



**PRENTISS
SMITH & CO**

Socially Responsible Investment Report for:

Cerence, Inc

Burlington, MA

Ticker: CRNC US Equity

Last Updated: 07-30-2020

I. Exclusionary Screening

Does Cerence, Inc appear on any of the following lists? In our exclusionary screening, a single appearance disqualifies an investment.

Fossil Fuels & Precious Metals Mining

- Carbon Underground 200
- CDP/CAI Carbon Major
- BICS - Oil, Gas & Coal
- BICS - Precious Metals Mining

Agrochemicals & Animal Cruelty

- BICS - Crop Chemicals & Fertilizers
- Cruelty Free Investing 10 Worst

Pornography, Gambling & Tobacco

- BICS - Casinos
- BICS - Gaming Equipment
- BICS - Adult/nightclubs
- BICS - Tobacco

Defense & Retail Gun Sales

- SIPRI Top 100
- BICS - Defense Primes
- NRA Top Industry Allies

Private Prisons

- BICS - Security Services

CDP = Carbon Disclosure Project
CAI = Climate Accountability Institute
BICS = Bloomberg Industry Classification Systems

SIPRI = Stockholm International Peace Research Institute
NRA = National Rifle Association

II. Research Narrative

What has our research process told us about how Cerence, Inc conducts business, in terms of its products and services, its environmental impact, and its approach to governance?

Summary

Cerence develops software interfaces that facilitate safe communication between drivers, vehicles, and the cloud, including platforms for virtual assistants that can be customized by the many automobile manufacturers who use Cerence. The company was spun off from Nuance Communications, previously Nuance Automotive, in October 2019, and has maintained its stable of patents and of customers, who include Toyota, Ford, GM, Volkswagen, BMW, Renault-Nissan, Daimler, and most major automobile manufacturers worldwide.

As a very young and growing company, Cerence's ESG-related reporting and disclosures are limited. Going forward, we will be looking for the company to increase its reporting in a range of areas, as well as to improve the diversity of its executive team and board of directors.

Products & Services

Cerence is a software company focused on developing communication interfaces between vehicles, drivers and passengers, and the wider internet. These most recognizably take the form of AI-powered virtual assistants, which can be customized by manufacturers to create branded experiences such as "Hey BMW" and "Ni hao Baoma." Cerence claims their customer base includes every major OEM car manufacturer or tier 1 supplier worldwide, and that in FY 2019, approximately 52% of all shipped cars globally included Cerence technologies.¹

Cerence's platform includes both embedded, "edge" computing components, which integrate with a vehicle's systems via its head unit and can perform many tasks without an outside connection, as well as cloud-connected components. The edge components can typically process

¹ https://www.sec.gov/Archives/edgar/data/1768267/000156459019046399/crnc-10k_20190930.htm

requests more quickly, at lower cost and without the privacy concerns of cloud-connected components (e.g. system “wake up words” can remain private). The cloud-connected components provide higher-confidence responses and often a much broader array of information.

A key concept Cerence has worked to address is that of “coexistence,” or ensuring that multiple voice-powered assistants can function independently and consistently. To this end, Cerence has recently developed its platform to allow the integration of third-party virtual assistants into vehicle systems, including technology that infers user intent in order to decide which assistant to refer a request to. Other recent developments in the company’s platform include its own contactless payment system, “Cerence Pay,” and building in the flexibility to continuously deliver system updates and new features to its platform.²

As of the end of 2019, Cerence derived approximately 57% of its revenue from software licensing fees, while 26% and 17% came from connected services and professional services, respectively. This revenue is spread across global geographies, with 44% from the Americas, 33% from Europe and 23% from Asia in 2019.³ The company has continued to add support for more languages to advance its strategy of increased penetration in key geographic markets, for instance by developing localized language support in Indonesia, Thailand and India in 2018 and 2019, bringing its total languages and dialects supported to more than 70.

Environment

According to Bloomberg Data, Cerence has green buildings and plans for climate risks. That said, as would be expected of a less than 1-year-old company, Cerence has not put out an annual sustainability report or shared environmental data with CDP or other reporting agencies. Going forward, we will be looking for Cerence to increase its disclosures and reporting in line with its growth.

Management Integrity and Ethics

In October 2019 Cerence was spun off from Nuance Communications (previously Nuance Automotive), a company founded in 1992 that is now focused on developing conversational AI.

²

<https://voicebot.ai/2019/10/28/sanjay-dhawan-ceo-of-cerence-talks-about-voice-and-ai-in-the-car-voicebot-podcast-ep-120/>

³ https://www.sec.gov/Archives/edgar/data/1768267/000156459019046399/crnc-10k_20190930.htm

Under the terms of the spin-off, Cerence retained 1,250 patents and patent applications and approximately 700 R&D professionals (including scientists, engineers and technicians) representing half the company's global workforce, 85% of which is based outside the US.⁴ As a recently spun-off company, Cerence is operating with a new executive team, led by CEO Sanjay Dhawan. Dhawan came to Cerence from Harman Industries International, where he served as Chief Technology Office and President of the Connected Services Division from 2015-2019, joining Harman after it acquired Symphony Teleca, where he had been President and CEO.

Cerence's board currently has 7 directors, of whom 2 are women and 3 are non-white. The company's management team of 12 includes 2 women and 5 non-white members.⁵ We would like to see increased focus on leadership gender diversity in particular as Cerence continues to grow.

Cerence is not currently involved in any material legal disputes.

⁴ https://www.sec.gov/Archives/edgar/data/1768267/000156459019046399/crc-10k_20190930.htm

⁵ <https://www.cerence.com/investors/leadership-and-governance>

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