

Deal Spotlight:

Microsoft acquisition of
Nuance Communications
for \$19.7bn

Target company

Nuance is a leader in conversational AI and cloud technologies for healthcare and other enterprise verticals. It delivers solutions that amplify human intelligence to increase productivity and security.

Healthcare

- FY'20A Revenue \$720m (60% of total)
- Improves clinical documentation and quality of care, minimizes physician burnout, integrates quality measures and aid reimbursement (DAX product)
- Footprint: 300m patient stories per year, 6.5k connected healthcare facilities

Enterprise

- FY'20A Revenue \$530m (40% of Total)
- Provides multi-channel access to customer service, driving demand for AI-powered omni-channel engagement solutions
- Footprint: 31bn customer interactions per year, 85% of Fortune 500 use Nuance

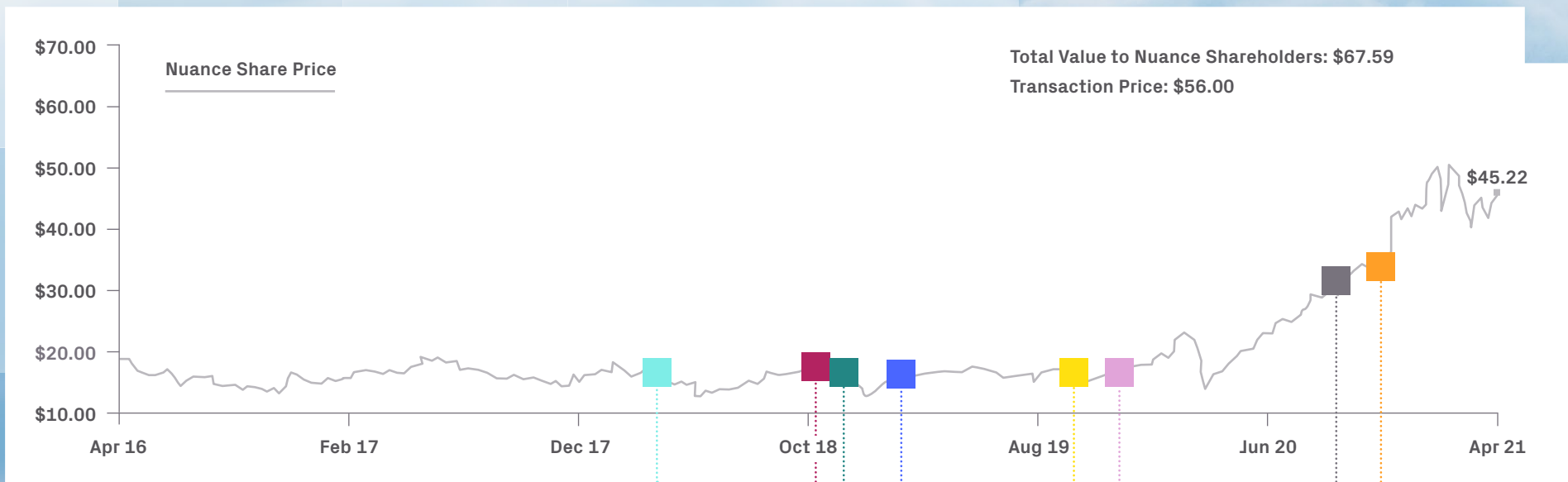
New Nuance

- Streamlined AI-driven business focused on healthcare and enterprise applications
- High growth potential of the DAX healthcare product pipeline
- Entrenched relationships with healthcare providers delivering upsell potential across Microsoft cloud products

Target journey



Extensive business repositioning led to exceptional value creation for Nuance over six years.



- Mark Benjamin's appointment as CEO
- Sale of Imaging Business to Kolfax \$400m
- Intention to spin-off Cerence
- DAX product unveiled
- Cerence spin-off completed
- Microsoft DAX partnership
- Microsoft Teams DAX integration
- Divestment of transcription & EHR business

Deal summary

Microsoft, an American multinational technology company, acquired 100% of Nuance Communications, an American multinational computer software technology corporation, in an all-cash transaction valued at \$19.7bn.



Structure

- \$56 per share, implying a 28% premium to 30D VWAP
- \$19.5bn Enterprise Value
- All Cash Consideration
- Acquiror advisors:
Goldman Sachs;
Simpson Thacher & Bartlett
- Target advisors:
Evercore; Paul, Weiss

Financial impact

- Minimally dilutive to EPS in FY22 (<1%) Accretive to EPS in FY23
- No change to \$21bn buyback programme
- Post-close part of Intelligent Cloud Segment

Highlights

- 14.3× EV/Revenue FY21E
- 57.6× EV/EBITDA FY21E
- Largest tech M&A in 2021
- Largest all-cash tech M&A since 2018
- Third-largest enterprise software M&A of all time

Deal strategy

The acquisition would increase Microsoft's healthcare TAM to nearly \$500bn and expand its cross-industry AI leadership and allow clients to benefit from enhanced consumer, patient, clinician, and employee experiences, and ultimately improve productivity and financial performance.



Goals:

1

Deliver voice-enabled solutions to help providers be more effective

2

Empower providers with ambient clinical intelligence

3

Enable providers to use AI to deliver the right solution at the right time

4

Deliver AI-enabled digital engagement to every industry

550k

physicians use Nuance solutions

77%

of US hospitals are Nuance Customers

75%

of US radiologists use Nuance

Deal impact

“ ”

Together...we will put advanced AI solutions into the hands of professionals everywhere to driver better decision-making and create more meaningful connections...

Satya Nadella
Microsoft CEO

“ ”

[The acquisition] will enable us to accelerate our innovation and deploy our solutions more quickly, more seamlessly and at greater scale to solve our customers' most pressing challenges.

Mark Benjamin
Nuance CEO



Target advisor

Evercore acted as the exclusive financial advisor to Nuance and was an integral part of Nuance's growth story and transformation.

Evercore value add

- Intimate knowledge of strategic player's agendas
- Extensive pre-marketing and education of bidders
- Tight and highly confidential process (6 weeks from the first offer to signing)
- Achieved premium multiples: 14.3x revenue, 58x EBITDA

Deal captain

Naveen Nataraj
Co-Head of Evercore's US advisory business
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Advised Nuance on:

- 2005 \$20m merger with **ScanSoft**
- 2006 \$357m acquisition of **Dictaphone**
- 2009 \$96m acquisition of **Philips Speech Recognition**
- 2011 acquisition of **Webmedx**
- 2012 \$300m acquisition of **Transcend**
- 2016 \$26.3m share repurchase of Nuance common stock from **Icahn Group**
- 2016 \$215m acquisition of **TOUCH Commerce**
- 2019 its spin off of **Cerence**
- 2022 \$19.7 sale to **Microsoft**

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