

OneSpan Inc(Q2 2025 Earnings)

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Corporate Speakers:

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

Participants:

- Catharine Trebnick; Rosenblatt; Analyst
- Anja Soderstrom; Sidoti; Analyst
- Trevor Rambo; BTIG; Analyst
- Rudy Kessinger; D.A. Davidson; Analyst

PRESENTATION

Operator^ Welcome to the Q2 2025 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 Joe Maxa, Vice President of Investor Relations. Please go ahead.

Joe Maxa^ Thank you, Operator. Hello, everyone. And thank you for joining the OneSpan Second Quarter 2025 Earnings Conference Call.

This call is being webcast and can be accessed on the Investor Relations section of OneSpan's website at investors.onespan.com. Joining me on the call today is Victor Limongelli, our Chief Executive Officer; and Jorge Martell, our Chief Financial Officer.

This afternoon, after market close, OneSpan issued a press release announcing results for our second quarter 2025. To access a copy of the press release and other investor information, please visit our website. Following our prepared comments today, we will open the call for questions.

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

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

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

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

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

In addition, please note that all growth rates discussed on this call refer to a year-over-year basis, unless otherwise indicated. The date of this conference call is August 5, 2025. Any forward-looking statements and related assumptions are made as of this date.

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

Victor Limongelli^ Thank you, Joe. Hello, everyone. And thank you for joining us on the call today. Before turning to our results, as we are halfway through my second year at the company, I thought I'd take a moment to review our trajectory and the overall position of our business.

Last year, as you know, we focused on restructuring OneSpan to enhance its profitability so that it remains viable as a business and continue to be a long-term reliable partner for our customers.

With that accomplished, our focus in 2025 has been on building the foundation necessary for OneSpan to not only be profitable, but also to grow the business and strengthen our product offerings for our customers.

Right before the year started, we hired a new CTO, Ashish Jain to lead our R&D team. Part of our strategy is to augment our increased internal development efforts with targeted M&A so that we can move faster in delivering great products to our customers.

You saw that in the second quarter, both with our acquisition of Nok Nok Labs and with the establishment of a new line of credit to facilitate that kind of targeted M&A. As we move through the second half of the year, we will continue to enhance our go-to-market capabilities so that we can deliver our great products to more customers.

As we have said previously our goal is to grow the business while delivering strong profitability and to do both of those things while also returning cash to shareholders. Halfway through my second year, I'm happy to say that our transformation of OneSpan is on track.

Looking ahead, our goal is that by the beginning of next year, we will have made significant progress in evolving our go-to-market capabilities as well as our product suite under Ashish's leadership.

Such that we are well positioned to accelerate top line growth in 2026 as we continue to drive to a rule of 40 performance.

Turning to our results. I'm pleased to report another strong quarter and a solid first half of 2025, reflecting our team's disciplined execution. This focus by our team is driving our strong performance and positions us well to deliver sustained long-term value for our shareholders.

As I mentioned a moment ago, I'm also pleased and excited by our acquisition of Nok Nok Labs during the quarter, which brings to us FIDO2 passwordless authentication software, to add to our FIDO2 hardware security keys.

We've long been an industry leader in multifactor authentication and transaction signing technologies with our solutions widely trusted by many of the world's largest financial institutions, for their strong security, flexibility, and innovation.

The addition of Nok Nok's FIDO2 software, combined with our recently launched FIDO2 security keys hardware, enables the company to provide customers worldwide with the industry's most innovative, comprehensive, and future-ready authentication portfolio.

Whether on-prem or in the cloud, OTP or FIDO, software or hardware including DIGIPASS and FIDO2 protocols and Cronto solutions for transaction signing, OneSpan now offers customers maximum flexibility to meet their authentication needs.

As you can see, Nok Nok was exactly the kind of targeted acquisition that enhances our product portfolio and delivers value to our customers. With respect to the second quarter, we were solidly profitable in the quarter with adjusted EBITDA of \$18 million or 29.5% of revenue.

Also for the first half of the year, we achieved record adjusted EBITDA of \$41 million, representing 33% of revenue, our highest first half performance to date. We ended the quarter with annual recurring revenue of \$178 million, up 8% year-over-year including \$8 million from the Nok Nok acquisition.

Excluding Nok Nok, ARR grew 3%, in line with the low to mid-single-digit growth rate that we expected and discussed last quarter. As a reminder, we had a few very large contracts in last year's second quarter, which made for a challenging year-over-year ARR comparison this quarter.

By the end of 2025, we anticipate our ARR to grow at a mid-single-digit percentage rate from the June 30 ARR level. Subscription revenue grew 22% in the second quarter of 2025, led by 39% growth in security and 5% growth in digital agreements.

Security growth was primarily driven by on-prem authentication and app shielding software. As expected, total revenue declined modestly in the quarter. Strong subscription revenue growth was primarily offset by the three trends we've discussed on prior calls.

First, banks in EMEA and to a lesser extent, in APAC and have been adopting mobile-first authentication strategies with respect to consumer banking. This has reduced the security hardware revenue over time.

Second, our 2024 transition of certain legacy perpetual maintenance contracts to term-based subscriptions lowered maintenance revenue compared to the prior year. Third, revenue was impacted by \$1.2 million from sunsetted products.

However, this was partially offset by \$300,000 of acquired revenue during the quarter. Looking at geographies. In July 2024, we started a dedicated sales effort in North America focused on our security business.

I'm pleased to report that, that team had a great first half, and we expect continued high performance in that region in the second half of the year. As you know historically, North America has represented only 10% to 12% of our overall security revenue. So we see that as a growth opportunity heading into 2026.

In the first half of 2025, we also saw strong bookings performance in our Latin American region. In terms of the overall outlook, Jorge will provide additional details on the second half in a few minutes.

Both business units remained solidly profitable at the segment level and we believe we are well positioned to achieve our stated goals of delivering growth and strong profitability across both segments.

We also continued to generate significant cash from operations. In the first half of the year, we generated \$36 million and ended the second quarter with \$93 million in cash on hand.

As we have discussed previously our Board remains committed to a balanced capital allocation strategy, weighing shareholder returns, organic investments and targeted M&A.

In the first half of the year, we returned cash to shareholders through two quarterly dividend payments of \$0.12 per share, which totaled close to \$10 million of cash returned to shareholders. The Board has also approved another \$0.12 per share dividend to be paid in the current quarter.

In addition, we used cash to make the strategic acquisition of Nok Nok consistent with our plan to pursue targeted, technology-driven acquisitions with proven market fit, enabling us to bring additional value-added products to our customers and prospects.

We have a strong global customer base and a leading position in the authentication market with AI increasingly being used to amplify the scale and sophistication of account takeover attacks, we remain focused on innovating to stay ahead of emerging threats and to enable customers to adopt a wide range of flexible, future-proof authentication solutions.

As a result, we will continue to invest in internal R&D and explore targeted M&A opportunities to enhance our product portfolio. And we plan to help our clients succeed by continuing to provide them with seamless and secure user solutions to meet their authentication needs and address related security challenges.

As we look to the future, we are committed to operational excellence and to driving efficient, sustainable revenue growth while maintaining strong profitability. With that, I'll turn the call over to Jorge.

Jorge Martell^ Thank you, Victor. And good afternoon, everyone. I am pleased to report another strong quarter, and I'm excited about our acquisition of Nok Nok Labs, which enhances our authentication portfolio and allows us to bring a broader suite of authentication solutions to our customers.

We acquired Nok Nok on June 4, as such, our second quarter results include Nok Nok's financials from the acquisition date or for about a month. ARR grew 8% to \$178 million including \$8 million from the Nok Nok acquisition. Our net retention rate, or NRR, was 101%.

As previously discussed, we anticipated a tough year-over-year ARR and NRR comparison this quarter, primarily due to large expansion contracts that benefited last year's Q2. In addition, this quarter, there was contraction at a few customers that reduced our overall ARR.

Second quarter revenue was \$59.8 million, down 2% compared to last year's Q2, primarily due to the anticipated decline in security hardware as a result of the long-term trends of banks moving to a mobile-first authentication approach.

Digital agreements revenue grew 1%, while Security Solutions revenue declined 3%, both in line with expectations.

Second quarter gross margin was 73%, up from 66% in Q2 of last year. The improvement was driven by favorable product and customer mix including increased software and reduced hardware revenues as well as the absence of approximately \$1.5 million in asset write-off charges recorded in the second quarter of last year.

GAAP operating income was \$10.5 million compared to \$7.6 million in Q2 last year. The increase reflects higher gross profit and lower restructuring costs, partially offset by increased operating expenses related to share-based compensation, commission expenses

legal and consulting costs associated with the Nok Nok acquisition and incremental operating expenses from Nok Nok.

GAAP net income per share was \$0.21, up from \$0.17 in the same period last year. As a reminder, we made changes to our non-GAAP net income and non-GAAP net income per share reporting framework last quarter to better reflect our profitability trajectory and to ensure consistency across interim periods in 2025 and in future years.

Please refer to our Q2 earnings release and investor presentation for additional details. Non-GAAP earnings per share was \$0.34 compared to \$0.31 in Q2 of 2024.

This metric excludes long-term incentive compensation and related payroll taxes amortization, restructuring charges and nonrecurring items and the impact of tax adjustments. Adjusted EBITDA and adjusted EBITDA margin was \$17.6 million and 29.5% compared to \$16.2 million and 26.5% in the same period of last year.

Turning to our Security Solutions business, ARR was \$114.5 million, up 9% year-over-year. Excluding Nok Nok, ARR grew 2%. Security revenue declined 3% to \$44.2 million.

Strong subscription revenue growth of 39% including a material amount of revenue from Nok Nok was offset by expected declines in hardware and maintenance revenues and headwinds from sunsetted products.

The strong growth in subscription revenue was primarily driven by the timing of multiyear renewals and conversion to multiyear customer contracts in the quarter, expansion of licenses and, to a lesser extent, new logos. This growth was partially offset by the sunseting of our legacy Dealflo solution. Gross margin for security was 74%, up from 67% in the second quarter of last year, reflecting favorable product and customer mix.

Segment operating income was \$19.8 million or 45% of revenue compared to \$20.7 million or 46% of revenue in the prior year quarter. This slight decline was primarily due to higher commission expense and increased operating expenses related to the Nok Nok acquisition.

Turning to our Digital Agreements business. ARR grew 4.5% to \$63 million. Revenue grew 1% to \$15.6 million. New SaaS contracts and expansion of renewal contracts were partially offset by reduced maintenance revenue from the sunseting of our on-premise e-signature product.

Headwinds related to sunsetted products impacted revenue growth by about 3 percentage points, subscription revenue grew 5% to \$15.6 million. As mentioned earlier, we faced a tough year-over-year comparison due to a few large contracts that benefited Q2 of last year.

Maintenance and support revenue was negligible this quarter compared to \$0.5 million in Q2 of last year. The year-over-year decline is attributed to the sunsetting of on-premise e-signature solution. Gross margin for digital agreements was 71%, up from 63% in the prior year quarter. The increase was primarily due to the absence of \$1.5 million in asset write-off charges for the quarter last year.

Segment operating income was \$2.9 million or 18% of revenue compared to a loss of \$0.2 million or negative 1% in Q2 of last year. The improvement was driven by higher gross profit and lower operating expenses primarily due to lower head count and variable expenses.

Now turning to our balance sheet. We ended the quarter with \$92.9 million in cash and cash equivalents. Compared to \$105.2 million at the end of Q1 and \$83.2 million at the end of 2024. We generated \$6.2 million in operating cash flow during the quarter, up from \$2.3 million in the second quarter of last year.

We used \$4.6 million to pay our quarterly cash dividend and \$12.1 million net of cash acquired as part of the consideration for the Nok Nok acquisition. We expect to pay an additional \$1.9 million in Q3 and the remaining balance in late 2026.

As you are already aware, during the quarter, we entered into a 5-year syndicated revolving credit facility in the amount of \$100 million, which may be used for general corporate purposes including to support our strategic growth priorities including targeted M&A. Except for a small letter of credit supporting an office lease, we currently have no borrowings under the credit agreement and have no long-term debt.

Geographically, our revenue mix was 39% from EMEA, 40% from the Americas and 21% from APAC. This compares to 41%, 35% and 24%, respectively, in the second quarter of last year.

Moving to our modeling notes and financial outlook. We're very pleased with our second quarter and first half performance and expect a return to positive revenue growth in the second half of the year.

We expect double-digit subscription revenue growth for the full year 2025, along with a modest revenue contribution from the acquisition of Nok Nok. We expect to see continued hardware headwinds, primarily in Q3 with gradual improvement in Q4.

Also in the second half of the year as compared to the first half we expect reduced year-over-year maintenance revenue headwinds from the transition of perpetual contract to term-based licenses and from the impact of sunsetted of products.

Regarding hardware, due to the increased visibility into orders and shipping schedules as compared to earlier in the year including the delay to 2026 of the shipment of certain already-booked hardware deals, we now expect total second half 2025 hardware revenue

to be similar to the first half, with the majority of the second half revenue recognized in the fourth quarter.

On a sequential basis, in the second half of 2025, we expect an increase in year-over-year ARR growth and an increase in NRR for both the third and fourth quarters.

For the full year 2025, we are maintaining our revenue guidance in the range of \$245 million to \$251 million. We expect incremental revenue from the Nok Nok acquisition to be offset by a similar reduction in hardware revenue.

We are increasing our ARR guidance to be in the range of \$186 million to \$192 million as compared to our previous guidance range of \$180 million to \$186 million. The increase in guidance is attributed to our acquisition of Nok Nok, partially offset by a few reductions by the customers that I discussed earlier. And we are maintaining our adjusted EBITDA guidance in the range of \$72 million to \$76 million.

We expect the acquisition of Nok Nok to be slightly accretive to adjusted EBITDA in the fourth quarter of 2025. That concludes my remarks. I will now turn the call over to Victor.

Victor Limongelli^ Thanks, Jorge. To recap, we had another strong quarter, and I'm very proud of the OneSpan team's disciplined execution and commitment to operational excellence.

I'm also excited about our strategic acquisition of Nok Nok, which expands our authentication offering to include software-based FIDO2 capabilities and provides us with an additional proven value-added solution that we can bring to our customers and prospects.

Looking ahead, we remain focused on delivering value for our customers, and executing well as of business in the second half, which we believe will position OneSpan for profitable growth. To that end, we remain committed to maintaining our strong profitability as we drive towards our goal of achieving a Rule of 40 performance as a business. Jorge and I will now be happy to take your questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from Catharine Trebnick of Rosenblatt.

Catharine Trebnick^ Yes. On this acquisition, that's interesting that you're headed in this direction. Can you give us some more detail on how competitive you feel you'll be with this -- by buying Nok Nok and adding this to your capabilities?

Jorge Martell^ I'll jump in, Catharine, maybe Vic can chime in. So thanks for the question, Catharine. So I think this is one of the areas that we have been talking about in terms of complementing our solutions in the security software space.

It fits really well when it comes to -- it's a tuck-in acquisition where we like the technology and we can also plug it into an existing technology for FIDO. As you remember, we launched FIDO security keys, our hardware, a few of those keys last year.

And so when you think about where this is headed in terms of security for user seamless authentication within FIDO2 is also going to be an important part of the mix that our banking and financial services customers will head and will move towards in the future.

And so we think that this is going to be a very, very good acquisition in the long term for us as we provide, again, the maximum flexibility as Vic alluded in terms of offering a becoming the authentication company for -- particularly for banks and financial institutions. So happy to answer any additional questions you have on that.

Catharine Trebnick^ Well is this more like of -- if it's already installed customers more - - are you looking at this as maybe new landing because it's the newer tech but also an upselling to your existing banking customers?

Jorge Martell^ Yes. So that's a very good question, Catharine. So when you think about one of the biggest assets, and Vic has mentioned this in the past, one of the biggest assets this company has, OneSpan, it's a long tenured customer base. So we service over 1,000 banks globally.

And so when you think about that, so we really -- the purpose of this acquisition was not for the revenue, let's just be clear. The purpose of this acquisition was because of the technology and the cross-sell opportunity that we can have from this technology to our existing customer base, okay? And so we see that as an opportunity.

Obviously more in 2026 than 2025 in terms of the cross-sell. We're getting, obviously the teams aligned. The product needs to be put in the same server, so it would be a seamless product for our customer base.

And there's obviously the team I mentioned sales teams getting aligned as well is that we feel pretty good about not only the product that we are part of, the team that we acquired as well. Catharine, it's a very experienced team that has been a pioneer in this area in the FIDO2 space.

They also have a Board seat in terms of the FIDO alliance that -- now we have a Board seat as well. And so we feel good about where we are. Again, this is more about the cross-sell opportunity into our existing customer base.

(Inaudible) Vic, feel free to chime in.

Operator^ Our next question comes from Anja Soderstrom of Sidoti.

Anja Soderstrom^ I have a question about the ARR guidance and the increase there about \$6 million, but Nok Nok said added about \$8 million for the second quarter. How should we think about that?

Jorge Martell^ Yes. I can answer that. Thanks for the question, Anja. So yes, we mentioned Nok Nok added about \$8 million into ARR pool. Part of the -- and when you - - when we sort of like get new guidance, we increased it by \$6 million on both the low end and the high end.

So the remaining \$2 million is primarily related to a couple of contractions that one that we have mentioned in the past calls really about a bank that was selling operations, particularly in the Middle East. And so that accelerated a little bit more than we expected in the first half of the year.

And then the second component of that was we also had another, I would say, seven-figure customer that impacted ARR that is moving slower than anticipated in implementing our solutions because of their internal delays. And so conservatively, we decided to move that out of the ARR for the remainder of the year. And so that's all the puts and takes for getting the 6% increase on both low and high end.

Anja Soderstrom^ Okay. And then just in general, regarding the pipeline, how is that shaping up for you?

Jorge Martell^ Sorry, say that one more time Anja, you got off for me a little bit.

Anja Soderstrom^ The pipeline, how is that shaping up for you just in general?

Jorge Martell^ Vic, do want to take that one?

Victor Limongelli^ Well we had a great first half of the year in terms of bookings. And then in the second half of the year, of course, the way our business works, the third quarter and the fourth quarter are much bigger -- tend to be much bigger quarters in terms of closing business.

We've been very happy with the progress overall on our go-to-market. And the -- as we mentioned on the prepared remarks, the hardware business, we think will be a little bit tougher in the back half of the year, but we're excited about having something new to offer to customers as well with respect to the Nok Nok FIDO2 capability. So the second half of the year, I think, is shaping up pretty well for us.

Operator^ Our next question comes from Trevor Rambo of BTIG.

Trevor Rambo^ Trevor on for Gray Powell. So a lot was happening in the quarter from a macro perspective with the tariff announcement we had in April, then the 90-day pause

and then an extension of that pause. And you mentioned in the prepared remarks that a few customers contracted in the quarter.

But maybe from a higher level, can you give some more color on what you saw in the quarter? And then given the uncertainty in the macro had an impact on general customer buying behavior? And then has any of that spilled over into the first month of Q3 so far?

Victor Limongelli^ Yes. Thanks, Trevor. So we had a good first half in terms of bookings. So what we report, of course, is revenue, it's not exactly analogous to our bookings. But we had a good first quarter. The tariff situation for us was very minimal.

I think we talked about it last year when I think the tariffs -- the initial tariffs proposed were much higher. It was still not going to be that big of an impact. And the way things have shaken out, it's a few hundred thousand dollar impact for us. So that's a very minor thing.

And then the other aspect that a lot of people talked about in the second quarter was the federal cuts, the DOGE cuts. And we have, I think 2% of our revenue is from the federal government. So that had a relatively small impact as well. So overall, things have been going pretty well in terms of our performance.

I mean I would say, geographically, Europe -- and I mentioned this last quarter, Europe has been a little weaker for us, and we've done a little bit better in the Americas in North and South America. And EMEA is typically a strong market for us. So we'd love to see that turn around. But overall, it has been solid so far.

Trevor Rambo^ Great. That's some great color. And then maybe for my second, you talked on the prepared remarks and a bit earlier about evolving the go-to-market program by the start of next year.

Can you dive a bit deeper into what that's going to look like? And maybe you can provide some more color on the process and maybe what the outcome is?

Victor Limongelli^ Yes. I mean so part of it is we're just putting additional resources where things are going well. So we talked about this on the call we started up in North America.

Before we had a combined team in North America, we had a sales team if you go back a year plus ago, a sales team that was supposed to sell both product lines, very different buyers, very different competitive set.

So when we started last July, so a year ago, as we split the North American sales team to a dedicated security team and a dedicated digital agreements team. And what we're doing is continuing to invest as that's starting to pay off.

So we've increased the size of the North American security sales team. We added additional resources when we did the Nok Nok acquisition as well. So that's part of it.

And then part of it is us refining our approach on the DA side and really trying to -- without giving too many competitive details, trying to do better in the new logo acquisition. That business, as we've talked about in the past, is a land-and-expand business. So we're really focused on trying to land more because we know the expansion happens.

Operator^ (Operator Instructions) Our next question comes from Rudy Kessinger of D.A. Davidson.

Rudy Kessinger^ Jorge, could you maybe expand or just quantify maybe the contraction with those two large customers? Because understanding you're saying second half bookings are stronger historically, but your first half net new ARR \$2 million relative to past years.

I know last year, Q2 is a tough compare even relative to several years prior to that, still down quite a bit. So could you quantify maybe what the impact there was from those two customers?

Jorge Martell^ Yes. Thanks for the question. It was about \$3 million, Rudy, between those two customers at the year-over-year contraction.

Rudy Kessinger^ Okay. And with that one customer selling off assets in the Middle East, is there a risk that they sell off more assets in other geographies or any further contraction risk from that one?

Jorge Martell^ So obviously we don't have the stability of the quantification ruling, specifically for that particular client. I think my sense is that, as I mentioned, this accelerated in the first half. I think there's still going to be some of it, but it may be a little more muted, but we still have yet to see it.

Rudy Kessinger^ Okay. Got it. And then with Nok Nok, could you maybe just quantify or try to size up for us just the upsell cross-sell opportunity that they bring? What percent of your installed base do you believe could really use this capability or that you could sell to over the next couple of years?

Victor Limongelli^ Yes. So this is an interesting topic because I think it's fair to say that the FIDO authentication protocol is something that is has grown over the past few years and will grow even more over the next three to five years.

So part of this strategy is for us to be able to offer a complete solution to our customers. And we saw this, if you go back 10-plus years ago, when banks in EMEA and in APAC were doing largely their consumer authentication was largely through hardware. And

over time we've talked about this before, it shifted to mobile first, so we needed to have a mobile offering.

And we did. So with respect to the FIDO Authentication Protocol, we wanted to make sure that we had an offering both in hardware, which we introduced those recently, and software.

So it gives us the opportunity to grow with those banks, to grow with our customers into the FIDO ecosystem without losing them to competitors and offering them a solution where they don't have to rush all at once into FIDO like flipping a light switch, they can start using FIDO and they can still use our DIGIPASS approach.

So I think ultimately, all of our customers, if you fast forward 5 to 10 years out, we'll be using FIDO. Exactly how fast that goes. Hard to say right now but passkeys are here, and we see banks rolling it out in some markets, and other markets will probably take a little bit longer.

Operator^ This concludes the question and answer session. I would now like to turn it over to Joe Maxa for closing remarks.

Joe Maxa^ Thanks, everyone, I'm glad you could join us. Have a nice day.

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