11-Aug-2020

OneSpan, Inc. (OSPN)

Q2 2020 Earnings Call

CORPORATE PARTICIPANTS

Joe Maxa
Vice President-Investor Relations, OneSpan, Inc.

Scott M. Clements
President, Chief Executive Officer & Director, OneSpan, Inc.

Mark S. Hoyt
Chief Financial Officer, Treasurer & Executive Vice President, OneSpan, Inc.

OTHER PARTICIPANTS

Gray Powell
Analyst, BTIG LLC

Andrew King
Analyst, Colliers International

Roger Boyd
Analyst, Needham & Co. LLC

Anja Soderstrom
Analyst, Sidoti & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the OneSpan Second Quarter 2020 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to, Mr. Joe Maxa, VP of Investor Relations. Please go ahead.

Joe Maxa

Vice President-Investor Relations, OneSpan, Inc.

Thank you, operator. Hello, everyone, and thank you for joining the OneSpan second quarter 2020 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 Scott Clements, our CEO; and Mark Hoyt, our CFO.

This afternoon, after market close, OneSpan issued a press release announcing results for our second quarter 2020. 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 2020, are forward-looking statements. We have tried to identify these statements by using words such as believes, anticipates, plans, expects, projects and similar words and these statements involve risks and uncertainties and are based on current expectations. 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 US Securities and Exchange Commission for a discussion of such risks and uncertainties.

Please 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 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 August 11, 2020. Any forward-looking statements and related assumptions are made as of this date. Except as expressly required by the federal securities laws, we undertake no obligation to update these statements as a result of new information or future events or for any other reason.

With that, I will turn the call over to Scott.

Scott M. Clements

President, Chief Executive Officer & Director, OneSpan, Inc.

Hey, Joe thanks very much. Good afternoon everyone and thanks for joining us here today. There are a lot of moving parts in today's earnings release, so I'd like to start off by summarizing some of the key points for you. Number one our transition from perpetual license to recurring revenue contracts is ahead of schedule. We're seeing strong growth in both subscription and term license categories, though this is in near-term partly offset by the expected headwind from lower perpetual license sales.

Second, year to-date, we are ahead of our plan on most measures, but there is still some quarter-to-quarter volatility in our P&L, with some of the outperformance in Q1 impacting Q2's top line. Number three our product investments are paying off with strong growth in OneSpan Sign and good early results from our OneSpan Cloud Authentication offering which was introduced earlier this year. The value of our softer sales pipeline has grown over 50% compared to last year and recurring order growth in Q2 was very strong.

Number four, the surge in coronavirus infections and deaths in the US and Latin America and resurgences elsewhere mean that banks now expect a deeper and longer economic downturn, that will broadly impact the global economy and that will also pressure bank financial results. Therefore OneSpan has determined it will withdraw its 2020 financial guidance until there's greater clarity on our customers' plans.

Number five the strategic outlook for OneSpan remains strong. The need for digital channel security and digitizing the customer experience and financial services are only reinforced by the present new reality. Furthermore, major institutions are in early stages of a generational shift to cloud platforms and infrastructure, which OneSpan began preparing for almost three years ago.

Now, let me turn to our update on the Q2 results. In the second quarter total revenues declined 2% to $55 million, with strong recurring revenue growth offset by lower authentication token sales, delays in some larger complex software projects and the period impact of our accelerated transition away from perpetual contracts. Recurring revenue accounted for 76% of total software and services revenue up from 71% last year and 64% in the second quarter of last year. You will recall our goal for 2022 is for recurring revenue to exceed 75% of total software and services revenue, we now believe, we will be close to that goal this year. We are also reporting annual recurring revenue for the first time this quarter, ARR grew 29% to $90 million in the second quarter. Adjusted EBITDA grew 24% to $3 million. We ended the first half of 2020 with revenue and adjusted EBITDA ahead of our 2020 plan.

Turning to bookings, software and service bookings increased in the upper single-digits as perpetual contracts declined offset by strong recurring contract bookings. Recurring contract bookings grew in excess of 50%, driven by term agreements up over 50% and subscription contract bookings more than doubling, driven by OneSpan Sign and demand for our cloud-based security solutions.

OneSpan Sign [ph] logged (06:38) significant wins globally across multiple verticals, including government, healthcare, insurance and, of course, financial services. We won a high six-figure ACV, Annual Contract Value contract with the US Department of Agriculture to support programs that distribute loans and relief funds to farmers. And we're seeing OneSpan Sign opportunities in every region and in the public and private sectors. During the quarter e-signature transaction volumes increased sharply and we expect continued OneSpan Sign revenue acceleration in the second half of 2020.

Now, some updates on our Solution portfolio. Our new OneSpan Cloud Authentication offering is being well-received by our customers. It can be implemented quickly at large scale from our public cloud and supports our full range of authentication devices and mobile security solutions. For example, we've recently deployed OneSpan Cloud Authentication for a Japanese financial services customer in under 30 days. Additionally, OCA utilizes a common set of [ph] GID (07:46) APIs that offer OCA customers a straightforward upgrade path to our more advanced risk-based Intelligent Adaptive Authentication solution when they are ready. And we continue to be recognized by the industry for our technological advances, OneSpan was recognized by Frost & Sullivan as Company of the Year in Digital Identity and Risk-Based Authentication and we are also awarded as Best Mobile Security Solution by SC Media, Europe for 2020.

As you know, we rescheduled our earnings release to allow time for our accounting team to assess possible accounting errors relating to a certain set of prior period software contracts. We, of course, take such matters very seriously and even though the impact was immaterial, we want to ensure that it was fully understood and addressed before reporting our results. And Mark will give you some additional details on that in just a moment.

In fact I'll turn the call over to Mark right now and then I'll come back to provide some additional comments along with an update on our outlook before opening the call to questions. Mark?

Mark S. Hoyt

Chief Financial Officer, Treasurer & Executive Vice President, OneSpan, Inc.

Thank you, Scott. Before discussing our second quarter financial details, I do want to comment on the prior period adjustments that we noted when we rescheduled the earnings call to today. During Q2, we identified errors relating to certain contracts with customers involving software licenses that originated in prior periods. We investigated and the errors that we found resulted in overstatements of revenue of $2.2 million from the beginning of 2018 through Q1 2020, this $2.2 million represents less than one half of 1% of the $523 million of revenue we recognized over that same timeframe. While we don't like errors, we do consider these errors to be immaterial and we are adjusting the prior period revenue and related amounts in our earnings release today and in future filings with the SEC. As Scott mentioned, we are externally publishing annual recurring revenue for the first time this quarter. ARR, which we define as the annualized value of all active recurring product contracts greater than or equal to one year in length grew 29% to $90 million in the second quarter of 2020. Recurring revenue grew 35% to $23 million in the quarter. We believe that these non-GAAP metrics, in addition to our GAAP results when compared to prior periods, provide additional insight into our transition to becoming a majority recurring revenue company. Total revenue for the second quarter of 2020 declined 2% to $55 million. Product and license revenue declined 12% to $35 million and services and other revenue grew 22% to $20 million.

Looking in more details of our recurring revenue, our subscription revenue grew 15% to $6 million. This included approximately 30% growth in our e-signature revenue offset by lower transaction volume from auto finance customers, using our Secure Agreement Automation solution due to the pandemic.

Term-based software licenses grew 144% to $5 million in Q2 and maintenance grew 23% year-over-year to $12 million. So the total software and services revenue grew 13% to $31 million, while our hardware revenue declined 17% to $24 million.

Gross margin in the second quarter of 2020 was 67% compared to 72% in the prior quarter and 68% in the second quarter of 2019. The decrease in gross margin is primarily attributed to product mix and I will note that we expect gross margins to increase slightly in the second half of the year as our software sales grow.

Operating expenses in the second quarter of 2020 were $38 million, a decrease of 5% from $41 million reported in Q2 last year. We expect that our operating expenses will increase in the second half of 2020 driven by increases in sales head count and marketing investments as we enhance our solutions and invest for growth in future quarters. Adjusted EBITDA or adjusted earnings before interest, taxes, depreciation, amortization, long-term incentive compensation and non-recurring items was $3 million, up from $2 million in the second quarter of 2019.

Adjusted EBITDA margin was 6% this year versus 4% last year. Our GAAP loss per share was $0.05 in the second quarter of 2020 compared to $0.06 in the second quarter of 2019. Our non-GAAP earnings per share, which excludes long-term incentive comp, amortization, non-recurring items and the impact of tax adjustments was $0.02 in the second quarter of 2020 compared to $0.01 in the second quarter of last year.

We ended the second quarter with $111 million in cash, cash equivalents and short-term investments compared to $110 million at the end of last year. Cash generated in operations was $7 million in the quarter. Geographically our revenue mix for the second quarter included 52% from EMEA, 25% from the Americas and 23% from the Asia-Pac region, this compares to 60%, 26% and 14% in the same regions in Q2 2019 respectively.

Scott I'll turn the meeting back to you.

Scott M. Clements

President, Chief Executive Officer & Director, OneSpan, Inc.

Okay. Thanks very much, Mark. As already noted our software and services sales opportunity pipeline grew substantially in the first half of 2020, demonstrating that we're offering solutions our customers need. However, there is an increased uncertainty about the timing of customer projects as we enter the second half of 2020. The surge in coronavirus infections and deaths beginning in early June in the US and Latin America and continued flare ups in Europe make it clear the virus will not be quickly contained. Most banks are now expecting a deeper more extended economic downturn and have increased their loan loss reserves in expectation of more bankruptcies in small and medium businesses in the quarters ahead.

Late in Q2 and into early Q3 we saw some lengthening of sales cycles as banks evaluate impacts to their operations from the pandemic. Nevertheless many banks were anticipating increased fraud losses and the need for continued digital channel expansion. Based on our discussions with both customers and industry analysts, we believe the banks will be more cautious about technology investments, but the projects that facilitate a better and more secure digital experience will continue to be a priority.

As I've noted before it's important to understand that a majority of our revenue is driven by additional sales to existing customers and that we generally have significantly net positive retention rates with those customers.

Given the global economic uncertainty, we believe it's prudent to take the following two steps. First is to withdraw our full year 2020 guidance as have many of our technology and cybersecurity company peers. Our present outlook is for 2020 full year recurring software and services revenue growth to be consistent with the three-year outlook we gave at the end of last year, offset by perpetual license revenue declines as expected. We also expect hardware revenue will decline at a 20% to 25% rate this year rather than our initial estimate of a mid-teens decline as banks worked on inventory they accumulated last year in anticipation of PSD2 and delays to hardware upgrade projects in favor of mobile security.

Second, OneSpan's board of directors has approved the share repurchase plan of up to $50 million through June 2022 to ensure the flexibility to drive shareholder value across a range of economic conditions. The repurchase plan is designed to offset equity issuance for compensation purposes and to repurchase additional shares when we believe it to be a prudent choice. I want to be clear that our priority remains using our cash for growth investment, but given the present economic uncertainty, I want the maximum flexibility for capital allocation.

Finally, there are several important well-documented and sustainable trends that define the future of our business. First, the ever-present need for regulatory compliance, which we help our customers with all around the world. Second, digitization of business processes to reduce costs, improve the user experience and increase agility through solutions like e-signature and digital identity verification. Third, the need to respond to elevated and more sophisticated fraud risk, while preserving a responsive user experience with approaches like our risk-based authentication. And four, banks are beginning to transition more of their operations to the cloud, which was one of the foundations of our key ID strategy. This is the newest, but potentially the highest impact of these trends.

In recent weeks, we've seen announcements from Deutsche Bank about the their agreement to form a strategic multi-year partnership with Google for cloud platforms and services and from BNP Paribas describing their new plan to adopt IBM's cloud for financial services. These are watershed events in the banking industry and we fully expect to see others moving to the cloud as the impacts of the pandemic have made it clear that the old ways of doing business are no longer sufficient.

Let me also note that we are beginning to leverage our cloud-based offerings in adjacent markets, given the growing needs for identity, security and digitization solutions in government, insurance and digital, healthcare. So, despite the near-term economic uncertainty, I believe OneSpan is well-positioned for the future and we continue to invest in the solutions, people and capabilities that we need to compete, win and grow.

With that, Mark and I will be happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Gray Powell with BTIG. Please go ahead.

Gray Powell
Analyst, BTIG LLC

Q

Okay. Great. Thanks for taking the questions. Yes. So I guess I had a couple. So, it sounds like there was a lower than expected mix of perpetual license revenue in Q2. Was that more a function of the deal delays that you talked about related to the macro environment? Or is that something that you see potentially recovering over the next 6 to 12 months? Yes, maybe I'll start there.

Scott M. Clements
President, Chief Executive Officer & Director, OneSpan, Inc.

A

Sure. [ph] I'll take Gray that (19:53), Mark you can certainly add in. I think one of the things that's been pretty clear through the second quarter is that the transition towards recurring revenue contracts has gone faster than we assumed it would at this point in time. So I think that transition is happening faster, that means more recurring opportunities and fewer perpetual license contracts. I think there was the slowness that I mentioned in my comments I think was not limited to perpetual contract types, it was I think over a more general effect. So I'm not sure that had a lot to do with the shift towards more recurring. Mark I don't know if you have anything to add to that.

Mark S. Hoyt
Chief Financial Officer, Treasurer & Executive Vice President, OneSpan, Inc.

A

Yeah. I think just adding on Scott, we have seen a faster transition in term license than the perp. I think that's a big driver of the quarter's results.

Scott M. Clements
President, Chief Executive Officer & Director, OneSpan, Inc.

A

Do you an another question, Gray?

Gray Powell
Analyst, BTIG LLC

Q

Yes. And then on the subscription line, so I thought the commentary on 30% e-signature growth was good. And, yeah, I guess, I'm a little bit new to the story, I thought the e-signature business was the bulk of the subscription line. So I was confused by the difference between that 30% growth rate and the headline growth, which I think was more like in the mid-teens. So can you maybe just talk about the subscription line or I guess, first of all, the difference in those two numbers and then just your confidence level in getting growth in the subscription line back about that 25% pace, it sounds like you had pretty good bookings on that business.

Scott M. Clements
President, Chief Executive Officer & Director, OneSpan, Inc.

A

Yeah, let me take the last part of that and Mark can talk about the composition of the subscription line. I think the answer to the question is, yes, we had triple digit bookings growth in the subscription category in the second quarter. So we also had I know I don't remember in total, but I know with OneSpan Sign we also saw triple digit bookings growth in the first quarter. So we do expect that to continue and to come through in the P&L over the coming quarters. So Mark do you want to talk about the composition, go ahead.

Mark S. Hoyt
Chief Financial Officer, Treasurer & Executive Vice President, OneSpan, Inc.

A

Yeah, Gray, in that subscription line, I tried to allude to this in my comments. It's not just the subscriptions, but also one time overage charges that we see. So from quarter-to-quarter it can be a bit lumpy and one of the transaction-based book of business we have from our Secure Agreement Automation with auto financing we saw some of those one-time overages decline quarter-over-quarter in Q2.

Gray Powell
Analyst, BTIG LLC

Q

Got it. Okay...

[indiscernible] (22:44)

Scott M. Clements
President, Chief Executive Officer & Director, OneSpan, Inc.

A

So essentially that's a transaction based business in – on the auto sector and that automotive asset finance is the biggest component of the Secure Agreement Automation business. So I think as we all know there have been fewer automobiles sold over recent few months and that shows up in that number.

Gray Powell
Analyst, BTIG LLC

Q

Understood. Okay, that's helpful. Thank you.

Operator: Our next question comes from Andrew King with Colliers Security. Please go ahead.

Andrew King
Analyst, Colliers International

Q

Hi. Thanks for taking my question. Just looking at the ARR growth of 29%, I just want to get an idea of how sustainable that is through the year. And then also if you could talk about what e-signature [indiscernible] (23:36) can you talk about the expanded use cases that you're seeing in the quarter that would be great. Thanks.

Scott M. Clements
President, Chief Executive Officer & Director, OneSpan, Inc.

A

Sure. I'll let Mark go into some of the detail on the numbers, but the outlook as we have it right now is that we will see continued solid ARR growth for the full year. So we have said that over the period through 2022, we would see sort of 25% to 30% annual compounded average ARR growth. I think we are going to see that this year. So I think that's the headline. And then, in terms of e-signature, there were again a couple of areas that were perhaps interesting. I mentioned in the – in my comments earlier the USDA project. We are seeing and have seen a significant interest in other parts of the government for increased use of e-signature. We talked a little bit I think in the first quarter release about the Small Business Administration as another example.

And then, we're also seeing elevated interest and saw some books and business around healthcare. There is a real demand and a real need around various elements of healthcare, telehealth as well as other healthcare use cases for e-signature type products. So, I think the interesting thing is that we're seeing these trends in e-signature on a global basis. We have a real solid growth of bookings and opportunities for e-signature really in almost every region of the world. So we feel very good about the direction of that business. I don't know Mark do you want to add any comments about the ARR outlook.

Mark S. Hoyt
Chief Financial Officer, Treasurer & Executive Vice President, OneSpan, Inc. A

Sure. Thanks for the question, Andrew. You asked that the 29% ARR growth is really sustainable. We published a table in our investor presentation that just went out to show the growth of the quarterly ARR since the beginning of 2019 and we see pretty consistent growth in that figure that is driven by subscriptions, term licenses and then maintenance on both term licenses and maintenance on our perpetual contracts. The fourth component that really drives that number up is our strong retention rate, a lack of churn. So I think the combination of those four items will continue to push ARR forward. And that's one of the metrics we want to get out to the investors.

The other item I want to note Andrew is that our term-based license revenue line is still relatively lumpy because of the 606 rev rec and driven by the trembling of those licenses. So that's why we're publishing ARR, because we think that that gives a better representation of the growth of our recurring revenue streams. Does that help?

Andrew King
Analyst, Colliers International Q

Yes. Thank you.

Operator: [Operator Instructions] Our next question comes from Roger Boyd with Needham & Company. Please go ahead.

Roger Boyd
Analyst, Needham & Co. LLC Q

Hey, great. Thanks for taking my question. I was wondering if we could dig into the comments on deal push-outs. Wondering if we can get any more info on the conversation channels to customers, is this mostly budget-related or are some architecture driven decisions where customers are rethinking their longer term digital strategies and may be pushing deals out from that perspective?

Scott M. Clements
President, Chief Executive Officer & Director, OneSpan, Inc. A

Yeah. Roger, thanks for the question. As far as we can tell this is purely related to economics and the uncertainty banks are now seeing. I mentioned in my call we've seen many banks really make a significant changes to their loan loss reserves over the last quarter. And that has an impact on their capital ratios and things like that. And so they want to make sure that they can operate their business well in the coming quarters to replenish those capital ratios as they go forward.

So I have not heard anywhere that this is really a technology issue in any sense, it really is just purely I think first of all, and we saw in the June timeframe, [indiscernible] (28:24) we saw going through May that the quarter was proceeding pretty typically. Then in June you will recall at the end of the first week of June we started to see a spike in coronavirus infections in the three largest states in the US, in California, Texas and Florida. And by the second week of June, the national infection rate was starting to rise pretty rapidly.

And I think this was right after that period in April, May when some states and locations started to open up again after flattening the curve. And so it became clearer I think at that point that this was going to – the challenge from the pandemic was going to be sustained and banks realized I think that that was going to ultimately have some impact on certainly small and medium sized businesses and that they needed to put up additional reserves. We're seeing sort of similar behavior albeit a little more slowly in Europe. And then, I think banks and some of the emerging markets, particularly Latin America are certainly a little challenged right now with what's going on. So, it's really these factors – that these economic factors that are driving this. As I said in my comments earlier, when we talk to analysts that look at the banking industry and the security space and to our customers, they've said that their priorities are being reworked, they re-budgeting for the second half of the year and into 2021. But they all understand that the digital channel and the security and user experience in the digital channel is going to remain their primary and probably fastest growing component of their business, which of course is the part of the business that we serve.

So I think there is some effect here of a slowdown, while banks really stopped to re-plan, figured out what kind of loan loss reserves they wanted to take and then reprioritize what they're going to do for the rest of the year and into next year. And then I think there's probably some longer term impact with banks just slowing down some technology investment. That's a little hard to say right now. We have, as I also mentioned, our opportunity pipeline at the end of the second quarter and into the beginning of the third quarter is up more than 50% from the same period a year ago.

In terms of our software and service offerings, our digital software and service offering. So the pipeline is really there. The products, I think are a good fit for what our customers need to do. And so, there's some question now I think at what rate will that convert and that's the open question I think that causes us to say we've just – we're going to have to withdraw our guidance at this point, because we just don't know what that conversion rate is going to look like and that timing will look like.

We remain optimistic about the second half of the year. Certainly in terms of our software and services offerings, we're a little less optimistic, I would say, about hardware as you can tell from my comments, but that's I think the picture as we see it. We've really heard nothing about technology or it's really just purely about the economics and timing of moving forward on projects in many cases.

Roger Boyd
Analyst, Needham & Co. LLC

Q

Thank you. That was super helpful, Scott. And then maybe on that hardware comment and the lower guidance there, as you think about the hardware refresh cycle, is this – do you think it's more of an opportunity now to sell software and subscriptions to the customers that were using hardware previously?

Scott M. Clements
President, Chief Executive Officer & Director, OneSpan, Inc.

A

Well, I think that's possible. Certainly there is a secular trend that's going on over time where there is a technology substitution of mobile security rather than hardware tokens and that's obviously not a new issue. That's been – I think, generally been happening for some time. I think it is likely that that will probably be a little more pronounced and certainly in the near-term we saw some real strength in that area, certainly in the early part of this year. And so, we'll see. I think the hardware business is being – I think there was some inventory buildup last year in advance of PSD2. Banks probably not really being sure how much they were going to need. And now we have this period where I think all of their – the large majority of their new account opening is probably happening online in mobile, and that lends itself little bit more, of course, to mobile security and our mobile security offerings as opposed to hardware. So there are some big projects for hardware updates and refreshes that are on the horizon. So we'll see how those proceed. I think that's probably more of a late this year, next year phenomenon, but we'll certainly have easier compares for next year.

Roger Boyd
Analyst, Needham & Co. LLC

Q

Makes sense. Thanks again.

Operator: Our next question comes from Anja Soderstrom with Sidoti. Please go ahead.

Anja Soderstrom
Analyst, Sidoti & Co. LLC

Q

Hi, everyone. Can you hear me?

Scott M. Clements
President, Chief Executive Officer & Director, OneSpan, Inc.

A

Hi, Anja. Yeah, we can hear you.

Anja Soderstrom
Analyst, Sidoti & Co. LLC

Q

All right. Thank you for taking my question, a lot of good questions asked already. But you were talking about the sales and marketing, you expect that to increase in the second half. Are you still hiring? And what are you intending to do in marketing that you haven't done in the first half? And you also mentioned that you are seeing more opportunity now in the adjacent markets. You've been mentioning that before, but it hasn't really been a big driver. Are you going to make a bigger push there perhaps now when the banking is sort of slowing down?

Scott M. Clements
President, Chief Executive Officer & Director, OneSpan, Inc.

A

Yeah. So Anja, I think on marketing spend that we talked about we're running I think about $8 million, Mark – I think we're about $8 million under what our expectation has been on our operating expenses year-to-date. Correct me if that's wrong Mark.

Mark S. Hoyt
Chief Financial Officer, Treasurer & Executive Vice President, OneSpan, Inc.

A

Yeah. That's right.

Scott M. Clements
President, Chief Executive Officer & Director, OneSpan, Inc.

A

Right. Okay. So we're underwriting about $8 million on operating expense. A lot of that comes from less travel obviously and some other related expenses that we have been underwriting. So as we now look into the second half of the year and I think the uncertain or the challenging outlook related to the economy, we are really looking at what are the things that we can do to maximize our opportunity in the second half of the year. And so, there are a few things that – well there's actually quite a number of things we're doing, but one of those is to invest more in marketing.

We saw in the first half of the year some elevated return and significant progress from our lead generation activities, our CMO, John Gunn, and his team have done a really fantastic job elevating the lead generation productivity. And that's part of what's driving the increases in our opportunity pipeline that I mentioned a couple of times on the call already. And so, we've made a lot of effort to really improve and strengthen that lead generation program. And given what we saw in the first half the under-run and spend that we had in the first half we think there is an opportunity to take some of that savings and reinvest it in more marketing certainly in the third and the fourth quarter, so that we can certainly benefit not only 2020 but really benefit 2021. So we're seeing good return on that investment, we believe. And so, we're going to do more of that lead gen activity.

Then, we also are adding, I would say, on a targeted basis additional salespeople. We added salespeople in the first half of the year. We're going to continue to do that. So that is again as we get into the latter part of this year and into the early part of 2021, we will have a larger sales force with better coverage ready to roll as we get into the back part of this year and into next year. So those are – we think that we are absolutely on the right track with our products and solutions. And a lot of indicators of that some of which I've mentioned here and so we think there is growth opportunity out there and we're going to be aggressive at going and getting them, but I think you had a second part to your question I know...

Anja Soderstrom Q
Analyst, Sidoti & Co. LLC

Yeah, about the adjacent markets I know...

Scott M. Clements A
President, Chief Executive Officer & Director, OneSpan, Inc.

Yeah.

Anja Soderstrom Q
Analyst, Sidoti & Co. LLC

...I know you have been mainly focusing on financial industry but are you may be pushing more for that now or...

Scott M. Clements A
President, Chief Executive Officer & Director, OneSpan, Inc.

We're – I would say we're in the early stages of that, Anja. We have – I've said I think many times over the last two three years that our first focus was to make sure that we with our new products and our new strategy that we could sustain our relevance to our core financial services customer base that was really the number one imperative for us. We are feeling I think pretty good about that at this point in time. Certainly more to do, we continue to invest in our products and our research and development, but we feel good that we have made a lot of progress in that direction. And so now it is an appropriate time for us to begin looking more earnestly at adjacent spaces. So we already touched a number of adjacencies particularly in that e-signature business. But we – with our new – some of our new Cloud Authentication products or capabilities and mobile security and things like that the importance of digital communication in healthcare is becoming a much bigger issue now that we're seeing a lot of activity in government as I mentioned. So we think we have both the right products to begin to look at some of these adjacencies and the right timing to begin doing that. So we are making significant or not significant, but I would say initial efforts in terms of marketing into some of those spaces and selling into some of those spaces. This will take time for sure. We are going to – if we're going to commit to additional verticals, we want to make sure that we do it correctly that we make the right investments and we don't waste our time. We're going to go after these verticals, we're going to do it in a disciplined way and we're, I would, say at the early stages of that.

Anja Soderstrom
Analyst, Sidoti & Co. LLC

Q

Okay. Thank you. That was all from me.

Scott M. Clements
President, Chief Executive Officer & Director, OneSpan, Inc.

A

Sure. Thanks, Anja.

Operator: The next question comes from [indiscernible] (40:14). Please go ahead.

Q

Hey, guys. Thanks for taking my question.

Scott M. Clements
President, Chief Executive Officer & Director, OneSpan, Inc.

A

Sure. Hey, [ph] Matthew (40:21).

Q

I guess, I'd like you guys to address the term immaterial in the context of your revenue in the statement. And I guess I look back and I see you guys have being revenue estimates by $2.4 million over the last nine quarters. And your Chairman sold $23 million of stock subsequent to the end of the quarter, at the end of Q1 and your stocks down 30% after hours. So for a longtime shareholder maybe you could define the term immaterial.

Scott M. Clements
President, Chief Executive Officer & Director, OneSpan, Inc.

A

Mark, I'll let you take that from an accounting point of view.

Mark S. Hoyt
Chief Financial Officer, Treasurer & Executive Vice President, OneSpan, Inc.

A

Sure. [ph] Matthew (41:14) as I mentioned, in the investor deck we show the quarterly – actually no, it's in the earnings press release, we have a table that shows the quarterly impact of the revenue. And as you look back over each quarter, we went back and analyzed this to make sure there was not a single quarter where there was a beat or a miss that was impacted by these changes in revenue over those nine quarters. That's how we determined the fact that was immaterial over the $525 million in revenue over that same timeframe.

Q

I understand [indiscernible] (41:50) but I guess if you are sure enough about those numbers you would be able to file your 10-Q on time and I guess you've lost a certain amount of trust here. And again, I guess I'd like you to address the $23 million of stock sold by your former Chairman since the end of March.

Scott M. Clements
President, Chief Executive Officer & Director, OneSpan, Inc.

A

So I'll take that one. I think well, first of all, as you corrected there, he is no longer our Chairman. He remains a member of the Board. He was the founder of the company and he is 75 old or 76 years old roughly. And so, he has a long-term plan, estate plan. I'm not knowledgeable necessarily, but all the particulars of it, but I think he has been executing his estate plan over – really over a couple of year period now. So I don't think...

[indiscernible] (43:00)

Q

...since the end of March. That's clear.

Scott M. Clements
President, Chief Executive Officer & Director, OneSpan, Inc.

A

I would assume – and I think that probably is the case that he has sold more in that timeframe. But that's obviously his right to do that. And we obviously work very closely with our board and all of our executives to ensure that trading takes place only when it's appropriate. And I believe that that is the way Ken has handled it. And I think that, yeah, I'm not sure what I'll say about it these are his personal decisions around his estate planning that we don't have a whole lot to do with it.

Q

All right. Well, thank you for answering my question and I'm obviously at this point a shareholder, so thank you.

Scott M. Clements
President, Chief Executive Officer & Director, OneSpan, Inc.

A

I totally understand. Absolutely.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Scott Clements for any closing remarks.

Scott M. Clements
President, Chief Executive Officer & Director, OneSpan, Inc.

Thank you. Thank you, operator. Thank you all for joining us on our call here today. We are making, I think, tremendous progress in terms of transitioning our company to recurring revenue at a more stable, higher value mix of revenue. We're going to continue to do that in the quarters ahead. And we are, I think, confident and excited about the future of OneSpan. So thank you all for listening in today.

Operator: The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.