OneSpan Inc(Q3 2023 Earnings)
November 8, 2023

Corporate Speakers

- Joe Maxa; OneSpan, Inc; Vice President of Investor Relations
- Matt Moynahan; OneSpan, Inc; Chief Executive Officer
- Jorge Martell; OneSpan, Inc; Chief Financial Officer

Participants

- Gray Powell; BTIG; Analyst
- Anja Soderstrom; Sidoti; Analyst

PRESENTATION

Operator^ Good day. Thank you for standing by. Welcome to the Q3 2023 OneSpan 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 speaker, Joe Maxa, Vice President of Investor Relations. Please go ahead.

Joe Maxa^ Thank you, Operator. Hello, everyone.

Thank you for joining the OneSpan third quarter 2023 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 Matt Moynahan, 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 2023.

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 2023 and longer-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 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 conference call is November 8, 2023.

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 the call over to Matt.

Matt Moynahan^ Thank you, Joe. Good afternoon, everyone. Thank you for joining us.

We announced important changes to our operating model last quarter to help us drive more efficient revenue growth, increased profitability and enhanced shareholder value. I'm pleased to tell you we made good progress towards these objectives in the third quarter, including the execution of significant cost reduction activities and the appointments of general managers for our two operating business units.

We are working hard toward our commitment of achieving the Rule of 40 and are driving toward our aspirational goal of attaining a level of 30% under the Rule of 40 framework by the time we exit 2024.

Third quarter revenue grew 3% year-over-year to $59 million. ARR grew 10% to $150 million and adjusted EBITDA was $6.3 million or 11% of revenue. I am pleased by the 11% adjusted EBITDA margin we reported driven primarily by our focus on operational rigor and our cost reduction initiatives.

During the quarter, we reduced headcount by approximately 15%, resulting in annualized cost savings of more than $20 million. This was in addition to the approximate 5% head count reduction we completed in Q2, and we are planning further rightsizing before the end of this year.

Jorge will provide more details on our annualized cost savings during his financial review, including our expectation to achieve approximately $58 million of cumulative savings by the end of 2023. Based on our Q3 results and our plan to execute on additional cost savings, I believe we have positioned OneSpan to achieve our full year 2024 targeted adjusted EBITDA margin of at least 20%.

We are closely monitoring our go-to-market metrics, including sales productivity and marketing efficiency, along with our revenue growth. If necessary, we plan to further address our cost model to achieve our profitability commitments. Turning to our two operating segments: Digital agreements and Security Solutions.

In the third quarter, we transitioned from segment reporting to formally creating two distinct operating business units, each with a general manager. Sameer Hajarnis has been appointed General Manager of Digital agreements and Mahmoud Samy Ibrahim named General Manager of our Security Solutions unit. Sameer and Samy are seasoned executives with relevant domain expertise and are focused on driving operational excellence as they execute their respective business strategies of driving digital agreements for efficient growth and security solutions for cash flow.

During the quarter, both segments performed generally as expected, with revenue growth driven primarily by expansion at existing customers and profitability benefiting sequentially from higher gross margin and lower operating expenses, among other items. In digital agreements, we continue to see increased deal scrutiny and reprioritization of customer investments driven by the macroeconomic uncertainties.

This is putting pressure on sales cycles, deal sizes and pipeline conversion rates for both expansion opportunities and new logos. That said, we had a solid sequential SaaS revenue growth of 11% in Q3, which included a three-year $2 million ACV contract that we have discussed in the last quarter that moved out of Q2 and closed in early Q3. I would like to highlight one additional customer, a large U.S. bank that upgraded from our on-premises form factor to our leading cloud e-signature solution. The customer issued an RFP as part of their transition to the cloud and chose OneSpan over our key competitors in a three-year upper six-figure ACV deal that begins in Q4.

The customer specifically noted the important role that OneSpan's high-quality customer service played in their final decision. This customer also valued our virtual technology and signed a low six-figure ACV deal to begin using it along with our cloud-based e-signature solution in a separate line of business, replacing one of our major competitors in Q3. They will also be trialing OneSpan notary beginning in Q4.

As mentioned in prior calls, new logo attainment and increased sales productivity are core to our digital agreements growth strategy.

We continue to focus on brand recognition as well as sales enablement and training to improve the productivity of our sellers and enable them to more aggressively generate and close enterprise new business opportunities.

Our value proposition, including our five-pillar solution strategy of identity verification, authentication, high assurance virtual collaboration, e-signature and secure transaction e-Vaulting is very different from other e-signature companies in the market, and it continues to gain interest and set us apart. In fact, we were recently named a leader in the IDC MarketScape Worldwide eSignature software vendor assessment for 2023, and we're recognized for our "white-glove service" to all customers to ensure their success while making it easy without sacrificing the security necessary to perform high assurance interactions. The report highlighted OneSpan's expertise in heavily regulated industries, customization and white labeling capabilities while calling out a robust audit trail is a key differentiator, stating, OneSpan provides a single audit trail of the entire agreement process from identity verification and authentication to signature. The audit trail is constantly embedded within the signed document for easy, one click verification.

We are the only company in the industry focused on securing the entire digital transaction life cycle, and we believe the cyber threat environment is moving in our direction.

We're also working to improve our go-to-market demand engine and are excited by our new partnership with an external demand generation agency.

We believe this new agency has a stronger understanding of our business strategy, market position and value proposition than our previous partner. We're demonstrating innovation by bringing next-generation capabilities to market, such as OneSpan Trustful that we launched last week. I'm excited about this new capability, which helps guarantee the integrity and long-term viability of documents through the use of immutable storage capabilities based on blockchain technology. Trust fault allows organizations to keep their digital agreements protected against hacking, data breaches and emerging technologies like quantum computing that can pose security risks throughout the lifetime of the document.

And we continue to put the OneSpan notary infrastructure in place to broaden the addressable market for our solution. It is currently available for use in 28 states, which is more than our largest competitor, and we are targeting availability for approximately 40 U.S. states by the end of the first quarter 2024.

As a reminder most states require certification, which is done on a state-by-state basis. Currently, OneSpan notary has a handful of paying customers and about 50 customers with end market proofs of concept.

Lastly, and perhaps most importantly, we continue to target the first half of 2024 for general availability of our self-service Try and Buy e-signature solution focused on the SMB and commercial market segments. I'll now spend a few minutes on our Security Solutions segment. In Security Solutions, we continue to see subscription license expansion opportunities from existing customers, primarily for our mobile security and authentication solutions to mitigate potential hacking attacks. Security subscription revenue grew 20% year-over-year in the quarter, driven by demand for authentication, transaction signing and app shielding solutions. DIGIPASS token revenue declined 5%, primarily due to product mix and timing of order shipments as compared to the prior year period.

Visibility into DIGIPASS orders remain strong at our large banking customers, though we continue to see to some extent the macroeconomic environment affecting orders in the mid-market banking sector.

We are watching the market ripple effect on the mid-market financial sector very closely. Top priorities in our Security Solutions segment include deepening our relationships with strategic accounts, reengaging the channel and bringing new relevant solutions to market.

We have a history of supporting our customers in times of new regulation and have another opportunity to do so with the forthcoming PSD three regulation in the European Union, which we plan to support with our mobile software and DIGIPASS security solutions, including forthcoming new solutions.

We also continue to focus our discussions with customers around their future mobile authentication strategies, whether mobile-first, mobile-only or a hybrid approach using mobile and DIGIPASS tokens.

And we're excited to be launching a new channel program, which we plan to announce in the coming weeks.

We plan to grow our new channel partner network in the coming years and enable it to sell all of our solutions, expanding our market and helping us grow our top line.

We also plan to bring new solutions to market to support our channel program, including an offering targeting workforce authentication named DIGIPASS-FX1BiO.

We plan to provide you with more information on this new device in the near future. Next, I want to provide an update on our capital allocation plans.

We used $3.5 million in cash to repurchase common stock during the third quarter.

We expect to announce in the next week a modified Dutch auction tender offer to repurchase approximately $20 million of our common stock, consistent with our plan to return capital to shareholders as we seek to balance revenue growth and profitability. I believe the actions we are taking to right size our cost structure, return capital to shareholders and focus on efficient growth are the right operational and strategic decisions for OneSpan and will help us to achieve our commitment to create and return value to our shareholders. With that, I will turn the call over to Jorge to review our financials. Jorge?

Jorge Martell^ Thank you, Matt. Good afternoon, everybody. Before reviewing our third quarter results, I want to provide an update on the actions we are taking to rebalance our cost structure to drive more efficient top line growth. For simplicity, we are providing combined total annualized cost savings from the cost reduction actions we announced last quarter and Phase two of our restructuring plan announced in May of 2022.

As Matt mentioned, we reduced head count by approximately 15% in the third quarter and was mostly related to the cost reduction actions we announced last quarter and resulted in annualized cost savings of approximately $21 million. Total annualized cost savings achieved in the third quarter, including headcount reductions, vendor consolidation and other optimization strategies were approximately $24 million.

Cumulative annualized cost savings as of the end of the third quarter were approximately $43 million.

We expect to execute on approximately $50 million of additional cost savings in the current quarter, mostly labor related, bringing total annualized cost savings to approximately $58 million by the end of 2023.

Over the course of the last few months, we have firmed up incremental vendor-related savings and other cost optimization strategies and now expect to achieve total annualized cost savings of $60 million to $65 million by the end of 2025 or approximately $10 million more than the $50 million to $55 million range we discussed last quarter, which included a level of conservatism. The $10 million increase is due to a stronger line of sight into our cost savings targets, which had already been incorporated into our 2024 adjusted EBITDA margin target range of 20% to 23%. Turning to our third quarter results.

Third quarter ARR grew 10% year-over-year to $150 million. ARR specific to subscription contracts grew 17% to $119 million and accounted for approximately 79% of total ARR. Net retention rate, or NRR, was 108%. Similar to prior quarters, ARR and NRR were impacted by the macroeconomic environment with increased deal scrutiny and longer sales cycles, resulting in more moderate new business and expansion rates. These metrics also continue to be impacted by our decision to sunset certain portfolio offerings last year.

Third quarter revenue increased 3% to $58.8 million. Subscription revenue grew 18% to $26.2 million, led by 20% growth in security software and 15% growth in e-signature SaaS revenue. Perpetual several licenses and maintenance and support revenue declined as expected, driven by our strategic decision to sell only new recurring revenue contracts as part of our three-year plan. DIGIPASS token revenue declined 5%. Third quarter gross margin was 69% compared to 67% in the prior year quarter, driven primarily by favorable product mix and improved hardware margin.

I'll provide additional comments on gross margin by operating segment in a few minutes.

Operating loss was $4.8 million compared to $5.6 million in the third quarter of last year. Increases in revenue and gross profit margin were mostly offset by increases in operating expenses, resulting from higher headcount-related costs and increases in T&E expenses. GAAP net loss per share was $0.10 in the third quarter of 2023 compared to $0.18 in the third quarter of last year. Non-GAAP earnings per share, which excludes long-term incentive compensation, amortization, restructuring charges, other nonrecurring items and the impact of adjustments was $0.09 in the third quarter.

This compares to non-GAAP earnings per share of $0.03 in Q3 of last year. Third quarter adjusted EBITDA was $6.3 million as compared to $4.5 million in the same period of last year. Third quarter adjusted EBITDA benefited from approximately $2.3 million in one-time items, most of which were driven by an adjustment to bonus accruals and to a lesser extent, an immaterial catch-up adjustment from our prior period multiyear agreement. I'll now discuss our third quarter digital agreement segment results. ARR grew 13% year-over-year to $51 million.

Subscription ARR grew 15% to $47 million. Digital agreements revenue increased 7% to $13 million. SaaS subscription revenue grew 15% to $11.7 million and accounted for nearly 100% of the subscription revenue in the quarter.

As discussed previously we are sunsetting our on-premise version of our e-signature nature solution at the end of 2023 and stop selling new licenses effective January 1.

We expect minimal on-premise subscription revenue for the full year 2023.

For comparison purposes, on-premise digital agreement subscription revenue, which is included in our total subscription revenue contributed $4.8 million for the full year 2022, including $1.1 million in the fourth quarter of last year. Third quarter gross profit margin was 75% as compared to 80% in the prior year quarter. Gross margin in the prior year period benefited by approximately six points due to a one-time credit from a cloud service provider.

Operating loss was $4.7 million as compared to an operating profit of $2.2 million in Q3 last year and an operating loss of $7.1 million last quarter.

As a reminder in Q1 of this year, we reallocated expenses from our Security Solutions operating segment to digital agreements, which accounted for the majority of the year-over-year change in profitability in the quarter.

Lower gross margin, combined with increased sales headcount and an increase in sales and marketing, travel and entertainment expenses contributed to the change. Turning to our Security Solutions segment results. ARR grew 9% year-over-year in the third quarter to $98 million. Subscription ARR grew 18% to $72 million and was partially offset by a decline in perpetual maintenance ARR, a trend we expect to continue as legacy perpetual-based maintenance contracts shifted to subscription contracts over time. Revenue increased 2% to $45.8 million.

Subscription revenue increased 20% to $14.4 million, our second highest quarterly result following a strong first half of the year. Strength in Q3, subscription revenue in the quarter and year-to-date continue to be driven by demand for our authentication transaction signing and app shielding solutions, primarily from existing customers. The growth in Q3 subscription revenue was offset partially by expected declines in perpetual software and lower volumes of hardware sold. Q3 gross profit margin was 67% as compared to 64% in the same period last year. The increase in margin is primarily attributable to an increase in subscription revenue and a 5-point increase in hardware margin.

I want to remind you that DIGIPASS token delivers return to normalized levels beginning last quarter and the hardware margins can fluctuate in any given quarter based on product and customer mix.

Operating income was $15.7 million and operating margin was 34% compared to $5.7 million and 13% in last year's third quarter. An increase in revenue and gross profit margin, the reallocation of certain expenses to digital agreements and a $3.8 million impairment charge related to the sunsetting of noncore assets last year accounted for the majority of the increase. Turning to our balance sheet.

We ended the third quarter of 2023 with $68.5 million in cash, cash equivalents and short-term investments compared to $99 million at the end of 2022.

Key uses of cash year-to-date include approximately $9 million in capitalized expenditures, primarily capitalized software costs, $9 million in restructuring payments, $2 million in acquisition-related costs, $3.5 million to repurchase common stock and $8 million from changes to net working capital.

We have no long-term debt. Consistent with the changes in the operating model, we expect to generate positive cash flows from operations in Q4 2023 and 2024. Geographically, our revenue mix by region in the third quarter of 2023 was 45% from EMEA, 34% from the Americas and 21% from Asia Pacific. This compares to 45%, 36% and 19% from the same regions in the third quarter of last year, respectively.

I will now provide an update to our financial outlook. For the full year 2023, we expect revenue to be in the range of $228 million to $232 million as compared to our previous guidance range of $226 million to $232 million. ARR to be in the range of $148 million to $152 million and adjusted EBITDA to be in the range of $2 million to $4 million, up from our previous guidance range of $0 million to $3 million.

As discussed previously our business can be affected by the timing of contracts and product mix. In Q4, we are expecting pressure on hardware margins due to a less favorable mix of customers and products.

We're also expecting a decrease in digital agreements' gross margin due to an increase in amortization of capitalized software costs, which we began capitalizing last year. We've also discussed our plan to sensor our on-premise e-signature legacy deal flow Solutions at the end of this year, which, along with some expected contraction from a few security solution customers that impact ARR and NRR in Q4 2023 and Q1 2024. For example, some customers purchased our cloud e-signature solution in prior quarters due to the planned sunsetting of our on-premise solution. These customers are running both e-signature versions as they migrate to the cloud.

We expect contraction from these customers as their on-premise contracts expire in Q4.

We also expect some contraction in Q1 from customers migrating from on-premise estate and deal flow to other solutions. Turning to our full year 2024 outlook. Your hard work on our budget, which will be completed by the end of this year and will need approval by the Board in due course.

We are targeting full year 2024 revenue growth in the low to mid-single digits range and full year 2024 adjusted EBITDA margin in the range of 20% to 23%. Accordingly, we expect to generate cash from operations in the range of $32 million to $36 million by the end of 2024, excluding restructuring-related payments, M&A activities and return of capital to shareholders.

That concludes my remarks. I'll now turn the call back to Matt.

Matt Moynahan^ Thank you, Jorge. I'm very proud of the work our team is doing to transform OneSpan into an enterprise class company with a performance-based culture.

We are committed to creating and returning value to our shareholders by growing revenue efficiently and profitably. Jorge and I will now be happy to take your questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question will be coming from Gray Powell of BTIG.

Gray Powell^ I have a few on my end. But before I get into it, just congratulations on what looks like a fairly clean quarter.

So yes, just to start off, a number of other tech companies are talking about how they're seeing macro headwinds get worse in October. I was just wondering if you could talk about the linearity that you saw throughout Q3 and then just provide any color on what you've seen like the last 30 or 40 days and just your overall confidence level in terms of your visibility on demand?

Matt Moynahan^ Gray, it's Matt. I don't think there's been any material change over the course of the year. We've seen this over the past two or three quarters, and we continue to see, I would say somewhat consistent macroeconomic challenges.

Obviously, we mentioned some of the lengthening deal sales cycles, some deal prioritization in DA, which is more typical than it would be in the cyber side of the house, which is strategic and tied to online banking. The one area that we do believe is having a slight increasing effect is in the mid-market financial sector, particularly as it relates to the purchase of hardware tokens.

We're hard at work launching a new channel program that should get us more visibility into that particular sector.

But I would say that would be the only one that there's a question mark for me has it worsened or not, and we'll have more visibility, I'm sure, next quarter, particularly after the release of this new program channel program, which should give us more visibility with those partners who control most of that volume for us.

Gray Powell^ Okay. That's really helpful. I think you may have kind of sort of answered this one on the prepared remarks, but I just want to make sure I have it correct.

So net new ARR additions bounced back pretty nicely in Q3. You added just over $5 million of net new ARR.

I know there were some deals slipped from Q2 to Q3 that probably helped that number.

But the high end of guidance implies that you only add $2 million in Q4.

So, is there any reason to think that's not just a conservative number?

I know you talked about the sunsetting issues.

So, I just want to make sure that I'm sort of thinking about the ARR trend lines correctly.

Matt Moynahan^ Yes. We have -- no, I think that's fair to say. I mean we do have a couple of mitigating impacts here, as Jorge mentioned, we sort of have a double bump going on right now as we've been migrating on both the e-signature and the security side of that, so obviously migrating from perpetual to subscriptions in the e-signature side of the house at SaaS.

So, we oftentimes during the migration from an on-premise to a cloud-based installation. You run both in parallel.

So, there's a tail where we're sort of getting the double benefit of both contracts in place at the same time.

And so, we do anticipate as customers roll off of on-prem and the maintenance associated with that to the cloud application that there's a little bit of a headwind or a dampening effect, I should say associated with that.

We also have a couple of planned downsizing one of our banking customers is selling off some international assets, for example, which is really obviously uncontrollable.

Then the big thing, Gray, is really just the importance of getting a new logo acquisition engine going, right?

And so, the biggest area for us, given our size is the index that we have to drive ARR and NRR associated with new logo acquisition, right?

And so, again, we've seen some lumping in sales cycles.

So, I think all those dampening effects suggest that we're being prudent and where we are right now given that we are at the midpoint of the range.

But I don't think your comments are unwarranted if we continue to perform the way we think we will this quarter.

Gray Powell^ All right. Perfect. Then last one on my side, I know I've asked a couple here. Just looking at Slide 19, that summary is really helpful on the cost reduction actions. Back of the envelope map, it looks like you're going to generate maybe -- if I just kind of look at like full year '23 versus full year '24, it looks like you're going to get like an extra $40 million or so in cost savings and that pretty much gets you to your EBITDA target.

Is that directionally, correct?

Jorge Martell^ Gray, this is Jorge. Apologies because I'm a little under the weather. Yes.

So, I think just to maybe take a step back.

So, we are planning by the end of this year to be at $43 million, and that's the sum of $19 that we had entering Q3, and we executed on $24 million in Q3, that gets you to that $43 million.

We plan to execute, as I mentioned, an incremental $15 million. That gets you to the $58 million that you see on that Slide 19 of the investor deck.

The arrangement we're looking at 60% to 65%. Now going back to sort of how we laid this out.

So, we had clear identification of the sources that this is going to come out.

Some of the work that we've done over the past couple of months, last quarter, firmed up some of these specific numbers in terms of the makeup of the mix between headcount and vendors, et cetera.

So, we guided to that number.

So, the 600 million to $65 million has already been included in the 20% to 23%.

Gray Powell^ Got it. Okay. Yes. I was trying to factor in like sort of the timing of when they layered in, but it might be easier for me just to take it after the call. Yes. I've been on here long enough.

Jorge Martell^ We'd happy to, Gray. There's just some dynamics with the sources of those spend, particularly as it relates to some of the savings associated with the vendor community that obviously is a little bit longer tail and a different layering in as far as when the impact takes place. We'll be happy to walk through it in detail with you after the call.

Operator^ (Operator Instructions) Our next question will come from Anja Soderstrom of Sidoti.

Anja Soderstrom^ And congrats on good performance here against your challenging backdrop. In terms of the scrutinizing of projects and longer sales cycle, do you see that has become worse or is it the same?

Or is it improving?

Matt Moynahan^ No. I think it's largely the same this year. Certainly, it was worse than last year for us, and we started calling it out this year.

But I don't think there's been any material change in that. Again, I think the challenge with the e-signature businesses we've talked about, I would say it's important.

Obviously, every business is going through some sort of digital transformation, and it's strategic in the long term, but in certain macroeconomic cycles, when an IT budget is being chopped from the top 10 to top seven to top five, there's just a question whether e-signature is the area they're going to invest their calories, particularly if there's an incumbent in place already, right?

So, I'd say it really is the macroeconomic challenges, Anja, where it meets a particular incumbent and the ability to unseat them in that environment. And now we are seeing some benefits from our new pricing model, which hopefully plays a role and provides an incentive for some of these enterprises to see material savings by moving.

But nonetheless, they do have to apply IT resources to make that migration happen.

So, we continue to see that happening.

I would expect that for the first half of next year to some degree.

Anja Soderstrom^ Okay. I think you said you cut about 50% of head count in the quarter. Where did most of the cuts come from?

Then how is your sales organization ramping up?

Matt Moynahan^ Sure. So, just walk through the high-level math and Jorge, please feel free to dive in.

So, the total expenses that came through, but half of them came from the digital agreement side of the house, about 30% of them came from security and 20% from G&A.

We can let Jorge walk through some of the details on that. But let me just give you the high-level merit.

On the digital agreement side of the house, obviously we've committed since day one to profitable growth. Digital agreements was always going to be that primary growth engine given the size of the e-signature market.

Security, obviously, we're going to consistently run for cash flow.

On the DA side of things, in addition to the macroeconomic is clear for us that the operating leverage that we thought may be there from cross-selling into our installed base essentially turn into a completely new sale, okay given the distance between the buying centers and the influencers on the security side of the house or signature side of the house.

So we rebalanced our sales capacity, not just in the direct sellers, but also with the sales development reps and these sales engineering community attached to those sellers to really make sure that we focus really on less so much the OneSpan 1,000, which we spoke about before, which was 1,000 top installed base customers to really, as we created these new digital agreements division on the top 500 installed base customers for digital agreements, which have really been driving our growth.

So the increased focus on the installed base of the digital agreement community, coupled with our execution, I would say of a more focused go-to-market which focused on Tier one and common law countries really provided us the opportunity to reduce the size of the sales force and the marketing spend associated with those other countries where we weren't seeing material growth and really having a more focused effort on making sure that North America, ANZ, Canada, which are the common law countries where there's exceptional product market fit, get the lion's share of our attention. We'll continue to sell the product globally.

But the way we're serving that market is slightly different, and we'll continue to evolve as we get a more cost-effective approach with the self-serve try and buy model coming in Q2 of next year.

So, I would just say it was rebalancing and refocusing on the DA business to ensure that we get that beachhead of growth in common law countries that allow us to do some of the sales capacity across the account executive sales engineering and STR communities inside of OneSpan.

Jorge Martell^ And Anja, just to add to your first -- to Matt and to your first question.

So, in terms of the split, S&M, sales and marketing was about close to 40%, then is R&D about 27% and then G&A above 15%.

Then there's vendors that go across these three sections, that's about 20% of the savings. And as Matt said, digital agreements is about 50% of the total savings combined.

Anja Soderstrom^ Okay. And as I think you alluded to it in your remarks Jorge.

But for the fourth quarter, you're implying with the full year guidance on the adjusted EBITDA that will be lower. Is that because of those one-time items in the third quarter or?

Jorge^ Yes. Thanks for the question, Anja.

So, I think there's two or three dynamics that I think is important to explain.

One is the visibility that we have into particularly the hardware margins, which is very dependent on the customer mix, as I mentioned.

So, this quarter, we benefited from that, particularly because a larger portion of the orders went to APAC, which have a higher margin. In Q4, we have this stability. That mix is going to shift.

So that's going to have an unfavorable impact on the hardware margins. The second component is the increased amortization of cap software, as I mentioned, that is going to impact our DA, also security but to a larger study is going to be DA.

So, the mix of revenue does impact profitability.

And so, I think you're going to continue to see this restructuring taking hold taking place and OpEx coming down, but these other dynamics on the profitability side will impact that number in Q4.

Anja Soderstrom^ Okay. Then one lastly on capital allocation and the Dutch auction tender offer, what would you decide for that?

And what are some other actions and you acquired Proven DB, is there other acquisitions in the pipeline? Or how are you thinking about that?

Matt Moynahan^ So, we do continue to look at tuck-in acquisitions for sure. We're hard at work at that and are committed to our overall strategy.

We do believe is prudent, particularly with this pivot to the new operating model on you that we have the flexibility given that we have proven since they want our ability to control cost, and that's the one thing we've been very, very consistent.

We've simply changed the capital allocation model from investing more materially in sales and marketing to having that cash from the balance sheet in addition to the operating model pivot that we feel comfortable going and returning $20 million-ish, if you will, to this Dutch tender offer. That does not mean we're not continuously looking for tuck-in acquisitions.

In fact, this environment is quite favorable for those.

But obviously you want that fit to be truly strategic like the proven DB acquisition was, and we're going to hold out until that becomes the case.

Operator^ Thank you. I would now like to turn the conference back to Matt for closing remarks.

Matt Moynahan^ Thank you, everyone, for joining. I really appreciate your time today and attention. I look forward to sharing progress with you next quarter.

Thank you, all, and have a nice day and a big thank you to the OneSpan team as well for all the hard work over the past quarter. Thank you, everyone.

Operator^ And this concludes today's conference call. Thank you for participating. You may now disconnect.