

OneSpan Inc(Q3 2025 Earnings)

October 30, 2025

Corporate Speakers:

- Joe Maxa; OneSpan Inc; Vice President of Investor Relations
- Victor Limongelli; OneSpan Inc; Chief Executive Officer
- Jorge Martell; OneSpan Inc; Chief Financial Officer

Participants:

- Anja Soderstrom; Sidoti; Analyst
- Catharine Trebnick; Rosenblatt Securities; Analyst
- Erik Suppiger; B. Riley Securities; Analyst
- Gray Powell; BTIG; Analyst
- Rudy Kessinger; D.A. Davidson; Analyst

PRESENTATION

Operator^ Good day. And thank you for standing by. Welcome to the OneSpan Third Quarter 2025 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, Joe Maxa, Vice President of Investor Relations. Please go ahead.

Joe Maxa^ Thank you, Operator. Hello, everyone. And thank you for joining the OneSpan Third Quarter 2025 Earnings Conference Call. This call is being webcast and can be accessed on the Investor Relations section of OneSpan's website at investors.onespan.com.

Joining me on the call today is Victor Limongelli, our Chief Executive Officer and Jorge Martell our Chief Financial Officer. This afternoon, after market close, OneSpan issued a press release announcing results for our third quarter 2025.

To access a copy of the press release and other investor information, please visit our website. Following our prepared comments today, we will open the call for questions.

Please note that statements made during this conference call that relate to future plans, events or performance including the outlook for full year 2025 and other long-term financial targets are forward-looking statements.

These statements involve risks and uncertainties and are based on current assumptions. Consequently, actual results could differ materially from the expectations expressed in these forward-looking statements.

I direct your attention to today's press release and the company's filings with the U.S. Securities and Exchange Commission for a discussion of such risks and uncertainties.

Also note, that certain financial measures that may be discussed on this call are expressed on a non-GAAP basis and have been adjusted from a related GAAP financial measure.

We have provided an explanation and reconciliations of these nonfinancial measures to the most directly comparable GAAP financial measures in the earnings press release and in the investor presentation available on our website.

In addition, please note that all growth rates discussed on this call refer to a year-over-year basis unless otherwise indicated. The date of this conference call is October 30, 2025. Any forward-looking statements and related assumptions are made as of this date.

Except as required by law, we undertake no obligation to update these statements as a result of new information or future events or for any other reason. I will now turn call over to Victor.

Victor Limongelli^ Thank you, Joe. Hello, everyone. And thank you for joining us today. Before turning to our results, I'd like to recap our progress in the transformation of OneSpan. 2024 was about fixing the cost structure of the business ensuring that we could operate both business units in a profitable manner. The OneSpan team did a great job working through those challenges, and we entered this year in a much improved operating position.

In fact, that improved operating position will enable us to return about \$25 million to shareholders between dividends and buybacks by the end of this year. And in addition, we also completed an acquisition and made a strategic investment, all funded by cash generated by the business.

In 2025, as we have discussed previously has been about putting the pieces in place while continuing to operate with strong profitability to enable growth, it has been a remarkable year in that respect.

Indeed, today, we announced that our software business now over 80% of the overall business delivered double-digit subscription revenue growth and ARR growth. Turning to the specific components that we've been putting in place to drive growth.

First, right before the year started, we hired a new CTO Ashish Jain to lead our R&D efforts and improve our internal development efforts. Second, in June, we acquired Nok Nok bringing the best FIDO2 software product called S3, to our portfolio.

I'm happy to report that in the first four months since the acquisition we've already closed two new logos for S3, both in the low 6-figure range, and we have built additional pipeline for Q4.

We believe that there is a large opportunity in the coming years for S3 as FIDO2 becomes more widely adopted. Initially, we see the U.S. and Japan as the leading markets for FIDO2.

But over the coming years, we expect passkeys to become the standard around the world. Third, in October, we announced a strategic investment in and partnership with ThreatFabric to further enhance our value proposition to customers by offering mobile threat intelligence and fraud list insights.

We are in the midst of sales enablement so that our team can effectively sell the ThreatFabric products and are optimistic that those products will add to growth in 2026.

Finally, you should not, in any way, consider OneSpan to be finished in our efforts to improve the value that we provide to customers and hence our growth prospects as a business. We are working on additional initiatives.

While there might not be announcements each and every quarter, we will never be done improving our value proposition to customers, whether through internal development, through acquisitions or through strategic partnerships. And we expect these efforts to drive growth, particularly in our software business, as we continue to work towards achieving a Rule of 40 performance loan.

Turning to our results. I'm pleased with the team's efficiency which drove another strong quarter of profitability and cash generation including \$17.5 million of adjusted EBITDA or 31% of revenue and \$11 million in cash from operations.

I'm especially proud that over the first nine months of the year, we generated record adjusted EBITDA of \$58 million, representing \$32 million revenue and \$47 million in cash from operations. We ended the quarter with annual recurring revenue of \$180 million, up 10% year-over-year.

In regards to revenue, we have seen strong bookings in certain regions including our security business in North America, our Latin America business the southern portion of our EMEA region.

I'm also heartened by the progress in APAC, and our DA business grew subscription revenue by double digits. And as I mentioned a few minutes ago, we're encouraged by the progress we've seen with our new S3 product acquired as part of the Nok Nok deal.

With respect to hardware, as we have discussed many times, there has been a long-term secular shift away from consumer banking tokens. To the point in the first nine months of the year, hardware was less than 20% of our overall business. That trend is part of what drives us to broaden and strengthen our product offerings.

In the quarter, toll revenue grew 1% to \$57 million, driven by double-digit organic subscription revenue growth. This growth was primarily offset by a reduction in security and hardware revenue due to the shift described earlier, in consumer banking strategies in EMEA and APAC, where banks continue adopting mobile-first authentication approaches.

Subscription revenue grew 12%, led by 13% growth in security, and 11% growth in digital agreements. The increase in security subscription revenue was driven by both cloud and on-prem authentication software along with mobile app shielding software. Both business units remained solidly profitable at the segment level with digital agreements delivering record high segment operating income.

Security absorbed a modest cost impact from the Nok Nok business in Q3, although we expect it to be accretive to securities operating income in Q4.

As I mentioned earlier, we continue to generate significant cash from operations, \$47 million in the first nine months of the year, and we ended the third quarter with \$86 million in cash on hand.

In Q3, we used \$6 million to repurchase shares of our common stock. And combined with our quarterly dividend payments, we returned more than \$20 million to shareholders in the first nine months of 2025.

We also used cash to make the strategic acquisition of Nok Nok and after the third quarter ended, to obtain a 15% equity stake in ThreatFabric.

Our investment in ThreatFabric as well as our acquisition of Nok Nok in Q2 and our internal development efforts are designed to enhance our product portfolio and move faster to deliver great products that provide additional value to our customers.

To that end, we will continue investing in internal R&D and pursuing targeted technology-driven investments with proven market day to enhance our product portfolio.

Our Board remains committed to a balanced capital allocation strategy, weighing shareholder returns, organic investments and targeted M&A. Accordingly, the Board will consider additional share repurchases and has approved another \$0.12 per share dividend to be paid in the current quarter.

In summary, we're in solid progress in building the foundation for growth in our journey towards achieving Rule of 40 performance.

At the same time we remain committed to driving efficient revenue growth while maintaining strong profitability and cash generation and returning capital to shareholders. With that, I'll turn the call over to Jorge.

Jorge Martell^ Thank you, Victor. And good afternoon, everyone. I am pleased that we reported another strong quarter of adjusted EBITDA and cash generation and that we are making good progress in building our long-term growth foundation.

Before I review our third quarter results, I want to remind you that our acquisition of Nok Nok Labs which closed in June 2025, modestly contributed to our Q3 operating results this year, but did not contribute to the same period in 2024.

ARR increased 10% to \$180 million, and NRR, our net retention rate increased sequentially to 103%. Third quarter revenue was \$57.1 million, an increase of 1% compared to last year's Q3.

Subscription revenue grew 12% and including 10% organically and was largely offset by the secular decline in our hardware token business, which is directly related to banks continuing with a mobile-first authentication approach and, to a lesser extent, maintenance and professional services revenues. Third quarter gross margin was 74%, consistent with last year's Q3.

GAAP operating income was \$8.2 million compared to \$11.3 million in Q3 of last year. The change in operating income primarily reflects an increase in operating expenses including share-based compensation and other nonrecurring items, along with the expected dilution related to our acquisition of Nok Nok.

As a reminder, we expect the acquisition of Nok Nok be accretive to earnings in Q4 2025. GAAP net income per share was \$0.17 as compared to \$0.21 in the same period last year.

Earlier this year, we made changes to our non-GAAP net income and non-GAAP net income per share reporting framework to better reflect our profitability trajectory and to ensure consistency across interim periods in 2025 and in future years.

Please refer to our 2025 quarterly earnings releases and investor presentations for additional details. Non-GAAP earnings per share was \$0.33 in both the third quarter of 2025 and 2024. This metric excludes long-term incentive compensation and related payroll taxes, amortization, restructuring charges and other nonrecurring items and the impact of tax adjustments.

Adjusted EBITDA and adjusted EBITDA margin was \$17.5 million and 30.7% compared to \$17 million and 30.2% in the same period of last year. Turning to our cybersecurity business. ARR increased 11% to \$115.5 million. Revenue decreased 1% to \$40.3 million.

Subscription revenue grew 13% driven by cloud and on-prem authentication software including a modest contribution from Nok Nok and app shielding software. This growth was offset by the expected decline in hardware revenue and, to a lesser extent, maintenance and professional services revenues.

Subscription revenue primarily benefited from expansion of licenses and to a lesser extent, new logos. The acquisition of Nok Nok and conversion of customer contracts to multiyear terms. Gross margin was 74.4%, and similar to last year's third quarter gross margin of 74.7%. The change in gross margin was primarily driven by product mix.

Operating income was \$16.7 million or 41% of revenue compared to \$20.2 million or 49% of revenue in the prior year quarter.

The year-over-year change primarily reflects increased operating expenses related to the Nok Nok acquisition, higher share-based compensation and other nonrecurring expenses, such as advisory related expenses.

Turning to digital agreements. ARR grew 8% to \$65 million. Revenue grew 9% to \$16.7 million. New SaaS contracts, expansion of renewal contracts and an increase in onetime revenue was partially offset by reduced maintenance revenue from the sunsetting of our on-prem e-signature product.

Subscription revenue grew 11% year-over-year to \$16.7 million. Maintenance and support revenue was negligible compared to \$0.3 million in Q3 of last year. The year-over-year decline is attributed to the sunsetting of our on-premise e-signature solution.

As mentioned previously we have substantially completed the transition to a SaaS business model in our digital agreements business. Gross margin was 72% and consistent with last year's third quarter.

Segment operating income was \$4.2 million or 25% of revenue compared to \$3.4 million or 22% of revenue in Q3 of last year. The year-over-year increase in operating income was driven by increased revenue.

Now turning to our balance sheet. We ended the quarter with \$85.6 million cash and cash equivalents compared to \$92.9 million at the end of Q2 and \$83.2 million at the end of 2024.

We generated \$11 million in operating cash flow during the quarter. Uses of cash in the quarter included \$6.3 million to repurchase approximately 450,000 shares of common stock, \$4.7 million to pay our quarterly cash dividend and \$1.9 million deferred consideration payment related to our acquisition of Nok Nok among other items.

We have no long-term debt as of the end of Q3 2025. Geographically, our revenue mix was 46% from the Americas, 38% from EMEA and 17% from APAC. This compares to 39%, 40% and 21%, respectively, in the third quarter of last year.

The year-over-year changes by region were primarily driven by growth in the e-signature business and mobile application security in North America. The acquisition of Nok Nok in June 2025, which has its largest presence in North America, growth in hardware revenue in Latin America and a decline in hardware revenues in both Europe and Asia Pacific, consistent with mobile first strength in those regions.

Moving to some modeling notes on our financial outlook. We are very pleased with our Q3 profitability and cash generation and the progress we've made in positioning the company for long-term growth.

As Victor mentioned, we are seeing strong bookings in most geographic regions but have also seen challenges in some regions largely due to the secular shift away from consumer banking hardware tokens.

We are working hard to improve our sales momentum in all regions and believe the steps we have taken this year, combined with our continuous focus on improving the value proposition we provide to customers better positions us for stronger growth in future years.

For the full year 2025, we are updating our revenue guidance to be in the range of \$239 million to \$241 million as compared to our previous guidance range of \$245 million to \$251 million.

We expect software and services revenue to be in the range of \$190 million to \$192 million, representing an increase of between 3% and 4% in 2025.

We also expect hardware revenue to be in the range of \$49 million to \$50 million, representing an approximately a 16% decline from 2024. As Victor mentioned previously OneSpan as a business is approximately 80% software and 20% hardware.

We are updating our ARR guidance to be in the range of \$183 million to \$187 million, up from \$180 million at the end of the third quarter as compared to our previous guidance range of \$186 million to \$192 million, and we are maintaining our adjusted EBITDA guidance in the range of \$72 million to \$76 million. That concludes my remarks. I will now turn the call over to Victor.

Victor Limongelli^ Thanks, Jorge. To recap, we are making progress in strengthening our foundation for long-term growth. while continuing to deliver strong profitability and cash generation and returning capital to shareholders.

We are working hard to deliver greater value to our customers and to create value for our shareholders. Jorge and I will now be happy to take your questions.

QUESTIONS AND ANSWERS

Operator^ At this time we'll conduct a question and answer session. (Operator Instructions) Our first question comes from the line of Anja Soderstrom with Sidoti.

Anja Soderstrom^ I'm just curious, what are you saying now compared to last quarter that led you to scale back on the revenue and ARR guidance, if you can just double to that a bit more.

Victor Limongelli^ There were some feedback. So can you repeat your question for me?

Anja Soderstrom^ Yes. Can you just sort of double-click on what you're seeing now compared to last quarter that led you to scale back on the revenue and ARR guidance for the year?

Jorge Martell^ Yes. I can start, and then Vic if you want to chime in as well. So there's a couple of things, Anja. First is we saw a little bit of a higher headwinds with respect to our hardware business, about a couple of million dollars.

I think the other large component was on the security business, specifically we saw lower activity with respect to net expansions and new logos, primarily net expansions as we have a large market share in our security business outside of North America.

So I think EMEA and APAC have some of that, primarily EMEA. Now I don't think -- I think it's an important thing to understand a couple of questions. One is, when we think about -- I'm getting some feedback.

One is when you think about where we are with our guide -- our updated guidance of, say 240 at the midpoint, that is modestly lower versus prior year you're about 1% lower, Anja. And I think we need to take a step back in terms of understanding the position of the company is today versus what it was, say, 12 months ago.

We've done a lot of good work, as Victor mentioned in his remarks with respect to building the foundation for growth, the Nok Nok acquisition that we did very, very good capabilities that we're adding to our product portfolio. ThreadFabric strategic investment that we are very excited about as well. So we're looking at enhanced.

We've been enhancing our product portfolio this year to deliver on that software. And it's really when you think about what we've done is primarily on the software areas, right? So we really enhanced our software product portfolio and capabilities to really position the company for future growth in the next few years.

And so more and more as the hardware sector, the client continues. So that's going to be less and less impactful to us. And we mentioned this software is about 80% of our business, hardware is 20% and potentially lower in the next few quarters.

And all of this with, obviously the strong cash flow generation and profitability and that we should expect to continue. And so I just want to take a step back and walk you through it because what we're doing is really transforming the product capabilities for the organization.

And so the decline in the guide, although due to partly the hardware and also a little less activity, we're really thinking about 2025 as a foundation here to build in blocks from our product capability. I don't know Vic if you have any additional thoughts.

Victor Limongelli^ Yes. Let me just add to what Jorge said. So obviously the specifics he gave are correct. But if I zoom out a little bit and just think about the business from when I joined almost two years in a few months, and two years ago, about a third of our revenue was hardware. And now it's about 20%.

We ended 2023 years ago with AR of \$155 million and the midpoint of our guidance for the last quarter would have us ending up at \$185 million, so \$155 million to \$185 million. And a couple of years ago, from a product standpoint, we had not introduced any new capabilities in quite some time.

In fact, you saw sunseting products so it was important for us to, first of all, build the foundation of profitability so that we could invest back in the business while returning capital to shareholders. And we've started to do that, not just with the acquisition and the strategic investment, but also internally with the hiring of a new CTO and internal investment.

And so that's what we're working on to transform the business. And keep in mind, that the Nok Nok acquisition happened in June, the ThreadFabric strategic investment was October.

So we'll get some positive impact from Nok Nok but we expect to in the future and ThreatFabric is largely a 2026 story. And we're continuing to work on other things as we continue to try to improve the value proposition that we're offering to our customers.

Anja Soderstrom^ Okay. And then in terms of the hardware, do you see that being shipped out to the right? Or is it just sort of a decline in demand overall?

Victor Limongelli^ Well if you talk to our customers, 10 to 12 years ago, customers in EMEA and in APAC, they might have had 100% of their consumers. -- using consumer banking tokens to log on to authenticate. I was in Europe last month, and we had a meeting with eight banks and we were surveying them.

What percentage are using hardware now it was about 20%. So most of their customers have moved over to mobile authentication. And we see that in our business. Look at our business 10 years ago took what it is on the hardware side, it's probably 20% of the size.

We don't think that number is going to zero, by the way. There are people who prefer hardware, and we don't -- maybe that goes down to 15% of their consumers or 12%. So we don't think it's going to zero.

But that's been a long-term trend. And it's important for us to manage around that, not only with our mobile authentication offerings that we entered 6 years ago, but also with newer protocols like FIDO that we acquired through the Nok Nok acquisition.

Anja Soderstrom^ And then in terms of the margin, how should we think about that? It seems like even though we'll have more hardware in the fourth quarter, this quarter

compared to last year's fourth quarter. The gross margin is going to be higher. I get it right here.

But how should we think about the gross margin altogether? And then also on the operating expenses. Do you see that now after you done all your tops, how should we think about growth in that in the coming years?

Jorge Martell^ Yes. I can answer that. Thanks for the question. So from a hardware perspective, I think it's probably going to be even with last year, Anja, the hardware revenue, we mentioned that during the last call in terms of the split and that we see what we have today.

And then from a gross margin perspective, is going to be, I would say, probably similar to last year's Q4, Anja. And so that will put the full year gross margin in around 73-ish percent slightly higher than last year's, which I think was (inaudible) and then from an operating expense perspective, one thing to keep in mind in the year-over-year is the Nok Nok acquisition. So for the quarter, it's around -- I'm just going to do a round number.

It's around \$2 million on a run rate basis that we'll be adding year-over-year. And then obviously we've done some also incremental investments in R&D and things like that. And I don't expect it sequentially to increase dramatically compared to what you saw in Q3. but there will be maybe a modest increase because of that.

Operator^ Our next question comes through the line of Catherine Trebnick with Rosenblatt Securities.

Catharine Trebnick^ Can you just in a snapshot, your product roadmap, where you feel that the deficiencies, these headwinds that you've been experiencing just really, what are the two or three products do you think in the next 12 to 24 months are going to make up for this gap we've been having.

Victor Limongelli^ Yes. Sure. Let me talk a little bit about that. I don't know that I would describe it as a deficiency. We have very good mobile authentication technology. But as you know multifactor authentication has been around for a long time.

Everyone is familiar with getting in the U.S., you get an SMS text message with it or you might get an e-mail and overseas onetime passcodes are widely used as well although not SMS.

So everyone is very familiar with multifactor authentication. So that protocol or approach has been widely adopted. And as Jorge mentioned, we have good market share there. And even our NRR in security in Q3, I think it was 101 or it will be about 101 for the year.

So it's very solid. But over time technology has changed, and we're seeing that with the adoption of passkeys. With FIDO2, we're going to see much broader adoption of passkeys as we move through the rest of the decade.

And we think it's important for us to broaden our offering so that we have not just the mobile authentication on top of the hardware authentication that existed many years ago and still exists for a portion of their customers but also enables passkeys at a very, very scalable level.

It also has very good latency and we've proven it out at scale with many different customers. So we think that's going to be a very interesting area for growth.

Catharine Trebnick^ That was very helpful. And then anything you can add on digital agreements and what you're seeing there? And how you expect growth there to pan out in the next 12 months?

Victor Limongelli^ Yes. We've been doing pretty well there. I think if you look at the growth, it's been in the mid- to upper single digits, and we expect it's October 30.

So you can't be too certain about how Q4 is going to go, but we feel pretty good about the Q4 pipeline. And we think we have an opportunity to not just expand with customers we already have, but also to land some new ones.

And that's an area where our internal development, I mentioned internal development, and that's an area where we'll be using AI in the product more in the coming 12 months. That's an area for us, a focus area for us in the coming months.

So we think that's going to be a strong product, continue to be a strong product. And obviously we're always trying to do better and have better results.

But I think we're making very good progress on the DA business. And the other piece, Catherine, on the DA business, Jorge mentioned this, is record operating income this quarter, I think, 25%.

So when you layer that on top of the growth there, the numbers start to -- that business starts to look more and more appealing.

Operator^ The next question comes from the line of Erik Suppiger with B. Riley Securities.

Erik Suppiger^ First off you're taking a lot of steps this year to start accelerating growth as you get into '26 and it's mostly on the software side, can we assume that your subscription revenue growth in '26 should accelerate over '25, if we anticipate double-digit growth in '25. Can it accelerate from there in '26?

Victor Limongelli^ Jorge, I don't know if you want to talk about the specifics, but that's absolutely, our aim is to continue to improve the software business.

I think software as a percentage of revenue, we're at 80% now and it probably gets to, I don't know 82% or 83% next year. Jorge, I don't know if you want to talk to any of the specifics on...

Jorge Martell^ Yes. So I think just the one thing that I would add is Erik, is the -- I think the subscription, yes. I think when you look at the different components of revenue for security, you have to take into account maintenance and some of that -- those dynamics in terms of the perpetual term -- so main will be a little bit choppy, right? But I think if you are focused on the subscription security as a (inaudible), et cetera.

Erik Suppiger^ Okay. Good. Good. I know you don't have much exposure to federal, but any comments on federal and if the shutdown is giving you any pause?

Jorge Martell^ I would say no. I think we're lucky in that sense, Erik, that we really haven't felt it. We have a little bit exposure in our digital agreements business but it has not been anything material at all luckily, knock on wood. And so I think from that standpoint, the shutdown has been a nonevent for us.

Erik Suppiger^ Okay. And then lastly, just a follow-up on Catherine's question. What is -- is there any change or any -- has there been any intensity of competition? Or has the market dynamics changed at all in terms of software solution -- software authentication for banks? Is there any change in that market?

Victor Limongelli^ No. I think if you actually look at our business, we've been doing quite well in North America. We started in North American security sales effort about 15 months ago, July of '24. But that's a small -- historically, a small portion of our business. So although the -- there's been good progress, it's from a small base. So we're doing well there.

We've mentioned on previous calls quite a few times, I think, that the economic environment in Europe was a little bit more challenging for us. And I think that that's historically been a very large part of our business. So I think that has impacted us to a certain extent, it hasn't been the strongest economy there.

Erik Suppiger^ Okay. But it's not -- there's no particular change from a competitive perspective?

Victor Limongelli^ No. No. If anything, I think we're becoming more competitive as we add new capabilities I've mentioned S3 a few times, but it has some large customers that were going to start rolling out. And I think it overall helps our competitive position compared to six months ago.

Erik Suppiger^ Then last question. In terms of the FIDO2 push, how -- what progress have you made with channel partners? Have you been -- what progress have you made with channel partners on that front?

Victor Limongelli^ Well I want to talk in general about the FIDO2 push in the S3 product. I mentioned we got our first two new logos, which is good within within four months of closing the deal. And we have others in line, some of which are from channel partners.

One of those two actually was from a channel partner, one of those two new logos I mentioned. And we think that, that is obviously going to be an important method for sales heading into 2026.

That product, I mean just to FIDO2 is an open protocol, right? So you can stand up your FIDO2 server if you want. But what you get from is S3 is extreme scalability, where you can scale it up to millions and millions and millions of users.

I alluded to this earlier, you get excellent performance with respect to latency. A great management console to make it easy to administer and also flexible deployment. This is something that we're well known for. You can deploy it in the cloud or on-prem and there are customers with both deployment modes.

So it's a very appealing offering, I think, in the financial services world because some banks, as everyone knows, some large banks still prefer on-prem. So we give them maximum flexibility.

Erik Suppiger^ Are those customers buying the tokens from you as well the FIDO2 tokens?

Victor Limongelli^ So the FIDO2 tokens, this is an interesting another area, right? So we started developing those internally. That was internal development. And we feel good about that business as we move forward. We have quite a bit of pipeline. We're expecting orders.

We've gotten some orders already. And we expect that to be a more meaningful revenue contribution in 2026 than it is today. So if you think about consumer banking tokens, if that continues to decline, the FIDO2 security keys could perhaps offset some of the secular consumer banking token decline.

Operator^ The next question comes to the line of Gray Powell with BTIG.

Gray Powell^ Okay. Great. look, I only have one question, but I'm going to break it down into 27 parts. Is that okay?

Victor Limongelli^ Sure, Gray. Go ahead.

Okay.

Gray Powell^ Now just -- okay. So just really just two questions on my side. And more or less hit on this. When a customer elects to not renew hardware tokens, I'm going to

assume it creates an opportunity to upsell your mobile security suite and then I just -- like, is that the case, like it is a direct shot? Or is there more of a jump ball situation where you have to fend off that customer from other competitors?

Victor Limongelli^ Well it could be a jump ball situation. But in a lot of these cases, I alluded to customers saying they have 20% of their consumers using hardware.

So in many cases, it's already happened. They were a dozen years ago at 100% of their consumers using hardware. And now they've moved over to mobile for the majority of their consumers, younger consumers, new accounts, and they might have been five years ago, 40% of their consumers using hardware.

And so that number has been declining over time. It does tend, by the way, to have heavier use cases in the corporate banking market where you might see 50% of consumers -- not consumers, but companies using hardware tokens, why is that the case?

Well corporate banking very often still happens in front of a large screen in front of a computer, not on a mobile phone. The more you're using a mobile phone, the more mobile authentication is likely to be used. So Gray, when you see a bank go from 40% consumer banking token, to 20%.

It's not really a jump ball situation. Yes. There's more opportunity for mobile, authentication licenses. But we're not getting as much revenue upfront from those as we are from the hardware tokens.

Gray Powell^ Understood. That's helpful. And I guess maybe the bigger question for me personally, just on the ARR side, can you talk about the visibility you have on late-stage deals and pipeline just like the overall confidence level you have in the Q4 ARR guide just because it does imply a decent uptick in the pace of net adds from what we've seen the last four or five quarters. And look, I know it's Q4, which is some seasonality. But any color there would be greatly appreciated.

Victor Limongelli^ Jorge, you can talk about the model. I'm happy to talk about the outlook. So go ahead, and I'll let you start.

Jorge Martell^ Well I think -- so from a model perspective, so we obviously take into account what is going to renew, Gray, what is the potential expansion based on opportunities that we see in pipeline and obviously talking to our sales leaders and all that.

So we have weekly call we have visibility to that. And that is part of how we build our ARR forecast, okay? What is the risk? Is there any slippage going in it, obviously as you know with term and something falls out of it for more than 90 days, we take it out of ARR.

And so it's an active -- it's an active discussion that comes in with the sales to understand what is the potential rate, what is the potential expansion. And this applies to both business units. These are agreements as well as security. And it's an active dialogue. And so it is sort of like a bottoms up if you where we try to -- we model a forecast, it is when it's Q1 or the same quarter, it is sort of a bottoms up, Greg, and it's all about execution, making sure that we can close those.

And not everything is going to be perfect like everything else. Sometimes it's art, it's not a science, but we try to -- so we do have I would say, within the quarter, some visibility, right?

There are some bluebirds that happen that we don't anticipate. Like we mentioned, the HDFC situation last quarter. And sometimes, we see some contraction. And that's because our sales leader or the client is not -- they don't know yet.

So those we have less visibility. But for the most part, I think within the quarter, we have a fair amount of visibility. So I'll turn it to you Vic to talk about the other component?

Victor Limongelli^ Yes. I mean we feel pretty good about it. I mean it's it's October 30. So we have pretty good visibility. You don't know for sure what's going to close.

I think our sales team, and if you could go back in time 12 months to now feels a lot better about our competitive position. I mean we've introduced the FIDO security keys.

We bought Nok Nok. We have the partnership with ThreatFabric. There's a lot of exciting stuff happening and a lot of good conversations happening. You can't book exciting conversations and people feeling good about things, but it's definitely an optimistic vibe.

Operator^ The last question comes from the line of Rudy Kessinger with D.A. Davidson.

Rudy Kessinger^ Kind of just a follow-up to some questions that have been asked. Just with respect to the cut for this year, specifically on revenue and ARR, is that more so related to gross churn? Is it more so related to lower than previously expected new logo or lower than expected -- lower than previously expected cross-sell and upsell.

Victor Limongelli^ Jorge can give you the details. Go ahead, Jorge.

Jorge Martell^ Yes. Thank you. Thank you, Victor. So it is primarily related to lower activity in net expansions.

We did have, I would say, this quarter in Q3 that impacted one contraction. But I think overall, taking a step backward Rudy, it is primarily the lower activity for expansions. New logos was to a lesser extent, but it's primarily more the net expansions.

Victor Limongelli^ Well and also hardware, right, to a certain extent versus we have \$2 million of hardware lower than -- on the revenue side, yes.

Rudy Kessinger^ Yes. Okay. And I guess, as we think about maybe '26, I mean do you feel like -- give us maybe kind of a timeline maybe for when you think you might start to see some more traction in some of these newer products and maybe you might be able to reignite growth here?

Victor Limongelli^ Yes. So let me talk a little bit about I think we're going to see traction in '26 with S3. I think we've already seen traffic with a couple of deals closing and more pipeline in Q4.

But keep in mind that if that business grows 30% or 40% next year. That will be a vast acceleration over what they were doing prior to the acquisition. But that will have a \$3 million or \$4 million impact on our business in terms of bookings.

So the scale of it will take a little bit of a while to build, even if we can accelerate growth to a much faster growth rate than the business was before or than we have been as a business over the past number of years.

ThreatFabric is our partnership and an investment. And that's going to -- it's a little bit harder to tell because it's only been three weeks but we think that will contribute not as meaningfully as Nok Nok. But for our business, like every bit of improvement helps.

If we pick up \$3 million or \$4 million of ARR somewhere, I think that is a real positive for us overall. And of course, we're not -- we alluded to this on the prepared remarks, we're not just doing one thing.

We're working on lots of different things, trying to get lots of -- we can score a bunch of runs by hitting a bunch of singles. It doesn't all have to be a home run.

Operator^ This does conclude the question and answer session. And I'd now like to turn it back to Joe Maxa for closing remarks.

Joe Maxa^ Thank you, everyone. I'm glad you could join us today. We look forward to sharing our results with you again next quarter. Have a great night.

Operator^ Thank you for your participation in today's conference. This does conclude the program. And you may now disconnect.