



## Nuance Communications Analysis

Description: A company in the conversational AI innovation space. Nuance utilizes software and cloud-based solutions that understand, analyze and respond to human language to increase productivity and amplify human intelligence.

Stock: NUAN

Price: \$16.74

Market Cap: \$4.8B

Performance: +2.39% YTD and -7.00% since their IPO back in December of 1995

In NUAN's last quarter they posted Q3 EPS of \$0.27 in-line on revenue of \$502.89M (+3.4% Y/Y) beating estimates by \$6.99M. They also recorded:

- Non-GAAP revenues rose 2% to \$506M; recurring revenue made up 73% of the total, consistent with last year.
- Net income rose a hair to \$79.6M Y/Y
- Operating margin fell to 24.7% from last year's 27%.
- Net new bookings growth was 7%, to \$471.1M.
- Share repurchase authorization of up to \$500M, and a \$150M debt repayment.

Revenue breakout:

- Professional services and hosting: \$254.5M (up 1.2%)

- Product and licensing: \$168.7M (up 9.3%)
- Maintenance and support: \$79.7M (down 1%)

Given the above, fundamentally:

- Forward P/E: 13.9x
- Forward P/S: 2.3x
- Forward EV/EBITDA: 10.9x

We like the work NUAN does (we watched some videos of their technology and how it applies to industries like healthcare). Our whole issue is why it's not growing faster. We looked back as far as we could find on data ranging to 2013, and we can't find one single quarter where revenues grew double digits Y/Y. The highest we saw 6.1% back in 2014 and unfortunately the company is guiding 2% growth on top line going forward. Same goes for bottom-line, EPS has literally been \$0.27 the last 4 quarters and has been much higher the further back we go. Fundamentally it is cheap but it looks to be your A1 value trap.

Management has done an awful job growing this company and it shows as shares over the last 23 years are down 7%. We know they finally shuffled some stuff up with their c-level execs so that might change the course of the company but we see no reason to get in now for the "ride". Wait and see what new management take a hold of things and go from there. Given this company is in the AI industry you'd think the ball would be moving so much quicker but it just isn't.

Your best bet is honestly to trade it if anything. It has a very pattern-like move as you can see in the image below over the last 5 years. Otherwise, I don't see anything too attractive with this company. Give the new hires some time to make some moves and then reassess how things look. This could be a target for some companies simply off IP and their technology but that's never a reason to solely invest.

