



OneSpan Reports Results for Second Quarter and First Six Months of 2020

August 11, 2020

Second Quarter Financial Results

- **Total revenue declined 2% to \$55.0 million**
- **Recurring revenue grew 35% to \$23.2 million¹**
- **Annual Recurring Revenue (ARR) grew 29% to \$90.0 million²**
- **Adjusted EBITDA of \$3.1 million³**
- **GAAP loss per share of \$(0.05)**
- **Non-GAAP earnings per share of \$0.02³**

CHICAGO--(BUSINESS WIRE)-- OneSpan Inc. (NASDAQ: OSPN), the global leader in securing remote banking transactions, today reported financial results for the second quarter and six months ended June 30, 2020.

"During the second quarter, OneSpan made substantial progress in its transition to a recurring revenue dominant software model," stated OneSpan CEO, Scott Clements. "Bookings and revenue from recurring software contracts showed strong double-digit growth as did our software sales opportunity pipeline. Recurring revenue accounted for 76% of total software and service revenue in the quarter with strength in both subscription and term license revenues, offset by declines in perpetual license revenue. With the resurgence of the pandemic and increasing economic uncertainty, we are seeing longer sales cycles for larger complex projects and lower than expected demand for hardware authentication products. Cloud-based offerings such as OneSpan Sign continue to see strong demand."

Second Quarter 2020 Financial Highlights⁴

- Revenue for the second quarter of 2020 was \$55.0 million, a decrease of 2% from \$56.2 million for the second quarter of 2019. Revenue for the first six months of 2020 was \$111.3 million, an increase of 8% from \$103.3 million for the first six months of 2019.
- Gross Profit for the second quarter of 2020 was \$36.7 million and \$77.0 million for the first six months of 2020. Gross profit for the second quarter of 2019 was \$38.3 million and \$69.3 million for the first six months of 2019. Gross margin for the second quarter of 2020 was 67% and for the first six months of 2020 was 69%. Gross margin for the second quarter of 2019 was 68% and for the first six months of 2019 was 67%.
- GAAP operating loss for the second quarter of 2020 was \$1.7 million, and for the first six months of 2020 was \$0.9 million. GAAP operating loss for the second quarter of 2019 was \$2.3 million, and for the first six months of 2019 was \$8.3 million.
- Adjusted EBITDA for the second quarter of 2020 was \$3.1 million, or 6% of revenue, and for the first six months of 2020 was \$8.3 million, or 7% of revenue. Adjusted EBITDA for the second quarter of 2019 was \$2.5 million, or 4% of revenue, and for the first six months of 2019 was \$(0.2) million or less than 1% of revenue.
- GAAP net loss for the second quarter of 2020 was \$2.0 million, or \$0.05 per share, and \$2.0 million, or \$0.05 per share for the first six months of 2020. GAAP net loss for the second quarter of 2019 was \$2.5 million, or \$0.06 per share. GAAP net loss for the first six months of 2019 was \$8.6 million, or \$0.21 per share.
- Non-GAAP net income for the second quarter of 2020 was \$0.8 million or \$0.02 per diluted share, and for the first six months of 2020 was \$4.0 million, or \$0.10 per diluted share. Non-GAAP net income (loss) for the second quarter of 2019 was \$0.5 million or \$0.01 per diluted share, and for the first six months of 2019 was \$(2.8) million or \$(0.07) per diluted share.
- Cash, cash equivalents and short-term investments at June 30, 2020 totaled \$110.8 million compared to \$105.3 million and \$109.8 million at March 31, 2020 and December 31, 2019, respectively.

1. Recurring revenue is comprised of subscription, term-based software licenses, and maintenance revenue.
2. ARR is calculated as the annualized value of our customer recurring contracts with a term of at least one-year, as of the measuring date. These include subscription, term-based license, and maintenance contracts and exclude one-time fees. To the extent that we are negotiating a renewal with a customer after the expiration of a recurring contract, we continue to include that revenue in ARR if we are actively in discussion with the customer for a new recurring contract or renewal, or until such customer notifies us that it is not renewing its recurring contract.
3. An explanation of the use of non-GAAP measures is included below under the heading "Non-GAAP Financial Measures." A reconciliation of GAAP to non-GAAP financial measures has also been provided in tables below.
4. 2019 results have been revised to correct for certain immaterial errors. For additional information, see the "Revision of Prior Period Financial Statements" section of this press release.

Full Year 2020 Outlook

Given the increased uncertainty about the impact of the pandemic on the global economy and our customers, the Company believes it prudent to withdraw its previously issued full-year guidance. Management will provide additional commentary during its second quarter earnings conference call.

Conference Call Details

In conjunction with this announcement, OneSpan Inc. will host a conference call today, August 11, 2020, at 4:30 p.m. ET. During the conference call, Mr. Scott Clements, CEO, and Mr. Mark Hoyt, CFO, will discuss OneSpan's results for the second quarter 2020.

To access the conference call, dial 866-270-1533 for the U.S. or Canada and 1-412-317-0797 for international callers. The conference ID number is 10145960.

The conference call is also available in listen-only mode at investors.onespan.com. The recorded version of the conference call will be available on the OneSpan website as soon as possible following the call and will be available for replay for approximately one year.

About OneSpan

OneSpan helps protect the world from digital fraud by establishing trust in people's identities, the devices they use and the transactions they carry out. We do this by making digital banking accessible, secure, easy and valuable. OneSpan's Trusted Identity platform and security solutions significantly reduce digital transaction fraud and enable regulatory compliance for more than 10,000 customers, including over half of the top 100 global banks. Whether through automating agreements, detecting fraud or securing financial transactions, OneSpan helps reduce costs and accelerate customer acquisition while improving the user experience. Learn more at [OneSpan.com](https://onespan.com).

Forward Looking Statements

This press release contains forward-looking statements within the meaning of applicable U.S. Securities laws, including statements regarding the potential benefits, performance, and functionality of our products and solutions, including future offerings; our expectations, beliefs, plans, operations and strategies relating to our business and the future of our business; our acquisitions to date and our strategy related to future acquisitions; and our expectations regarding our financial performance in the future. Forward-looking statements may be identified by words such as "seek", "believe", "plan", "estimate", "anticipate", "expect", "intend", and statements that an event or result "may", "will", "should", "could", or "might" occur or be achieved and any other similar expressions. The Company's auditors have not audited, reviewed, compiled, or applied agreed-upon procedures with respect to the preliminary estimated financial data set forth herein. Important factors that may cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, the completion of the review of the accounting matters identified related to prior periods, including the potential impact on internal control over financial reporting, a material delay in the Company's financial reporting, including the possibility that the Company will not be able to file its Form 10-Q by the date due or within the five-day extension permitted by the rules of the U.S. Securities and Exchange Commission, and the possibility that the ongoing review may identify errors or control deficiencies in the Company's accounting practices, as well as those factors set forth in our Form 10-K (and other forms) filed with the Securities and Exchange Commission. The forward-looking statements include, but are not limited to, our financial outlook for 2020, and the information included under the caption "Outlook for Full Year 2020". These forward-looking statements involve risks and uncertainties, as well as assumptions which, if they do not fully materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Factors that could materially affect our business and financial results include, but are not limited to: market acceptance of our products and solutions and competitors' offerings; the potential effects of technological changes; our ability to effectively identify, purchase and integrate acquisitions; the execution of our transformative strategy on a global scale; the increasing frequency and sophistication of hacking attacks; claims that we have infringed the intellectual property rights of others; changes in customer requirements; price competitive bidding; changing laws, government regulations or policies; pressures on price levels; investments in new products or businesses that may not achieve expected returns; impairment of goodwill or amortizable intangible assets causing a significant charge to earnings; exposure to increased economic and operational uncertainties from operating a global business as well as those factors set forth in our Form 10-K (and other forms) filed with the Securities and Exchange Commission. In particular, we direct you to the risk factors contained under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Form 10-K. Our SEC filings and other important information can be found on the Investor Relations section of our website at investors.onespan.com. We do not have any intent, and disclaim any obligation, to update the forward-looking information to reflect events that occur, circumstances that exist, or changes in our expectations after the date of this press release.

OneSpan Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months ended June 30,		Six Months ended June 30,	
	2020	2019 (1)	2020	2019 (1)
Revenue				
Product and license	\$ 35,384	\$ 40,117	\$ 73,644	\$ 71,460
Services and other	19,570	16,050	37,680	31,802
Total revenue	<u>54,954</u>	<u>56,167</u>	<u>111,324</u>	<u>103,262</u>
Cost of goods sold				
Product and license	12,576	13,451	23,314	24,767
Services and other	5,649	4,429	10,981	9,152
Total cost of goods sold	<u>18,225</u>	<u>17,880</u>	<u>34,295</u>	<u>33,919</u>
Gross profit	36,729	38,287	77,029	69,343
Operating costs				
Sales and marketing	14,694	16,040	29,553	30,423
Research and development	10,541	11,977	20,535	22,472
General and administrative	10,846	10,180	23,114	20,050
Amortization of intangible assets	2,335	2,368	4,689	4,716
Total operating costs	<u>38,416</u>	<u>40,565</u>	<u>77,891</u>	<u>77,661</u>
Operating loss	(1,687)	(2,278)	(862)	(8,318)
Interest income, net	126	69	333	204
Other income (expense), net	509	451	171	(100)
Loss before income taxes	(1,052)	(1,758)	(358)	(8,214)
Provision (benefit) for income taxes	973	753	1,663	353
Net loss	<u>\$ (2,025)</u>	<u>\$ (2,511)</u>	<u>\$ (2,021)</u>	<u>\$ (8,567)</u>
Net loss per share				
Basic	<u>\$ (0.05)</u>	<u>\$ (0.06)</u>	<u>\$ (0.05)</u>	<u>\$ (0.21)</u>
Diluted	<u>\$ (0.05)</u>	<u>\$ (0.06)</u>	<u>\$ (0.05)</u>	<u>\$ (0.21)</u>
Weighted average common shares outstanding				
Basic	<u>40,028</u>	<u>40,038</u>	<u>40,059</u>	<u>40,037</u>
Diluted	<u>40,028</u>	<u>40,038</u>	<u>40,059</u>	<u>40,037</u>

(1) 2019 results have been revised to correct for certain immaterial misstatements. For additional information, see the "Revision of Prior Period Financial Statements" section of this press release.

OneSpan Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, unaudited)

	June 30, 2020	December 31, 2019 (1)
ASSETS		
Current assets		
Cash and equivalents	\$ 83,984	\$ 84,282
Short term investments	26,796	25,511
Accounts receivable, net of allowances of \$3,723 in 2020 and \$2,524 in 2019	54,347	62,405
Inventories, net	16,443	19,819
Prepaid expenses	6,004	6,198
Contract assets	6,848	5,240
Other current assets	7,261	6,346
Total current assets	<u>201,683</u>	<u>209,801</u>
Property and equipment, net	12,159	11,454
Operating lease right-of-use assets	10,789	10,580
Goodwill	91,646	94,612
Intangible assets, net of accumulated amortization	30,652	36,209

Deferred income taxes	8,039	7,863
Contract assets - non-current	3,774	3,355
Other assets	9,719	8,668
Total assets	\$ 368,461	\$ 382,542
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 5,778	\$ 10,835
Deferred revenue	37,728	30,338
Accrued wages and payroll taxes	13,766	15,415
Short-term income taxes payable	2,571	7,410
Other accrued expenses	9,608	8,786
Deferred compensation	1,041	1,028
Total current liabilities	70,492	73,812
Long-term deferred revenue	10,723	15,259
Long-term lease liability	11,749	11,299
Other long-term liabilities	8,021	8,297
Long-term income taxes payable	5,905	6,958
Deferred income taxes	4,364	4,623
Total liabilities	111,254	120,248
Stockholders' equity		
Preferred stock: 500 shares authorized, none issued and outstanding at December 31, 2020 and 2019	—	—
Common stock: \$.001 par value per share, 75,000 shares authorized; 40,329 and 40,207 issued and outstanding at June 30, 2020 and December 31, 2019, respectively	40	40
Additional paid-in capital	97,140	96,109
Accumulated income	177,166	179,440
Accumulated other comprehensive loss	(17,139)	(13,295)
Total stockholders' equity	257,207	262,294
Total liabilities and stockholders' equity	\$ 368,461	\$ 382,542

(1) 2019 results have been revised to correct for certain immaterial misstatements. For additional information, see the "Revision of Prior Period Financial Statements" section of this press release.

OneSpan Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, unaudited)

	Six months ended June 30,	
	2020	2019 (1)
Cash flows from operating activities:		
Net loss	\$ (2,021)	\$ (8,567)
Adjustments to reconcile net income (loss) from operations to net cash provided by (used in) operations:		
Depreciation and amortization of intangible assets	6,097	5,734
Loss on disposal of assets	53	—
Deferred tax benefit	(319)	(349)
Stock-based compensation	2,210	1,229
Changes in operating assets and liabilities:		
Accounts receivable, net	7,528	(8,788)
Inventories, net	3,376	(5,792)
Contract assets	(2,026)	4,703
Accounts payable	(5,025)	4,448
Income taxes payable	(5,870)	(6,139)
Accrued expenses	(791)	(4,269)
Deferred compensation	13	(332)
Deferred revenue	2,990	(1,758)
Other assets and liabilities	(1,834)	(2,913)
Net cash provided by (used in) operating activities	4,381	(22,793)
Cash flows from investing activities:		
Purchase of short term investments	(14,645)	(12,829)
Maturities of short term investments	13,340	9,500
Additions to property and equipment	(2,167)	(989)
Other	(48)	—
Net cash used in investing activities	(3,520)	(4,318)
Cash flows from financing activities:		
Tax payments for restricted stock issuances	(1,179)	(266)
Net cash used in financing activities	(1,179)	(266)

Effect of exchange rate changes on cash		20	(205)
Net decrease in cash		(298)	(27,582)
Cash, cash equivalents, and restricted cash, beginning of period		85,129	77,555
Cash, cash equivalents, and restricted cash, end of period (1.)		<u>\$ 84,831</u>	<u>\$ 49,973</u>

(1) 2019 results have been revised to correct for certain immaterial misstatements. For additional information, see the "Revision of Prior Period Financial Statements" section of this press release.

Revenue by major products and services (in thousands, unaudited):

	Three months ended June 30,		Six months ended June 30,	
	2020	2019 (2)	2020	2019 (2)
Hardware products	\$ 24,188	\$ 29,039	\$ 43,926	\$ 53,329
Software licenses (1)	11,196	11,078	29,718	18,131
Subscription	6,133	5,347	11,840	10,607
Professional services	1,326	848	2,747	1,657
Maintenance, support and other	12,111	9,855	23,093	19,538
Total Revenue	<u>\$ 54,954</u>	<u>\$ 56,167</u>	<u>\$ 111,324</u>	<u>\$ 103,262</u>

(1) Software licenses revenue is earned under both term-based and perpetual license agreements.

Recurring Revenue (in thousands, unaudited):

	Three months ended June 30,		Six months ended June 30,	
	2020	2019 (2)	2020	2019 (2)
Subscription	\$ 6,133	\$ 5,347	\$ 11,840	\$ 10,607
Term-based software licenses	4,990	2,044	14,194	2,607
Maintenance, support and other	12,111	9,855	23,093	19,538
Total Recurring Revenue	<u>\$ 23,234</u>	<u>\$ 17,246</u>	<u>\$ 49,127</u>	<u>\$ 32,752</u>

(2) 2019 results have been revised to correct for certain immaterial misstatements. For additional information, see the "Revision of Prior Period Financial Statements" section of this press release.

Non-GAAP Financial Measures

We report financial results in accordance with GAAP. We also evaluate our performance using certain non-GAAP operating metrics, namely Adjusted EBITDA, non-GAAP Net Income and non-GAAP diluted EPS. Our management believes that these measures provide useful supplemental information regarding the performance of our business and facilitates comparisons to our historical operating results. We believe these non-GAAP operating metrics provide additional tools for investors to use to compare our business with other companies in the industry.

These non-GAAP measures are not measures of performance under GAAP and should not be considered in isolation, as alternatives or substitutes for the most directly comparable financial measures calculated in accordance with GAAP. While we believe that these non-GAAP measures are useful within the context described below, they are in fact incomplete and are not a measure that should be used to evaluate our full performance or our prospects. Such an evaluation needs to consider all of the complexities associated with our business including, but not limited to, how past actions are affecting current results and how they may affect future results, how we have chosen to finance the business, and how taxes affect the final amounts that are or will be available to shareholders as a return on their investment. Reconciliations of the non-GAAP measures to the most directly comparable GAAP financial measures are found below.

Adjusted EBITDA

We define Adjusted EBITDA as net income before interest, taxes, depreciation, amortization, long-term incentive compensation, and certain other non-recurring items, including acquisition related costs, lease exit costs, rebranding costs, and accruals for legal contingencies. We use Adjusted EBITDA as a simplified measure of performance for use in communicating our performance to investors and analysts and for comparisons to other companies within our industry. As a performance measure, we believe that Adjusted EBITDA presents a view of our operating results that is most closely related to serving our customers. By excluding interest, taxes, depreciation, amortization, long-term incentive compensation, and certain other non-recurring items, we are able to evaluate performance without considering decisions that, in most cases, are not directly related to meeting our customers' requirements and were either made in prior periods (e.g., depreciation, amortization, long-term incentive compensation, lease exit costs, reversal of a prior period legal contingency accrual), or deal with the structure or financing of the business (e.g., interest, interest, acquisition related costs, rebranding costs) or reflect the application of regulations that are outside of the control of our management team (e.g., taxes). Similarly, we find the comparison of our results to those of our competitors is facilitated when we do not consider the impact of these items.

Reconciliation of Net Income to Adjusted EBITDA (in thousands, unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2020	2019 (1)	2020	2019 (1)
Net loss	\$ (2,025)	\$ (2,511)	\$ (2,021)	\$ (8,567)
Interest income, net	(126)	(69)	(333)	(204)
Provision for income taxes	973	753	1,663	353

Depreciation and amortization of intangible assets	3,078	2,872	6,097	5,734
Long-term incentive compensation	1,165	1,432	2,880	2,487
Adjusted EBITDA	\$ 3,065	\$ 2,477	\$ 8,286	\$ (197)

(1) 2019 results have been revised to correct for certain immaterial misstatements. For additional information, see the "Revision of Prior Period Financial Statements" section of this press release.

Non-GAAP Net Income & Non-GAAP Diluted EPS

We define non-GAAP net income and non-GAAP diluted EPS, as net income or EPS before the consideration of long-term incentive compensation expenses, the amortization of intangible assets, and certain other non-recurring items. We use these measures to assess the impact of our performance excluding items that can significantly impact the comparison of our results between periods and the comparison to competitors.

Long-term incentive compensation for management and others is directly tied to performance and this measure allows management to see the relationship of the cost of incentives to the performance of the business operations directly if such incentives are based on that period's performance. To the extent that such incentives are based on performance over a period of several years, there may be periods which have significant adjustments to the accruals in the period but which relate to a longer period of time, and which can make it difficult to assess the results of the business operations in the current period. In addition, the Company's long-term incentives generally reflect the use of restricted stock grants or cash awards while other companies may use different forms of incentives the cost of which is determined on a different basis, which makes a comparison difficult. We exclude amortization of intangible assets as we believe the amount of such expense in any given period may not be correlated directly to the performance of the business operations and that such expenses can vary significantly between periods as a result of new acquisitions, the full amortization of previously acquired intangible assets or the write down of such assets due to an impairment event. However, intangible assets contribute to current and future revenue and related amortization expense will recur in future periods until expired or written down.

We exclude certain other non-recurring items including impacts of tax reform, acquisition related costs, rebranding costs, lease exit costs, and reserves for certain legal contingencies as these items are unrelated to the operations of our core business. By excluding these items, we are better able to compare the operating results of our underlying core business from one reporting period to the next.

We make a tax adjustment based on the above adjustments resulting in an effective tax rate on a non-GAAP basis, which may differ from the GAAP tax rate. We believe the effective tax rates we use in the adjustment are reasonable estimates of the overall tax rates for the Company under its global operating structure.

Reconciliation of Net Income to Non-GAAP Net Income (in thousands, unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2020	2019 (1)	2020	2019 (1)
Net loss	\$ (2,025)	\$ (2,511)	\$ (2,021)	\$ (8,567)
Long-term incentive compensation	1,165	1,432	2,880	2,487
Amortization of intangible assets	2,335	2,368	4,689	4,716
Tax impact of adjustments (2)	(700)	(760)	(1,514)	(1,441)
Non-GAAP net income (loss)	\$ 775	\$ 529	\$ 4,034	\$ (2,805)
Non-GAAP net income (loss) per share	\$ 0.02	\$ 0.01	\$ 0.10	\$ (0.07)
Weighted average number of shares used to compute Non-GAAP diluted earnings per share	40,204	40,062	40,264	40,037

(1) 2019 results have been revised to correct for certain immaterial misstatements. For additional information, see the "Revision of Prior Period Financial Statements" section of this press release.

(2) The tax impact of adjustments is calculated as 20% of the adjustments in all periods.

Revision of Prior Period Financial Statements

As previously announced, the Company identified immaterial errors related to certain contracts with customers involving term software licenses in prior period results previously reported. The net contract assets that originated from a portion of these contracts in prior periods were not properly accounted for in subsequent periods, which caused overstatements of revenue. The cumulative overstatements of revenue totaled \$2.2 million from the first quarter in the year ended December 31, 2018 to the quarter ended March 31, 2020, representing less than 0.5% of total revenue in that time frame.

The Company believes these errors to be immaterial. To correct these immaterial errors related to prior periods, the Company adjusted the prior period revenue and related amounts in this earnings press release and expects to adjust the prior period revenue and related amounts in future filings with the SEC.

The following table presents the effects of the aforementioned revisions to our total revenue in prior periods.

	Three Months Ended								
	March 31,	December 31,	September 31,	June 30,	March 31,	December 31,	September 31,	June 30,	March 31,
	2020	2019	2019	2019	2019	2018	2018	2018	2018
As Previously Reported	\$ 56,492	\$ 71,003	\$ 79,725	\$ 56,234	\$ 47,608	\$ 64,799	\$ 52,495	\$ 49,554	\$ 45,432
Adjustments	(122)	(472)	(34)	(67)	(512)	(483)	(326)	(48)	(87)
As Revised	\$ 56,370	\$ 70,531	\$ 79,691	\$ 56,167	\$ 47,096	\$ 64,316	\$ 52,169	\$ 49,506	\$ 45,345

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