



**OneSpan Inc.**

**First Quarter 2022 Earnings Conference Call**

**May 3, 2022**

## CORPORATE PARTICIPANTS

**Joe Maxa**, *Vice President, Investor Relations*

**Matt Moynahan**, *Chief Executive Officer*

**Jan Kees van Gaalen**, *Interim Chief Financial Officer and Treasurer*

## CONFERENCE CALL PARTICIPANTS

**Analyst**, *BTIG*

**Nick Mattiacci for Chad Bennett**, *Craig-Hallum*

**Neal for Rudy Kessinger**, *D.A. Davidson*

## PRESENTATION

### Operator

Hello, and welcome to today's OneSpan First Quarter 2022 Earnings Conference Call. My name is Bailey, and I'll be your moderator for today's call.

I would now like to pass the conference over to Joe Maxa, Vice President of Investor Relations. Please go ahead.

### Joe Maxa

Thank you, Operator. Hello everyone, and thank you for joining the OneSpan First Quarter 2022 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](http://investors.onespan.com).

Joining me on the call today is Matt Moynahan, OneSpan's Chief Executive Officer; and Jan Kees van Gaalen, our Interim Chief Financial Officer.

This afternoon, after market close, OneSpan issued a press release announcing results for our first quarter 2022. 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 2022, are forward-looking statements. These statements use words such as believes, anticipates, plans, expects, projects and similar words, and these statements involve risks and uncertainties and are based on current assumptions. Consequently, actual results could

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differ materially from the expectations expressed in these forward-looking statements. I direct your attention to today's press release and the Company's Form 10-K and Form 10-Q 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 for, and reconciliations of, these non-GAAP financial measures to the most directly comparable GAAP financial measures in the earnings press release. In addition, please note that the date of this call is May 3, 2022. 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.

Before turning the call over to Matt, I want to remind everyone, we will be hosting an Investor Day in New York City on May 17th. The event will also be webcast on our Investor Relations website. Please contact me at [joe.maxa@onespan.com](mailto:joe.maxa@onespan.com). If you are interested in attending the live event.

I will now turn the call over to Matt.

### **Matt Moynahan**

Thank you, Joe and good afternoon, everyone. Thank you for joining us on the call today.

I would like to begin by thanking our talented employees for their extra efforts over the last several months, as we thoughtfully and thoroughly explored, developed and finalized our long-term strategic plan, which we'll discuss in detail with you at our Investor Day two weeks from today. I've been very impressed with the level of dedication, teamwork and professionalism displayed throughout the process. And I can tell you, enthusiasm is building both internally and with our customers about the direction we are taking. We accomplished a lot over the last several months, all the while remaining focused on driving first quarter results, which I will discuss in a few minutes.

First, let me provide a glimpse into what you will hear at our Investor Day. We will update you on our go-forward strategy. It will include the following three tenets. First, we will operate as one team spanning the globe united in one go-to-market strategy behind a shared vision and mission. Second, our two solution portfolios, digital agreements and security solutions, will have clear roadmaps, team structures, operational focus and improved execution. And third, we will accelerate our growth in the broader digital agreements category, which includes e-signature, virtual room and other solutions. In addition, we will also return our total security, both hardware and software to growth and operate in a more capital efficient way to deliver increasing profitability over our three year plan.

As I mentioned before, we are in very good position with the core building blocks in place, to drive the next generation of growth for OneSpan. Digital agreements and cybersecurity are both important markets that will only become even more important to enterprises in the years to come. We have a customer base that includes many of the largest and most security conscious companies in the world, companies that trust us to mitigate their risk of fraud, help them comply with regulations and deliver user-friendly experiences in their mission critical business processes, including use cases such as new bank account openings, new customer acquisition, and business-to-business wire transfers. As a result, we plan to aggressively penetrate the broader enterprise segment and tightly integrate our security technologies into our digital agreement solutions as a key and core differentiator in the market. There is a significant opportunity in front of us and I'm excited to share more details on our strategy and outlook with you soon.

Turning to the first quarter, we reported 21% ARR growth and 22% recurring revenue growth, led by strong sales of e-signature solutions. Year-over-year, we saw modest top line growth with increased operating efficiencies, resulting in improved Adjusted EBITDA as compared to the first quarter of last year.

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We won several new logos in the first quarter and expanded our business within both digital agreements and our security solutions. In particular, I'd like to highlight a multi-year seven-figure ACV e-signature contract closed in Q1, with a global revenue lifecycle management company. The Company decided to replace its internal e-signature solution in order to meet their growing enterprise customer needs. It was an important competitive win for us, and I want to explain why.

E-signature requirements live in many cloud and SaaS transaction platforms that enable a secure execution of contracts as a core component of their value proposition. Our enterprise class feature set, ease of integration and our ability and willingness to white label our solutions were key factors in this win. We believe more such use cases exist as the market matures. In the near-term, our selling efforts will continue to focus on providing new and existing customers with our core solutions as we progress in our journey. Stay tuned for more as I look forward to discussing our innovation, go-to-market strategy and capital realignment plans with you soon.

With that, Jan Kees will now take you through our financials. Jan Kees?

### **Jan Kees van Gaalen**

Thank you, Matt.

Annual recurring revenue or ARR grew 21% year-over-year in the first quarter to \$131 million. ARR specific to SaaS subscription and term-based subscription contracts grew 36% and accounted for approximately 72% of total ARR. DBNE, dollar-based net expansion rate, which we define as the year-over-year growth in ARR for existing customers, was 115% consistent with recent quarters. Total recurring revenue, including SaaS and term-based subscription, along with maintenance on software licenses, increased 22% year-over-year to \$35 million in the first quarter of 2022 and accounted for 95% of software and services revenue.

E-signature, SaaS and term-base subscription revenue increased 40% year-over-year in the quarter. SaaS subscription revenue grew 20% to \$10 million in the first quarter. Growth in Q1 e-signature continued to be partially upset by a decline and legacy deal flow revenue. Term-based subscription revenue grew 65% to \$13 million in the quarter and benefited from a multi-year e-signature on premises renewal. Server software and mobile security also contributed to the higher than typical growth rate. Maintenance revenue declined 5% year-over-year to \$12 million as we migrated to more recurring versus perpetual software license models. Total Company revenue increased 3% to \$52 million in the first quarter. Twenty two percent growth in recurring revenue was offset by a decline in non-recurring software, services and hardware.

Gross margin in the first quarter of 2022 was 70% compared to 67% in the first quarter of 2021. The difference in gross margin is primarily attributed to product mix. Software and services contributed a record of 71% of total revenue in the quarter as compared to 65% in the first quarter of 2021. Though we continue to experience global transportation and supply chain disruptions, we reduced our reliance on air freight as compared to the last quarter. That said, we're not out of the woods yet. And I want to note these risks along with global electronic component shortages could impact future quarter results.

GAAP operating expenses included \$2.7 million of outside services related to our strategic action plan along with related changes to our financial reporting. GAAP operating expenses also included \$2.7 million of severance cost and other expenses related to our restructuring plan announced in late Q4 2021. As of March 31st, we had completed substantially all of the action items contained in our cost reduction plan announced in Q4 '21. Excluding severance, we achieved cost reductions of \$2.7 million in the first quarter, and our own target for total cost reductions of more than \$11 million for the full year 2022, above the midpoint of the plan.

Adjusted EBITDA was \$0.2 million in the first quarter of 2022. This compares to negative \$5.3 million in the first quarter of 2021. Adjusted EBITDA margin was 0.5% in the quarter versus negative 10.4% in the year-ago quarter. First quarter other income included a \$15 million non-operating gain on the sale of our 17% interest in Promon AS.

GAAP earnings per share were \$0.13 in the first quarter of 2022 compared to a loss per share of \$0.23 in the first quarter of 2021. Non-GAAP loss per share, which excludes long term incentive compensation, amortization, non-recurring items and the impact of tax adjustments, was \$0.01 in the first quarter compared to \$0.16 in the first quarter of last year.

We ended the first quarter of 2022 with \$120 million in cash, cash equivalents and short-term investments compared to \$98 million at the end of 2021. Cash generated from operations during the quarter was \$4 million. We have no long-term debt. Geographically, our revenue mix by region in the first quarter of 2022 was 47% from EMEA, 33% from the Americas and 20% from Asia-Pac. This compares to 53%, 33% and 14% from the same regions in the first quarter of last year, respectively.

Before I hand the call over to Matt, I want to further comment on our hardware supply chain. Recent temporary COVID-driven closures at our contract manufacturing facilities in China, along with delays in deliveries of electronic components to these facilities, could impact second quarter hardware revenue by up to \$2 million. We are monitoring this situation closely and working contingency plans to mitigate this as best as possible.

Matt?

**Matt Moynahan**

Thank you, Jan Kees.

As you can see, we started the year with solid momentum and we look to keep that momentum going as we begin implementing our strategic plan this quarter. Our strong market position and solution portfolio, along with our talented employees, provide us with a strong foundation to build upon. Though we still have work to do, I believe now more than ever that we will establish a clear and disruptive leadership position in the markets we serve by leveraging our strengths in identity, security and compliance. And I'm confident in our ability to unlock shareholder value as we increase our focus, leverage our competitive advantages and enhance our operational performance as one team.

Now turning to our 2022 outlook. We expect revenue for the full year 2022 to meet or exceed our 2021 full year revenue. At this time, we are finalizing our review of our full year 2022 Adjusted EBITDA outlook in context with our strategic plan, and we'll provide an update at our Investor Day on May 17th.

In closing, I remain excited about the future of OneSpan and our opportunity ahead. And look forward to discussing the details and metrics at our full year outlook and our long term plan at our Investor Day in two weeks time.

With that, Jan Kees and I will be happy to take your questions. Operator?

**Operator**

Our first question today comes from Stefan Schwarz from BTIG. Please go ahead. Your line is now open.

**Male Speaker**

Hey. Great. Thank you. I'm on for Grey. Thanks for taking my question. Just to start off, I guess, given your exposure to EMEA. I wanted to ask, how much of your business, if any, has been impacted by the Russia/Ukraine tensions? And I guess just more broadly, any general commentary on the macro environment in Europe?

**Matt Moynahan**

Yes, thank you. First and foremost, from an employee standpoint, we are not exposed fortunately. We have several Ukrainians living in the U.S. but we are not exposed from employees in either Russia or over in Ukraine, thankfully, so people are safe. Second, I would describe our exposure to Russia, from a business perspective, as de minimis, immaterial. We have stopped selling into Russia for several months now ahead of actual—other American companies we are early in the cycle on that. And so just consider it immaterial in the larger scheme of things. We have seen use cases for our hardware from customers in Europe who are looking for higher assurance use cases, and this will be a theme going forward with the Company. Hardware is something you have on you is always more secure than a password. And in this particular case some nations who have been seeing an influx of Ukrainian refugees and banks supporting those refugees are giving them hardware tokens to make sure that they have the highest level of protection. I think it's a good use case that we'll see more of in the future.

**Male Speaker**

That's interesting. Thanks. And maybe just a follow-up for Jan Kees. Could you provide any kind of directional commentary on your Adjusted EBITDA given the last quarter? I think you had said breakeven or higher. Is it lower or higher? Just any color there.

**Jan Kees van Gaalen**

We are still reviewing the EBITDA and the Adjusted EBITDA numbers, and we will communicate those during the investor conference now in two weeks.

**Male Speaker**

Got it. All right. Thank you.

**Jan Kees van Gaalen**

You're welcome.

**Operator**

Thank you. The next question today comes from Nick Mattiacci from Craig-Hallum. Nick, please go ahead. Your line is now open.

**Nick Mattiacci**

Hi. This is Nick Mattiacci on for Chad Bennett. Thanks for taking our questions. So I know that we will get to hear the strategic plan at Investor Day in a couple weeks. But it sounds like the plan is already underway and has been communicated internally. I'm curious to hear more about how the culture has changed in the past couple of quarters and how employees are buying into the long-term strategy? And also on that topic, if you could speak about how employee retention has fared recently?

**Matt Moynahan**

Both great questions. So I've been very pleased with the uptake of the new vision, mission and strategy. We've been hard at work to make sure we have a very crisp communication and change management plan internally. And so, just to give you a sense, we have a monthly, if not bi-monthly meetings, with everybody in the Company, bringing along this process over the past four months since my arrival. And so I do believe that there has been a strong reception from the employee population, really because they were lacking the direction before. And so I think with clarity, people can do their jobs and then you let good people get to work.

And so I think you are seeing a ground swell of that. We have obviously, as part of this process, beginning in December, have made performance management moves, and we'll continue to do that over the course of the Company. But from a voluntary attrition, we actually have far below industry averages. I believe people are quite intrigued by what's going to be rolled out in two weeks time in New York. And there is a good excitement building for the future of OneSpan from the existing employee population. But I'd also say from new recruits that are coming in you will see new additions to the team at the senior executive level over the coming weeks. And I'm pleased to say that that message has been resonating externally as well as internally.

**Nick Mattiacci**

Yes, you kind of hit on my next question. I wanted to ask about the build out of the executive team. I know since the last call, it's a new CMO. I believe the plan is still look for a permanent CFO, and then there— are there any other positions in the leadership team you're planning to add?

**Matt Moynahan**

Yes. Outside of the Head of R&D and our Head of Corporate Development, the balance of the executive team will be new. It's a great opportunity for me to go look at the right chemistry for this Company where we're bringing in executives who understand scale but at the same time to a roll up their sleeves, executives. This is an exciting story but a smaller company. And so I'm very pleased that the reception has been great. You should expect over the near term to see a Chief Product Officer, as well as a new General Counsel and the Head of Compliance joining. There's also an open executive position for the CRO, Chief Revenue Officer, and we are making very good progress there. But those three are top of mind for me right now and you'll see announcements over the near term.

**Nick Mattiacci**

Got it. Thank you.

**Matt Moynahan**

Thank you.

**Operator**

Thank you. The next question today comes from Rudy Kessinger from D.A. Davidson. Rudy, please go ahead. Your line is now open.

**Neal**

Hey guys. This is Neal (phon) on for Rudy. I just had one question. So it looks like the subscription revenue bounced back a little, up 20% this quarter versus 15% last quarter. But still a hair below what you guys did in Q3 of last year and just 300k above what you guys did in Q2 of last year. I was just wondering if you guys could walk through some of the puts and takes there. How much of that revenue was there

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from PPP loans in Q1 of last year, and how much is the revenue from deal flow declining at? And apologies if I missed that in the beginning.

**Matt Moynahan**

Jan Kees, do you want to take that or do you want me to do it?

**Jan Kees van Gaalen**

Yes, why don't you start—let me start with the deal flow. The deal flow is— contribution to revenue is relatively small. And we've seen the decline during the first quarter and we expect some further decline during the rest of the year. It's really, really, really small. With regards to e-signature and subscription revenue, it has slowed somewhat post COVID. We do work on changes as we are going to operationalize our new strategy, and this will be discussed with you during the Investor Day in two weeks.

**Matt Moynahan**

Just to give you a sense, as I mentioned, one of our objectives for Investor Day going forward is to bring crystal clarity to how to look at this business, both at the security side, as well as the e-signature or what we're calling digital agreements side of the house. And so it's very difficult to unpack the subscription growth. If you look at what we benefited from, as Jan Kees mentioned in his opening remarks, we do sell from time-to-time term based subscriptions, which is essentially an on-premise version of our e-signature that really is no different other than just the location of the on-premises equipment from our cloud based. It's still very much a subscription. So we will bring clarity to that in Investor Day where you'll get a good visibility into total subscription growth. It looks lower because we had several sales of our on-premise term based subscription versus as we currently report pure subscription, if that makes sense.

**Neal**

Got it. That makes sense. That's it for me. Thank you guys.

**Matt Moynahan**

Thanks.

**Operator**

Thank you. There are no additional questions waiting at this time. So I'd like to pass the conference over to Matthew Moynahan for closing remarks. Please go ahead.

**Matt Moynahan**

Thank you. And thank you everyone for joining us today. Definitely appreciate your time and attention, and I hope to see many of you in person at our Investor Day in New York City on May 17th, where we look forward to sharing with clarity the future of the Company and one that I find particularly exciting and look forward to seeing you in two weeks short time. Thank you very much for your time.

**Operator**

That concludes today's conference call. You may now disconnect your lines.