Cerence Q1FY23 Investor Presentation

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February 8, 2023

Destination Next

cerence®

Forward-Looking Statements

Statements in this presentation regarding: Cerence's future performance, results and financial condition; expected growth; multi-year targets; opportunities; business, industry and market trends; strategy regarding fixed contracts and its impact on financial results; backlog; demand for Cerence products; innovation and new product offerings; cost efficiency initiatives; and management's future expectations, beliefs, goals, plans or prospects constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Any statements that are not statements of historical fact (including statements containing the words "believes," "plans," "anticipates," "expects," "intends" or "estimates" or similar expressions) should also be considered to be forward-looking statements. Although we believe forward-looking statements are based upon reasonable assumptions, such statements involve known and unknown risk, uncertainties and other factors, which may cause actual results or performance of the company to be materially different from any future results or performance expressed or implied by such forward-looking statements including but not limited to: the highly competitive and rapidly changing market in which we operate; adverse conditions in the automotive industry, the related supply chain and semiconductor shortage, or the global economy more generally; the impacts of the COVID-19 pandemic on our and our customers' businesses; the impact of the war in Ukraine on our and our customers' businesses; our ability to control and successfully manage our expenses and cash position; escalating pricing pressures from our customers; the impact on our business of the transition to a lower level of fixed contracts, including the failure to achieve such a transition; our failure to win, renew or implement service contracts; the cancellation or postponement of existing contracts; the loss of business from any of our largest customers; effects of customer defaults; our inability to successfully introduce new products, applications and services; our strategy to increase cloud offerings; the inability to recruit and retain qualified personnel; disruptions arising from transitions in management personnel; cybersecurity and data privacy incidents; fluctuating currency rates and interest rates; inflation; and the other factors discussed in our most recent Annual Report on Form 10-K for the fiscal year ended September 30, 2022, quarterly reports on Form 10-Q, and other filings with the Securities and Exchange Commission.

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Q1 FY23

Business Highlights

- Strong Core Business drives revenue and profitability
- Introduced strategy "Destination Next" and long-term model at our investor day in November
- Strong market position delivers two win-backs and two new logos
- Macro environment incrementally better but risks persist
- Continued confidence in FY23 business outlook

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Q1 FY23

Product Highlights

Strong Product Momentum

- **Cerence Co-Pilot (CA 2.0) –** 4 design wins in Auto: 3 in Europe, 1 in China
- **Cerence Ride –** 3 new design wins, including a Japanese motorcycle company
- **Cerence Link –** 2^{nd} design win in India
- **Cerence Car Knowledge –** Expanded Assistant at marquee North American OEM went live

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Deeply Focused on Innovation and Execution

Accomplished

- ✓ New leadership team
- ✓ Established long-term growth strategy
- ✓ Efficiently managing costs
- ✓ Contained fixed contracts
- ✓ Winning new business with a strong pipeline
- ✓ Focused on long-term model and value creation

Continued Focus

- Strong bookings performance, including win-backs
- Innovate and expand leading-edge capabilities
- Deliver on FY23 guidance and longer-term goals
- Execute on new market opportunities
- Implement efficiency programs

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Destination Next

Fueling Growth by Creating an Immersive Cabin Experience

- Evolving from a voice-only, driver-centric solution to an immersive companion experience
- Moved from a component supplier to a trusted innovation partner
- Participating in a significant and expanding served addressable market
- Significant growth opportunities after FY2023 transition year
- Solid long-term financial model with significant visibility and sustainability

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Q1FY23 Financial Details

Tom Beaudoin, CFO

Destination Next

Cerence Delivers Strong Q1 Results

	Q1FY23	Q1FY23 Guidance
Revenue	$83.7M	$75M - $79M
GAAP Gross Margin	68.7%	67% - 68%
Non-GAAP Gross Margin	70.4%	69% - 71%
GAAP Net (Loss) Income	($2.2M)	($19M) – ($16M)
AEBITDA	$19.7M	$11M - $14M
Non-GAAP Net Income	$14.2M	$3M – $4M
GAAP EPS – diluted	($0.05)	($0.48) – ($0.40)
Non-GAAP EPS – diluted	$0.36	$0.07 – $0.11

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Detailed GAAP Revenue Breakdown

In millions	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Total License:	**$46.8**	**$46.3**	**$46.4**	**$19.0**	**$45.4**
Variable[(a)]	$21.5	$20.2	$22.3	$19.0	$26.3
Total Fixed[(b)]	$20.1	$25.6	$23.3	$0	$19.1
Prepaid (cash upfront)	-	$5.7	$13.2	--	$18.0
Minimum Commitment (no cash upfront)	$20.1	$19.9	$10.1	--	$1.1
Other Markets[(c)]	$5.2	$0.5	$0.8	$0	$0
Connected Services:	**$28.2**	**$19.3**	**$20.0**	**$18.1**	**$18.4**
Total New	$12.2	$11.0	$11.6	$9.6	$9.9
Subscription/Usage	$11.3	$11.0	$9.9	$9.6	$9.9
Customer Hosted[(d)]	$0.9	-	$1.7	-	-
Legacy[(e)]	$16.0	$8.3	$8.4	$8.5	$8.5
Professional Services	**$19.4**	**$20.7**	**$22.6**	**$21.0**	**$19.9**
Total Revenue:	**$94.4**	**$86.3**	**$89.0**	**$58.1**	**$83.7**

(a) Based on volume shipments of licenses net of the consumption of fixed contracts.
(b) Fixed license revenue includes prepaid and minimum commitment deals.
(c) Non-automotive revenue.
(d) Customer Hosted is a software license that allows the customer to take possession of the software and enable hosting by the customer or a third party.
(e) Legacy contract is a connected services contract with Toyota acquired by Nuance through a 2013 acquisition.

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License Business Remains Strong

In millions	FY2021				FY2022				FY2023
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Fixed Contracts	$10.1	$17.3	$18.2	$25.4	$20.1	$25.6	$23.3	$0	$19.1
Pro Forma Royalties[(a)]	$48.6	$47.4	$42.9	$34.0	$39.6	$39.7	$41.5	$39.1	$41.7
Consumption of Fixed Contracts[(b)]	($12.3)	($10.3)	($11.1)	($13.2)	($18.0)	($19.5)	($19.2)	($20.1)	($15.4)
Variable (as reported)	$36.3	$37.1	$31.8	$20.8	$21.6	$20.2	$22.3	$19.0	**$26.3**
IHS Production (million units)	23.6	20.7	18.8	16.6	21.2	20.0	19.1	21.2	21.5

(a) Pro forma Royalties is a measure of the total value of licenses shipped in a quarter.
(b) Licenses shipped in the quarter associated with fixed contracts.

- Pro forma royalties remain solid
- Consumption rate of fixed contracts peaks in FY23
- Return to historical levels of approximately $40 million of fixed contracts annually will lead to strong reported license growth in FY24

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Strong KPI Performance

High Level of Engagement with Customers and Partners

- **52% Global Auto Penetration (TTM),** up from 51%
- **11.5M** units with Cerence technology, up 4% QoQ including **2.2M** connected units, up 5% QoQ
- **(2%)** Decline in Billings per Car (TTM YoY)
- **19%** Increase in Monthly Active Users (YoY)
- **6.8** Years Average Contract Duration (TTM)

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Fiscal Q2 and Full Year 2023 Guidance

	Q2 FY23 Guidance		FY23 Guidance	
In millions except per share amounts	Low	High	Low	High
Revenue	$64	$68	$275	$290
GAAP Gross Margin	60%	62%	63%	65%
Non-GAAP Gross Margin [(a)]	62%	64%	65%	67%
GAAP Operating Margin	(37%)	(30%)	(18%)	(15%)
Non-GAAP Operating Margin [(a)]	(4%)	2%	6%	8%
GAAP Net (Loss) Income [(b)]	($32)	($29)	($70)	($63)
Adjusted EBITDA [(a)]	$1	$4	$27	$34
Adjusted EBITDA Margin [(a)]	1%	6%	10%	12%
GAAP EPS – diluted	($0.80)	($0.72)	($1.73)	($1.56)
Non-GAAP EPS – diluted [(a)]	($0.18)	($0.11)	($0.07)	$0.06

(a) Non-GAAP excludes acquisition-related costs, amortization of acquired intangible assets, restructuring expense, and stock-based compensation.
(b) Refer to the Appendix for more information on GAAP to non-GAAP reconciliations.

Tailwinds:

- Raised low end of full year guidance by $5M
- Better than 97% revenue visibility for full fiscal year
- Conservative view on auto production

Headwinds:

- Continued chip shortage, shipping and production issues
- Inflation and recession concerns

Assumptions:

- Full year guidance includes $4-5M fixed contracts in Q2, $15M in Q3 and $0 in Q4 equaling approximately $40M for full year

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Best Positioned to Maintain and Expand our Category Leadership in Mobility AI

Partnering with our global customers to…

- Strengthen and differentiate their brands
- Secure their end-user data and data privacy
- Monetize digital services and create new revenue streams
- Know and embrace their customers
- Collect insights to learn and improve
- Differentiate from their competition
- Improve the end-user experience and excitement
- Offer best technologies from edge to cloud
- Extend and strengthen their global footprint

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Established Leader in Mobility AI Solutions

80+	450M+	51%	70	800+
Global OEMs & Tier 1 suppliers	Cars on road with Cerence technology	Of cars shipped globally with Cerence technology	Global languages supported	Patents

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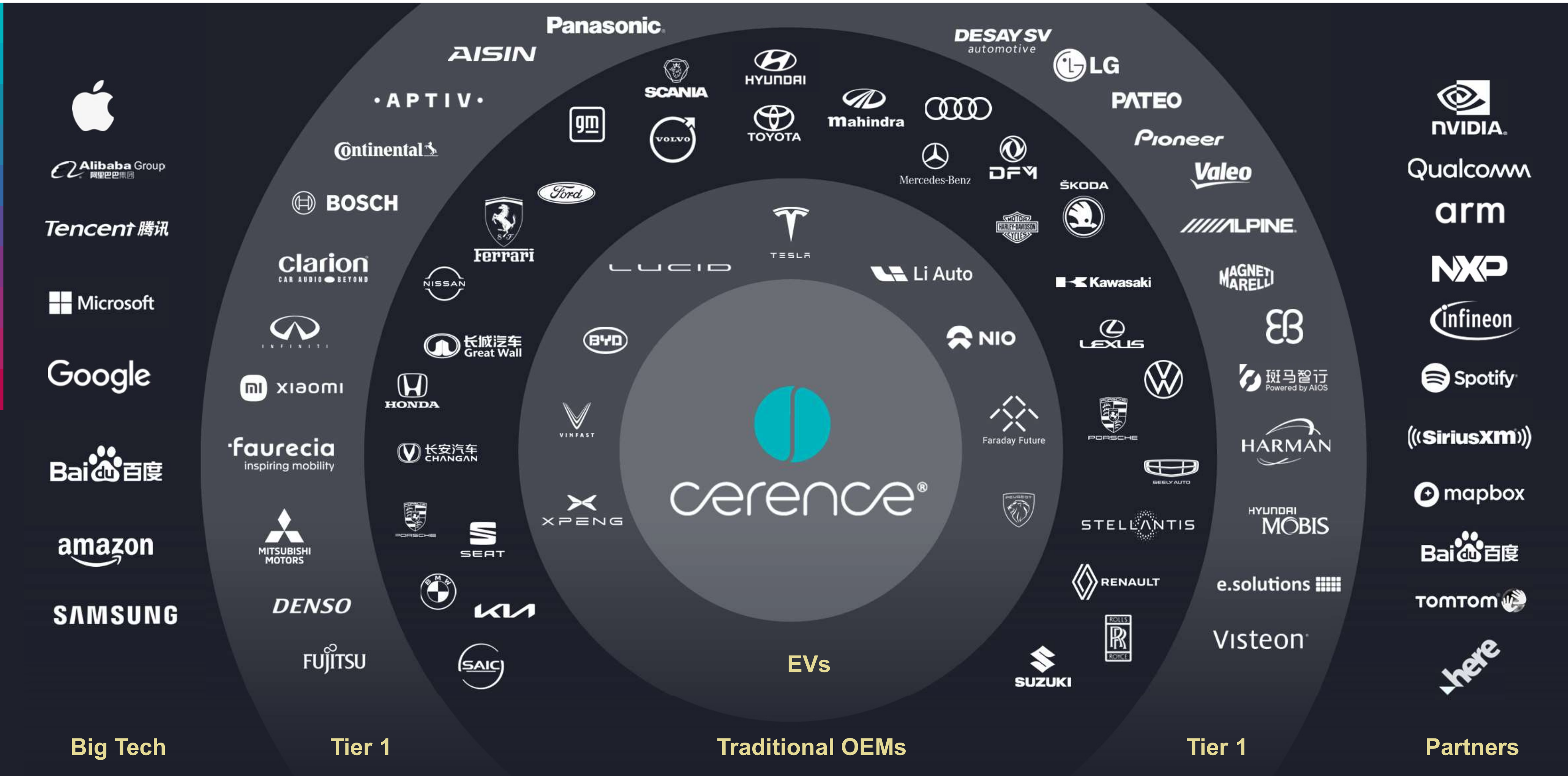

Cerence Has Advanced From Component Supplier To Innovation Partner

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Cerence Co-Pilot Innovation on the Road Today

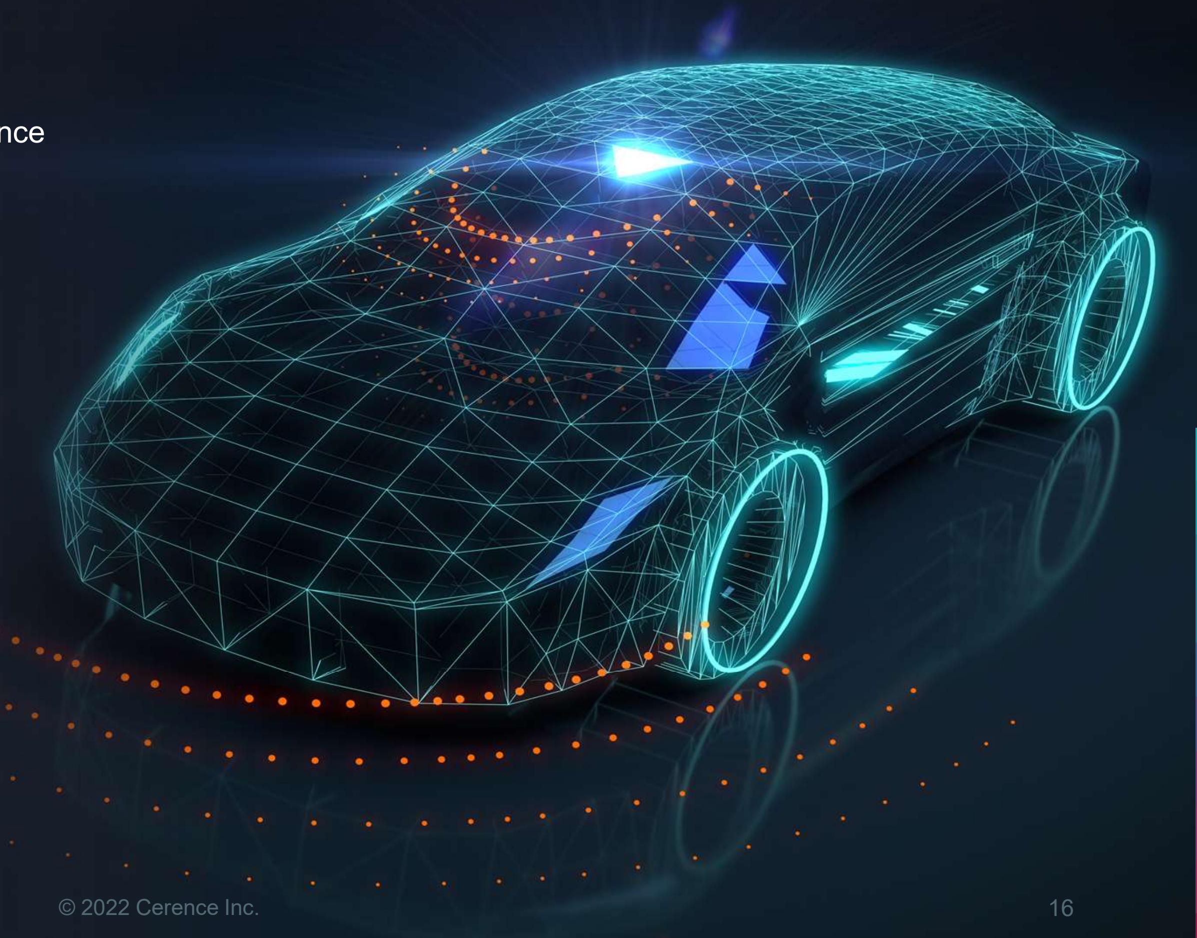
TRADITIONAL OEMs

Mercedes-Benz
STELLANTIS
LEXUS
TOYOTA
HYUNDAI
Ford

NEW EVs

VINFAST
BAIC BJEV 北汽新能源
BYD
NIO
XPENG

- Conversational AI
- Multi-Seat Intelligence
- Digital Twin
- Proactive AI
- Wake-Up Word
- Just Talk
- Swype
- Connect
- Look
- Browse
- Car Life
- EVD
- SSE
- Voice Biometrics
- Tour Guide



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Served Transportation Markets Focused on Organic Growth

Digital Cockpit & Cabin Functions	**In Cabin and External AI Technologies** (SAM)		
	Scalable AI assistant	Multisensory Inputs	Cabin biometrics
	Hassle-free ADAS/AD interface	Intelligent sound system	Digital twin
	Applications & Cabin Controls (TAM)		
	Cabin gaming platform	Mobility-centric commerce platform	Navigation and location services
	In-vehicle AR/VR solution	Over-the-air updates	Mobile control app
OS & Middleware	Operating systems, middleware, hypervisors		
Hardware	Cockpit hardware, SoCs, sensors		

Not a Focus Area | Best for Organic Build | Requires M&A and Partnerships

- **Scalable AI Assistant**: End-to-end digital assistant experience with data analytics and proactive AI; scalability to add addl. use cases and aggregate different assistants – AI Technologies & Teachable AI
- **Digital Twin:** Cloud-based data and analytics platform, powered by connected services, to provide insights and data services
- **Multisensory Inputs:** Full HMI solution integrating multi-modal inputs (incl. conversational AI, DMS, facial, gaze, gesture, emotion, etc.) and multi-modal outputs (incl. voice, graphic, haptic, vibration, etc.)
- **Hassle-Free ADAS/AD interface:** Natural, intuitive and safe interaction agent with AI user behavior learning to provide best UI (sign, ring, voice, vibration etc.) for ADAS/AD human-machine handover
- **Cabin Biometrics:** Biometric and identification platform with multiple biometric technologies (e.g. fingerprint, face ID, voice) for user log-in, preference loading, etc.
- **Intelligent In-Cabin and Exterior Sound/Acoustic Output Software Suite:** Acoustic effects, engine sounds, active noise control, acoustic vehicle alerting system, etc.

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Innovation Beyond Voice Expands Transportation Market Opportunity for Mobility AI

- *SAM based on organic plays including adjacent transportation markets.*
- *Excludes AIoT opportunities pre- and post-FOU.*

Source: Boston Consulting Group, September 2022

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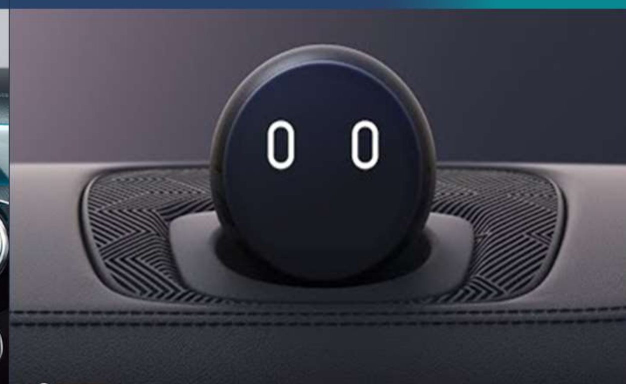
Uniquely Positioned to Capitalize on Industry Trends – Why We Win!

CERENCE ASSISTANT	CERENCE CO-PILOT	CERENCE IMMERSIVE COMPANION
		
Focus On Driving	Immersive Entertainment	Smart Space in Motion

On the Road — Upcoming SOPs — FY23/24 — Future State →

L0 – L1 ADAS | L2 L2+ | L3 Autonomous | L4 - L5

Centralized Architecture & Electrification

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Beyond Voice – Creating an Immersive Companion Experience

Scalable AI

AI Technologies

Immersive Cabin Experience

Experience

Platform & Tools

Humans

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Trusted Partner in Developing the World's Smartest, Fastest, and Most Immersive Companion Experience

Innovation – Cerence Immersive Companion

Foundation – Cerence Co-Pilot

TRADITIONAL OEMs

NEW EVs

- Conversational AI
- Multi-Seat Intelligence
- Digital Twin
- Proactive AI
- Wake-Up Word
- Just Talk
- Swype
- Connect
- Look
- Browse
- Car Life
- EVD
- SSE
- Voice Biometrics
- Tour Guide

New Innovations

- Surroundings Awareness
- Car Nanny Monitoring
- Wellness Sensing
- Cabin Sentry Mode
- Enhanced In-Cabin Audio AI
- Audio Boost
- Enhanced EVD
- Immersive Entertainment
- Exterior Vehicle Communication
- Human-Like Voice
- Emotion AI
- Face Biometrics
- Teachable AI
- Multi-Sensory Experience Platform
- Audio Bubbles
- Multi-Modal Interaction
- Insights/Analytics
- Productivity

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Creating a Truly Immersive Companion

Trivia Buff


Navigator

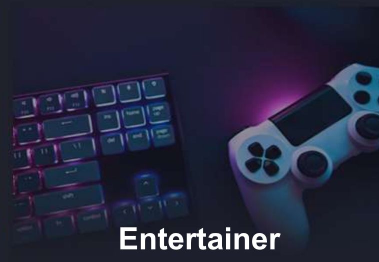
Executive Assistant


Butler

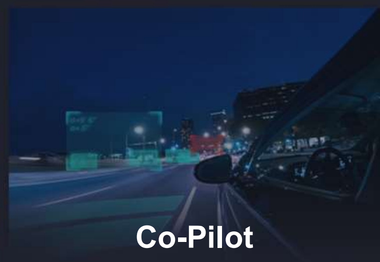

DJ

Concierge

Health Coach


Entertainer


Personal Shopper


Co-Pilot


Vehicle Expert


Tour Guide

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Category Leader in Mobility AI

Well-Defined Strategy Sets Cerence Up for Success

- Lead with organic opportunities and pursue growth rooted in automotive
- Expand from driver-centric cockpit to all-occupant cabin
- Pursue adjacent transportation markets
- Focus on execution and performance
- Accelerate growth through targeted M&A and partnerships

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Strong Revenue Growth Targets in Multi-Year Plan

	FY2022	FY2023	FY2024	FY2025	FY2026	
	Actual	Guidance (Mid-Point)	Target[b]	Target[b]	Target[b]	CAGR (FY2022 to FY2026)
Total Revenue	**$327.9M**	**$283M**	**$385M**	**$450M**	**$515M**	**12%**
Core Auto	$277.7M	$243M	$340M	$389M	$458M	**13%**
Transportation Adjacencies	$-	$1M	$6M	$12M	$19M	**682%**
Non-Transportation[a]	$8.2M	$2M	$5M	$15M	$30M	**38%**
Other (Toyota legacy, other)	$42.0M	$34M	$34M	$34M	$8M	**N/A**

(a) FY22 Non-Transportation revenue includes specialty deals and fitness, FY23 – FY26 revenue driven by AIoT.
(b) Target does not equate to guidance but rather is a reasonable objective based on the company's strategic plans and third-party available information as of the date of this presentation.

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Growing PPUs Expected From New License Program Launches

Implied Price Per Unit (PPU)			
Customer	**FY23**	**FY24**	**Estimated Program Launch**
Japanese OEM	$4.2	$5.1	Shipping
Luxury German OEM	$5.8	$8.1	Q1FY23
North American OEM	$4.2	$4.9	Q2FY23
European OEM	$5.0	$7.3	Q4FY23
Dutch OEM	$3.1	$4.0	Q1FY24
All other customers	$3.3	$3.7	
Total Cerence	$3.8	$4.8	
Pro Forma License Revenue	$161M	$223M	

- Growth in price per unit from new innovations previously booked with upcoming scheduled launches (SOPs)
- Total Cerence Implied Price Per Unit (PPU) in FY24 up 26% compared to FY23

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Bookings to Revenue Cycle Provides Visibility to Future Growth

~ 18 months from booking to product revenue recognition for new programs
Program extensions typically one to three months in advance of revenue contribution

	FY21 Ending 5-Year Backlog[a]	FY22 Ending 5-Year Backlog[a]
License	$730M	$574M
Connected	$497M	$384M
Pro Services	$110M	$131M
Total Ending 5-Year Backlog	**$1.3B**	**$1.1B**

Previous bookings related to program redesign or enhancement by OEMs have been removed from backlog. New bookings related to these programs are expected in FY23.

(a) 5-Year backlog represents the total revenue expected from signed contracts with customers to be reported over the following 5-year period.

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Robust and Balanced Backlog Provides High Visibility (Core Auto)

	FY23E	FY24T[a]	FY25T[a]	FY26T[a]
Revenue	$283M	$385M	$450M	$500M
Expected Backlog Contribution	$251M	$234M	$241M	$191M
% Visibility	95%	75%	65%	51%

(a) Target does not equate to guidance but rather is a reasonable objective based on the company's strategic plans and third-party available information as of the date of this presentation.

% Visibility includes contribution from backlog plus extensions of existing programs

FY27 expected backlog contribution is $171M. 5-Year expected backlog contribution is $1.1B

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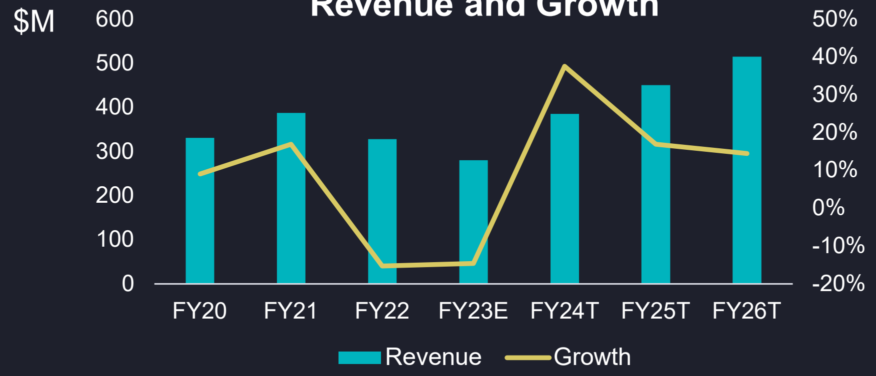
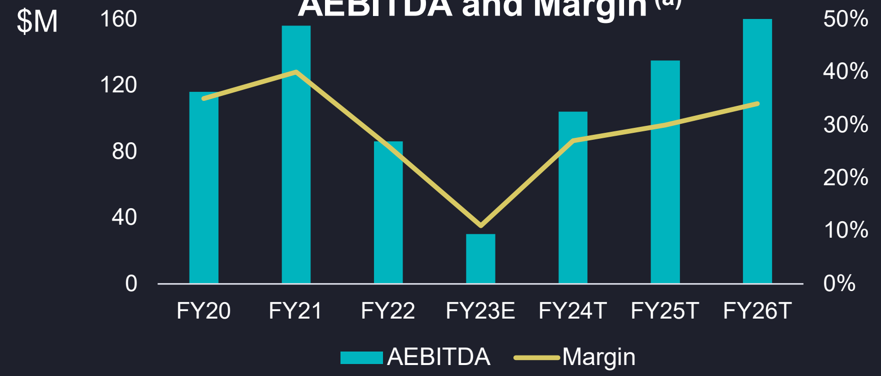
Strong Growth and Financial Performance Post-Transition Year

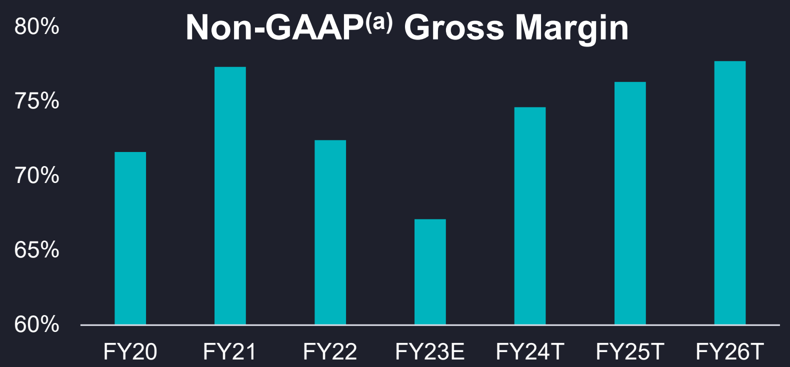
Revenue and Growth



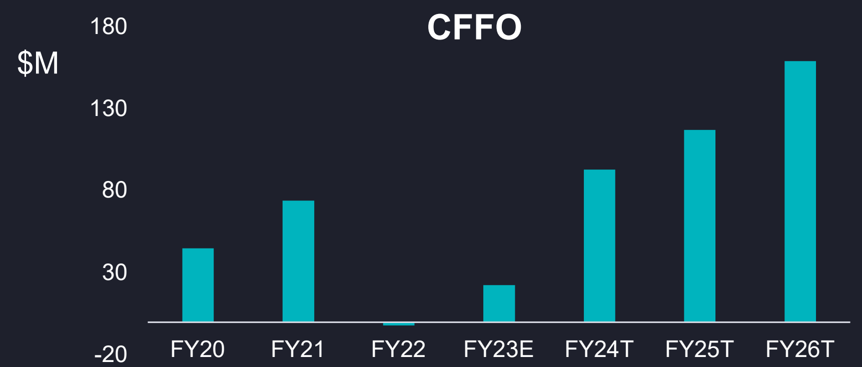
AEBITDA and Margin [(a)]



Non-GAAP[(a)] Gross Margin



CFFO



(a) Non-GAAP excludes acquisition-related costs, amortization of acquired intangible assets, restructuring expense, and stock-based compensation.

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Multi-Year Plan Yields Long-Term Growth, Profitability and Cash Flow

	FY2021	FY2022	FY2023[b]	FY2024[c,d]	FY2025[c,d]	FY2026[c,d]
	Actual	Actual	Guidance Mid-Point	Target	Target	Target
Total Revenue	**$387M**	**$328M**	**$283M**	**$385M**	**$450M**	**$515M**
GAAP GM %	74%	70%	64%	72%	73%	75%
Non-GAAP GM %[a]	77%	72%	66%	75%	76%	78%
GAAP OM %	16%	(56%)	(17%)	9%	16%	23%
Non-GAAP OM %[a]	38%	24%	7%	24%	28%	32%
GAAP Net Income	$46M	($311M)	($67M)	$3M	$32M	$68M
Adjusted EBITDA[a]	$156M	$86M	$31M	$104M	$135M	$175M
EBTIDA Margin %	40%	26%	11%	27%	30%	34%
CFFO	$74M	($2M)	$23M	$93M	$117M	$159M

(a) Non-GAAP excludes acquisition-related costs, amortization of acquired intangible assets, restructuring expense, and stock-based compensation.

(b) For fiscal year 2023 guidance please refer to the appendix for GAAP to Non-GAAP reconciliation.

(c)Target does not equate to guidance but rather is a reasonable objective based on the company's strategic plans and third-party available information as of the date of this presentation.

(d) Cerence is not providing a reconciliation of certain forward-looking, non-GAAP financial information because Cerence is unable to provide this reconciliation without unreasonable effort due to information regarding the relevant adjustments not being ascertainable or accessible. Such information could be material to future results.

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Appendix

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License Business Revenue Recognition

Type of Contract	Description	GAAP Revenue Recognition	Cash Receipt
Variable	License applied at production	Quarter car is produced. Based on volume	Quarter following GAAP revenue recognition
Fixed (Pre-Pay)	Bulk inventory purchase ($ based)	Full value of contract at signing. Volume independent	Standard payment terms for full value (upfront payment)
Fixed (Minimum Commitment)	Commitment to purchase ($ based) in a specified time period. (1 – 5 years)	Full value of contract at signing. Volume independent	Based on shipment volumes over multiple years

The fixed contracts only apply to the license business. If a car is also using our connected services, it will follow the normal billing and revenue recognition process regardless of whether a variable or fixed license was applied.

The fixed contracts typically provide the customer with a price discount and can include the conversion of a variable contract that is already in our variable backlog.

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Connected and Professional Services Revenue Recognition

Connected Services	Typical Period	GAAP Revenue Recognition	Cash Receipt
Subscription Term	1 – 5 years	Amortized evenly over subscription period	Billed/collected full amount at start of subscription period (value added to deferred revenue)
Usage Contract[(a),(b)]	1 – 5 years	Recognized at same time of billing based on actual usage	Billed every quarter based on actual usage
Customer Hosted[(c)]	License	Quarter in which license is delivered to customer	Upon delivery

(a) Approximately 30% of new connected revenue is usage based and is primarily with one customer
(b) Usage can be defined by number of active users or number of monthly transactions
(c) Customer Hosted is a software license that allows the customer to take possession of the software and enable hosting by the customer or a third-party

Professional Services	Period	GAAP Revenue Recognition	Cash Receipt
Custom Design Services	Ongoing	Revenue is recognized over time based upon the progress towards completion of the project	Billed/collected on milestone completion

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KPI Measures – Definitions

Key performance indicators

We believe that providing key performance indicators ("KPIs"), allows investors to gain insight into the way management views the performance of the business. We further believe that providing KPIs allows investors to better understand information used by management to evaluate and measure such performance. KPIs should not be considered superior to, or a substitute for, operating results prepared in accordance with GAAP. In assessing the performance of the business during the three months ended December 31, 2022, our management has reviewed the following KPIs, each of which is described below:

Percent of worldwide auto production with Cerence technology: The number of Cerence enabled cars shipped as compared to IHS Markit car production data.

Average contract duration: The weighted average annual period over which we expect to recognize the estimated revenues from new license and connected contracts signed during the quarter, calculated on a trailing twelve months ("TTM") basis and presented in years.

Repeatable software contribution: The percentage of repeatable revenues as compared to total GAAP revenue in the quarter on a TTM basis. Repeatable revenues are defined as the sum of License and Connected Services revenues.

Change in number of Cerence connected cars shipped: The year over year change in the number of cars shipped with Cerence connected solutions. Amounts are calculated on a TTM basis.

Growth in billings per car: The rate of growth calculated from the average billings per car based on a trailing twelve month comparison while excluding, professional services, legacy contract and adjusted for prepay usage.

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Non-GAAP Financial Measures – Definitions

Discussion of Non-GAAP Financial Measures

We believe that providing the non-GAAP information in addition to the GAAP presentation, allows investors to view the financial results in the way management views the operating results. We further believe that providing this information allows investors to not only better understand our financial performance, but more importantly, to evaluate the efficacy of the methodology and information used by management to evaluate and measure such performance. The non-GAAP information should not be considered superior to, or a substitute for, financial statements prepared in accordance with GAAP.

We utilize a number of different financial measures, both GAAP and non-GAAP, in analyzing and assessing the overall performance of the business, for making operating decisions and for forecasting and planning for future periods. While our management uses these non-GAAP financial measures as a tool to enhance their understanding of certain aspects of our financial performance, our management does not consider these measures to be a substitute for, or superior to, the information provided by GAAP financial statements.

Consistent with this approach, we believe that disclosing non-GAAP financial measures to the readers of our financial statements provides such readers with useful supplemental data that, while not a substitute for GAAP financial statements, allows for greater transparency in the review of our financial and operational performance. In assessing the overall health of the business during the three months ending December 31, 2022 and 2021, our management has either included or excluded the following items in general categories, each of which is described below.

Adjusted EBITDA

Adjusted EBITDA is defined as net income attributable to Cerence Inc. before net income (loss) attributable to income tax (benefit) expense, other income (expense) items, net, depreciation and amortization expense, and excluding acquisition-related costs, amortization of acquired intangible assets, stock-based compensation, and restructuring and other costs, net or impairment charges related to fixed and intangible assets and gains or losses on the sale of long-lived assets, if any. From time to time we may exclude from Adjusted EBITDA the impact of events, gains, losses or other charges (such as significant legal settlements) that affect the period-to-period comparability of our operating performance. Other income (expense) items, net include interest expense, interest income, and other income (expense), net (as stated in our Condensed Consolidated Statement of Operations). Our management and Board of Directors use this financial measure to evaluate our operating performance. It is also a significant performance measure in our annual incentive compensation programs.

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Non-GAAP Financial Measures – Definitions

Restructuring and other costs, net.

Restructuring and other charges, net include restructuring expenses as well as other charges that are unusual in nature, are the result of unplanned events, and arise outside the ordinary course of our business such as employee severance costs, costs for consolidating duplication facilities, and separation costs directly attributable to the Cerence business becoming a standalone public company.

Acquisition-related costs, net.
In recent years, we have completed a number of acquisitions, which result in operating expenses, which would not otherwise have been incurred. We provide supplementary non-GAAP financial measures, which exclude certain transition, integration and other acquisition-related expense items resulting from acquisitions, to allow more accurate comparisons of the financial results to historical operations, forward looking guidance and the financial results of less acquisitive peer companies. We consider these types of costs and adjustments, to a great extent, to be unpredictable and dependent on a significant number of factors that are outside of our control. Furthermore, we do not consider these acquisition-related costs and adjustments to be related to the organic continuing operations of the acquired businesses and are generally not relevant to assessing or estimating the long-term performance of the acquired assets. In addition, the size, complexity and/or volume of past acquisitions, which often drives the magnitude of acquisition related costs, may not be indicative of the size, complexity and/or volume of future acquisitions. By excluding acquisition-related costs and adjustments from our non-GAAP measures, management is better able to evaluate our ability to utilize our existing assets and estimate the long-term value that acquired assets will generate for us. We believe that providing a supplemental non-GAAP measure, which excludes these items allows management and investors to consider the ongoing operations of the business both with, and without, such expenses.

These acquisition-related costs fall into the following categories: (i) transition and integration costs; (ii) professional service fees and expenses; and (iii) acquisition-related adjustments. Although these expenses are not recurring with respect to past acquisitions, we generally will incur these expenses in connection with any future acquisitions. These categories are further discussed as follows:

- **Transition and integration costs.** Transition and integration costs include retention payments, transitional employee costs, and earn-out payments treated as compensation expense, as well as the costs of integration-related activities, including services provided by third-parties.
- **Professional service fees and expenses.** Professional service fees and expenses include financial advisory, legal, accounting and other outside services incurred in connection with acquisition activities, and disputes and regulatory matters related to acquired entities.
- **Acquisition-related adjustments.** Acquisition-related adjustments include adjustments to acquisition-related items that are required to be marked to fair value each reporting period, such as contingent consideration, and other items related to acquisitions for which the measurement period has ended, such as gains or losses on settlements of pre-acquisition contingencies.

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Non-GAAP Financial Measures – Definitions

Amortization of acquired intangible assets.

We exclude the amortization of acquired intangible assets from non-GAAP expense and income measures. These amounts are inconsistent in amount and frequency and are significantly impacted by the timing and size of acquisitions. Providing a supplemental measure which excludes these charges allows management and investors to evaluate results "as-if" the acquired intangible assets had been developed internally rather than acquired and, therefore, provides a supplemental measure of performance in which our acquired intellectual property is treated in a comparable manner to our internally developed intellectual property. Although we exclude amortization of acquired intangible assets from our non-GAAP expenses, we believe that it is important for investors to understand that such intangible assets contribute to revenue generation. Amortization of intangible assets that relate to past acquisitions will recur in future periods until such intangible assets have been fully amortized. Future acquisitions may result in the amortization of additional intangible assets.

Non-cash expenses.

We provide non-GAAP information relative to the following non-cash expenses: (i) stock-based compensation; and (ii) non-cash interest. These items are further discussed as follow:

- (i)Stock-based compensation. Because of varying valuation methodologies, subjective assumptions and the variety of award types, we exclude stock-based compensation from our operating results. We evaluate performance both with and without these measures because compensation expense related to stock-based compensation is typically non-cash and awards granted are influenced by the Company's stock price and other factors such as volatility that are beyond our control. The expense related to stock-based awards is generally not controllable in the short-term and can vary significantly based on the timing, size and nature of awards granted. As such, we do not include such charges in operating plans. Stock-based compensation will continue in future periods.
- ii)Non-cash interest. We exclude non-cash interest because we believe that excluding this expense provides management, as well as other users of the financial statements, with a valuable perspective on the cash-based performance and health of the business, including the current near-term projected liquidity. Non-cash interest expense will continue in future periods.

Other expenses.

We exclude certain other expenses that result from unplanned events outside the ordinary course of continuing operations, in order to measure operating performance and current and future liquidity both with and without these expenses. By providing this information, we believe management and the users of the financial statements are better able to understand the financial results of what we consider to be our organic, continuing operations. Included in these expenses are items such as other charges (credits), net, losses from extinguishment of debt, and changes in indemnification assets corresponding with the release of pre-spin liabilities for uncertain tax positions.

Adjustments to income tax provision.

Adjustments to our GAAP income tax provision to arrive at non-GAAP net income is determined based on our non-GAAP pre-tax income. Additionally, as our non-GAAP profitability is higher based on the non-GAAP adjustments, we adjust the GAAP tax provision to remove valuation allowances and related effects based on the higher level of reported non-GAAP profitability. We also exclude from our non-GAAP tax provision certain discrete tax items as they occur.

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Q1 FY23 Reconciliations of GAAP to Non-GAAP Results

	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021
GAAP revenue	$ 83,658	$ 94,426
GAAP gross profit	$ 57,475	$ 70,199
Stock-based compensation	1,349	1,092
Amortization of intangible assets	103	1,879
Non-GAAP gross profit	$ 58,927	$ 73,170
GAAP gross margin	68.7%	74.3%
Non-GAAP gross margin	70.4%	77.5%
GAAP operating (loss) income	$ (1,977)	$ 22,932
Stock-based compensation*	12,472	1,841
Amortization of intangible assets	2,453	5,033
Restructuring and other costs, net*	4,189	4,915
Non-GAAP operating income	$ 17,137	$ 34,721
GAAP operating margin	-2.4%	24.3%
Non-GAAP operating margin	20.5%	36.8%
GAAP net (loss) income	$ (2,158)	$ 19,044
Stock-based compensation*	12,472	1,841
Amortization of intangible assets	2,453	5,033
Restructuring and other costs, net*	4,189	4,915
Depreciation	2,555	2,177
Total other income (expense), net	1,069	(3,589)
Provision for income taxes	1,250	299
Adjusted EBITDA	$ 19,692	$ 36,898
GAAP net (loss) income margin	-2.6%	20.2%
Adjusted EBITDA margin	23.5%	39.1%

* - $4.0 million in stock-based compensation is included in Restructuring and other costs, net during Q1'22.

Free cash flow is net cash provided by operating activities determined in accordance with GAAP less capital expenditures. Free cash flow is not a measure of cash available for discretionary expenditures.

	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021
GAAP net (loss) income	$ (2,158)	$ 19,044
Stock-based compensation*	12,472	1,841
Amortization of intangible assets	2,453	5,033
Restructuring and other costs, net*	4,189	4,915
Non-cash interest expense	444	1,301
Indemnification asset release	-	1,302
Adjustments to income tax expense	(3,184)	(8,108)
Non-GAAP net income	$ 14,216	$ 25,328
Adjusted EPS:		
GAAP Numerator:		
Net (loss) income attributed to common shareholders - basic	$ (2,158)	$ 19,044
Interest on Convertible Senior Notes, net of tax	-	1,911
Net (loss) income attributed to common shareholders - diluted	$ (2,158)	$ 20,955
Non-GAAP Numerator:		
Net income attributed to common shareholders - basic	$ 14,216	$ 25,328
Interest on Convertible Senior Notes, net of tax	-	1,019
Net income attributed to common shareholders - diluted	$ 14,216	$ 26,347
GAAP Denominator:		
Weighted-average common shares outstanding - basic	39,962	38,839
Adjustment for diluted shares	-	5,531
Weighted-average common shares outstanding - diluted	39,962	44,370
Non-GAAP Denominator:		
Weighted-average common shares outstanding- basic	39,962	38,839
Adjustment for diluted shares	-	5,531
Weighted-average common shares outstanding - diluted	39,962	44,370
GAAP net (loss) income per share - diluted	$ (0.05)	$ 0.47
Non-GAAP net income per share - diluted	$ 0.36	$ 0.59
GAAP net cash (used in) provided by operating activities	$ (2,118)	$ 5,145
Capital expenditures	(683)	(4,410)
Free Cash Flow	$ (2,801)	$ 735

* - $4.0 million in stock-based compensation is included in Restructuring and other costs, net during Q1'22.

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Reconciliations of GAAP Financial Measures to non-GAAP Financial Measures

(unaudited - in thousands)

	Q1FY23	Q4FY22	Q3FY22	Q2FY22
GAAP revenues	**$ 83,658**	**$ 58,144**	**$ 89,041**	**$ 86,280**
Less: Professional services revenue	19,847	21,048	22,599	20,646
Non-GAAP Repeatable revenues	**$ 63,811**	**$ 37,096**	**$ 66,442**	**$ 65,634**
GAAP revenues TTM	**$ 317,123**			
Less: Professional services revenue TTM	84,140			
Non-GAAP Repeatable revenues TTM	**$ 232,983**			
Repeatable software contribution	**73%**			

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Q2 FY23 and Full Year FY23 Reconciliations of GAAP to non-GAAP Guidance

(unaudited - in thousands)

	Q2 2023		FY2023	
	Low	High	Low	High
GAAP revenue	$ 64,000	$ 68,000	$ 275,000	$ 290,000
GAAP gross profit	$ 38,200	$ 42,200	$ 172,300	$ 187,300
Stock-based compensation	1,300	1,300	5,400	5,400
Amortization of intangible assets	100	100	400	400
Non-GAAP gross profit	$ 39,600	$ 43,600	$ 178,100	$ 193,100
GAAP gross margin	60%	62%	63%	65%
Non-GAAP gross margin	62%	64%	65%	67%
GAAP operating loss	$ (23,700)	$ (20,200)	$ (49,500)	$ (42,500)
Stock-based compensation	12,400	12,400	49,500	49,500
Amortization of intangible assets	2,500	2,500	6,100	6,100
Restructuring and other costs, net	6,500	6,500	9,800	9,800
Non-GAAP operating (loss) income	$ (2,300)	$ 1,200	$ 15,900	$ 22,900
GAAP operating margin	-37%	-30%	-18%	-15%
Non-GAAP operating margin	-4%	2%	6%	8%
GAAP net loss	$ (32,300)	$ (28,800)	$ (69,700)	$ (62,700)
Stock-based compensation	12,400	12,400	49,500	49,500
Amortization of intangible assets	2,500	2,500	6,100	6,100
Restructuring and other costs, net	6,500	6,500	9,800	9,800
Depreciation	3,000	3,000	11,100	11,100
Total other income (expense), net	(2,700)	(2,700)	(7,100)	(7,100)
Provision for income taxes	5,900	5,900	13,100	13,100
Adjusted EBITDA	$ 700	$ 4,200	$ 27,000	$ 34,000
GAAP net loss margin	-50%	-42%	-25%	-22%
Adjusted EBITDA margin	1%	6%	10%	12%

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Q2 FY23 and FY23 Reconciliations of GAAP to Non-GAAP Guidance

(unaudited - in thousands)

	Q2 2023		FY2023	
	Low	High	Low	High
GAAP net loss	$ (32,300)	$ (28,800)	$ (69,700)	$ (62,700)
Stock-based compensation	12,400	12,400	49,500	49,500
Amortization of intangibles	2,500	2,500	6,100	6,100
Restructuring and other costs, net	6,500	6,500	9,800	9,800
Non-cash interest expense	500	500	1,900	1,900
Adjustments to income tax expense	3,200	2,400	(600)	(2,100)
Non-GAAP net (loss) income	$ (7,200)	$ (4,500)	$ (3,000)	$ 2,500
Adjusted EPS:				
GAAP Numerator:				
Net loss attributed to common shareholders	$ (32,300)	$ (28,800)	$ (69,700)	$ (62,700)
Non-GAAP Numerator:				
Net (loss) income attributed to common shareholders	$ (7,200)	$ (4,500)	$ (3,000)	$ 2,500
GAAP Denominator:				
Weighted-average common shares outstanding - basic and diluted	40,200	40,200	40,200	40,200
Non-GAAP Denominator:				
Weighted-average common shares outstanding - basic and diluted	40,200	40,200	40,200	40,200
GAAP net loss per share - diluted	$ (0.80)	$ (0.72)	$ (1.73)	$ (1.56)
Non-GAAP net (loss) income per share - diluted	$ (0.18)	$ (0.11)	$ (0.07)	$ 0.06

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