

OneSpan Investor Day 2022

May 17, 2022



Agenda

Welcome	Joe Maxa – VP of Investor Relations
The New OneSpan	Matthew Moynahan – President and CEO
	Break
Optimizing Go-To-Market	Sameer Hajarnis – VP Growth and Transformation
Financial Update and Outlook	Jan Kees van Gaalen – Interim Chief Financial Officer
	Break
Q&A	Management Team
Key Takeaways from Today	Matthew Moynahan – President and CEO
Lunch	

Forward Looking Statements

This presentation contains forward-looking statements within the meaning of applicable U.S. securities laws, including statements regarding our growth initiatives and market expectations, the potential benefits, performance and functionality of our products and solutions, the strategies relating to our business and the future of our business and our expectations regarding our financial and operational performance in the future. Forward-looking statements may be identified by words such as “seek”, “believe”, “plan”, “estimate”, “anticipate”, “expect”, “intend”, “continue”, “outlook”, “confident”, “may”, “will”, “should”, “could”, or “might”, “forecast”, “targeted” and other similar expressions. These forward-looking statements involve risks and uncertainties, as well as assumptions that, 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; the impact of the COVID-19 pandemic and actions taken to contain it; our ability to effectively manage acquisitions, divestitures, alliances, joint ventures and other portfolio actions; 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; actions of activist stockholders; and exposure to increased economic and operational uncertainties from operating a global business, as well as those factors set forth in our the “Risk Factors” section of our most recently filed Annual Report on Form 10-K. Our filings with the Securities and Exchange Commission (the “SEC”) and other important information can be found in 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 presentation, except as required by law.

OneSpan: The Digital Agreements Company

Matthew Moynahan

President and Chief Executive Officer



Market Megatrends

MARKET DRIVERS

DIGITAL TRANSFORMATION

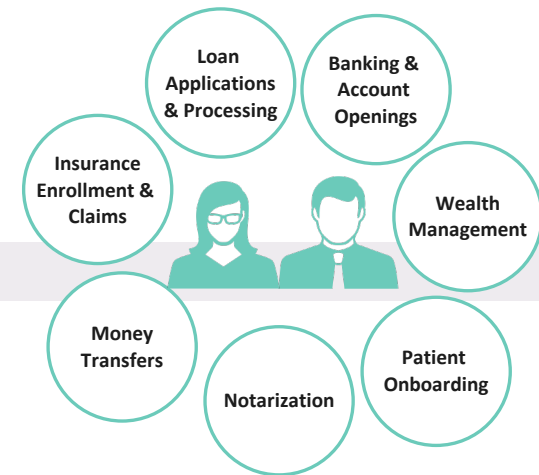
DIGITAL CUSTOMER RELATIONSHIPS

MOBILITY

REMOTE WORK

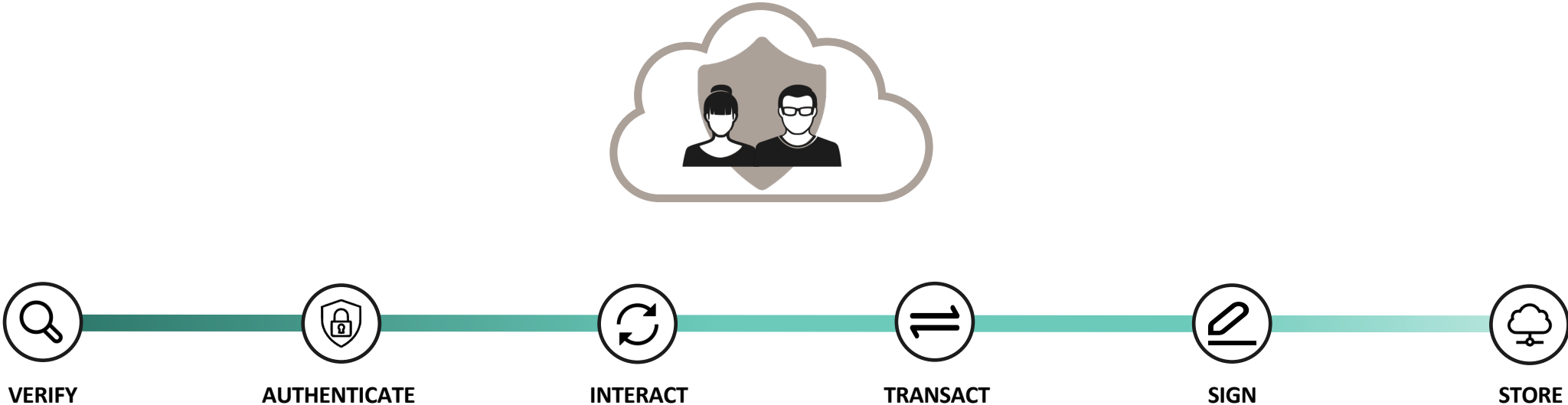
IDENTITY/ CREDENTIAL THEFT

GLOBAL/REGIONAL REGULATIONS & COMPLIANCE



Securing the Digital Agreement Process

Market Requirements



Where Security Meets Business Process

Path Forward Determined by Rigorous Strategic Planning



Addressing the Issues

- Lack of clarity of company vision & mission
- Legacy and fractured organization design
- Leadership and accountability at senior levels



Establishing Priorities

- Streamlined product portfolio
- Focused go-to-market
- Improved operational rigor



Setting Clear Goals & Expectations

- Realignment of entire company to Digital Agreements strategy
- Consistent operational reviews & cadence

The New OneSpan Vision and Mission













Vision


A world of **trusted** digital interactions and agreements.


Mission

To accelerate our customers' digital transformations by enabling **secure, compliant and refreshingly easy** digital customer agreements and transactions.









Strengthened Executive Leadership Team – New Office of the CEO

					
MATT MOYNAHAN	JAN KEES VAN GAALEN	AJAY KENI	TOM AURELIO	ERIC HANSON	JEFF COLE
President & Chief Executive Officer	Interim Chief Financial Officer	Chief Technology Officer	Chief People Officer	Chief Marketing Officer	Chief Information Officer
					
MICHAEL KLIEMAN	GIOVANNI VERHAEGHE	MJ CAPODANNO	SAMEER HAJARNIS	MEG RYAN	MAHMOUD SAMY IBRAHIM
Chief Product Officer	SVP Corporate Development	Interim General Counsel	VP Growth and Transformation	Sr. Director Business Transformation	VP Global Sales Strategy and Operations

 Executive Leadership Team

 Newly created Office of the CEO

OneSpan Board of Directors – Over Half New in Last Two Years

			
ALFRED NIETZEL	MARC BORODITSKY	GARRY CAPERS	SARIKA GARG
Chairman of the Board 1 Year	Independent Director 3 Years	Independent Director 1 Year	Independent Director 1 Year
			
JEAN HOLLEY	MARIANNE JOHNSON	MICHAEL MCCONNELL	MARC ZENNER
Independent Director Nom/Gov Comm. Chair 16 Years	Independent Director 2 Years	Independent Director Comp Committee Chair 1 Year	Independent Director Audit Committee Chair 3 Years

Jean Holley is not standing for re-election at OneSpan's 2022 annual shareholder meeting

We Have Listened to Your Feedback

“OneSpan has well-regarded products utilized by a valuable customer base, but consistently poor execution has resulted in failure of growth and share price underperformance.”

OSPN Investor

“Lack of long-term revenue growth visibility and execution issues over the last several months are key factors driving OSPN’s undervaluation.”

Sell Side Analyst

What You Will Hear Today

1 Progress

Significant progress made in our transformation to “OSPN 2.0”

2 Foundation

Strong and unique foundation in both cybersecurity and e-signature

3 Enterprise GTM

Highly focused enterprise go-to-market model to accelerate growth

4 Clarity

New, simplified financial reporting to increase transparency

5 Financial Strength

Strong balance sheet and a capital efficient operating model

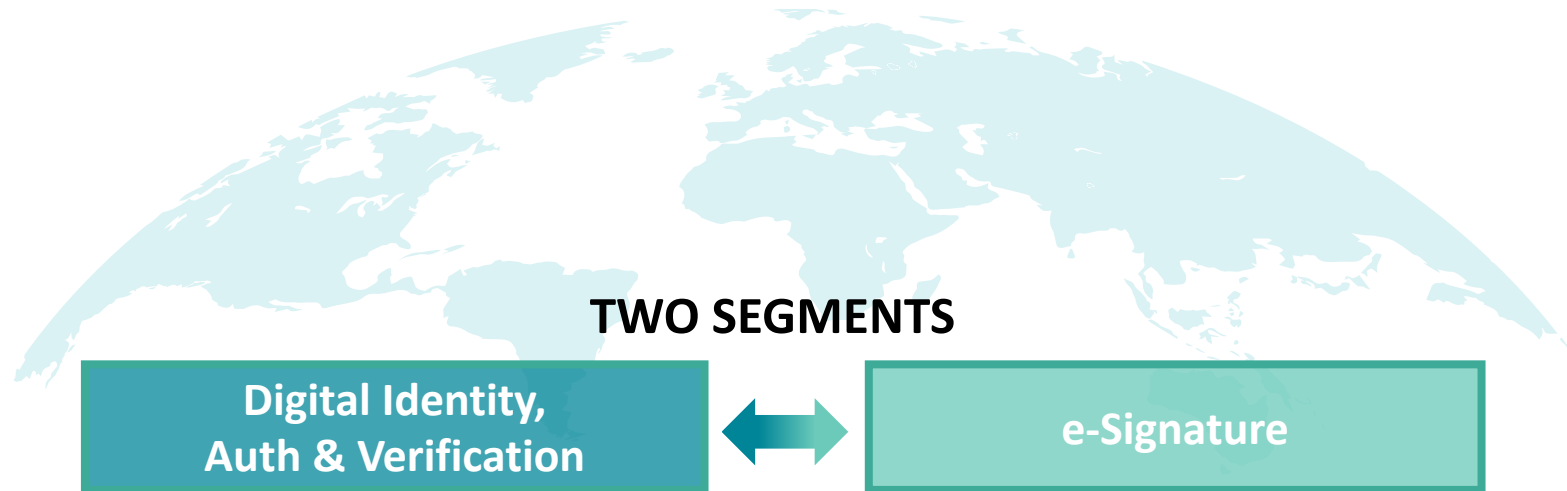
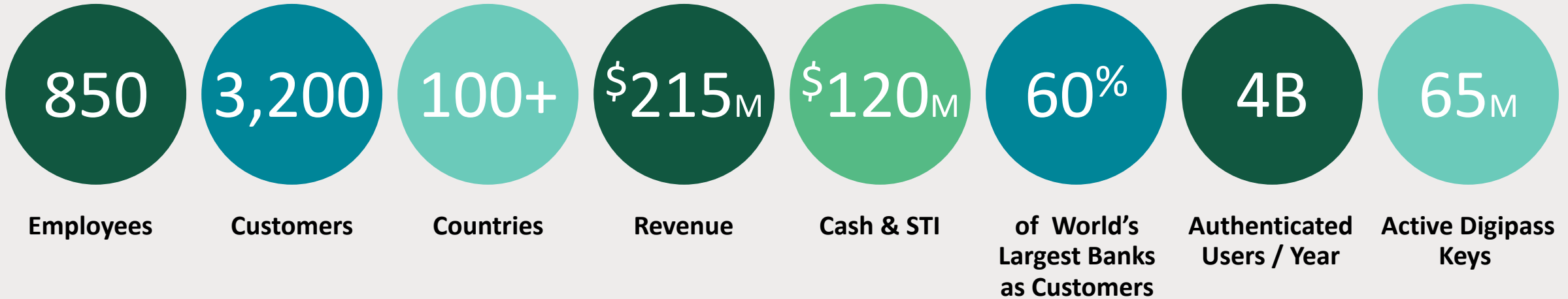
AGENDA

Transforming to Accelerate Growth

- **Building on a strong foundation**
- Differentiated solution strategy to drive growth and profitability
- Clear priorities and roadmap



OneSpan At A Glance













































































Strengths We Will Leverage

- ✓ **World-class security DNA in identity verification, authentication and transaction signing**
- ✓ **Deep expertise in end-user experience, cloud workflows, document verification and electronic signing**
- ✓ **Deep roots and experience in highly regulated global markets**
- ✓ **Ability to leverage product portfolio in time of market convergence**
- ✓ **Valuable blue-chip installed base with deep roots in financial institutions**



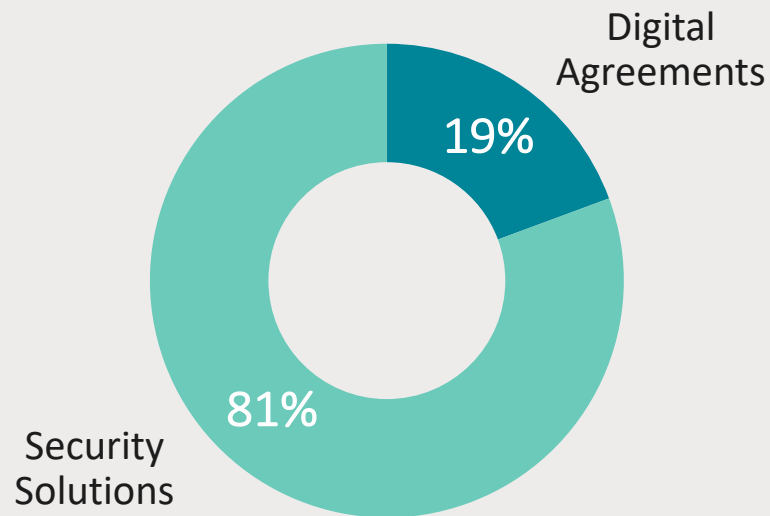
Trusted Security Partner to Global Blue-Chip Enterprises

Banking	Other Financial Services	Insurance	Government	Healthcare	Other
                   	<p><i>Action Financial Services, LLC</i></p>            	             	       	          	        

Moving to a More Effective & Efficient Operating Model

Creating Two Segments¹

(2021 Revenue Breakdown)



Advantages

- Two operating segments reflect more efficient capital deployment
 - Digital Agreements to be managed for accelerated growth and market share gains
 - Security Solutions to be managed for cash flow given modest growth profile
- Increased transparency and clearer metrics to more easily track progress
- Creates optionality in business over time

AGENDA

Transforming to Accelerate Growth

- Building on a strong foundation
- **Differentiated solution strategy to drive growth and profitability**
- Clear priorities and roadmap

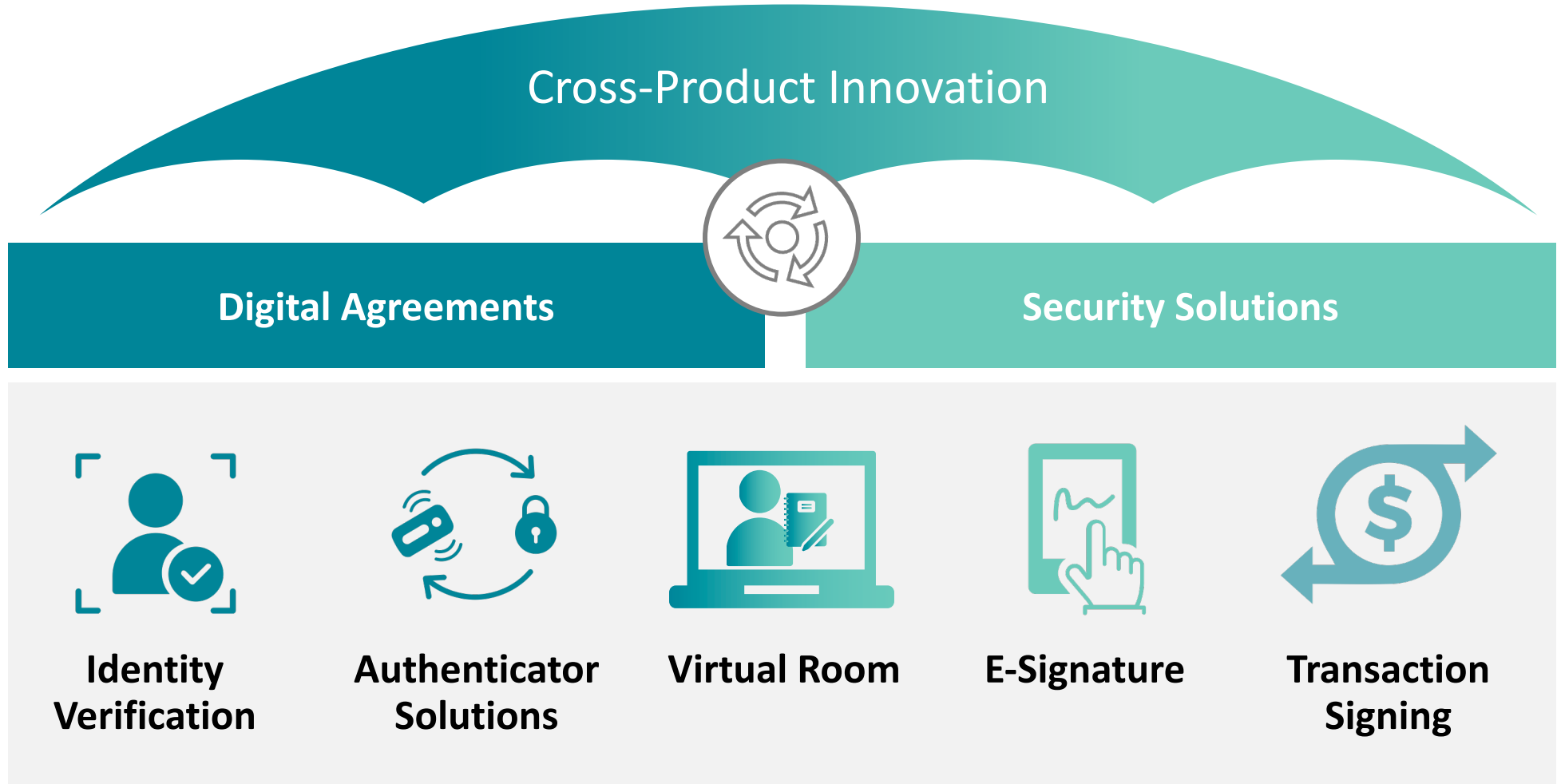


Solution Strategy Competitive Differentiators

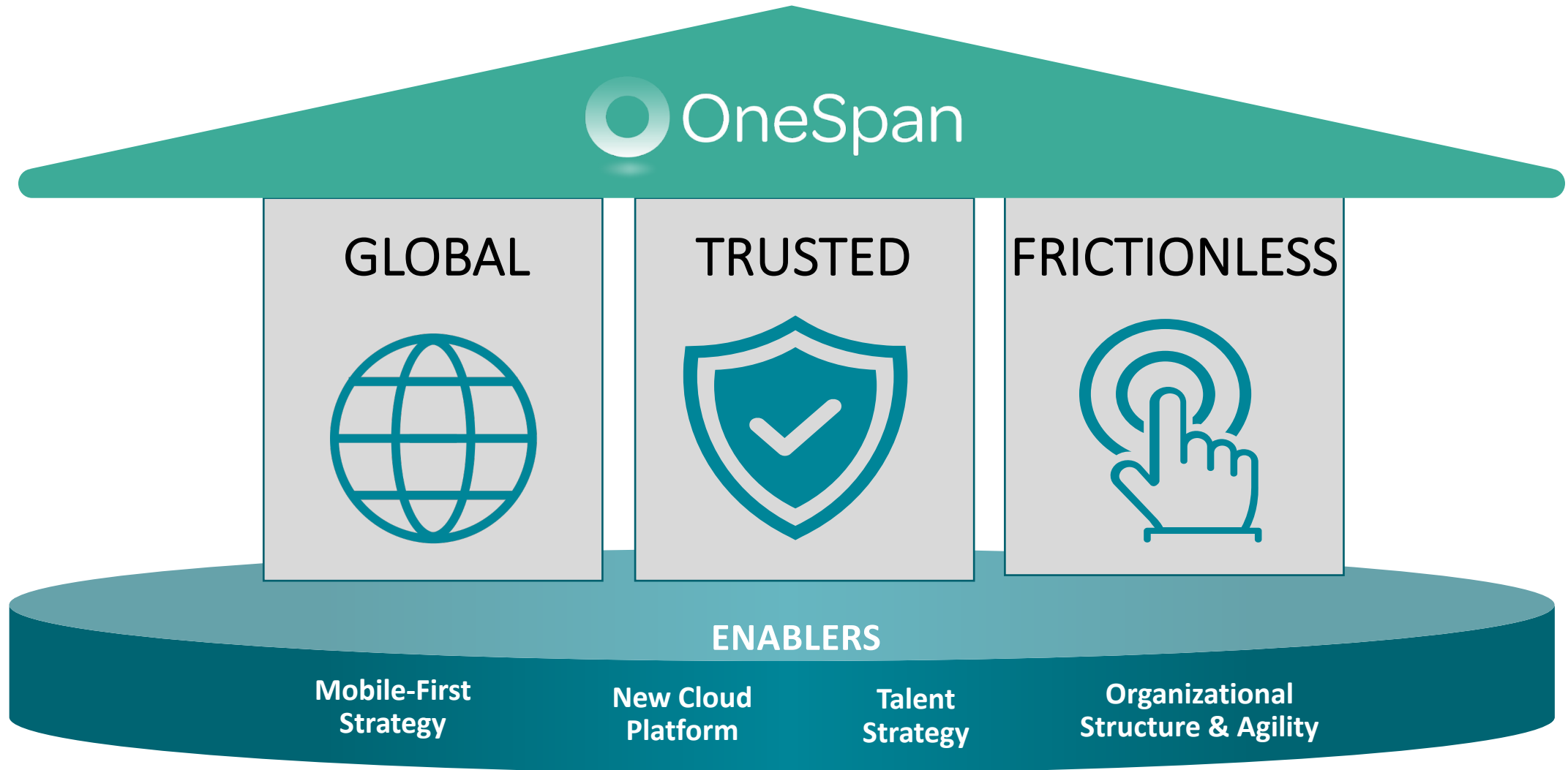
- 1 | Tightly integrated security and digital agreements solutions
- 2 | A modern, cloud-native converged platform
- 3 | Ability to support high-value, high assurance transactions
- 4 | NextGen Digipass device as competitive advantage in high assurance step-up multi-factor authentication
- 5 | Superior user experience at every stage of workflow
- 6 | Continuous innovation and customer engagement via OneSpan innovation lab



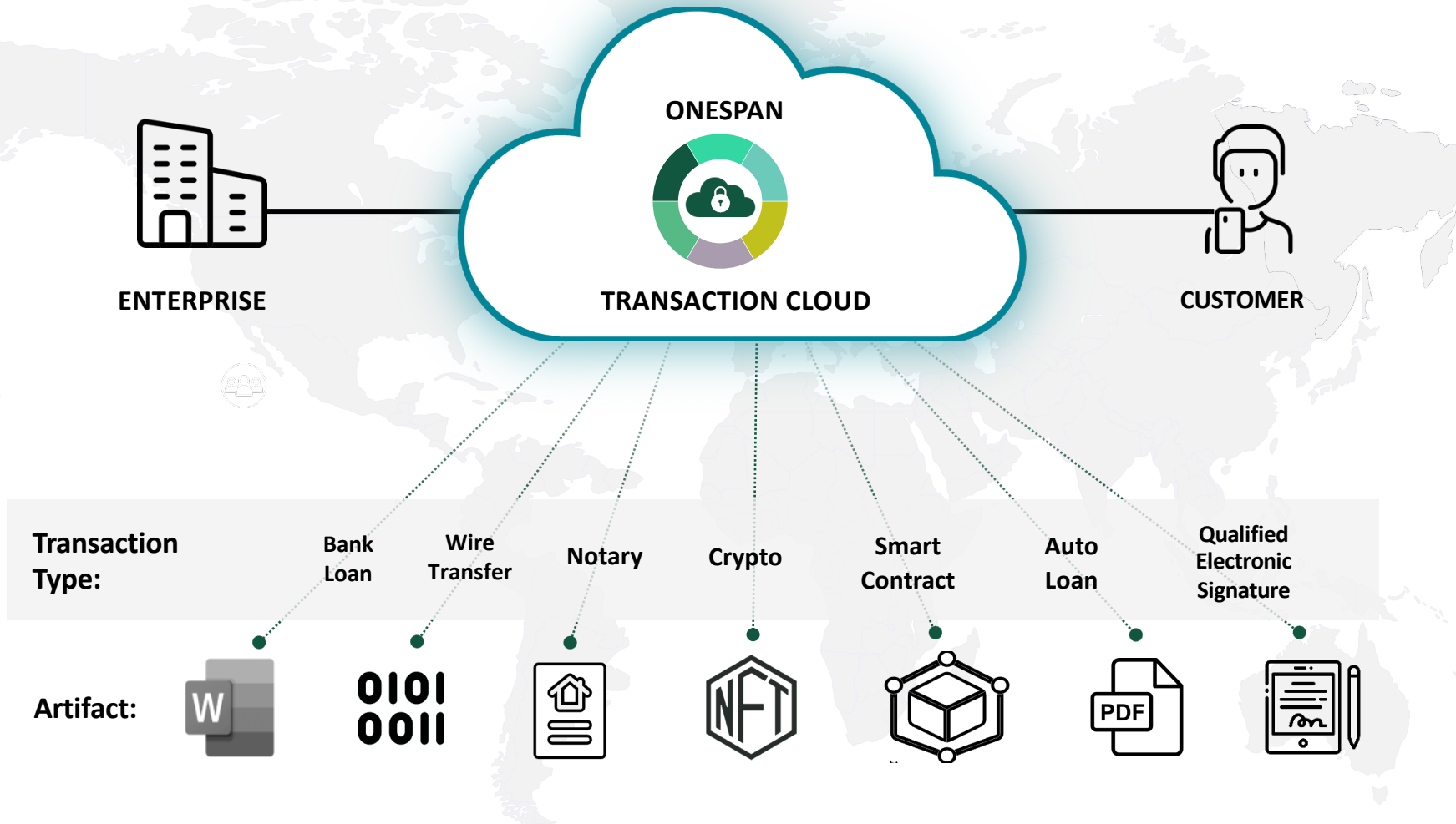
Creating Value By Integrating Our Core Competencies




Three Pillars of Solution Differentiation



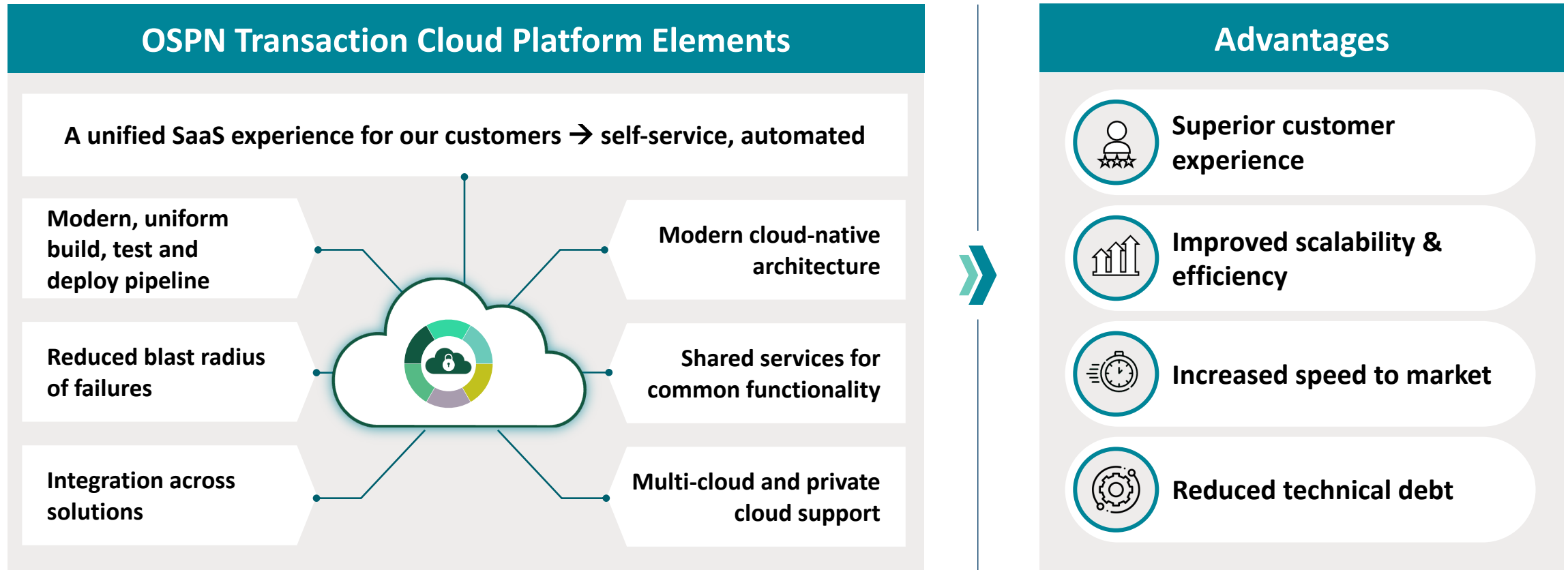
Modern Transaction Cloud Platform



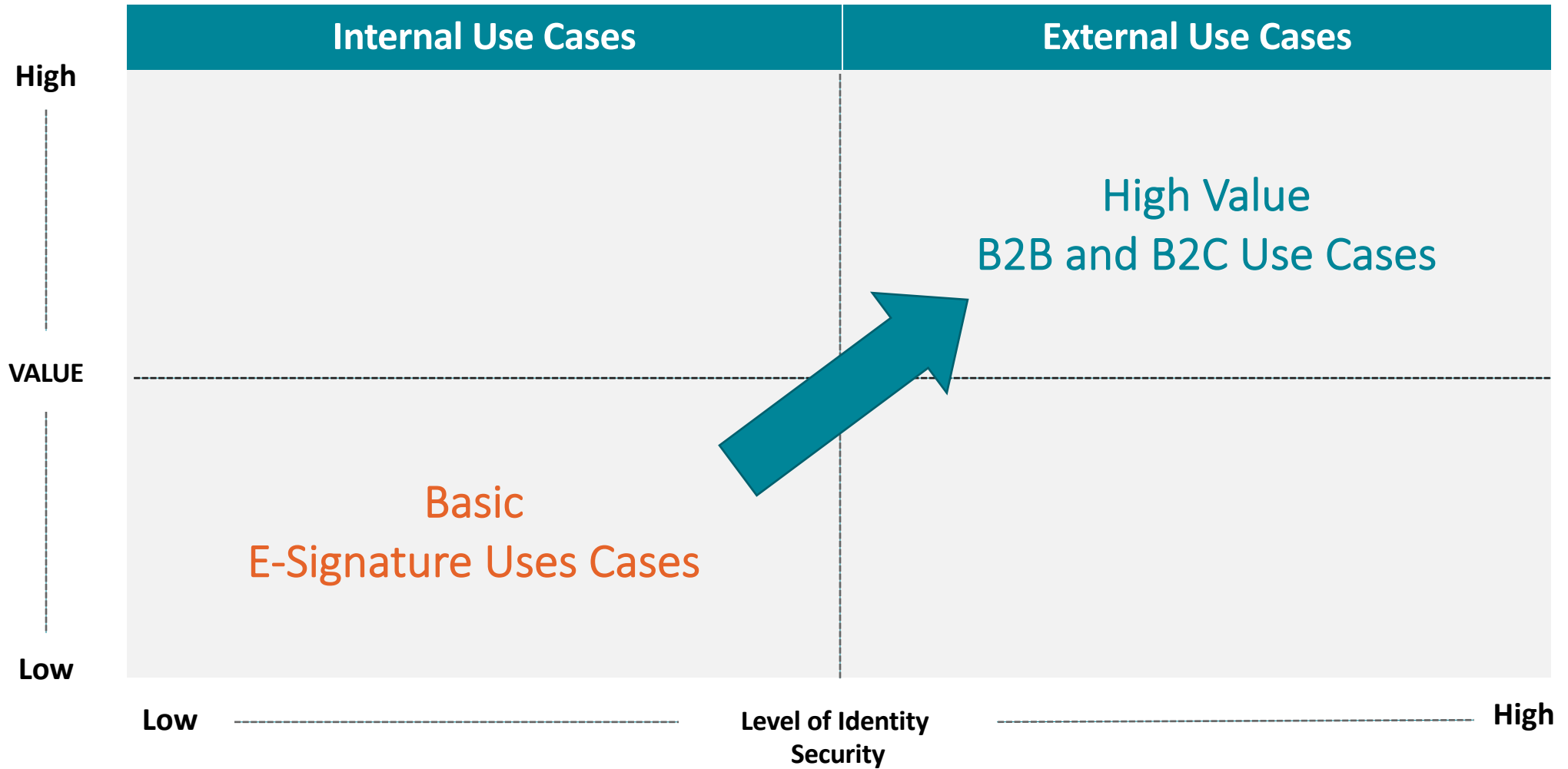
Modern cloud customer engagement necessitates secure and compliant global workflows pre- and post-authentication

-  VERIFY
-  AUTHENTICATE
-  INTERACT
-  TRANSCRIPT
-  SIGN
-  STORE

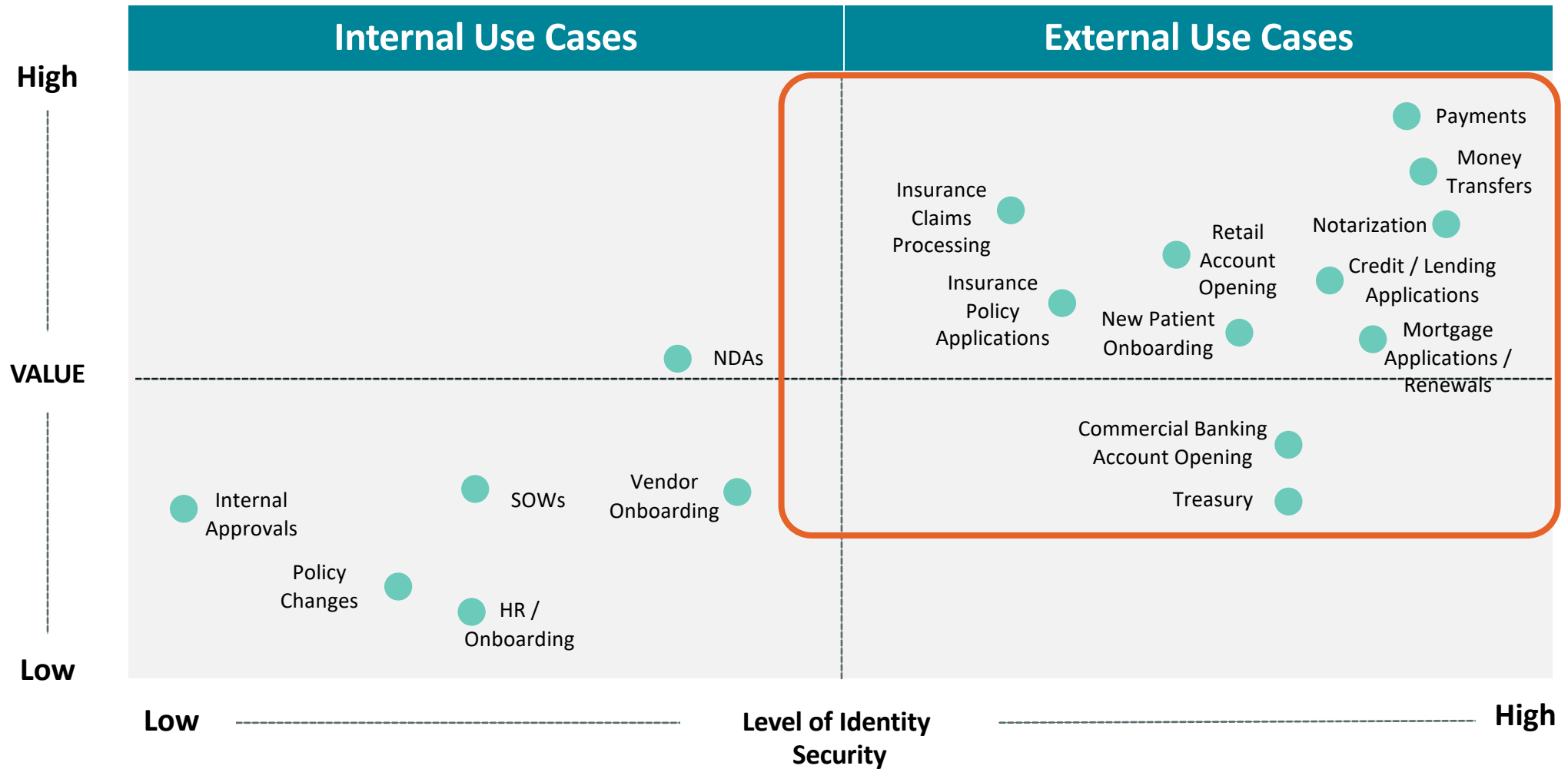
Cloud Platform Will Deliver Key Advantages



Ability to Support High-Value, High-Assurance Transactions



Ability to Support High-Value, High-Assurance Transactions



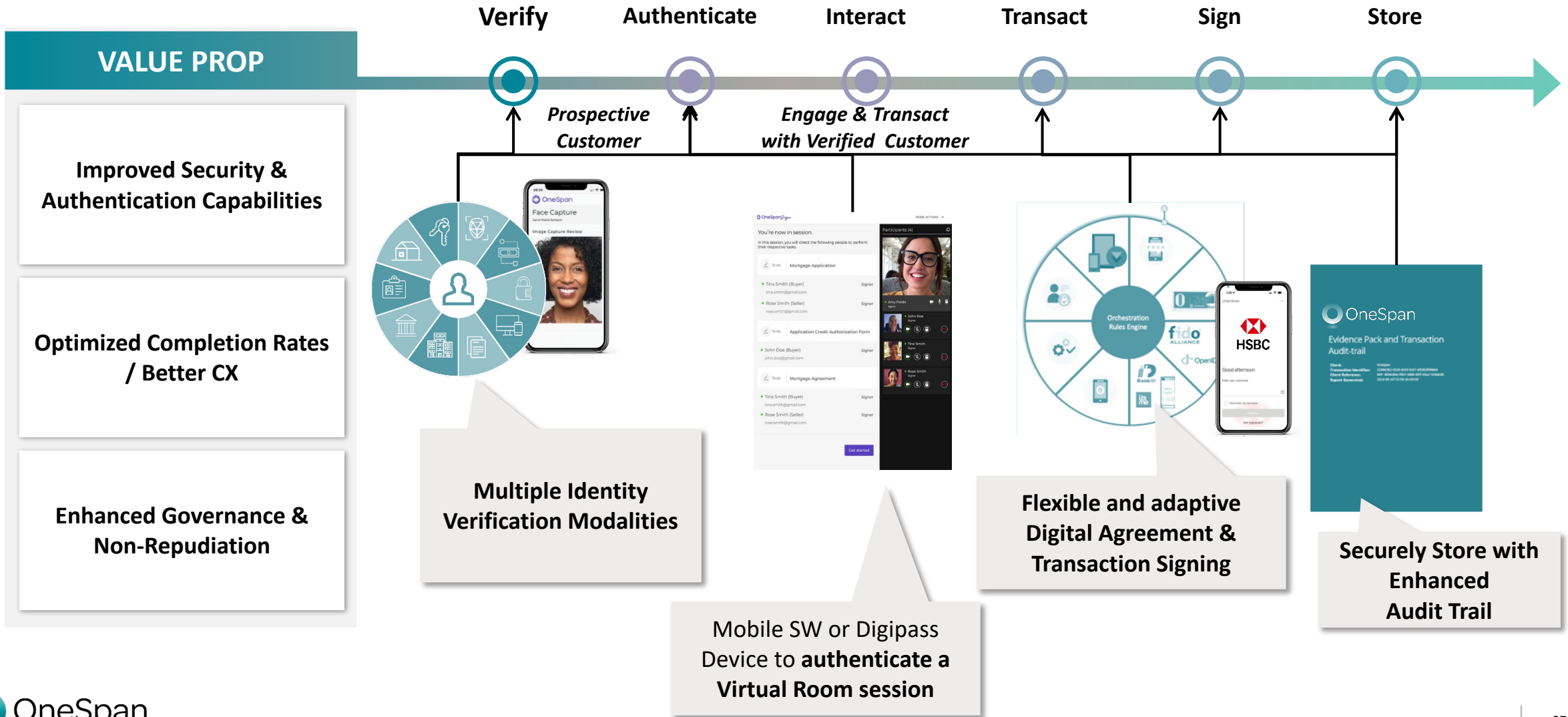
NextGen Digipass Device as a Competitive Advantage



One Cloud-Connected Device, Many Services

- ✓ Support multiple authentication methods for high assurance transactions
- ✓ Self-provisioning and activation at first use
- ✓ Standardized form factors for improved margins
- ✓ Updateable firmware enables “as-a-service” business model
- ✓ Manage stored credentials and keys

Superior UX at Every Stage in Cloud Transaction Workflows



Innovation Lab – Staying Ahead of the Curve

A standalone, cross-functional team dedicated to rapidly developing compelling new capabilities

Activate **new company behaviors and ways of working**

Create new capabilities that enable OSPN to **scale, grow, and operate more efficiently**

Rapidly prototype, and **bring to market new, and more relevant experiences**



Transforming to Accelerate Growth

- Building on a strong foundation
- Differentiated solution strategy to drive growth and profitability
- Clear priorities and roadmap



WHAT WILL BE DIFFERENT:

Going Forward – Building the New OneSpan

OneSpan	From:	To:
Performance	Inconsistent	Strong, predictable
Focus / roadmap	Unclear	Clear
Execution	Weak / Ad Hoc	Laser focused
Leveraging blue chip client base	Minimal	Strong
Reporting	Complex	Simple, transparent

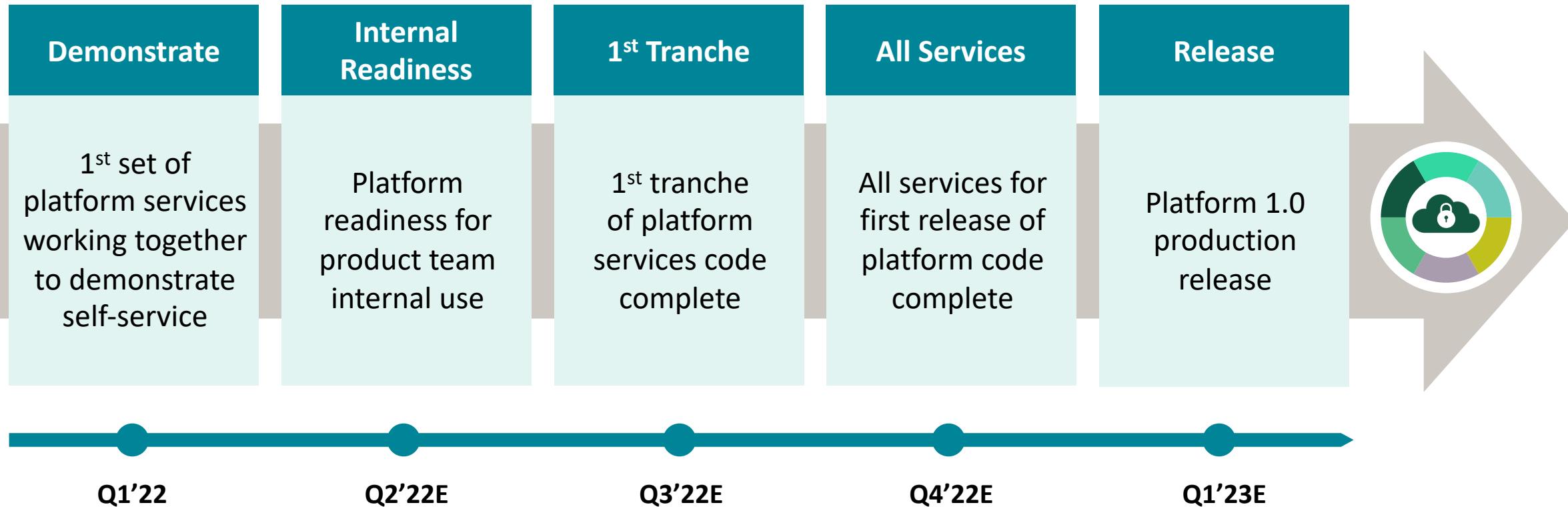


Key Priorities for Driving Growth

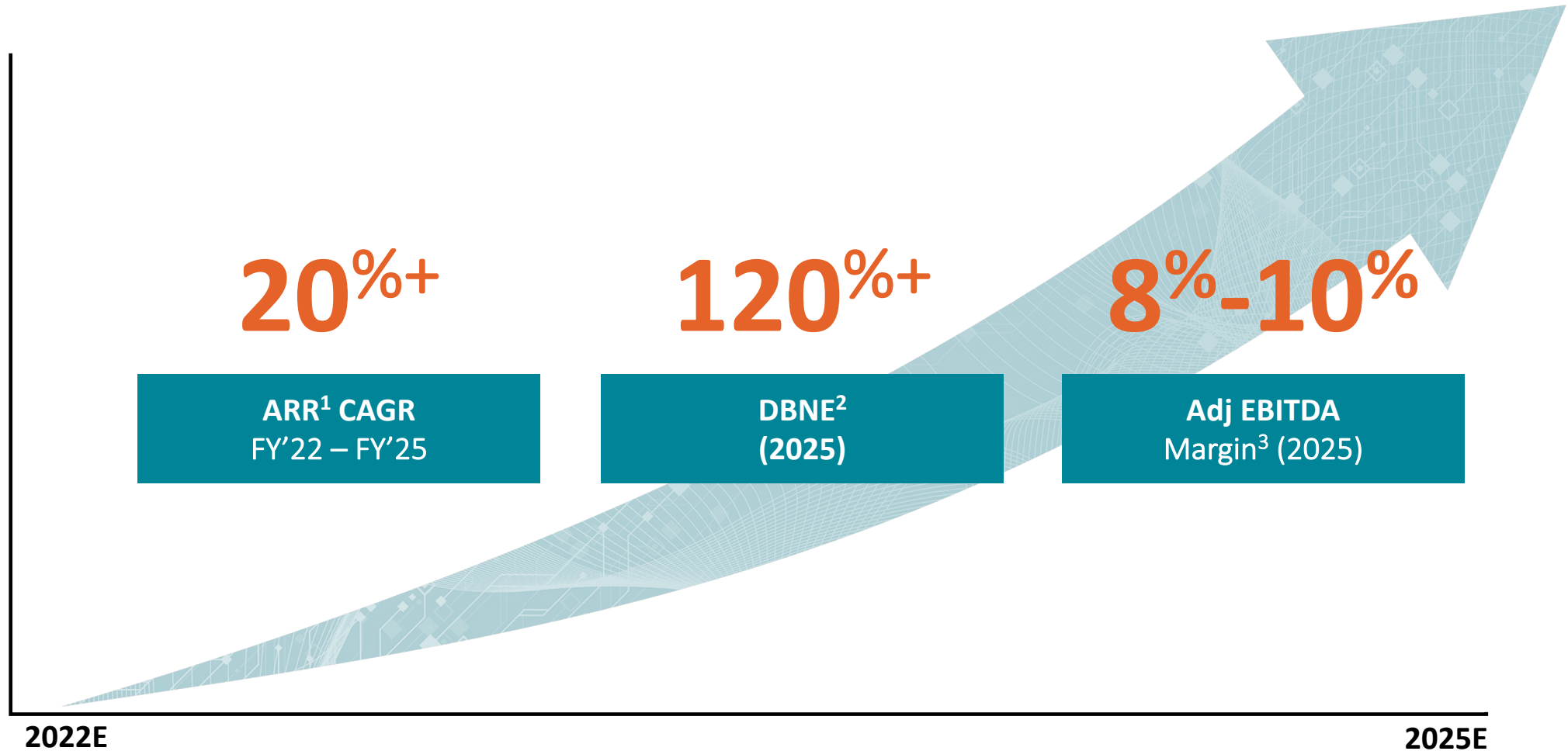
- 1 Improve operational rigor and capital efficiency
- 2 Streamline, then expand enterprise go-to-market
- 3 Focus on the customer to fuel cross and up-sell
- 4 Drive innovation with security as a differentiator
- 5 Expand across prioritized verticals and geographies

Key Operational Metrics for All Functional Areas

Example: OneSpan Transaction Cloud Platform Milestones



How We Will Measure Success Over the 3-Year Plan



^{1,2} See Appendix for definitions

³ Adjusted EBITDA margin is a non-GAAP financial measure. The Company is not providing a target for or reconciliation to net income growth, the most directly comparable GAAP measure, because the Company is unable to predict certain items contained in the GAAP measure without unreasonable efforts. Please refer to the Appendix for more information regarding non-GAAP financial measures.

IN SUMMARY

The New OneSpan – at Inflection Point

1 Building on a strong foundation

2 Differentiated solutions to drive growth

3 Executing clear transformation plan and priorities



Break

We will return shortly



Optimizing Our Go-to-Market Strategy

Sameer Hajarnis

Vice President Growth and Transformation



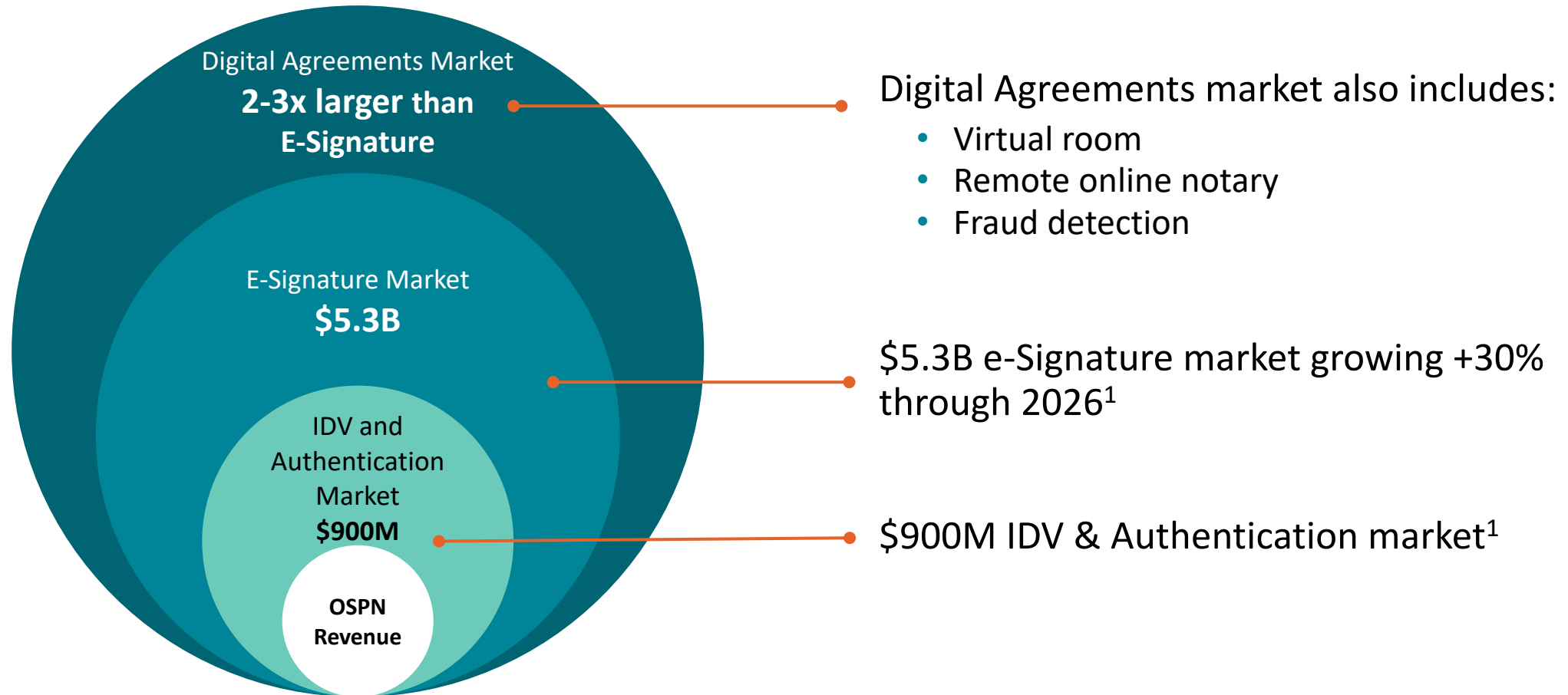
AGENDA

Optimizing Our Go-to-Market Strategy

- Capitalize on a larger digital agreements market
- Streamlined and focused go-to-market
- Expanding our routes to market



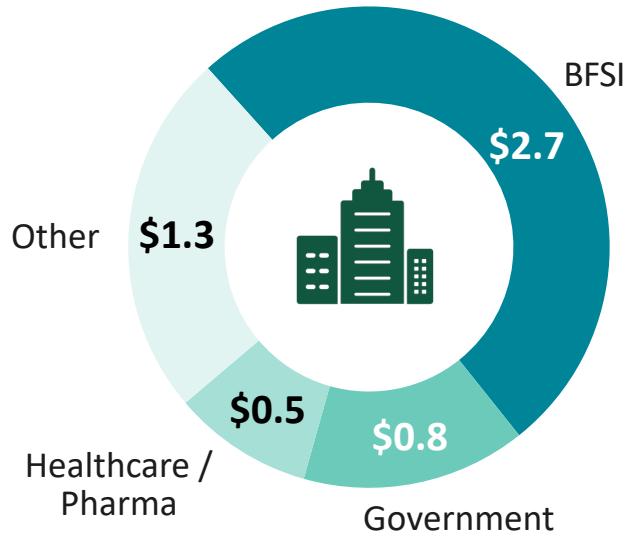
Large and Growing Addressable Markets



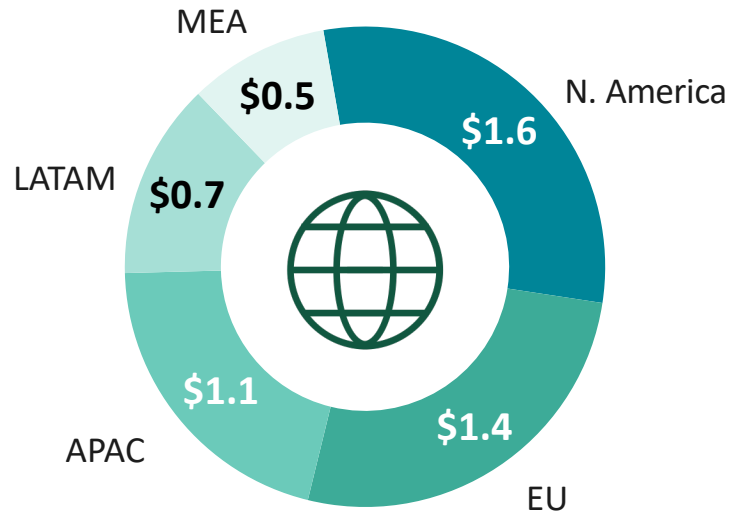
Additional 5% Market Share > 2x Current Revenue

\$5.3B E-Signature Market Growing at 30% CAGR

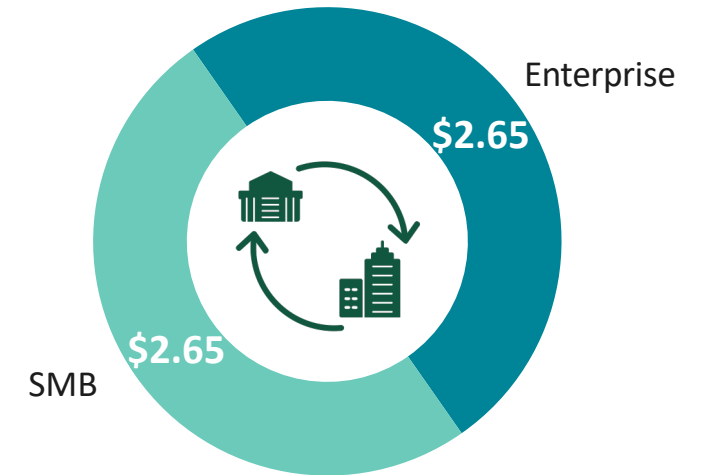
By Verticals
























By Geography



By Segment



Target Account Strategy Focuses on Unmet Needs

ADVANTAGE	 OneSpan	INCUMBENTS	EMERGING VENDORS	REGIONAL / NICHE PLAYERS
GLOBAL enterprise-grade services				
OPTIMIZED for regulated industries				
INTEGRATED digital agreements & identity solutions				
DEPLOYMENT FLEXIBILITY for high volume, high value transactions				
HIGH ASSURANCE using Digipass tokens for highest level of trust				

Case Study: Competitive Proof Point

Situation

Customer

- Top 5 global provider of Human Resources and Temporary Staffing solutions, and a Fortune Global 500 company

Problem

- Consolidate multiple regional e-Signature vendors to provide a consistent customer experience globally with a better value proposition for each of their lines of business

OneSpan Value Proposition

- Trusted advisor for global e-Signature regulations and compliance
- Global coverage
- Compelling price per value offering
- Securing business workflows with a customer experience that drives adoption

Results

Contract Revenue for OneSpan and Expansion Opportunities

Multi-year contract (TCV)

\$1.7M

Potential expansion of use cases

\$3M

Potential qualified signatures use cases

\$2M



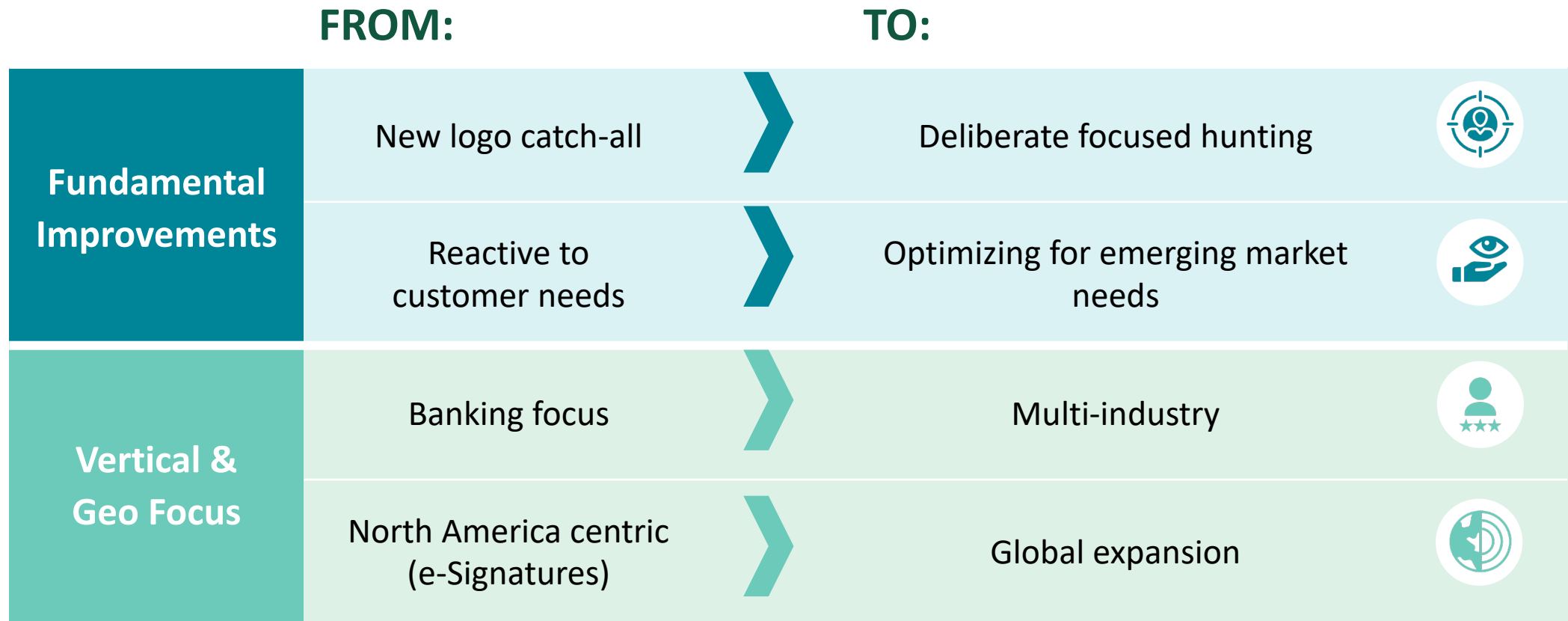
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Optimizing Our Go-to-Market Strategy

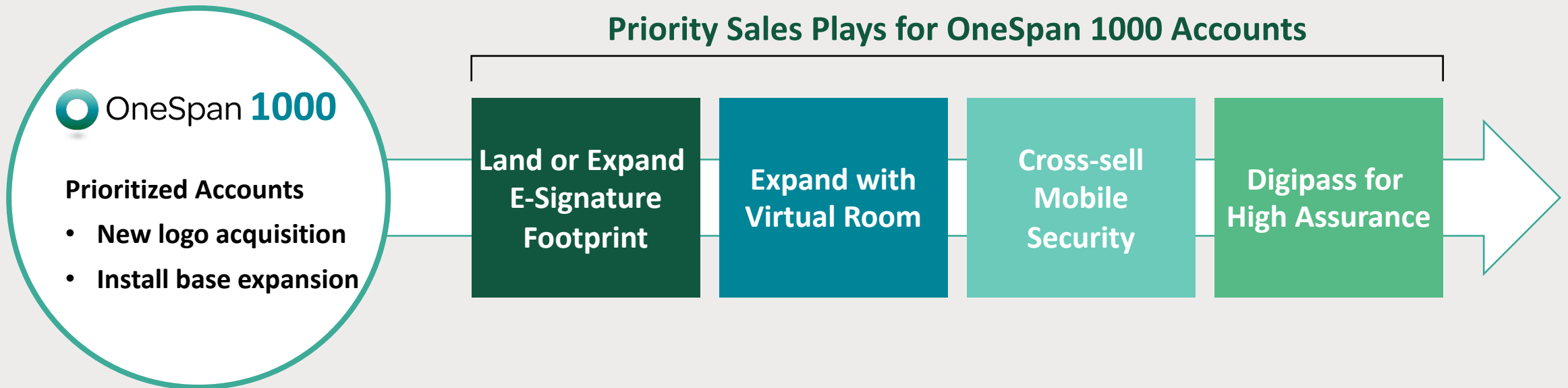
- Capitalize on a larger digital agreements market
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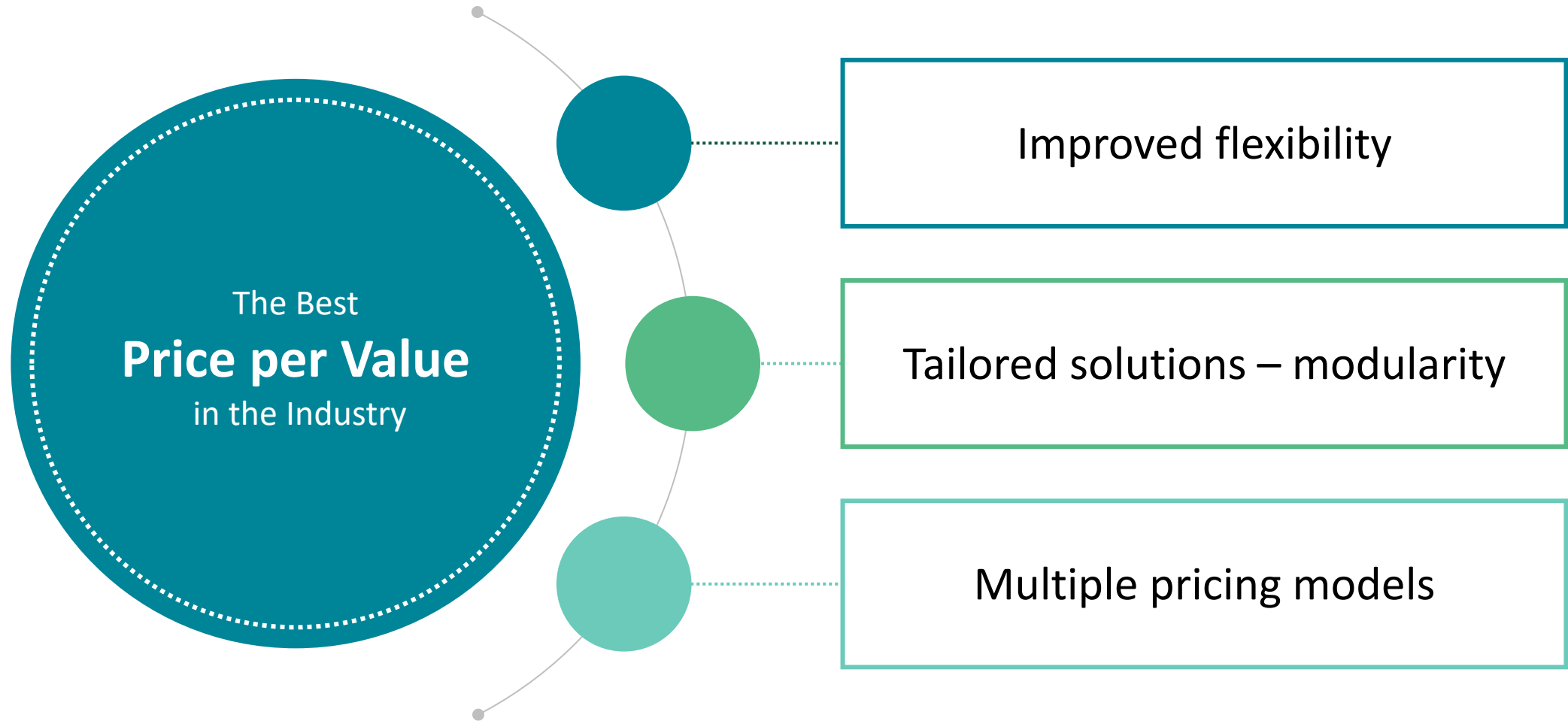
Go-to-Market Aligned to Our Ideal Customer Profile



OneSpan 1000 Program Prioritizes and Targets Growth



Disruptive Pricing and Packaging to Drive Share Shift



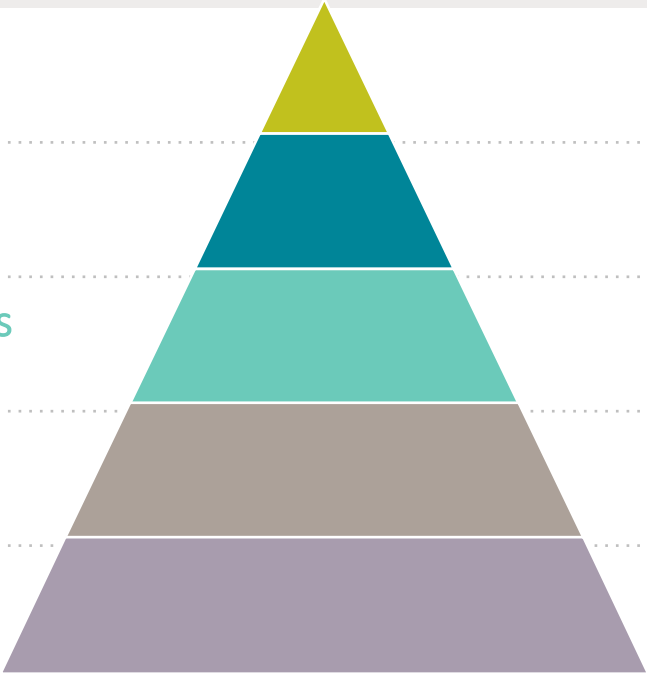
AGENDA

Optimizing Our Go-to-Market Strategy

- Capitalize on a larger digital agreements market
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Unified GTM Motion with an Enterprise Sales Approach

CUSTOMER SEGMENTATION BASED ON EMPLOYEE COUNT	OSPN SALES FOCUS	PARTNER COVERAGE		
Tiers <i>(Employee Count)</i>	Efficient Resource Allocation with Sellers	Global System Integrators	Resellers & Distributors	Platform Partners
 <p>Large Enterprise 100,000+</p>	NAM	✓		✓
<p>Enterprise 10,000 – 100,000</p>	NAM	✓		✓
<p>Medium Business 5,000 – 10,000</p>	NAM	✓		✓
<p>Mid-Market 2,000 – 5,000</p>	TAM		✓	✓
<p>Small Business < 2,000</p>	ISR		✓	✓



Key GTM Priorities – OneSpan 2.0

- 1 Targeted brand awareness
- 2 Focus on new logo growth
- 3 Share of wallet growth with enterprise customers
- 4 Expand across prioritized verticals and geographies
- 5 New routes to market through alliances and partnerships

How We Will Measure Success

New Logos

New enterprise logo acquisition and improved Annual Contract Value (ACV)



Share of Wallet

Cross-sell and up-sell in existing accounts



Renewals

Track churn for improved renewal rates



Retention

Increase Net Dollar Retention from current levels



IN SUMMARY

Well-Positioned to Win in Growing Digital Agreement Market

1

Team Across
the Globe

2

Integrated Segments –
Security Differentiates

1,000

Leading Enterprise
Customers

New Logo
Acquisition
& Up-sell
Cross-sell

**MUCH GREATER THAN \$5B E-SIGNATURE
MARKET OPPORTUNITY**

New Focus & Renewed Growth

Jan Kees van Gaalen

Interim Chief Financial Officer



New Focus & Renewed Growth

- Realigning for growth
- Delivering on our cost savings program
- Capital allocation priorities
- Outlook and long-term targets

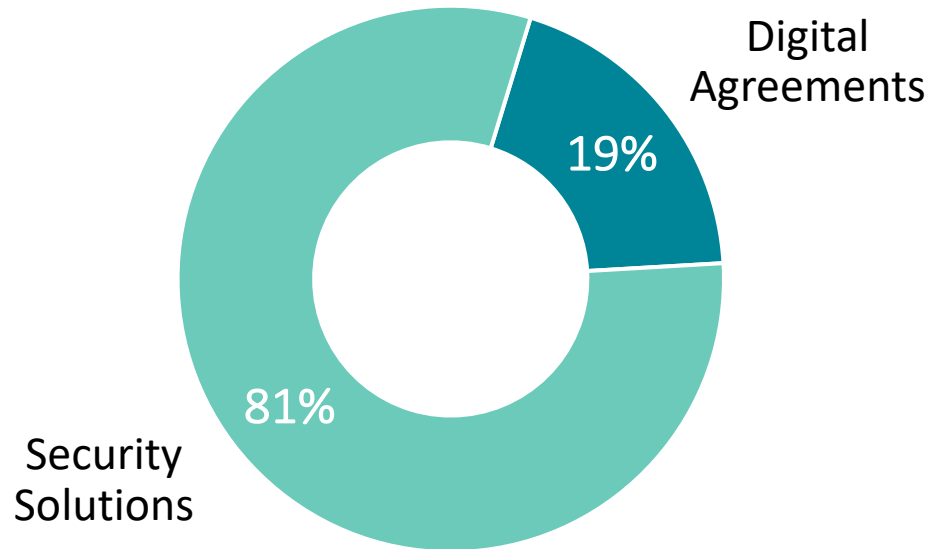


Our New Financial Paradigm

OneSpan	Past:		Future:
Managing the P&L	Business model transition	➤	Driving profitable growth
Revenue disclosures	Complex	➤	Reported by segment
Investments	Non-strategic	➤	Strategic focus
Return cash to shareholders	\$12.5M ¹ in shares repurchased to date	➤	Newly authorized share repurchase plan

Full Year 2021 by New Segments

2021 Revenue Mix



**2021 Blended
Gross Margin: 67%**

Focus

- Digital Agreements to be managed for accelerated growth and market share gains
- Security Solutions to be managed for more profitable, more modest growth profile
- New reporting metrics enable easier tracking of execution progress



Q1 FY22 – A New, Cleaner Presentation

PAST: E-Signature & Security combined

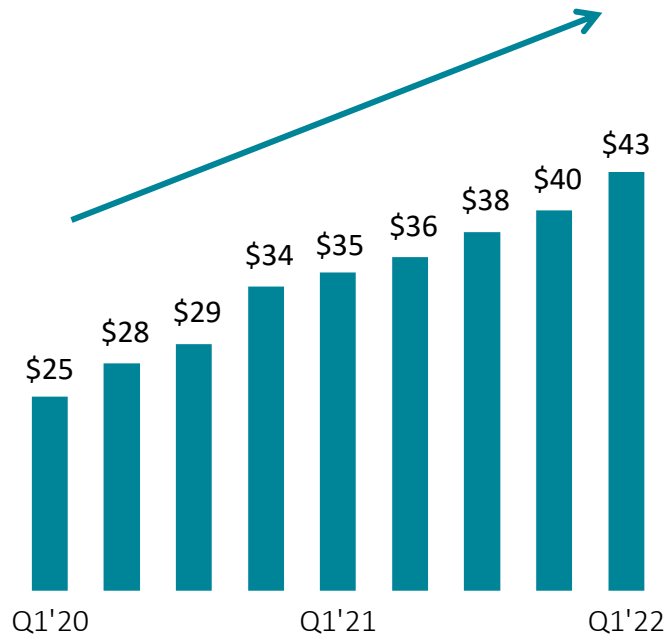
Revenue Disaggregation (\$M)	Q1'22
Subscription	10.1
Term-based software licenses	13.2
Maintenance, support, and other	<u>11.9</u>
Total recurring revenue	35.2
Perpetual software licenses	1.0
Professional services	<u>0.9</u>
Total software and service revenue	37.1
Hardware products	<u>15.4</u>
Total revenue	52.4

FUTURE: Digital Agreements & Security Solutions Segments

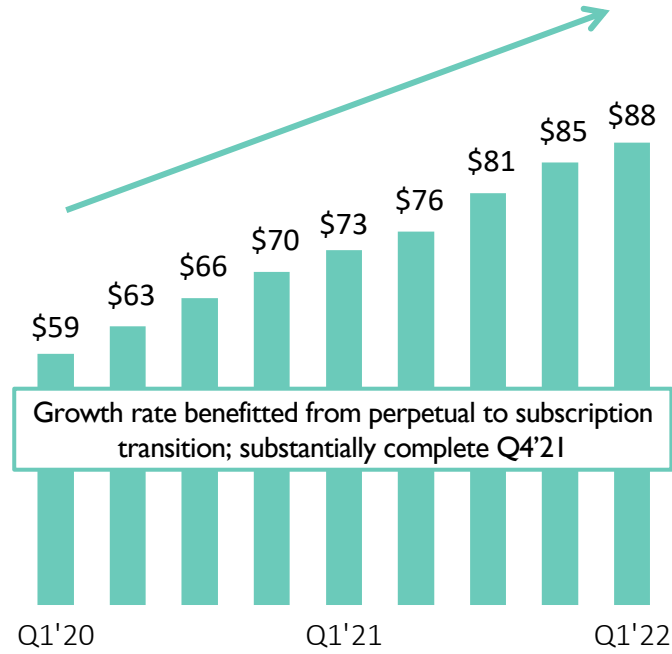
Revenue Disaggregation (\$M); Q1'22			
	Digital Agreements	Security Solutions	Total
Subscription ¹	\$11.5	\$11.8	\$23.3
Maintenance and support	1.4	10.6	11.9
Prof services & other ²	<u>0.3</u>	1.6	1.9
Hardware products		<u>15.4</u>	<u>15.4</u>
Total revenue	\$13.1	\$39.4	\$52.4

Both Segments Have Grown ARR Over the Last 2 Years

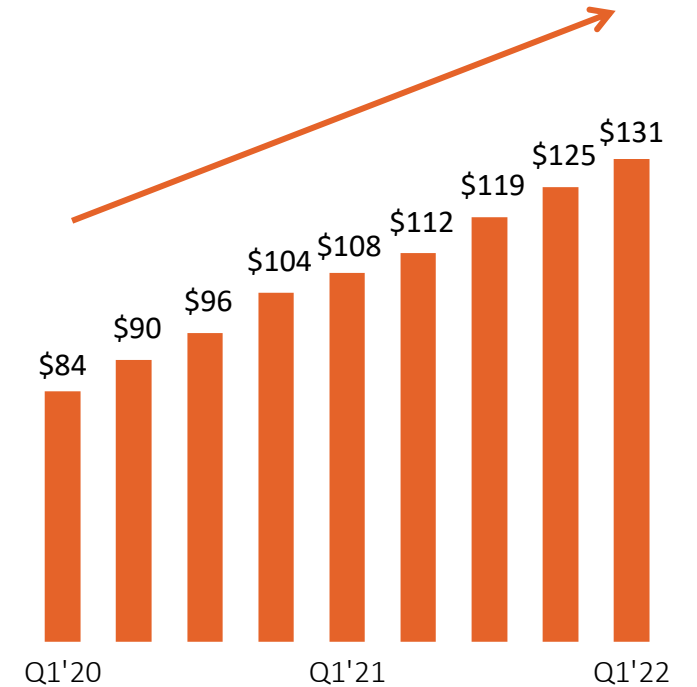
Digital Agreements



Security Solutions

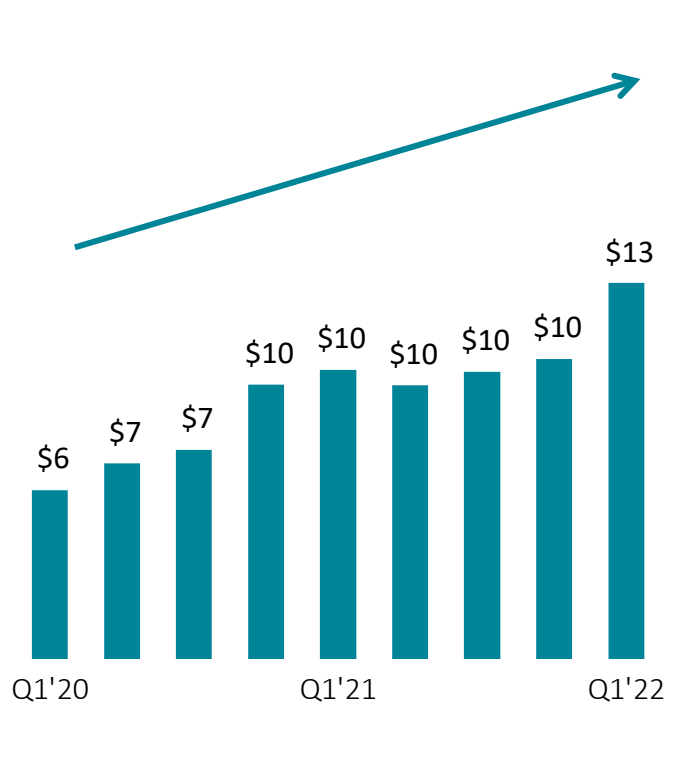


Total Company

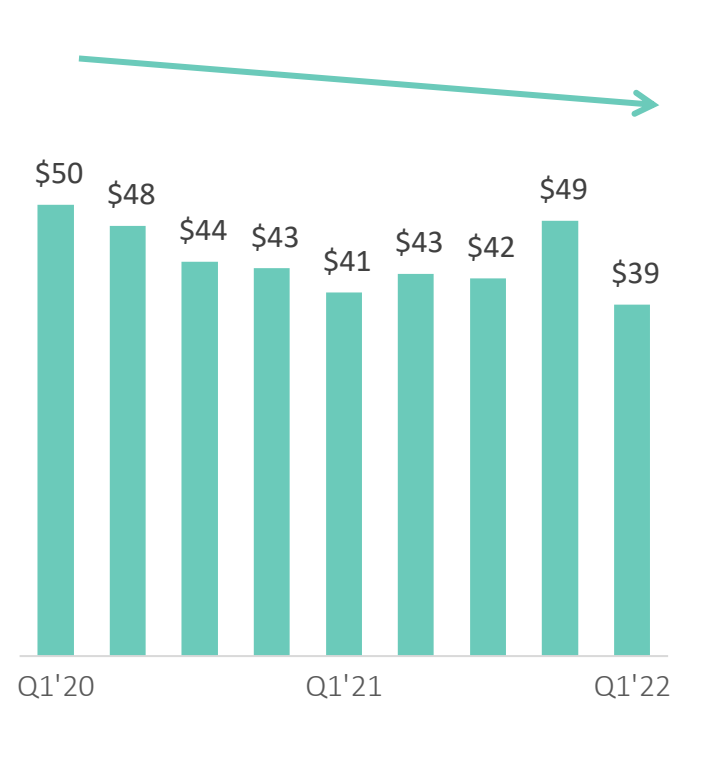


Strong Digital Agreement Revenue Growth Offset by Security Solutions Transition to Subscription

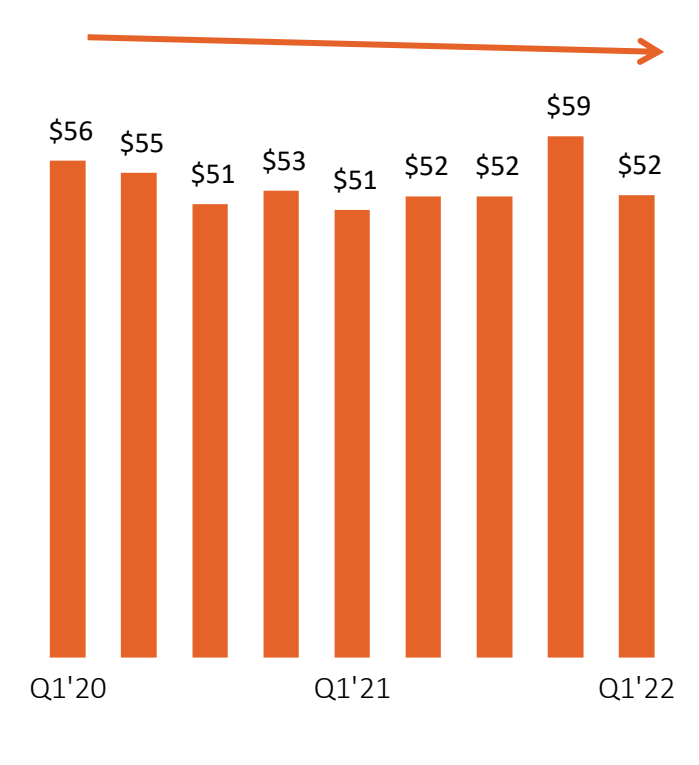
Digital Agreements



Security Solutions



Total Company



AGENDA

New Focus & Renewed Growth

- Realigning for growth
- Delivering on our cost savings program
- Capital allocation priorities
- Outlook and long-term targets



On Track to Deliver Cost Savings Targets for FY 2022

- ✓ Headcount reductions
- ✓ Decreased leased office spaces
- ✓ External spend rationalization
- ✓ \$2.7 million cost savings realized in Q1 2022

**> \$11
million**

Cost reduction
expected full year 2022¹

AGENDA

New Focus & Renewed Growth

- Realigning for growth
- Delivering on our cost savings program
- **Capital allocation priorities**
- Outlook and long-term targets



Capital Allocation Priorities

1	Maintain Strong Balance Sheet	<ul style="list-style-type: none">• \$120M in cash, no long-term debt¹• Working capital efficiency• Operating cash flow positive
2	Invest for Growth	<ul style="list-style-type: none">• Invest in rapidly growing Digital Agreements segment• Return Security Solutions segment to growth
3	Share Repurchases and M&A	<ul style="list-style-type: none">• New \$50 million share repurchase plan• Targeted M&A

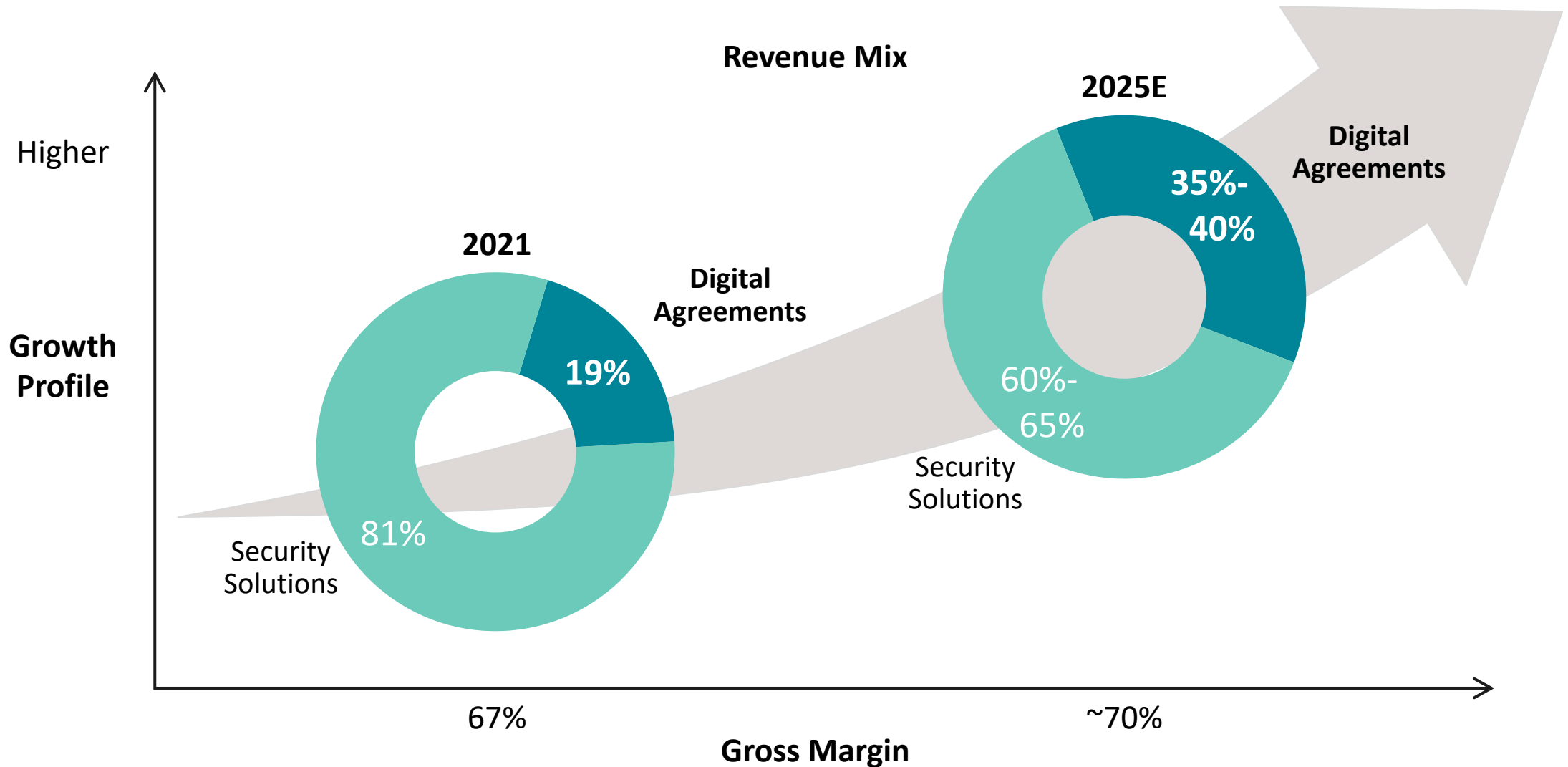
AGENDA

New Focus & Renewed Growth

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- **Outlook and long-term targets**

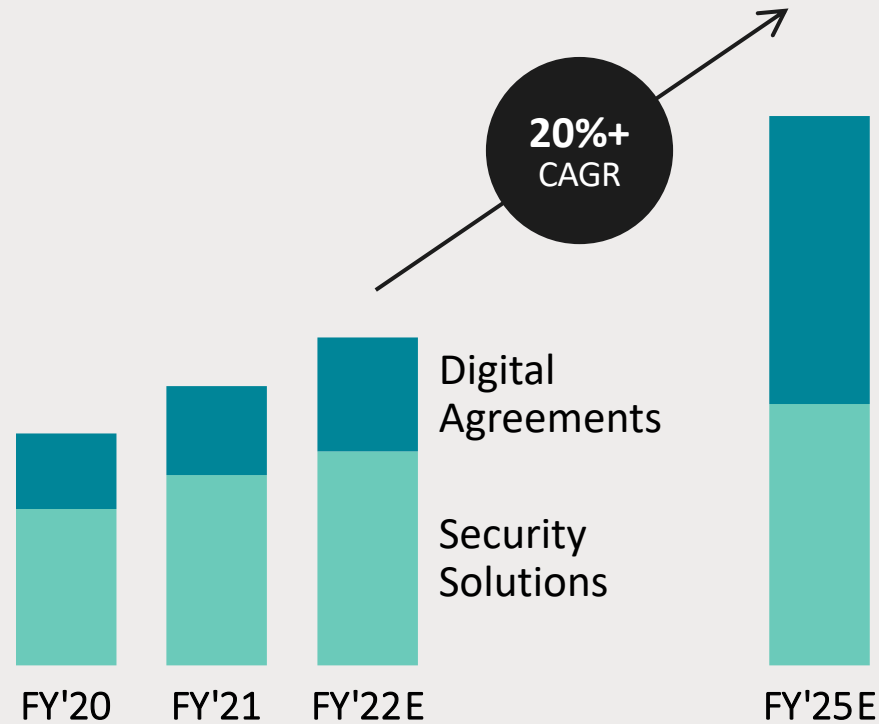


Higher Margin and Higher Growth Profile Targets



Targeting 20%+ ARR CAGR Over Our 3-Year Plan

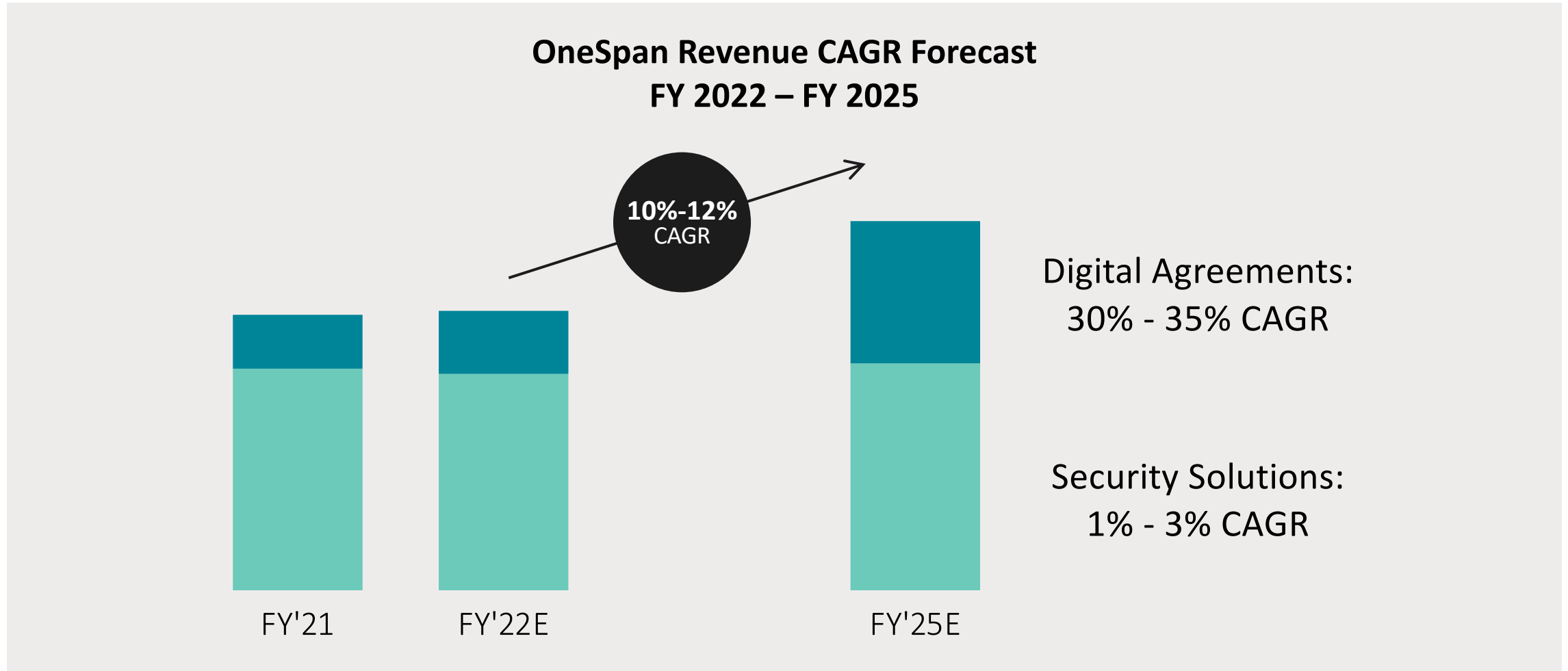
Total Company ARR CAGR Forecast FY 2022 – FY 2025



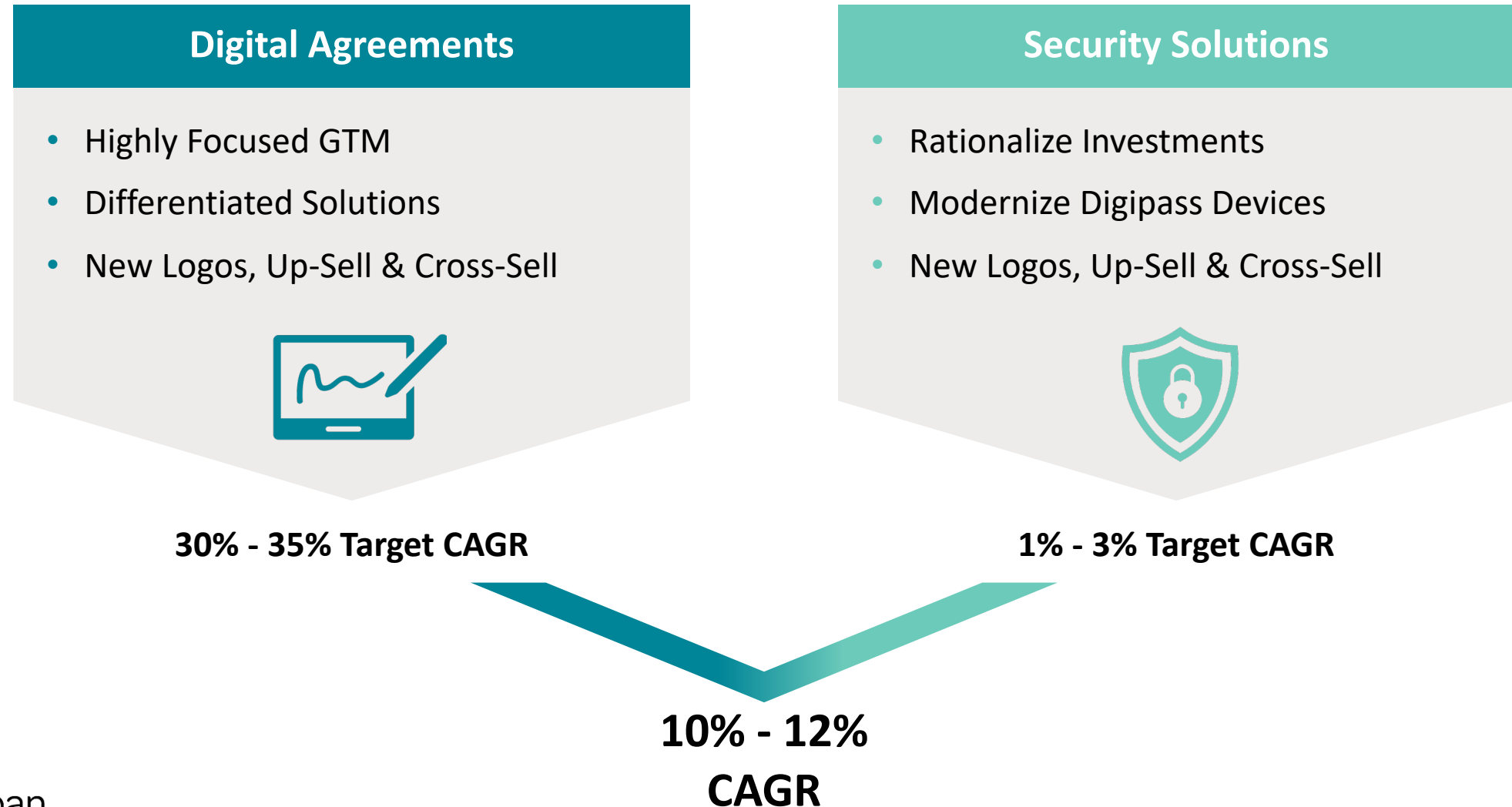
Segment ARR CAGR Forecast FY 2022 – FY2025

- Business model transition essentially complete; less than \$5M new perpetual software license revenue expected in FY 2022
- Digital Agreements: 30% - 35%
- Security Solutions: 5%+

Revenue Growth Expected to be Driven by Digital Agreements



Key Drivers of Anticipated Revenue Growth, 2022 - 2025



2022 Guidance and Long-Term Targets

Revenue	FY21 Actual	FY22 Guidance	FY22 – FY25 CAGR
Total Revenue	\$214 M	≥ FY21 Revenue	10% - 12%
Digital Agreements	\$40 M	--	30% - 35%
Security Solutions	\$174 M	--	1% - 3%

Profitability Metrics	FY21 Actual	FY22 Guidance	% of Revenue, 2025
Gross Margin	67%	--	~70%
Adjusted EBITDA ³	\$(5.1) M	\$(5M) - \$(7M)	8% - 10%

ARR ¹	FY21 Actual	FY22 Guidance	FY22 – FY25 CAGR
Total ARR	\$125 M	16% - 18% Growth	20%+
Digital Agreements	\$40 M	--	30% - 35%
Security Solutions	\$85 M	--	5%+

DBNE ²	FY21 Actual	FY22 Guidance	Exiting 2025
Total Company	115%	--	120%+

^{1,2} See Appendix for definitions

³ Adjusted EBITDA is a non-GAAP financial measure. The Company is not providing a target for or reconciliation to net income, the most directly comparable GAAP measure, for 2022 or 2025 because the Company is unable to predict certain items contained in the GAAP measure without unreasonable efforts. Please refer to the Appendix for more information regarding non-GAAP financial measures and a reconciliation of fiscal year 2021 Adjusted EBITDA to fiscal year 2021 GAAP net income.

New Focus & Renewed Growth

- Moving to 2 reporting segments for easier tracking, strategic focus
- Digital Agreements expected to double share of total revenues from current ~20% to ~40% by 2025
- Committed to maintaining strong balance sheet and ensuring efficient operations
- Revenue and performance expected to improve as strategic plan is executed over next 3 years



Break

We will return shortly



Q&A

Joe Maxa

Vice President of Investor Relations



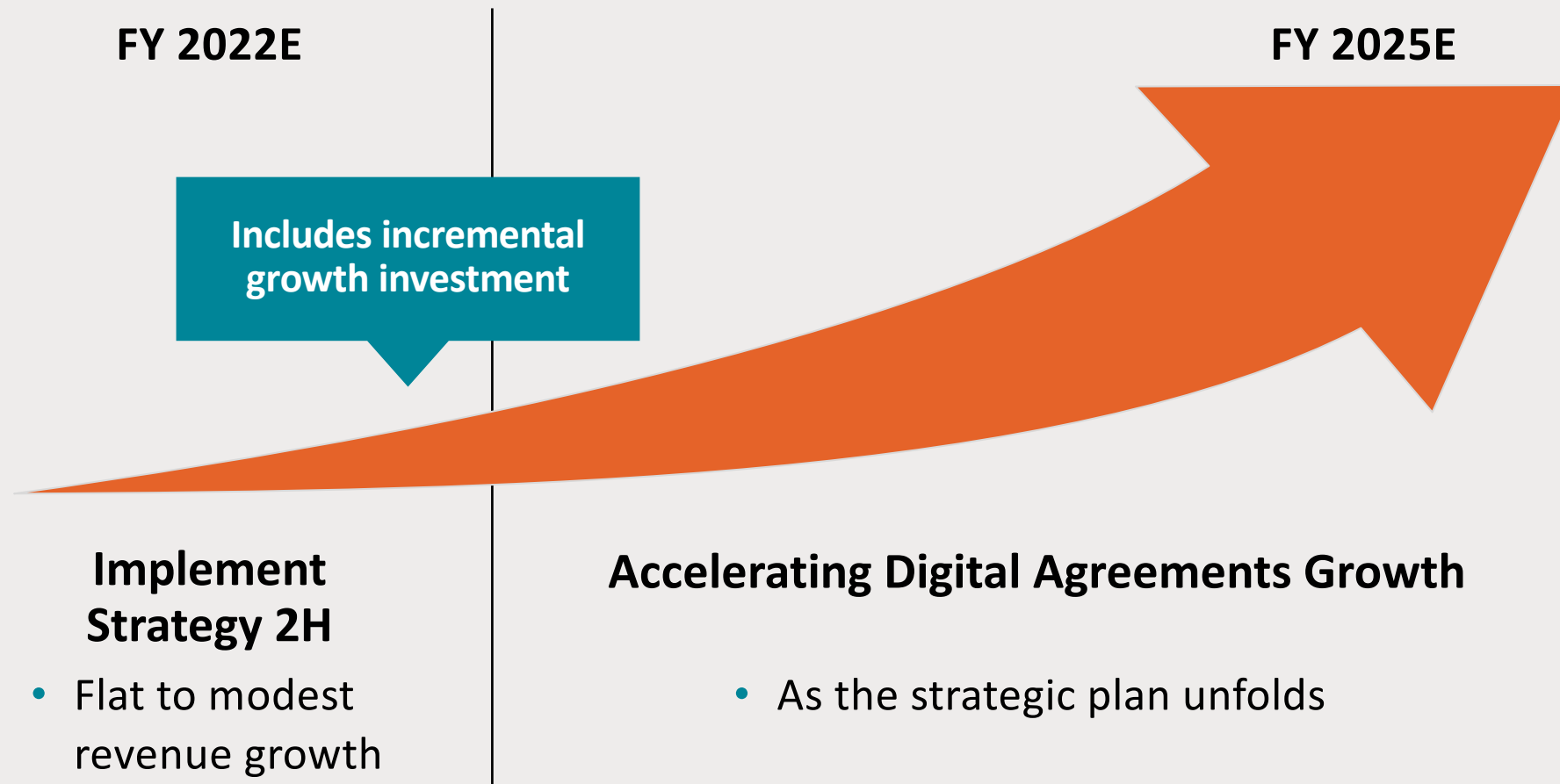
Wrap-up

Matthew Moynahan

President and Chief Executive Officer



Timeline to Long-Term Growth Targets



IN SUMMARY

The New OneSpan – at Inflection Point

1 Building on a strong foundation

2 Differentiated solutions will drive growth

3 Executing clear transformation plan and priorities



Thank You



Appendix



Revenue by Major Products and Services

Digital Agreements

(in millions, unaudited)

	Three months ended,								
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31	March 31
	2020	2020	2020	2020	2021	2021	2021	2021	2022
Subscription	\$4.2	\$5.0	\$5.6	\$7.8	\$8.2	\$7.8	\$8.2	\$8.9	\$11.5
Maintenance and support	1.2	1.2	1.3	1.4	1.4	1.5	1.6	1.2	1.4
Professional services and other	0.5	0.6	0.4	0.4	0.5	0.2	0.3	0.3	0.3
Total Digital Agreements revenue	\$5.9	\$6.8	\$7.3	\$9.5	\$10.1	\$9.5	\$10.0	\$10.4	\$13.1
<i>Subscription % of total revenue</i>	72%	74%	76%	81%	82%	82%	82%	85%	88%
<i>Subscription & maintenance % of total revenue</i>	92%	91%	94%	96%	95%	98%	97%	97%	98%

Security Solutions

(in millions, unaudited)

	Three months ended,								
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31	March 31
	2020	2020	2020	2020	2021	2021	2021	2021	2022
Subscription	\$10.7	\$6.1	\$4.2	\$8.9	\$8.2	\$8.0	\$9.7	\$9.7	\$11.8
Maintenance and support	9.8	10.9	11.1	12.3	11.1	11.5	11.2	11.8	10.6
Professional services and other	10.3	6.9	7.2	5.9	3.7	3.8	3.6	2.8	1.6
Hardware	19.7	24.2	21.7	16.2	17.7	19.5	17.9	24.5	15.4
Total Security Solutions revenue	\$50.5	\$48.1	\$44.2	\$43.4	\$40.7	\$42.8	\$42.3	\$48.7	\$39.4
<i>Subscription % of total revenue</i>	21%	13%	9%	20%	20%	19%	23%	20%	30%
<i>Subscription & maintenance % of total revenue</i>	41%	35%	35%	49%	47%	46%	49%	44%	57%

Revenue by Major Products and Services, continued

Total Company

(in millions, unaudited)

	Three months ended,								
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31	March 31
	2020	2020	2020	2020	2021	2021	2021	2021	2022
Subscription	\$14.9	\$11.1	\$9.7	\$16.6	\$16.4	\$15.7	\$17.8	\$18.6	\$23.3
Maintenance and support	11.0	12.1	12.4	13.7	12.5	13.0	12.7	13.0	11.9
Professional services and other	10.7	7.5	7.6	6.3	4.2	4.0	3.8	3.1	1.9
Hardware	19.7	24.2	21.7	16.2	17.7	19.5	17.9	24.5	15.4
Total Company revenue	<u>\$56.4</u>	<u>\$55.0</u>	<u>\$51.4</u>	<u>\$52.9</u>	<u>\$50.8</u>	<u>\$52.3</u>	<u>\$52.3</u>	<u>\$59.2</u>	<u>\$52.4</u>
<i>Subscription % of total revenue</i>	26%	20%	19%	31%	32%	30%	34%	31%	44%
<i>Subscription & maintenance % of total revenue</i>	46%	42%	43%	57%	57%	55%	58%	53%	67%

Non-GAAP Reconciliation

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

	Twelve months ended December 31,	
	2020	2021
Net income (loss)	\$ (5,455)	\$ (30,584)
Interest income, net	(404)	1
Provision for income taxes	2,035	4,441
Depreciation and amortization / impairment of intangible assets	12,003	8,926
Long-term incentive compensation	6,001	5,202
Non-recurring items ¹	-	6,951
Adjusted EBITDA	<u>\$ 14,180</u>	<u>\$ (5,063)</u>

¹Non-recurring items include \$3.5 million of outside services costs associated with our strategic action plan for the twelve months ended December 31, 2021. For the twelve months ended December 31, 2021, non-recurring items also include \$2.8 million of outside service costs related to the proxy contest for the twelve months ended December 31, 2021, and the related \$0.7 million settlement with Legion Partners Holdings, LLC.

Definitions

- 1 - **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.
- 2 - **DBNE** is defined as the year-over-year growth in ARR from the same set of customers at the end of the prior year period.

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 in comparison to our historical operating results.

These non-GAAP financial measures are not measures of performance under GAAP and should not be considered in isolation or as alternatives or substitutes for the most directly comparable financial measures calculated in accordance with GAAP. While we believe that these non-GAAP financial measures are useful within the context described below, they are in fact incomplete and are not measures 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 stockholders as a return on their investment. Reconciliations of the historical non-GAAP financial measures to the most directly comparable GAAP financial measures are found above.

We define Adjusted EBITDA as net income before interest, taxes, depreciation, amortization, long-term incentive compensation, and certain non-recurring items, including acquisition related costs, lease exit costs, rebranding costs, and non-routine shareholder matters. We use Adjusted EBITDA as a simplified measure of performance for use in communicating our performance to investors and analysts and for our 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 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, non-routine shareholder matters), deal with the structure or financing of the business (e.g., interest, one-time strategic action costs) or reflect the application of regulations that are outside of the control of our management team (e.g., taxes). Similarly, we find that our comparison of our results to those of our competitors is facilitated when we do not consider the impact of these items.

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