So just curious how the two intersect.

Nils Schanz;Daimler AG;Head of Voice Control

Yes. This is what I said before, right? I mean Cerence technology, first of all, is in all our cars. So it's embedded in the software. Our software model in the car is purely Cerence worldwide. And then when it comes to specific markets, we add here and there cloud-specific solutions. There, we have SoundHound, for instance, in the U.S. market. We have some domains where we collaborate in China with Baidu today. And this is also the strategy we have, right? We want to partner with the best solution or the best company, offering the best solution market-by-market. And if there is a specific need in Korea or Japan, there might be a better player then. This does not mean that we stick to Cerence. We look at it, do a benchmarking on our side, see where is the biggest motivation, where is the best quality coming from, the best content and so on, and then we decide. But embedded, for the moment, it's worldwide Cerence. We think they have many, many advantages in this field. And we don't see other players like SoundHound right now being on this level.

Sanjay Dhawan - *Cerence Inc. - CEO & Director*

If you know the auto industry deep well, the -- there is always a blueprint -- the term that's used, Nils, in your -- in our industry is blueprint partner, right? So the sole sourcing means kind of giving away the pricing negotiation also. There, let's just be very open about it, right? So it's always going to be and competition always makes us, all of us, better as well, right? So we're happy to kind of compete with whether it's SoundHound or anybody else.

All right. I think we're out of time. And so once again, I want to thank you, Nils, for joining us.

Nils Schanz;Daimler AG;Head of Voice Control

Sure. You're welcome. You're welcome. What a pleasure. Thank you.

PRESENTATION

Richard Yerganian - *Cerence Inc. - VP of IR*

Thank you, Nils, and thank you, Sanjay.

Okay. On to the next section of the agenda. And that's going to be with Charles Kuai. So Charles serves as Senior Vice President, Greater China region. Prior to joining Cerence, he had held similar roles at Nuance. And previously, Charles served in a variety of roles in the Internet communications and telecommunications industry globally. Charles has held many senior level positions, including CEO and President of Ubee-AirWalk, a fast-growing global wireless networking company; Senior Vice President and General Manager Asia of ADB Holdings, a global media solutions company; General Manager, Wireless at Ericsson, formerly Nortel, Greater China, a global telecom networking company; and Executive Director of Technology at AT&T, a global telecom operator. Charles has completed his MBA and graduated with distinction from Northwestern University, Kellogg School of Management; and also holds a dual Bachelor Degree in Electrical Engineering and Computer Science from Southern Methodist University.

With that, Charles?

Charles Kuai - *Cerence Inc. - Corporate SVP & President of Greater China Region*

Thank you, Ritch. Good afternoon. Can you hear me? Okay. Well, thank you, Nils. That was a very inspiring talk. And so far, I hope everybody is having a good time. It's hard to talk after lunch, so I'll try to make it interesting.

Cerence has been in China for a decade. But before I talk about Cerence in China, I want to just leave a couple key points about why China is so important in the automotive industry. I think Nils touched upon that. Number one, it's the largest auto market in the world. It is about 1/3 of the world market. And actually, it started the rise during this last czar. So about a 20-year period, it became number one, almost twice the size of the United States. The second data point I want to share with you is, China is the most fragmented market in the world. So you have about roughly 30 OEMs globally competing. Inside China, there's 90. So every OEM has a partner, so that's already 60 plus about another 30 EVs. So there's -- that's about 90. As I said, we've been in Greater China for a decade. We started going direct in 2009 through a small acquisition of an R&D team, that was actually the Motorola speech team. And over the course of about 7 years, this is where we actually started penetrating into the speech, but none of it was really great end-to-end user experience, which is what Stefan talked about. Our opportunity came in 2015, 2016. At that time, we've identified that in order for us to succeed in Greater China, we have to partner with the largest OEM in Greater China. That's SAIC Motors.

SAIC Motors is 25% of the Chinese market. They operate under the brand of General Motors, Volkswagen as well as MG. And during that time, there was -- so SAIC, because they saw themselves at 25% market, they couldn't see themselves growing to 50% market. So they decided to actually resurrect and advance their indigenous brand, which is MG, or in China, it's called (foreign language), but they needed to find a very unique

advantage in order for them to disrupt the European players. The largest European player at that time in China was Volkswagen. The hottest-selling car was Tiguan. So they've identified Internet car or digital car is their entry. So we've partnered with SAIC Motors. They have formed a joint venture with Alibaba called Banma, that was the world's first Internet car. I would say that is probably the world's first end-to-end usable, delighting experience for a digital car. Actually, that car became the #1 selling SUV in China. And then, it wasn't even ranked in the top 5. And then we -- I point a little bit more detailed review of that, what we found out something interesting. The consumer car market from -- in China was going from pre-born in 1980s to post-1990s. Post-1990s, these kids -- or kids, we could call them kids, I can call them kids. They are young people that were born with an Internet. So to them, a definition of a car or pre-1980s is very different. And they are the rising consumer base.

If you fast forward this, another rising star is Geely Group. Geely Group is a lead shareholder of Daimler now. They've actually bought Proton. They've just launched Lotus. So Li Shufu, the Chairman of Geely, decided, "You know what, SAIC can do it, I can do it, too." So he formed his own subsidiary called ECARX and actually deeply partnered with us and basically used a very similar playbook of SAIC and advanced another end-to-end user experience. And this has become, in 2019 -- so this slide is a little bit -- scoot it to the right. In 2019, the hardest, fastest-growing domestic carmaker in China.

We've also partnered with leading device companies, whether it's Huawei or Xiaomi, for us to be actually local. So if you look at Greater China, we've had 3 phases. Phase 1 is operating like a western company in China. Phase 2 is a very important phase, which is One China strategy. We are effectively considered a local company. And as you know, as the world is becoming a one world, two systems, that has played an advantage to us because they want to deal with one global player, but they want a player to be actually localized to be able to meet their demands. And then down here, it just highlights a lot of the innovations, the patents that we've filed.

And also, another very important part that I want to highlight is the cloud. We have -- in our cloud, that's just 30 domains, but we have 1,200 AI expressions, which means that you can use it more naturally.

Another thing that we use China for is what I call an incubator market. Because it's so fragmented, the number of cars are so high, it allows us to have a really sizable market, a continent for us to experiment, innovate agile in areas of car life cycles, new business models as well as stretching our technologies. And I'm going to introduce in a second, ARK, AI Reference Kit. So if, imagine what we just talked about from MBUX, which is a great car, great experience, Banma is for SAIC, Geely is GKUI, suddenly, all the remaining 60 companies wanted the same thing. But we can't really scale that fast. So we decided to actually create a fully packaged solution end-to-end. It's an end-to-end product, which is what we call the ARK. ARK is -- ARK has a cloud, has an edge and a client. A client can sit on the head unit. He can sit on the mobile devices. And edge is actually embedded into the car itself.

Why is that important? Well, it's important because every car maker may have their own needs. So each one of those building blocks can be on a stand-alone. You can have an edge car that actually operates without cloud. We've launched that in Indonesia, actually, with SGMW, the hottest-selling car because Indonesia doesn't have really good 3G, let alone 4G, communication. You can also have it between a client and a cloud, whether it's a head unit or a smartphone or a combination of all.

This is the diagram of what this cloud and edge and client is, okay? This is our architectural diagram. But what does that mean for us in China? We're able to actually aggregate navigation from not just one map company, but multiple map companies. In China, there's at least 2, and there are some foreigners. This is a very important part, cognitive arbitration. We've actually connected our platform, end-to-end platform, to the leading virtual assistance in Greater China. The same thing can be portable outside of China. As I said, we used China as an incubator for the rest of the world. The third thing is the cloud app. Every carmaker wants to have their own cloud ecosystem. They want to be able to leverage the data and monetize future services. So this is a very OEM-friendly solution. And last is what I call car control, okay? This was actually invented in China where you open your sunroof, but it's now become global. And this is deeply integrated into the car. And this is why we launched ARK Edge, which is basically an ability to take our small footprint edge and put it on a basically a real-time OS. That means the car can be born with voice. The car doesn't have to be upgraded to voice.

Another thing is, because the consumer market is so digital, we actually started thinking about new ways to personalize the car, new ways to personalize the journey, new ways to personalize the product. And one of the things with the advances of our algorithms and our cloud technology, we were able to take some of the neural networks advancements to be able to create what I call commercially graded deployable voice clone. That

means you can have the virtual assistant with your own voice or in the voice of a loved one. And it's a highly desired feature because this is pretty common in China. In all the maps, you can actually create your own voice or a celebrity voice. It gives you a better user experience, and it actually enhances attention. So if my daughter tells me, "Daddy, please pay attention to the road" is very different than a standard Cerence's virtual assistant telling me to pay attention to the road. So this is where we see some advantages. We've actually launched this with SAIC, which is another lead car company customer that we have, but the application is wide. The application could be when you send a message -- so I have my daughter today. She has an iPhone. She sends me messages. And after the emoji messages, she records a voice message. So I was like, "Well, wouldn't it be interesting if the two are combined into one?"

The second thing is the journeys of the car itself. Imagine your child is crying and you're reading a story, wouldn't it be great if the storytelling is your wife's voice to calm the child down? Also in that, we also thought about other areas of expansions in terms of voice clones. So I want to play a very short video to explain to you the concept. It's a little bit easier to see a video versus just the slide.

Can you play the video, please? Sorry, it's in Chinese, but it's dubbed.

(presentation)

Charles Kuai - *Cerence Inc. - Corporate SVP & President of Greater China Region*

So as you capture your voice or voice of a loved one, imagine this, it can go wild in terms of its application. But it's not only it's personalizing, but it actually allows you to basically say, "My car, my voice. Basically, I'm able to customize with all the various applications."

We have a very strong position in China. A decade of experience in Greater China, allowed us to be strong in 3 specific areas: number one, global brands such as Daimler and BMW and Audi. We are a one-stop shop globally. We talked about that earlier in Sanjay's presentation, Stefan's and Nils', they want to deal with one-stop shop. But they also want to have very localized solution, deeply, rapidly integrated, agile and connected to that local market because they have local languages, local Internet ecosystem, local flavors, local usage cases. Imagine, a BMW driver in China, average age is 35; in Germany, it's 55; in the United States, it's 45. Clearly, a 35-year-old and a 55-year-old, their needs are very different. So we're able to provide that because we've got a very large R&D, fully integrated organization supporting that. Second thing is the Chinese brands have decided to disrupt the foreign companies, the foreign brands. They've defined digital car as one of the key, if not the key differentiation. So they're all-in out in this. And with the needs to expand, they're looking at export market as one of their major growth drivers, okay? And then we'll show you some examples of this a little bit later in terms of a quick video from one of our most successful launches we had succeeded in. So we decided to take what we've built in China, as I described, in terms of ARK. And I said, is that thing portable to other markets? Or is it unique to China? So we didn't know, right? So we said, is it applicable to Malaysia, to Indonesia, to India, to more markets? And we're very pleased that it's been very successful in all of these 3 markets. And then the last one is, although we are primarily focused on automotive and transportation, we also, in Greater China, we deeply connect with the mobile IoT device providers. And we actually support their needs in virtual-assisted voice globally. So that's another area of growth for us. I described this thing a little bit earlier in terms of 2 lead domestic car conglomerates have decided to go all-in for digital assistance and digital car. One being SAIC, and they formed a joint venture with Alibaba called Banma, powering all these brands, and they are going overseas. The other one is ECARX. ECARX is a predominantly owned company by Geely, minority share by Baidu, okay? And they are powering cars across all their portfolio, whether it's a Volvo, Proton, SAIC and Geely domestically. So we recently won an expansion with them into Europe. So that's been another successful partnership. We work very closely, like Nils described in Daimler, very similar model here with these 2 lead partners handing -- our people actually sit in their site. And we actually codevelop and co-come up with road maps, very much the same way as Daimler works with us. We work very closely with these 2 very strategic partners.

One of the highlights for 2019 was India. India is the fastest-growing car market, growth rate-wise. And as many of you know, India is a very tough market. And SAIC bought General Motors assets in India, billions of dollars. And they went all-in as digital car being the key differentiator for them to actually enter into this market. And I'm happy to report to everybody that this car has become the hottest-selling car in India. When Sanjay visited me in China, the CEO of SAIC informed him that we have a waitlist in a car. And actually, a second-hand car, after you buy it, it sells as a premium. So that's -- in a fossil fuel, I think that was the last time it happened was Mazda Miata. So we are very happy with the partnerships we created with SAIC. And there's a very short video from MG's CEO for India. He wanted to share his experience and also highlighting what is MG Hector.

(presentation)

Charles Kuai - *Cerence Inc. - Corporate SVP & President of Greater China Region*

So we're seeing a lot of those emerging markets actually leapfrogging the, what I call, the Generation Y connected car into a pure digital car as a key differentiation. Because of the market size in China of 1.5 billion consumers, 24 million vehicles, we are also advancing our R&D in collaboration with Stefan and Prateek to advance into computer vision and other modalities, voice, physical buttons as well as touch, SaaS. And we also are expanding into the full mobility solutions in transportation industry, cruise ships, as an example, 2-wheelers. We're actually just launching a 2-wheeler, which we'll be announcing very, very soon, with one of the lead consumer electronics brands in Mainland China, right? And there are others like trucks and boats and school buses, et cetera. So the market application for our technology plus its adjacent technologies and creating an end-to-end user experience is quite wide. And this is the area that we're going to be focusing on in the future as well.

So in summary, today, for Greater China, Cerence is a voice technology leader. Tomorrow, which we have already started, is voice plus AIoT. When I say AIoT, it means other modalities, computer vision, et cetera. Today, we're focused on what I call new car launches. Tomorrow, we will continue expanding new car launches, including what we call the entry-level so that it won't have a screen. The car will be a smart speaker as well as existing cars. Cars that are in the market, how do we actually enable a much more end-to-end life cycle with the car? Today, our revenue is linked to per car, and then we are actually also expanding into SaaS. Today, our market is predominantly in China, for Cerence China, but we -- as you can see, we've already taken this team to expand for our Chinese partners globally.

So thank you very much.

QUESTIONS AND ANSWERS

Richard Yerganian - *Cerence Inc. - VP of IR*

Any question for Charles?

Unidentified Participant

I was wondering if you could talk maybe about some of the geographic-specific competitors and maybe how your market share lines up versus what the company's overall market shares have been stated at.

Charles Kuai - *Cerence Inc. - Corporate SVP & President of Greater China Region*

Okay. When you say geographic competitors, so the way we see Greater China is there is a complete decoupling of the market with the United States. So we don't see competitors like Google, Facebook, Amazon. They don't exist. But we do see, Baidu, Alibaba and Tencent. And the strategy of coexistence is not a strategy in China. It's actually rolled out. So we are actually operating, for example, with SAIC on Ali's OS -- Alibaba's OS, Aliyun, connected deeply into Alibaba's ecosystem. We are partnering with Daimler, for example, or with ECARX and connected with Baidu's cloud, okay? So that's a coexistence. We have one what I call indigenous competitor that's another Internet-based. It's called iFlytek. Okay. iFlytek is -- you could consider it as a Chinese version of Nuance. And I'm happy to report that iFlytek had 2 very, very large customers: one being Geely and the other being SAIC. They happen to be convinced and have started completely using our technology. So we feel very confident in that space.

In terms of market share, because it's -- as you know, in China, there's a tremendous fragmentation. It's hard to have an exact number. But I'd say it's more than 50%, 60% for sure, okay? The rest, there are smaller players. There is, as you know, China has decided to peg AI as a high national strategic initiative. So there's lots of small start-up companies in that space. So that's, in summary, where we see the competitive landscape for us in China.

Richard Yerganian - *Cerence Inc. - VP of IR*

No more questions? Okay.

Charles Kuai - *Cerence Inc. - Corporate SVP & President of Greater China Region*

Okay. Thank you.

Richard Yerganian - *Cerence Inc. - VP of IR*

Thank you, Charles.

Charles Kuai - *Cerence Inc. - Corporate SVP & President of Greater China Region*

Thank you.

PRESENTATION

Richard Yerganian - *Cerence Inc. - VP of IR*

All right, moving along. So our next speaker is Prateek Kathpal, Chief Technology Officer and Head of Pro Services.

Prateek brings more than 20 years of experience in fast-moving and high-growth environments to Cerence, where he serves as Chief Technology Officer. In this role, Prateek is responsible for Cerence's technology vision, core products and product road maps. He also serves as Head of Professional Services. Prior to joining Cerence, Prateek served as General Manager of AI and IoT products at View, responsible for leading product strategy, defining and driving the product road map and supporting M&A activity to accelerate growth. Prior to View, he served as VP of Product and Solution Management at Polycom; Chief Strategy Officer at HighQ; and VP of Product Strategy at Accusof, which acquired Adeptol, a company Prateek founded. Prateek holds an MBA and a Bachelor of Engineering degree in Instrumentation and Process Control.

Prateek?

Prateek Kathpal - *Cerence Inc. - CTO*

Hello, everyone. I'm Prateek. As Ritch said, I'm wearing dual hats. So I'm the CTO for the company, responsible for our product strategy and vision; but I'm also leading the professional services team, which is responsible for our connected experience and delivery. So this is a team which is responsible for going in and implementing the Cerence technology as a part of the cars, works very closely with the OEMs, and this gives me a chance to see where the problems are, where the OEMs and carbon fractures are investing, and then bring it back and implement it as a part of our future growth strategy as well as a part of our product vision, okay? So we'll talk about both of the things today.

So what we're going to talk about is our R&D team and platform and where we are investing our technology differentiation. So basically, in terms of how we are compared to some of the other technologies out there and what sets us apart with our artificial intelligence platform and our deep learning technology that we have. And finally, we'll talk a little bit about our innovation priorities as we see this fundamental shift happening in the automotive world from combustion engine to electrification to autonomous driving and how we are be -- going to be a part of that whole revolution and how we set ourselves apart as a part of the innovation and growth that we're going to bring in, okay?

So in terms of -- just sizing, we're about 800-plus R&D engineers and 750-plus professional services team. And this is a team which consists of PhDs and speech scientists coming with a wide background of artificial intelligence, machine learning, neural networks. And this team has been -- has a lot of experience. As I said, we have more than 1,250 patents. And we keep innovating on them and keep on adding more as we set for the future.

Now the Cerence platform is one of the largest installed bases in the car today. It's a stack of edge and cloud, which you have heard several times today. It's a stack which can run in both -- individually in edge board, which means embedded in the head of -- head unit of the car or in a cloud mode when the car is cloud connected or even in a hybrid mode when -- where both of the technologies can coexist. The automatic speech recognition over here and the natural language understanding, or NLU, as we call it, is based on sequence-to-sequence-derived architecture. Now what that means is when you are in an environment which is not connected, you could dial in and you could use your local functions much more effectively and faster like a phone dialing or getting -- opening the windows of the car. But when it is a function that you want to do or an action that you want to do, which has some cloud connectivity need with it like getting information from the cloud or turning on your lights at home, the cloud services piece comes in and brings it up together. Now they both can coexist as well. So there are cars where we will go in with a hybrid approach where both of them will coexist, and as Nils mentioned in Daimler, both the things go up in the -- at the same time. And based on -- if it's a good connectivity, the data sets are compared. And whatever is the best, we just display to the user. So with a good cloud connectivity, as Nils mentioned in Daimler session, the Yelp ratings might appear or if there's no connectivity, the ratings -- the data will still appear, but maybe without the Yelp ratings in that case. So again, both of them very much coexist and can work together.

Now definitely, the edge cloud and hybrid is one of the differentiation over here. But one other cool thing is that you could invoke the Cerence technology in multiple different ways in the car. You could push a button to start it. You could use a wake-up word like, "Hey Mercedes! Hey, BMW." A custom wake-up word, basically. So the OEM can rebrand it to whatever they want. Or you can just use it to just talk. So you could normally be talking as you would and you could just, as a part of your conversation, say, "Lower the windows." And the voice assistant just understands that and does then perform the action. That's one of our innovative cool differentiation features, I would say, that we have just announced.

Now finally, it's 70-plus languages support. So that's another big differentiator. And someone asked a question about domains. I think one of the biggest differentiation about Cerence is the in-vehicle control. We have a domain apart from navigation or media or phone control and sports. The in-vehicle control really sets us apart. We have those integrations, those actions already mapped out: lower the window, open the sunroof, do certain different things in the car, turn on the headlights, show me back-up camera. All those things are in-vehicle control, which we have already got the actions and dialogue flows mapped out, that really sets us apart.

Now when you're talking about cloud, there's a lot of data. The data is the first thing that comes up. And we're collecting all the data into the cloud. We're doing about 100-million-plus cloud transactions and 1,500-plus transactions per minute. And this data is just growing from here, right? And this is a data which I feel is untapped potential that Cerence has for the future where today, we're using this data to deep learn our artificial intelligence technology. But what we're looking at is sharing this data back with the OEMs and helping them monetize on this. And this is a data where they can use this data to further improve the user experience within the cars. So definitely a great opportunity here.

Just to give you guys an idea on the type of the data that we collect. We can tell whether a person in the car is a male or a female. We can tell whether the -- what age group that person is. We can tell whether you have a kid or a dog in the car, what time do you go to work, whether you stop at Starbucks for a coffee on the work. What happens when you are stuck in the traffic? Do you listen to music? Do you get on a phone call or do you simply just wait it out? Whether what times during the day are you distracted? What is your emotional level during different times of the day? Whether you are frustrated at certain points. So we have all this data that we can combine and use with a lot of different potential opportunities that we're looking at as different product sets.

So we talked about cognitive arbitration and, as Sanjay said, it's about extending your digital life to the car. I have a Google home assistant at home. I use Siri on my mobile phone. I have also got an Alexa-powered smart speaker. The cognitive arbitration is, think of it as a very -- as a rules-based engine which allows you to use any technology that you like or what you're used to in your digital life and lets them all coexist at the same time. So you could say, for example, lower the windows. And in that case, the cognitive arbitration understands it's a local command. I can just go and execute it locally using Cerence technology and performs the action. But you can also say, turn on the lights at my home. In which case, it uses your Alexa profile and passes that action to Alexa to execute that action at your home, Alexa speaker or Alexa lights, and returns with a response saying "done," right? So that's what cognitive arbitration is. And whether you're using a iPhone or a Android phone, bringing that into the car and

extending that same user experience across all is one of the other advantages of this. So you'll -- both of the users, irrespective of a full iPhone or Android phone, will get a very similar experience in the car.

Now when we talk about car, we're talking about a very complex moving object and building a speech technology for the car or building a voice listener for the car is -- gets very complicated because you get into this uncontrolled environment where there's lots of noises, where there's lots of challenges which can come up as compared to when you're in a home environment where the background noise might be a AC or a fan noise, right? Over here, you're looking at a wind noise or engine noise or even people might be sitting in different seats, not directly facing the microphone, right? So Cerence speech signal enhancement technology basically cancels all these noises and reduces the error rate by up to 82%, making it much more effective to have those conversations or to invoke the voice assistant to carry out certain action or command.

Now how many times it has happened to all of us that we're in a car and we have our kids with us in the car or we have passengers in the car, and we want to simply make a phone call. We want to make a business call or a conference call and we have to tell the kids or the passengers, "Please be quiet for the next 10 minutes or 30 minutes and let me do this call." Now Cerence's speech signal enhancement technology allows you to selectively mute and unmute the participants, mute/unmute the people in the car as you require. So when you're having that business call, you can selectively mute a different passenger or kid. And then when you're having that call with the grandmother when you want everybody to participate in as a family, you can unmute them all. So it's very flexible and allows you to select who you would want to be participating as a part of the other call -- as a part of the call. And the other party only hears what you have invoked as a part of that.

Now when we talk about Cerence, we talk about voice. It's the first thing that comes to mind with Cerence. But Cerence is much more than that. We are -- we've introduced what we call as multimodality. So as we look at the next-generation human machine interface, it's no longer about just voice. It's about gesture, it's about emotional AI, it's about facial recognition. So Cerence has already started to do some of these technologies in multimodality phase, as we call it.

So when you are driving on the car, Cerence can help you make your journey much more safer. So using the Cerence text-to-speech technology, we can actually play a voice prompt when you're feeling drowsy or when you're distracted. So instead of just only playing a coffee icon, we can recommend you a rest stop to go back and take some coffee or start playing music automatically, so you can actually come back out of your distraction or drowsy mode. So that's one great example for that.

And then finally, another good example is bringing your outside world into the car. So a lot -- many times when we're driving, we'll see a billboard or a building that we want to have more information about. Cerence's multimode technology allows you to gaze at that billboard or that building, so you basically look at it and you say, "What is it about? " And Cerence's cloud will come into action, find you the more information and bring you back it into the car itself or make a note for you, so you can reference it later.

So let me show you that in action. Can you please roll the video?

(presentation)

Prateek Kathpal - *Cerence Inc. - CTO*

So as you could see, the multimodality uses your -- not only just your GPS, the speed at which your car is moving, the location where you are, but also where you're looking, your gestures, your face, your emotional AI-based techniques to bring all that information together.

So where do we go from here? Cerence technology today is available in a very light footprint and is very extensible. So we have obviously been playing in the automobile market, but as we look at expanding, we're looking at the adjacent markets now and mobility and ridesharing is one area which is definitely something where we are investing in. Now as you guys go and take a rideshare, wouldn't it be great that you could go into the ride share and you have your personal preferences, automatically transferred from your mobile phone on to the head unit and your favorite music starts playing, right, in that rideshare, during the duration of that rideshare? So those are some of the different areas that we are looking at, at this point of time, along with the personal cars and automotive space as well. And I know Charles talked about cruise ships. That's another area that we're expanding into and doing the POCs, where you could ask the voice assistant, what's the itinerary today for the ship? What are different

shows going on? Or even use the cognitive arbitration even from there, to turn on the lights at home or open the garage door at your home. So all those things come up together, whether you are in the automobiles or motorcycles or the cruise ships, and those are some of the areas or markets that we're looking at.

Now professional services, as I said, was the second hat that I wear. Today, the professional services, as we define at Cerence is basically offering voice integration services, our integration services for the Cerence platform. Now as we expand the TAM for the professional services and improve the margin on the services, we're looking at expanding it beyond just voice integration. So we started to offer services like user-experience design or end-to-end product and testing or validation of some of the other integration services, along with telematics and connectivity. These are the areas which are very adjacent to the skill sets of the people that we already have. So we're expanding beyond just voice to even areas like acoustics testing or best placement of the microphones or user experience validation, or even giving recommendation to the OEMs on how their car is compared to where the market is going or how the adjacent -- the -- how their car is going to be different 2 or 3 years from now compared to where the other car OEMs are investing in. So those are some of the areas we're expanding in.

At the same time, I think, as I said from a margin improvement perspective, we're taking certain steps where we have opened up our new Pune R&D and professional services office. But we're looking at offshoring some of the roles where you don't need to have all of them on site. As Nils mentioned, we are working very closely for -- with POs and some of the teams on-site as the car is being manufactured. But during the process of 2 to 5 years as the car now goes through a phase of development, there's certain roles which could be done off-site, there's certain core development which could be done off-site and those are some of the areas we're looking at, moving them offshore to improve the margin.

Okay. So in terms of innovation priorities, we want to penetrate the market with new offerings. So one NLU, one cloud, is definitely one of the areas where we want to go in and create a cloud segment, where we can train the models, create the artificial intelligence for cloud, but also use it as a part of the edge as well. We can learn from the cloud but bring that innovations and learnings into the edge device as well. Do-it-yourself product. A great example for studio mix that Nils of Daimler showed you guys. This is something where the OEMs can pick up our, what we call as our studio or do-it-yourself product and start building the voice interaction, start building the dialogue flows themselves. And then also expanding and building our developer ecosystem is one area where we are looking at.

For sure, improving the revenue per car is the focus. And we have introduced several state-of-the-art solutions and products, such as the life cycle of the car, cognitive arbitration that we had a press release today as well and ARK that Charles talked about.

Then finally, the emotional AI, which is linked to the multimodality that you guys saw the video of and voice biometrics. There is -- as we recognize a voice profile and create a voice profile of the users, we feel that the future is going to be where voice-based authentication is going to play a much bigger role. So that's one area where we're looking at, where as cars move towards in-car shopping experience or in-car transactions, a lot of authentication will end up happening with voice. So that's one area where we're investing in as well.

And finally, for increasing the market share, I think some of the things we talk about as well, is built on the data analytics. We're collecting a lot of data, and that data is just growing from here as more and more cars become cloud connected and come on the road. So our goal is to start building on the analytics solutions and make it available as products for the OEMs, maybe for the end users, and start monetizing on that. Multimodality is one area where we're expanding and then with professional services offerings like user experience and validation services, we'll be going in and investing more over there.

And finally, as 5G becomes a reality and cells -- cars become the micro cells, we are investing and looking at how connectivity and telematics is going to play a role in that. And this is one area where we're also doing some innovation and is also on our priority bucket.

So with this, I'll open up for any questions. All right. Thank you, everyone.

Richard Yerganian - *Cerence Inc. - VP of IR*

Okay. Heading down the home stretch, but I'm sure all of you are quite interested in it since it is pulling all of the product information, all the marketing information together in terms of what does this mean from a bottom line perspective, in terms of investments, whether you're willing to make in the company or we do as a company.

So from that perspective, I would like to invite Mark Gallenberger up, who's our Chief Financial Officer. Prior to joining Cerence, Mark served as Senior Vice President, Chief Operating Officer, Chief Financial Officer and Treasurer of Xcerra Corp. from 2014 to 2018. Previously, he served as Xcerra's Vice President, Chief Financial Officer and Treasurer from 2000 to 2014. Prior to joining Xcerra, Mark was a Vice President with Capgemini, Ernst & Young's consulting practice. During his 6 years with Ernst & Young, Mark established the Deals & Acquisitions Group, where he was involved in numerous domestic and international strategic acquisitions, joint ventures, alliances and equity investments. Prior to joining Ernst & Young, Mark served in several technical and management positions within Digital Equipment Corporation's semiconductor products group. He holds an M.B.A. from the Kellogg School of Management in Northwestern University and a B.S. in Electrical Engineering from Rochester Institute of Technology.

I think it's kind of interesting to note that our CFO is an engineer, our Chief Legal Counsel is an engineer, I'm an engineer. So there's quite a bit -- aside from the rest of the leadership team, which we've already heard about, a lot of engineering people in this company. But with that, I'll invite Mark up.

Mark J. Gallenberger - *Cerence Inc. - CFO*

Thank you, Ritch. Appreciate that. I was not a very good engineer, so I went into finance instead. So -- but welcome, everybody, and we're coming towards the end of today's presentation, and I want to wrap everything up with you. But one of the key takeaways that I want you to walk away from today with -- as it relates to Cerence, is really this slide here, really talks about the company historically has had a very good growth trajectory. Even in light of the fact that we're part of an auto industry that has low single-digit growth rates, we've been growing 10%, 15%. And so there's a secular tailwind that we have associated with the Cerence story. That's one of the key things that I want you to walk away from today with.

The other key is our visibility. We've got such a diverse customer base, we've got significant market share and we've got a large amount of backlog. Once we get designed into a next-generation design win, that is not for just one model year. That is for multiple years to come. And so typically, that decision is going to be for a 3- to 5-year platform design change. And so as a result of those decisions, and they're happening every single quarter, we have built up a significant amount of backlog. As of the end of last fiscal year, we were approaching $1.4 billion in our backlog. And the last piece is the company is profitable. We've had about 70% gross margins. EBITDA in the high 20s, and it's been consistent. And so that's really a couple of key takeaways from a financial point of view for today.

Just to level-set everybody in terms of our business, we've got basically 3 major revenue streams. And you can see on the pie chart, the breakdown of those revenue streams. So when we win a new customer, the first thing that we achieve is professional services. That's the first thing that you'll see as a result of a new design win. And so the professional services team that Prateek leads comes in, work very closely with the customer, works on the integration, customization of our solutions into our customers' solutions and platform. That revenue is recognized more or less on a percent of completion basis. And so that's what you'll see shortly after winning a new design, and that can typically go on from 6 months to 24 months, sometimes even longer, depending on the complexity.

Once the -- our design and our solution is designed in and our customers release those products -- their products and their vehicles into production, that's called SOP, start of production. That's when you'll see our next revenue stream, that's the license revenue. And so when that car ships, that's when we actually will have a perpetual license that gets activated on that vehicle. And then we take the revenue at that point in time and we also get paid within typically 30 to 45 days thereafter. And if that car is also connected -- okay, not all cars are fully connected, but if that car is connected, then you'll have a connected revenue stream as well. Very similar to the license revenue, with one exception. Instead of taking the entire revenue at time of shipment, that revenue gets amortized over the service duration period. So let's say, for example, a customer wants 5-year connected service. So we'll take that revenue, we'll put it on the balance sheet as deferred revenue and we'll amortize that straight line over that 5-year period. However, we do get the full cash upfront, similar to the license revenue. So about 30 to 45 days thereafter, that's when we get paid the entire cash upfront. So that's just a high-level summary of our major revenue streams.

For those of you who missed our announcement last week, we did announce our first quarter as Cerence and I'm happy to say that we met or exceeded all of our financial metrics that we had guided to The Street. So you can see on the right-hand chart, how that -- or on the column, how that compares to our guidance. We did not guide specifically for CFFO, free cash flow or the non-GAAP EPS, but you can see how we performed last quarter.

In terms of the quarter that we're currently in, which is our fiscal Q2, we did guide for sequential growth and year-over-year, we're guiding about 15% up. And then if you look at the first half of our fiscal year, we should be up approximately 11% year-over-year. And that's -- once again, that's in light of an auto industry that has really not shown significant growth over the same time period. So once again, it kind of plays into the story of the secular growth story that we have, and it's really attributed to the fact that the cars are getting more and more digital, more and more connected. So that's really helping us grow well above the auto industry SAAR.

In terms of the full year, we did provide guidance back in December. For the full year, we expect $321 million to $336 million in revenue. We reaffirmed that guidance last week as well. So we think that for the full year, we're comfortable still with that revenue guidance. However, based upon our Q1 actual results which came in, from a profitability perspective, came in better than expected, we used last week as an opportunity to increase some of our profitability metrics. And you can see how we've moved up our operating margin by about 1 point. The gross margin, we truncated the bottom half and tightened up that range from 69% to 71% to 70% to 71%. The CFFO, we moved that up about $1 million as well and we also introduced the non-GAAP EPS, which is something that we did not provide back in December. But now that we've got a couple of months under our belt, we felt like we should level set everybody on The Street what our non-GAAP EPS would be.

Okay. Another piece is we are a newly minted public company. So I wanted to level-set everybody on what the opening balance sheet look like. So as of October 1 of last year, the company had $110 million in cash and we had $270 million in debt on the opening day of our balance sheet. The $110 million of cash is broken down into 2 pieces. The top piece is $25 million, in which Nuance basically prefunded some onetime standup expenses that the company will be incurring through fiscal year '20. And so what I want you to really think about is, Cerence really has about $85 million of opening cash because the other $25 million has been earmarked to fund about $20 million of standup CapEx expenses and approximately $5 million of operating expenses. Those numbers may shift around a little bit depending on how much is going to be in capital, how much is going to be in operating, but more or less, it's still going to be approximately $25 million of onetime cash expenses. So you can see that we guided the CFFO to be $43 million to $51 million. Inside that number, we've got modeled about $5 million of the standup operating expenses. And then just below that is the onetime standup related expenses of $20 million.

This year, it's going to be a little bit heavier in terms of our, what I would consider normal operating expenditures for capital expenditures. And right now, we've got that model, that $15 million. On a run rate basis, I would be expecting approximately $7 million per year. But this year, and you've probably heard Stefan talk a little bit about One Cloud, the architecture, and we're -- that's going to be a key project to make ourselves more efficient and quicker time to market as well, that's going to take about $10 million of capital expenditures this year and that's part of the $15 million. Once that project is complete, which we fully expect to be done by the end of this fiscal year, that's -- so going into fiscal year '21 and beyond, we expect about $7 million of Capex.

In terms of our mandatory debt repayments, that's about $7 million for this year. Right now, it's amortizing at about 3.5% of the $270 million. Because of the timing of when we have to start the principal repayments, it's a little bit lighter this year than in future years. So even with some of these expenditures that are onetime in nature, we still expect our total cash to be positive for the full year. So free cash flow, clearly going to be positive $8 million to $16 million. That's even including these onetime expenses and our ending cash balance, we fully expect that to be positive as well for the full year.

So some of our financial objectives as Cerence going forward, comes then to 3 major buckets: revenue growth, you heard a lot about the opportunities today; operational excellence, that's another thing that we've been really focused on, now that we're a separate company from Nuance. We really want to make sure that the company stays very efficient and operationally excellent. And then capital allocation priorities.

So for revenue growth first. Our key -- some of our key pillars for growth, once again, the secular tailwind. That's the increasing penetration of more and more cars becoming more and more digital. That's the edge and the connected vehicle. Right now, or last year, 59% of vehicles that were shipped had edge capabilities. Only 12% of worldwide vehicles in 2018 had actual -- actually had native connectivity built into the vehicle. These

numbers are expected to continue to grow. They've been growing for several years pretty consistently. And we're forecasting these numbers to grow to about 85% on the edge and to about 50% for the connected vehicles. That's going to continue -- allow us to continue to grow well above the industry -- the auto SAAR for the industry.

You also heard a lot about the revenue per vehicle and how we want to expand our offerings, expand our feature set, and we would expect that as we launch new products and new solutions and add more to the stack, we can sell these new technologies for a higher price. So expansion of our ASP, clearly is going to be one area.

And then lastly, you heard Charles, for example, talk a lot about China and other parts of Asia, where we clearly want to expand our presence in that area. And we also want to get into new markets, where we can take our model and move it more into a SaaS-like model. Even though we don't have a SaaS model today, some of our revenue characteristics are SaaS-like. And what I mean by that is, we don't get designed into the next year's model, and that's it. We get designed into the next generation. And that next generation, as I said before, typically is a 3, 4, 5 sometimes even longer period of time. And because of that, we get designed in for multiple years, which is similar to a SaaS-type model anyways.

Let's skip this slide, sorry about that. So just to look at our historical performance and why this secular trend has enabled us to grow pretty attractively, our CAGR has been 12% for the last several years. And so we expect that trend to continue.

Okay. Switching to the operational excellence. You've heard some of the BU leaders today talk a lot about what they plan to do with their businesses. You heard Stefan talk about transforming R&D. Instead of being so R&D-centric, we want to move more towards a product- or solution-centric model and really focus the R&D activity to really deliver products quicker and more efficiently. We did establish recently a global development center in India. That's going to enable us to lower our overall cost of delivery as well. One of the other things that we're doing is we're using some other offshoring activities, such as I believe in the Ukraine, we're doing activities to basically help augment some resources that we've got local with our customers but to augment those resources with lower cost resources in other locations.

In terms of the professional services, we want to come up with more prepackaged solutions, things that don't have to be reinvented every single time. And that allows us to be more efficient in terms of that service delivery model. And so that's going to be another key area for us to continue to improve upon over the next several years. And then having technical centers, specifically for our pro services.

And one of the key areas for our connected business is the One Cloud architecture. Today, we have a, more or less, a single monolithic structure and we're moving that towards a more modular architecture, something that allows us to be more flexible and increase the time-to-market by a factor of 2. That's the project that we expect to do this fiscal year and that's going to be about the $10 million in capital expenditures that we've got for this year. So as we go into next year, certainly, 12 months from now at the latest, we'll have that project complete. So that project is already underway. We've already started it and within a year, we should see some gains from those activities.

In terms of our capital allocation. First and foremost, we want to continue to leverage our cash and our balance sheet to fund organic growth. Fund all the innovations, fund expansion into lower-cost regions and invest in One Cloud. So first and foremost, that's really what our strategy is as it relates to our capital. We want to make sure we fund our investments organically first. Of course, we're always going to be looking for ways to accelerate our growth or ways to expand into markets that make logical sense to us. Those would be strategic investments and we would evaluate those as those opportunities arise. But our clear priority as a company is grow organically. That's how the company has been able to grow for the last several years, and we think we've got the talent base to do that organically. But it's always good to look at other opportunities outside the company, in which we could actually complement or accelerate some of our own investment activities.

And right now, because of the debt that we've got, $270 million, any sort of excess cash that is not going towards funding investments, whether it's organic or inorganic, we want to use that excess cash to accelerate the paydown of our debt. One of the other things that I'm personally looking at is refinancing the existing debt. Right now, it's a pretty high interest rate and so I'm looking to see if we can find other alternatives that will allow us to significantly lower net interest expense. And so right now, I think there's opportunities to at least gain $5 million in interest expense savings. And so we'll be very focused on refinancing that $270 million in debt.

Okay. The infamous Slide #13. So this is the target model that we've put out, and we've given it a lot of thought internally. We met several times the last several weeks and with the BU leaders, and we think that because of all the things that you heard today as it relates to new products, as it relates to getting into new markets, as it relates to expanding our revenue per vehicle, we believe that we could grow our total top line from where we are today to about $600 million by fiscal year '24. That translates to about a 15% CAGR off of last fiscal year's results, which were $303 million. And we've also broken it down into these 4 revenue line items. Our core business, which is license, connected and pro services. That's what we deliver today and that's where we think the growth is going to be going forward.

I actually got a question over lunch. Someone read ahead and asked me, "Why is the connected only 12%, because that seems like it should be a higher growth business for you, especially as more and more vehicles get connected?" And so what's happening on the connected line is for many of you that already know about our legacy connected business which is actually declining, that's already factored into that 12% CAGR. If I adjust out the legacy business from these numbers, that 12% actually grows to about 16% CAGR. So when I'm looking at our new platform and our new connected business that actually is going to be the highest growth driver for the business going forward. So right now, it's showing 12% but if you adjust for the legacy and how that's declined -- slowly declining over the next several years, it's actually 16%.

We think that we can actually grow the gross margin line as well. Last year, it was 71% and we believe it's going to grow to about mid-70s. And a lot of that's going to be driven off of improvements in pro services margins as well as the connected margins. Connected margins, we've got modeled at about 65%. And today -- or last year, I think we were at about 55% total gross margins for the connected. And we do think that with some of the R&D efficiencies, moving into Pune, leveraging other low-cost resources in places like the Ukraine, we're going to be able to get more R&D efficiencies down in the OpEx. And so we're forecasting some margin improvement there.

And at the end of the day, EBITDA and CFFO. Historically, EBITDA and CFFO have been very close to one another. But for this year and for next year, because of the legacy contract that we've talked about in the past, that's been a cash flow headwind. Once we get through this year and next, that's going to flip and deferred revenue will now then be a source of cash again. And we also are expecting that by the time we get to fiscal year '24, we'll have generated enough excess cash to pay down the debt. So that will be also a significant improvement to our CFFO. And that's why we expect EBITDA and CFFO to be approximately the same.

So let's talk.

QUESTIONS AND ANSWERS

Richard Yerganian - *Cerence Inc. - VP of IR*

Any questions for Mark?

Unidentified Participant

Mark, can I just ask about the cash flow? So as you pointed out, as you -- that legacy contract, as that rolls off, that will be a use of cash for the next 2 years and then it flips positive as a new contract comes in. Can you offer any more granularity about the price per car for say the old contract relative to the new contract? How many more cars we should be thinking about coming into that new contract, such that if the pricing is different, you maybe make up for that? Just any more detail you can give there will be helpful.

Mark J. Gallenberger - *Cerence Inc. - CFO*

Sure. Sure. Yes, the legacy contract and just to level-set everybody, there is a legacy contract that Nuance acquired through an acquisition that they did back in 2013. And it was a -- what I would consider a one-off type of contract. It's not the way the typical model is today. And so there was a lot of, I would call, content-rich tied into that one contract. So it had very, very high ASP. And it was actually with one customer, that's why we call it sort of a one-off because it was a single customer. But it was a significant revenue and a significant cash driver for Nuance. Now that contract

is nearing its end and so the billings have come down, and it's going to ultimately go to 0 next year. So this year is the last year in which we're going to have billings. But because of the amortization of the revenue, we still have to have the deferred revenue flow through the P&L for the next several years. I think it's through fiscal year '26, would be the last year in which we would actually have revenue flowing through the P&L. So that's just to level-set everybody. That's really what the legacy contract is.

The new contracts are not nearly as lucrative as this legacy one. Most of the content is actually sourced directly by our customers now. And so that's why the ASPs are quite a bit lower. We haven't said specifically because it isn't one customer, in particular. We don't want to disclose the exact amount. But it's a pretty significant drop in terms of the ASPs. Now the good news is the new contract is not just with one customer. It's with a whole series of new customers that are driving this business for the new platform and the new connected business. So that's really how -- but until -- we still need to ramp up the new customers as the legacy contract is trailing off. And because of that, the decline in the legacy business, okay, relative to the increase in the new business, there's a disconnect. And so that's why you're seeing a use of cash for the first 12 to 24 months, but then things will normalize again and deferred revenue will then become a source of cash again.

Richard Yerganian - *Cerence Inc. - VP of IR*

Yes. If I could just add this, the other part of that, that we don't have experience with yet is the potential for the renewals, right? You may [be promising] (inaudible).

Mark J. Gallenberger - *Cerence Inc. - CFO*

Yes, because a lot of these contracts are longer-term in nature. And so we don't have really any experience at this point in time. When these service contracts roll off, what's the renewal rate going to be? And so that's a TBD, quite frankly. But we do fully expect that some customers are going to come back and say, "You know what, I want to renew 50% or 60%, whatever that renewal rate will be." And that will be another opportunity for us to add to that recurring revenue line because that would truly be something where it's not just tied to that car that ships, it's going to be tied to a car that's already out there.

Unidentified Participant

That long-term guidance, for that 12% guidance for connected, like how much of that is from the legacy contract, which waterfalls in, I think you said through fiscal '26 versus the new billings that need to come and then waterfall into that as well?

Mark J. Gallenberger - *Cerence Inc. - CFO*

Yes. So the growth on that is going to be almost entirely new because at this point in time, for the legacy contract, we're peaking the revenues. This year and next year, it's going to stay about flat. I think we've said publicly, it's about $63 million for this year and next year. And then you'll see a decline through fiscal year '26. So there's really no growth at all as it relates to the revenue for that connected. It's all going to be new connected customers.

Richard Yerganian - *Cerence Inc. - VP of IR*

Other questions?

Unidentified Participant

On the legacy contract, why is it -- what's the alternative for that legacy customer if you're saying only 50% or 60% renewal? What's the alternative? They -- are they not signing on to your existing services?

Mark J. Gallenberger - *Cerence Inc. - CFO*

They're signing on to -- the way they're doing the content is different than what the original contract was. And so the content now with new connected contracts, the OEMs will source that content directly. And so that's the key difference. So it's not that they've gone elsewhere, it's just that the whole model has completely changed.

Richard Yerganian - *Cerence Inc. - VP of IR*

Just to clarify, are you asking about the transition from legacy to new? Or what happens to the legacy, for example, that don't renew?

Unidentified Participant

The latter.

Richard Yerganian - *Cerence Inc. - VP of IR*

The latter? Yes. So that's his question is the latter. So in that case, there are cars that are no longer on the road that have been on the road for a period of time. Or there are cases where the customer isn't subscribing to having those connected services on an ongoing basis. Therefore, the OEM will not continue to offer them. And so they wouldn't renew that with us.

Anyone else? No other questions? Wait, go on. Here we go.

Unidentified Participant

Just to confirm, there's no need for M&A in these targets? And then what is your assumption on that car market size unit growth? Is it flat over this time period or what?

Mark J. Gallenberger - *Cerence Inc. - CFO*

Yes. So the first question is, this is strictly organic. And so there is no need for us to acquire any businesses to hit the $600 million target. I think we can -- based upon our current roadmap and where we think we'll be taking our business, we don't need to augment or to -- augment our resources to hit that -- hit these targets. So if we do M&A, if it's an existing business that has revenue, that would just be additive to this, okay?

Second question was?

Unidentified Participant

Auto market unit growth.

Mark J. Gallenberger - *Cerence Inc. - CFO*

Auto market. Yes. We just basically are looking at IHS forecast and so forth. And I think it's probably in the low single-digit growth, maybe 2%, 3% over this 4-year time period. So if that auto industry stays flat from where it is today, you probably shave 2 points of CAGR, off of that 15%.

Unidentified Participant

Okay. And then OpEx as a percentage of sales, I don't see much improvement with revenue doubling?

Mark J. Gallenberger - *Cerence Inc. - CFO*

I think there was improvement here. So if you look at the operating margin, we're currently at about 24.5%, okay? And we see that grow to about 33%. So that's about 8-point improvement, 9-point improvement over that same time period. Now relative to this year, okay, and it's probably something I should have highlighted, for fiscal year '19, it's still part of Nuance. Now that we are a separate independent company, we had to reset the model for FY '20. And so that's why we lost about 5 points of margin because of public company costs, CEO, CFO, we got an IR person, D&O insurance, we have our own Board. And once you add up all the costs, it translated to about $17 million of recurring costs that were not built into the fiscal year '19, while we were still part of Nuance. So that's why we lost about 5 margin points here. And then as we grow the business and we get some efficiencies, we think we can recapture those 5 points plus a few more.

Richard Yerganian - *Cerence Inc. - VP of IR*

Next question, please?

Unidentified Participant

For the license revenue, the 12% 5-year CAGR, I think we can look back at this last quarter that, that year-over-year number was negative, and there was some noise there with the prepay versus the variable. So can you maybe just talk us through how to think through that impact and what the look-through effects are?

Mark J. Gallenberger - *Cerence Inc. - CFO*

Yes. If you look at -- you got to first look at it holistically in terms of our license, so -- because we break it down between our variable license and our prepay. But at the end of the day, it's all license revenue. It's just how we split it out because we think that the prepay licenses is basically a fixed block, so we want to make sure that people understand the difference between that and just getting royalty reports from one quarter to the next. But -- so that's why we don't look at it as negative growth year-over-year. We look at the whole picture and make sure that we're still growing. So even though we had prepays coming down, our variable license revenue was actually up year-over-year for our fiscal Q1. But I think if you look at the overall trend line, our license revenue continues to trend upwards. But that's where I think, if you look at the connected revenue adjusted for the legacy contract, that's where more of our growth will be coming from in the future.

Unidentified Participant

Mark, as it relates to -- sorry, as it relates to, I guess your revenue, you mentioned that professional services starts out maybe 6 to 9 months initially in the contract. So for like a new technology or a new automobile platform, how long would it take to get to license revenue? Is there a gap between the two?

Mark J. Gallenberger - *Cerence Inc. - CFO*

Not sure if there's really significant gap. How much do you think, Stefan? Do you think you're -- about 4 to 6 -- 4 to 6 quarters? Yes. Okay.

Richard Yerganian - *Cerence Inc. - VP of IR*

Sanjay, do you want to...

Unidentified Participant

There is one quick one on that, the legacy revenue decline impacted, when will that actually start to turn and start to decline?

Mark J. Gallenberger - *Cerence Inc. - CFO*

It will start to turn in fiscal year '22. So for fiscal '20, it's about $63 million, fiscal year '21, it's about the same, $63 million, and then you'll start to see a decline. All right, thank you.

Sanjay Dhawan - *Cerence Inc. - CEO & Director*

All right. So we're coming to an end to the program. And I would like to invite all the speakers here on the stage, please? If you guys can come in. Any last minute, last final questions for any of us, happy to answer that.

I think a few points that I would like to just repeat on the license revenue line on that slide that Mark had. The clear goal of the management team is to increase the content per car, right? So that plays a very important role in the growth. And so we're very focused on kind of new product launches and so on and so forth. Also, another key attribute was probably noticed that the fourth category of our SaaS, ARR revenue, right? So on a conservative basis, we think we'll get to about $75 million in fiscal '24. So that's another kind of key focus areas for us to kind of deliver the growth to our company.

So with that, we're at the end. Once again, thank you so much for coming. Any last minute questions before we wrap up here for Nils, for Mark, for Prateek, Stefan, Charles? Anything else, any other parting comments as we close down our first Analyst Day.

Great. Well, on behalf of all of us, thank you so much for attending. Great day and have a good evening, all of you. Thank you.