

Nuance Communications, Inc.
Form 10-K
November 20, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K
(Mark
One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the fiscal year ended September 30, 2018

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the transition period from to

Commission file number 001-27038

NUANCE COMMUNICATIONS, INC.

(Exact name of Registrant as Specified in its Charter)

Delaware 94-3156479

(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

1 Wayside Road 01803
Burlington, Massachusetts

(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (781) 565-5000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Each Exchange on Which Registered
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Common stock, \$0.001 par value	Nasdaq Stock Market LLC
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Preferred share purchase rights	Nasdaq Stock Market LLC
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SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Smaller reporting company

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Non-accelerated filer Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of March 31, 2018, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$3.5 billion based on the closing sale price as reported on the Nasdaq Global Select Market for such date.

The number of shares of the registrant's common stock, outstanding as of October 31, 2018, was 287,581,197.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be delivered to stockholders in connection with the registrant's 2019 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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PART I

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks, uncertainties and assumptions that, if they never materialize or if they prove incorrect, could cause our consolidated results to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking, including statements pertaining to: our future revenue, cost of revenue, research and development expense, selling, general and administrative expenses, amortization of intangible assets and gross margin, earnings, cash flows and liquidity; our strategy relating to our segments; the potential of future product releases; our product development plans and investments in research and development; future acquisitions and anticipated benefits from acquisitions; international operations and localized versions of our products; our contractual commitments; our fiscal year 2019 revenue and expense expectations and legal proceedings and litigation matters. You can identify these and other forward-looking statements by the use of words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “intends,” “potential,” “continue” or the negative of such terms, or comparable terminology. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in Item 1A of this Annual Report under the heading “Risk Factors.” All forward-looking statements included in this document are based on information available to us on the date hereof. The forward-looking statements do not include the potential impact of any mergers, acquisitions, divestitures, securities offerings or business combinations that may be announced or closed after the date hereof. We will not undertake and specifically decline any obligation to update any forward-looking statements, except to the extent required by law.

Item 1. Business

Overview

We are a leading provider of voice recognition and natural language understanding solutions. We work with companies around the world, from banks and hospitals to airlines, telecommunications carriers, and automotive manufacturers and suppliers, who use our solutions and technologies to create better experiences for their customers and their users by enhancing the users' interaction and increasing productivity and customer satisfaction. We offer our customers high accuracy in automated speech recognition ("ASR"), natural language understanding ("NLU") capabilities, dialog and information management, biometric speaker authentication, text-to-speech ("TTS"), optical character recognition ("OCR") capabilities, and domain knowledge, along with professional services and implementation support. In addition, our solutions increasingly utilize our innovations in artificial intelligence ("AI"), including cognitive sciences and machine learning to create smarter, more natural experiences with technology. Using advanced analytics and algorithms, our technologies create personalized experiences and transform the way people interact with information and the technology around them. We market and sell our solutions and technologies around the world directly through a dedicated sales force, and also through a global network of resellers, including system integrators, independent software vendors, value-added resellers, distributors, hardware vendors, telecommunications carriers and e-commerce websites.

We are a global organization steeped in research and development. We have approximately 2,100 language scientists, developers, and engineers dedicated to continually refining our technologies and advancing our portfolio to better meet our customers' diverse and changing needs. We have more than 60 international operating locations and a sales presence in more than 81 countries. Our corporate headquarters is located in Burlington, Massachusetts, with international headquarter in Dublin, Ireland. In fiscal year 2018, our revenue was \$2.1 billion.

Our Strategy

We have large addressable vertical markets, and we focus on growth by providing industry-leading, value-add solutions for our customers and partners through a broad set of flexible technologies, solutions, and service offerings available directly and through our channel partners. The key elements of our strategy include:

Focus on opportunities that leverage our core strengths in key vertical markets. During the third quarter of fiscal year 2018, we commenced a comprehensive portfolio and business review with the goal to improve long-term shareholder return and operational efficiency. We are moving toward a goal of a simplified and more efficient operational structure, capable of sustainable, long-term revenue and earnings growth, with resources keenly focused on opportunities that leverage our core strengths in key vertical markets. We plan to focus our resources and R&D capabilities on our core capabilities and shift our focus away from non-core businesses and solutions.

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Maintain global leadership in all of our major markets and solutions areas. We have historically targeted markets where we benefit from strong technology, sales and vertical market differentiation. Today, we are one of the leading providers of voice recognition and NLU. We invest considerable time and resources to ensure that we maintain this position through customer satisfaction, technology leadership, deep domain experience and market specialization. Maintain depth in technology, solutions, and intellectual property portfolio. We have built a world-class portfolio of technologies, applications, solutions and intellectual property through both internal development and acquisitions. We expect to continue to pursue opportunities to expand our assets, geographic presence, distribution network and customer base through organic growth and strategic transactions. We continue to strengthen our core technologies in voice and language, and expand our offerings through research and innovations in AI, including cognitive computing and machine learning.

Continue to expand our extensive network of global operations, distribution and services networks. We market and sell our solutions and technologies directly through a dedicated sales force and through a global network of resellers, including system integrators, independent software vendors, value-added resellers, distributors, hardware vendors, and telecommunications carriers and e-commerce websites. In addition, we continue to expand our presence within our markets, such as ambulatory markets in our Healthcare segment and omni-channel customer services in our Enterprise segment, and we have expanded initiatives in geographic markets such as China, Latin America and Southeast Asia. Continue to expand hosting and transaction-based offerings. We remain focused on increasing our hosting and transaction-based offerings. We generate hosting revenues through on-demand models that typically have multi-year terms with pricing based on volume of usage, number of transactions, number of seats or number of devices. This pricing structure allows customers to use our products at a lower initial cost when compared to the sale of a perpetual license. This will enable us to deliver applications that our customers use, and pay for, on a recurring basis, providing us with the opportunity to benefit from recurring revenue streams.

Maintain significant presence and customer preference in our markets. We specialize in creating large, enterprise-class solutions that are used by many of the world's largest companies. By combining our core technology, professional services, local presence and deep domain experience, we are able to deliver these specialized offerings for our customers and partners. We have established a trusted position in numerous markets and today work with a majority of the Fortune 100 companies.

Strengthen financial profile with improvement in revenue, earnings per share, margin, and cash flow. We are focused on improving our financial performance by executing upon identified strategic initiatives and further

- evolving our business toward recurring revenue models, which are positioning us for increased future revenue and profitability growth. Recurring revenue represented 71.4%, 72.5% and 69.6% of total revenue in fiscal years 2018, 2017 and 2016, respectively.

Segments

We are organized into five segments: Healthcare, Enterprise, Automotive, Imaging and Other. See Note 20 to the consolidated financial statements for additional information about our reportable segments. We offer our solutions and technologies to our customers in a variety of ways, including via hosted cloud-based solutions, perpetual and term software licenses, implementation and custom solution development services and maintenance and support. Our product revenues include embedded original equipment manufacturer ("OEM") royalties, traditional perpetual licensing, term-based licensing and consumer sales. Our hosting, royalty, term license and maintenance and support revenues are recurring in nature as our customers use our products on an ongoing basis to handle their needs in medical transcription, medical coding and compliance, enterprise customer service and automotive connected services. Our professional services offer a continuing revenue stream, whether it is provided in connection with our software solutions or on a standalone basis, as we have a backlog of engagements that take time to complete.

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Healthcare

Our Healthcare segment is a leading provider in clinical speech and clinical language understanding solutions that drive smart, efficient decisions and increase productivity across the healthcare industry. Our solutions and services improve the clinical documentation process - from capturing the complete patient record to improving clinical documentation and quality measures for reimbursement. We support clinical documentation work flows and electronic health record ("EHR") adoption through our flexible offerings, including transcription services, dictation software for the EHR, diagnostics work flows, and mobile applications. These solutions increasingly leverage ASR, clinical language understanding ("CLU") and AI innovations to help physicians deliver better outcomes. In addition, we continue to extend our strong hospital customer franchise into the automation and management of healthcare coding and billing processes in order to ensure timely and appropriate reimbursement. These solutions are designed to help healthcare organizations derive additional value from EHR investments and are driven by industry trends such as value-based care, Meaningful Use requirements, which is a program that awards incentives for using EHR technology to improve patient care, and government regulations related to medical codes.

Today, more than 500,000 clinicians and 10,000 healthcare facilities worldwide leverage our solutions to improve patient care and support the physician in clinical work flows from many devices. Our Healthcare segment revenues were \$984.8 million, \$899.3 million, and \$973.3 million in fiscal years 2018, 2017 and 2016, respectively. Healthcare segment revenues represented 47.6%, 45.5% and 49.2% of total segment revenue in fiscal years 2018, 2017 and 2016, respectively.

Our principal solutions for the Healthcare segment include the following:

Dragon Medical: Provide dictation capabilities that empower physicians to accurately capture and document patient care in real-time from many devices and without disrupting existing work flows. We have expanded this solution to provide clinical language understanding and cognitive intelligence that delivers real-time queries to physicians at the point of care, producing measurable clinical, financial and compliance outcomes.

Transcription solutions: Enable physicians in larger and mid-sized healthcare enterprises to streamline clinical documentation with an on-demand, enterprise-wide medical transcription platforms, and allow healthcare organizations to outsource transcription services. Our transcription solutions are generally offered as an on-demand model.

Clinical document improvement and coding solutions: Ensure patient health information is properly documented, coded, and evaluated to provide more complete and accurate clinical documentation. These services and offerings assist organizations with regulatory compliance and coding efficiency to receive appropriate and timely reimbursement and improve quality reporting. The solutions are generally sold under a term licensing model.

Diagnostic solutions: Allow radiologists to easily document, collaborate, and share medical images and reports in order to optimize patient care. These solutions are generally sold under a traditional perpetual license model, but they are transitioning rapidly to term licensing and transaction based models.

Dragon solutions: Provide professional and personal productivity solutions to business users and consumers with the ability to use their voice to create content, reports and other documents, as well as control their computers and laptops without the use of a keyboard or mouse. This dictation capability is similar to Dragon Medical and is used in markets such as law, public safety, social services, education and accessibility. Dragon solutions are sold generally through a traditional perpetual software license model, and we have recently introduced an on-demand model.

The channels for distribution in the Healthcare segment utilize our direct sales force to address the market and our professional services organization to support the implementation requirements of the healthcare industry. Direct distribution is supplemented by distributors, resellers and partnerships with a variety of healthcare IT providers. Our Healthcare customers and partners include UPMC, Cleveland Clinic, Mayo Clinic and UK National Trust. Our partners include Cerner, Epic, McKesson, and Siemens.

Areas of expansion and focus for our Healthcare segment include providing customers deeper integration with our clinical documentation solutions, investing in our cloud-based offerings, operations and network security, entering

new and adjacent markets such as ambulatory care, and expanding our international capabilities.

Automotive

Our Automotive segment provides automotive manufacturers and their suppliers intuitive, personalized, branded, virtual assistants and connected services for cars that are safer, easier, and more enjoyable. Our ASR, NLU and TTS technologies and deep domain experience, integration capabilities and independence make us a preferred vendor to the world's largest automotive manufacturers

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and suppliers. Our automotive solutions are generally sold as on-demand models that are typically priced on a per-unit basis for multi-year service terms. We have a worldwide professional services team to provide custom solution development services and sell our technologies through a traditional perpetual software license model, including a royalty-based model. Our Automotive customers include major automotive OEMs, such as Ford, Daimler, BMW, Toyota, Fiat Chrysler, Volkswagen, and Geely.

Automotive segment revenues were \$279.4 million, \$252.2 million, and \$214.3 million in fiscal years 2018, 2017 and 2016, respectively. Automotive segment revenues represented 13.5%, 12.8% and 10.8% of total segment revenue in fiscal years 2018, 2017 and 2016, respectively.

On November 19, 2018, we announced our intent to spin off our Automotive business into an independent publicly-traded company through a pro rata distribution to our common stock holders. Completion of the proposed spin-off is subject to certain conditions, including final approval by our Board of Directors. We are targeting to complete the separation of the business by the end of fiscal year 2019.

Enterprise

Our Enterprise segment is a leading provider of automated customer solutions and services worldwide to aid enterprises with their customer service and engagement. Differentiated by our ASR, NLU and AI technologies, and complemented by our large professional services organization, our solutions help enterprises reduce or replace human contact center agents with conversational systems, across voice, mobile, web and messaging channels. Our intelligent self-service solutions are highly accurate and dependable, resulting in increased customer satisfaction levels while simultaneously reducing the costs associated with delivering customer service for the enterprise. We are continuing to evolve this business, leveraging our presence in on-premise interactive voice response ("IVR") solutions and services, and expanding into multichannel, self-service cloud solutions. Our solutions and services portfolio now span voice, mobile, web and messaging channels, with inbound and outbound customer service and engagement, voice biometrics, and digital virtual assistant capabilities.

Enterprise segment revenues were \$483.2 million, \$474.3 million, and \$396.0 million in fiscal years 2018, 2017 and 2016, respectively. Enterprise segment revenues represented 23.3%, 24.0% and 20.0% of total segment revenue in fiscal years 2018, 2017 and 2016, respectively.

Our principal solutions for the Enterprise segment include the following:

On-Premise solutions and services: Provide software that is leveraged to implement automated customer service solutions that are integrated with a wide range of on-premise third-party IVR and contact center platforms. Our products and technologies include ASR, voice biometrics, transcription, TTS, dialog and analytics. Our global professional services team leverages domain expertise to provide end-to-end services to customers and partners, including business consulting, design, development, and deployment of integrated solutions. Our on-premise licensed products are primarily sold through a traditional perpetual software license model, and our on-premise professional services are sold under project-based and multi-year managed services contracts.

On-Demand multichannel cloud: Deliver a platform that provides enterprises with the ability to implement automatic customer service across inbound, outbound, and digital customer service channels in the cloud. Our on-demand multichannel cloud leverages our ASR, voice biometrics, TTS, and virtual assistant technologies, to implement intelligent, conversational self-service applications, including voice call steering and self-service, automated verification, account access, virtual chat, proactive SMS, messaging and email, and customer service for mobile device customers. In addition, our acquisition of TouchCommerce, Inc. in fiscal year 2016 allows us to provide an end-to-end engagement platform that merges intelligent self-service with assisted service to increase customer satisfaction, strengthen customer loyalty and improve business results. Our on-demand multichannel cloud is sold through sales models that typically have multi-year terms with pricing based on the channel provided and/or volume of usage.

The selling models in the Enterprise segment utilize both direct and channel sales, which includes a network of partners such as Avaya, BT, Cisco, DiData, Genesys, Huawei, MoshiMoshi, NICE, Telstra, and Verint. Our customers include, American Airlines, Amtrak, Bank of America, Barclays, Dominos, Delta, Deutsche Telekom, e*trade, ING Bank, Lloyds Banking Group, T-Mobile, Telefonica, Telstra, and Vodafone.

Areas of focus and expansion for our Enterprise segment include extending our technology capabilities with intelligent self-service and AI for customer service, expansion of our on-demand multichannel cloud to international markets, sales and solution expansion for our voice biometrics suite, and expanding our on-premise product and services portfolio.

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Imaging

Our Imaging segment provides software solutions and expertise that help professionals and organizations gain optimal control of their document and information processes by enabling customers to achieve measurable business and productivity benefits as they securely create, use and share documents. Our portfolio of products and services helps business customers achieve compliance with information security policies and regulations while enabling organizations to streamline and eliminate gaps across their document work flows.

We have built on our position in MFP OEM channels and the managed print services space by accelerating the integration of capture and print management technologies. Our intelligent document capture and work flow solutions transform manual, disconnected processes into dynamic, streamlined, and automated work flows. When combined with print management technologies, organizations are also able to control, manage, and monitor their entire print environment. Our business has seen strong commitments from key OEMs, a broad number of OEM partners who embed multiple products, and strong end-user demand in key verticals like healthcare, legal, and financial services. Imaging segment revenues were \$212.9 million, \$217.7 million, and \$241.6 million in fiscal years 2018, 2017 and 2016, respectively. Imaging segment revenues represented 10.3%, 11.0% and 12.2% of total segment revenue in fiscal years 2018, 2017 and 2016, respectively.

Our principal solutions for the Imaging segment include the following:

• MFP Scan and capture automation solutions: Deliver scanning and document management solutions that improve productivity, drive efficiency and assist in enhancing security.

• MFP Print management and automation solutions: Offer printing and document management solutions to capture and automate paper to digital work flows to increase efficiency.

• PDF and OCR software: Provide intuitive technologies that enable the efficient capture, creation, and management of document work flows.

The channels for distribution in the Imaging segment include a combination of a global reseller network and direct sales. Our Imaging solutions are generally sold under a traditional perpetual software license model with a subset of our offerings sold as term licenses. Our Imaging customers and partners include Ricoh, Xerox, HP, Canon, and Samsung.

On November 11, 2018, we entered into a definitive stock purchase agreement, pursuant to which we agreed to sell our Imaging business and associated assets for a total cash consideration of approximately \$400 million. The transaction, which is subject to regulatory review and other customary closing conditions, is expected to close by the end of the second quarter of fiscal year 2019.

Other

Other segment includes our SRS and Devices businesses. Our SRS business provides value-added services to mobile operators in India and Brazil (“Mobile Operator Services”) and voicemail transcription services to mobile operators in the rest of the world (“Voicemail-to-Text”). Our Devices business provides speech recognition solutions and predictive text technologies for handset devices. Our Mobile Operator Services has experienced dramatic market disruptions during fiscal year 2018. Our Devices revenue has been declining due to the ongoing consolidation of our handset manufacturer customer base and continued erosion of our penetration of the remaining market. During the fourth quarter of fiscal 2018, in connection with our comprehensive portfolio and business review efforts, we commenced a wind-down of our Devices and Mobile Operator Services businesses.

Other segment revenues were \$109.1 million, \$133.8 million, and 154.4 million in fiscal years 2018, 2017 and 2016, respectively. As a percentage of total segment revenue, Other segment revenues represented 5.3%, 6.8% and 7.8% in fiscal years 2018, 2017 and 2016, respectively.

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Research and Development/Intellectual Property

Over our history we have developed and acquired extensive technology assets, intellectual property, and industry expertise in ASR, NLU and imaging technologies that provide us with a competitive advantage in our markets. Our technologies are based on complex algorithms that require extensive amounts of acoustic and language models, and recognition and understanding techniques. A significant investment in capital and time would be necessary to replicate our current capabilities.

We continue to invest in technologies to maintain our market-leading position and to develop new applications. We rely on a portfolio of patents, copyrights, trademarks, services marks, trade secrets, confidentiality provisions and licensing arrangements to establish and protect our intellectual property and proprietary rights. As of September 30, 2018, we held approximately 4,070 patents and 575 patent applications. Our intellectual property is critical to our success and competitive position.

Competition

The markets in which we compete are highly competitive and are subject to rapid technology changes. There are a number of companies that develop or may develop solutions and technologies that compete in our target markets; however, currently no company directly competes with us across all of our solutions and technologies. While we expect competition to continue to increase both from existing competitors and new market entrants, we believe that we will compete effectively based on many factors, including:

Specialized Professional Services. Our superior technology, when coupled with the high quality and domain knowledge of our professional services organization, allows our customers and partners to place a high degree of confidence and trust in our ability to deliver results. We support our customers in designing and building powerful innovative solutions that specifically address their needs and requirements.

International Coverage. The international reach of our solutions and technologies is due to the broad language coverage of our offerings, including our ASR and NLU solutions, which provide recognition for approximately 70 languages and dialects and natural-sounding synthesized speech in over 160 voices, and support a broad range of hardware platforms and operating systems. Our imaging technology supports more than 120 languages for OCR and document handling, with up to 20 screen language choices, including Asian languages.

Technological Superiority. Our ASR, NLU and imaging technologies, applications and solutions are often recognized as the most innovative and proficient in their respective categories. Our ASR and NLU solutions have industry-leading recognition accuracy and provide a natural, voice-enabled interaction with systems, devices and applications. Our OCR technology in our Imaging segment is viewed as the most accurate in the industry. Technology publications, analyst research and independent benchmarks have consistently indicated that our solutions and technologies rank at or above performance levels of alternative solutions.

Broad Distribution Channels. Our ability to address the needs of specific markets, such as financial, law, healthcare and government, and to introduce new solutions and technologies quickly and effectively is provided by our direct sales force, our extensive global network of resellers, comprising system integrators, independent software vendors, value-added resellers, hardware vendors, telecommunications carriers and distributors, and our e-commerce website. In our Healthcare business, we compete primarily with M*Modal, Optum, 3M and other smaller providers. In our Automotive business we compete, or may in the future compete, with Amazon, Google, iFlyTek and Microsoft as well as with other, smaller vendors, particularly in China. In our Imaging business we compete primarily with ABBYY and Adobe. Also, some of our partners such as Avaya, Cisco, and Genesys develop and market products that might be considered substitutes for our Enterprise solutions. Additionally, a number of smaller companies in voice recognition, natural language understanding, text input and imaging offer technologies or products that are competitive with our solutions.

Current and potential competitors have established, or may establish, cooperative relationships among themselves or with third parties to increase the ability of their technologies to address the needs of our prospective customers.

Some of our competitors or potential competitors, such as Adobe, Google, and 3M, have significantly greater financial, technical and marketing resources than we do. These competitors may be able to respond more rapidly than we can to new or emerging technologies or changes in customer requirements. They may also devote greater resources to the development, promotion and sale of their products than we do.

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Employees

As of September 30, 2018, we had approximately 10,400 full-time employees, including approximately 1,200 in sales and marketing, approximately 2,700 in professional services, approximately 2,100 in research and development, approximately 800 in general and administrative, and approximately 3,600 who provide transcription and editing services. Approximately 66% of our employees are based outside of the United States, approximately 45% of whom provide transcription and editing services and are based in India. None of our employees in the United States is represented by a labor union. Employees of certain of our foreign subsidiaries are presented by labor unions or workers' councils. We believe that our relationships with our employees are satisfactory.

Information About Geographic Areas

We have offices in a number of international locations including Australia, Austria, Belgium, Brazil, Canada, China, Germany, Hungary, India, Ireland, Italy, Japan, and the United Kingdom. The responsibilities of our international operations include research and development, healthcare transcription and editing, customer support, sales and marketing and general and administrative. Additionally, we maintain smaller sales, services and support offices throughout the world to support our international customers and to expand international revenue opportunities. Geographic revenue classification is based on the geographic areas in which our customers are located. For fiscal years 2018, 2017 and 2016, 72%, 70% and 71% of revenue was generated in the United States and 28%, 30% and 29% of revenue was generated by our international customers, respectively.

Corporate Information and Website

We were incorporated under the laws of the State of Delaware in 1992. Our website is located at www.nuance.com and we trade under the ticker symbol NUAN. We are not including the information contained in our website as part of, or incorporating it by reference into, this annual report on Form 10-K. We make available free of charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports, as soon as reasonably practicable after we electronically file these materials with, or otherwise furnish them to, the Securities and Exchange Commission ("SEC").

Item 1A. Risk Factors

You should carefully consider the risks and uncertainties described below when evaluating the company and when deciding whether to invest in the company. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we do not currently believe are important to an investor may also harm our business operations. If any of the events, contingencies, circumstances or conditions described below actually occurs, our business, financial condition or our results of operations could be seriously harmed. If that happens, the trading price of our common stock could decline.

Risks Related to Our Business

The markets in which we operate are highly competitive and rapidly changing and we may be unable to compete successfully.

There are a number of companies that develop or may develop products that compete in our targeted markets. The markets for our products and services are characterized by intense competition, evolving industry and regulatory standards, emerging business and distribution models, disruptive software and hardware technology developments, short product and service life cycles, price sensitivity on the part of customers, and frequent new product introductions, including alternatives for certain of our products that offer limited functionality at significantly lower costs or free of charge. Current and potential competitors have established, or may establish, cooperative relationships among themselves or with third parties to increase the ability of their technologies to address the needs of our prospective customers. Furthermore, there has been a trend toward industry consolidation in our markets for several years. We expect this trend to continue as companies attempt to strengthen or hold their market positions.

The competition in our targeted markets could adversely affect our operating results by reducing the volume of the products and solutions we license or sell or the prices we can charge. Some of our current or potential competitors

have significantly greater financial, technical and marketing resources than we do. These competitors may be able to respond more rapidly than we can to new or emerging technologies or changes in customer requirements. They may also devote greater resources to the development, promotion and sale of their products than we do, and in certain cases may be able to include or combine their competitive products or technologies with other of their products or technologies in a manner whereby the competitive functionality is available at

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lower cost or free of charge within the larger offering. To the extent they do so, market acceptance and penetration of our products, and therefore our revenue and bookings, may be adversely affected. Our success depends substantially upon our ability to enhance our products and technologies and to develop and introduce, on a timely and cost-effective basis, new products and features that meet changing customer requirements and incorporate technological enhancements. If we are unable to develop or acquire new products and enhance functionalities or technologies to adapt to these changes our business will suffer.

Our operating results may fluctuate significantly from period to period, and this may cause our stock price to decline. Our revenue, bookings and operating results have fluctuated materially in the past and we expect such fluctuations to continue in the future. These fluctuations may cause our results of operations to not meet the expectations of securities analysts or investors which would likely cause the price of our stock to decline. Factors that may contribute to fluctuations in operating results include:

- volume, timing and fulfillment of customer orders and receipt of royalty reports;
- fluctuating sales by our channel partners to their customers;
- customers delaying their purchasing decisions in anticipation of new versions of our products;
- contractual counterparties failing to meet their contractual commitments to us;
- introduction of new products by us or our competitors;
- cybersecurity or data breaches;
- seasonality in purchasing patterns of our customers;