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CORPORATE PARTICIPANTS

Jorge A. Garcia Martell *OneSpan Inc. - CFO*
Joseph A. Maxa *OneSpan Inc. - VP of IR*
Victor T. Limongelli *OneSpan Inc. - Interim CEO*

CONFERENCE CALL PARTICIPANTS

Alex Hantman *Sidoti & Company, LLC - Executive Officer*
Gray Wilson Powell *BTIG, LLC, Research Division - MD & Security and Infrastructure Software Analyst*
Rudy Grayson Kessinger *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

PRESENTATION

Operator
Good day, and thank you for standing by. Welcome to the OneSpan Fourth Quarter 2023 Earnings Conference Call. (Operator Instructions) 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.

Joseph A. Maxa *OneSpan Inc. - VP of IR*
Thank you, Operator. Hello, everyone, and thank you for joining the OneSpan fourth quarter and full year 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 Victor Limongelli, our Interim Chief Executive Officer; and Jorge Martell, our Chief Financial Officer.

This afternoon, after market close, OneSpan issued a press release announcing results for our fourth quarter and full year 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 2024 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.

In addition, please note that the date of this conference call is March 6, 2024. 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 T. Limongelli *OneSpan Inc. - Interim CEO*
Thank you, Joe, and good afternoon, everyone. Thank you for joining us. I would like to begin today's call by sharing my perspective on OneSpan. When I joined the company 2 months ago, I was already impressed with its strong customer relationships, solution set and the difficult but important decisions it had made to rightsize its cost structure and refocus on driving efficient revenue growth, profitability and cash flow.

Today, I'm even more impressed. We have great assets to build upon, including more than 60% of the world's largest banks as customers, industry-leading authentication and transaction signing technologies and an enterprise class e-signature solution. And we have talented employees across the organization. I have met many of them in my first 2 months and have seen firsthand their strong work ethic and dedication to operational excellence.

In the short run, we are focused on continuing our operational improvements, which began last year. Over the longer run, we will work towards identifying those areas in which our offerings put us at a competitive advantage vis-a-vis other providers. I have been with OneSpan only a couple of months, but I'm confident that we will be able to reorient our offerings over time towards areas more highly valued by our customers and prospects.

Turning to our fourth quarter results. First, I want to congratulate the team on a solid quarter. Their hard work across the board in 2023 resulted in a strong end to the year, including 11% year-over-year revenue growth to $63 million, 11% ARR growth to $155 million and adjusted EBITDA of $11.2 million or 18% of revenue, representing our highest quarterly adjusted EBITDA margin in several years.

During the quarter, we reduced headcount by approximately 5% and executed on several vendor-related savings as well, resulting in annualized cost savings of more than $15 million. For the year, annualized cost savings from our cost reduction actions totaled more than $58 million. Jorge will provide more details on our annualized cost savings during his financial review.

Turning to our business units. During the quarter, both segments had double-digit year-over-year revenue growth, driven primarily by expansion of existing customers and a sequential increase in profitability, which benefited from increased revenue and lower operating expenses, partially attributed to restructuring activities.

Revenue in our Security Solutions business unit was primarily driven by financial services customers who value our industry-leading software and hardware solutions to mitigate potential hacking attacks. Growth in software was driven by expansion of mobile security and authentication licenses from existing customers. We also had a significant security software win in the health care vertical with an existing e-signature customer. This customer signed a 3-year upper 6-figure contract for our mobile security, cloud authentication and identity verification solutions for an electronic prescribing of controlled substances use case.

We saw double-digit growth in Digipass hardware tokens in the fourth quarter, which benefited in part from a few hardware deals that were originally expected to close in the first quarter of 2024. Looking at the rest of 2024 and similarly to last year at this time, visibility into Digipass orders is strong at our large banking customers, which account for the majority of our hardware revenue. We have less visibility in the mid-market banking sector, particularly due to macroeconomic conditions in that segment over the past 12 months.

In 2023, we saw a shift in hardware demand towards our more sophisticated Cronto devices into a combination of mobile and hardware endpoint authentication solutions. We expect this trend to continue in 2024. This year, we plan to continue focusing on customer expansion opportunities and in driving new logo growth. We're also rebuilding our channel network to help grow our top line and plan to introduce new products such as Digipass FX1 BIO, which was announced last quarter and targets the workforce authentication market.

Turning to our Digital Agreements business unit. In the fourth quarter, we saw the expansion of several 6- and 7-figure renewal contracts from enterprise customers willing to spend on important projects with strong ROI. For example, a 3-year customer contract up for renewal in the financial services industry more than doubled in size to high single-digit millions over the term of the subscription. This customer is using our e-signatures in more than 100 use cases across its organization and commented on the outstanding level of support from our professional services and support teams, the ease of integration and great ROI.

New local attainment and increased sales and marketing productivity remain core to our long-term Digital Agreements growth strategy. We expect improved performance from our sales team this year, have a goal of continuous improvement and will strive to deliver more value to our customers every month.

Next, I'll summarize our goals and objectives before turning the call over to Jorge to review our financials. We are committed to achieving the Rule of 40. In recent quarters, we made several changes to accelerate this path, including the creation of 2 business units to help drive operational excellence, significant rightsizing to better align our costs with our growth profile and increased focus on operational rigor across the company and the sunsetting of solution offerings with low ROI to name a few.

We are driving towards our goal of attaining a level of 30% under the Rule of 40 framework by the time we exit this year. I am working with the team to better leverage our competitive advantages and improve our growth profile as we mature our sales and marketing organizations, focused on streamlining our cost structure and enhance our operational efficiency.

As you can see from our Q4 results, we are making progress, and I believe we are positioned to achieve our 2024 targets. However, we still have work to do, and we'll continue to closely monitor our go-to-market metrics to help ensure we achieve our profitability commitments.

Regarding capital allocation, we used more than $29 million in cash to repurchase common stock in 2023, including the $25 million modified Dutch auction tender offer we completed in December. We expect to consider returning additional capital to shareholders in future quarters as we balance revenue growth, profitability and cash generation. I believe our decisions to focus on driving efficient revenue growth with increased profitability and cash generation are the right strategic and operational 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. Jorge?

Jorge A. Garcia Martell ***OneSpan Inc. - CFO***
Thank you, Victor, and good afternoon, everybody. Before reviewing our fourth quarter and full year 2023 results, I will provide an update on the restructuring actions we have taken to rebalance our cost structure to help drive profitability.

As Victor mentioned, we reduced headcount by about 5% in the fourth quarter. Net headcount reduction from the time we started taking action during Q2 2023 to December 31, 2023, was about 24%. We achieved annualized cost savings in excess of $15 million in the fourth quarter and in excess of $58 million for the full year. We expect additional annualized savings approximating $5 million by the end of Q1 2024, most of which have already been executed on, largely completing our restructuring activities. We expect to have some additional cost savings later in 2024 and now anticipate reaching $64 million to $65 million in annualized cost savings by the end of 2024, up from $60 million to $65 million by the end of 2025 that we projected previously.

Turning to our financial results. ARR grew 11% year-over-year in 2023 to $155 million. ARR specific to subscription contracts grew 18% to $125 million and accounted for approximately 81% of total ARR. Net retention rate, or NRR, was 110%. We've seen modest improvements in these metrics in recent quarters, primarily driven by expansion at existing customers.

Fourth quarter 2023 revenue grew 11% to $62.9 million as compared to the same period last year, driven by 17% growth in Digital Agreements and 10% growth in Security Solutions. For the full year 2023, revenue increased 7% to $235.1 million. Subscription revenue grew 15% to $27.3 million in the fourth quarter, led by 17% growth in Digital Agreements, including 28% growth in SaaS revenue, consisting primarily of our e-signature solution.

Q4 Security Solutions subscription revenue grew 13%, driven by growth in mobile security and authentication software products. For the full year of 2023, subscription revenue grew 19% to $106.4 million.

Maintenance and support revenue declined $0.1 million year-over-year to $11.3 million in the fourth quarter of 2023. For the full year 2023, maintenance and support revenue declined 4% as compared to 6% for the full year 2022. Growth in maintenance and support revenue from on-premise subscription contracts in both Q4 and for the full year 2023 were offset by the expected decline from legacy perpetual contracts. We expect this trend to continue in the coming quarters as annual legacy perpetual maintenance renewal contracts are converted to subscription contracts over time.

Professional services and other revenue, which includes perpetual software licenses declined by $0.2 million in Q4 to $1.7 million and by $1.7 million to $6.3 million for the full year 2023. This was primarily due to our strategic decision to focus on selling only new recurring revenue contracts a few years ago. Perpetual software licenses were approximately 1% of total revenue for the quarter and year.

Digipass hardware token revenue grew to 16% in the fourth quarter and 3% for the full year 2023 and included a few contracts that closed in the quarter that were originally expected to close in the first quarter of 2024. These contracts added approximately $2 million to our Q4 projected revenue.

Fourth quarter gross margin was 69% compared to 67% in the prior year quarter driven primarily by favorable product mix and a $1.4 million inventory write-off reversal of an impairment charge taken in the second quarter of 2023, partially offset by depreciation of software capitalized costs, which we began depreciating in 2023. For the full year 2023, gross margin was 67% versus 68% in the prior year. Product mix, depreciation of software capitalization cost in 2023 and a credit from a cloud service provider that benefited our 2022 gross margin accounted for the majority of the year-over-year change.

Fourth quarter GAAP operating income was $1.8 million compared to an operating loss of $4 million in the fourth quarter of last year. Increases in revenue and gross profit margin and the decrease in operating expenses primarily from lower headcount-related costs were partially offset by an increase in restructuring and related charges. Full year 2023 GAAP operating loss was $28.9 million and included $17.3 million in restructuring and $3 million in other onetime costs. This compares to 2022 GAAP operating loss of $27.1 million, which included $13.3 million in restructuring and $4.3 million in other onetime costs.

GAAP net income per share was $0.01 in the fourth quarter of 2023 compared to a GAAP net loss per share of $0.08 in the same period last year. GAAP net loss per share was $0.74 and $0.36 for the full year 2023 and 2022, respectively.

Non-GAAP earnings per share, which excludes long-term incentive compensation, amortization, restructuring charges, other nonrecurring items and the impact of tax adjustments was $0.19 in the fourth quarter of 2023 and 0 for the full year 2023. This compares to non-GAAP earnings per share of $0.03 in the fourth quarter of 2022 and non-GAAP loss per share of $0.05 for the full year 2022.

Fourth quarter adjusted EBITDA and adjusted EBITDA margin was $11.2 million and 18% as compared to $3.2 million and 6% in the same period of last year, respectively. Full year 2023 adjusted EBITDA and adjusted EBITDA margin was $12 million and 5% compared to $6.4 million and 3% for the prior year, respectively.

I'll now discuss the financial results for our Security Solutions business unit. ARR grew 10% year-over-year in the fourth quarter to $101 million. Subscription ARR grew 19% to $75 million and was partially offset by an expected decline in perpetual maintenance ARR. We plan to continue transitioning existing perpetual-based maintenance contracts to subscription contracts over time. Fourth quarter and full year 2023 revenue increased 10% to $48.4 million and 8% to $184.2 million, respectively. Subscription revenue grew 13% to $14.1 million in the fourth quarter and 28% to $60.6 million for the full year, driven primarily by our on-premise mobile security and authentication solutions. As a reminder, we had very strong renewals in the first quarter of 2023.

Growth in Q4 on-premise subscription revenue was partially offset by a modest decline in SaaS revenue, primarily attributed to the sunsetting of our legacy deal flow solution.

Maintenance and support revenue, which consists primarily of revenue from on-premise, perpetual and subscription contracts declined $0.1 million year-over-year in Q4 2023 to $10.3 million. As mentioned previously, growth in revenue from subscription contracts mostly offset the expected decline in perpetual contracts.

Digipass hardware token revenue increased 16% in the quarter and 3% for the full year. Q4 2023 gross profit margin was 67% as compared to 64% in the same period last year. The increase in margin is primarily attributable to favorable product mix and increase in subscription revenue and the reversal of the $1.4 million inventory write-off discussed earlier. As a reminder, hardware gross margin can fluctuate in any given quarter based on product and customer mix. Operating income was $20.4 million and operating margin was 42% compared to $10.7 million and 24% in last year's fourth quarter. An increase in revenue and gross profit margin, lower operating expenses and the reallocation of certain expenses to Digital Agreements in 2023 accounted for the improved performance.

Now turning to Digital Agreements. ARR grew 15% year-over-year to $54 million. Subscription ARR grew 18% to $49 million. Fourth quarter and full year 2023 revenue grew 17% and 5% to $14.5 million and $50.9 million, respectively, as compared to the same period in 2022. Subscription revenue grew 17% in Q4 2023 and 9% for the year to $13.2 million and $45.9 million, respectively. Digital Agreements' SaaS revenue accounts for the majority of the subscription revenue and grew 28% in the fourth quarter to $13 million and included $0.5 million of overage fees that we do not expect to repeat in future quarters. For the year, SaaS revenue grew 22% to $45.5 million.

As discussed in prior quarters, we are sunsetting the on-premise version of our e-signature solution and expect minimal subscription revenue from this solution going forward. For comparison purposes, on-premise subscription revenue contributed $0.4 million and $4.8 million for the full year of 2023 and 2022, respectively, and $0.2 million and $1.1 million in the fourth quarter of 2023 and 2022, respectively. The $0.2 million recognized in Q4 2023 was from certain customers migrating to our cloud platform that needed more time to complete their transition.

Maintenance and support revenue, which consists primarily of revenue from existing on-premise e-signature subscription contracts was flat year-over-year at $1 million in the fourth quarter. We expect this revenue line to trend lower in the coming quarters as customers complete their migrations to the cloud. Fourth quarter gross profit margin was 75% as compared to 79% in the prior year quarter. The decline in gross margin is primarily attributed to depreciation of software capitalization costs in 2023 and a credit from a cloud service provider in 2022 that did not repeat in 2023. These items were partially offset by the overage fees we received in the fourth quarter of 2023. Excluding these items, Q4 2023 gross profit margin would have been approximately 270 basis points higher than the prior year.

Operating loss was $0.7 million as compared to an operating profit of $2.5 million in Q4 last year and an operating loss of $4.7 million last quarter. As a reminder, in Q1 2023, we reallocated expenses from our Security Solutions reporting segment to Digital Agreements, which accounted for the majority of the year-over-year change in profitability in the fourth quarter, along with the items just discussed. Our restructuring efforts and focus on efficient growth contributed to the Q4 2023 sequential improvement.

Turning to our balance sheet. We ended the fourth quarter of 2023 with $42.5 million in cash, cash equivalents and short-term investments compared to $98.5 million at the end of 2022. Key uses of cash in 2023 include approximately $29 million to repurchase common stock, including $25 million via the modified Dutch tender offer we completed in December of 2023. $12.5 million in capital expenditures, primarily capitalized software costs, $12 million in restructuring payments and $2 million in acquisition-related costs. We have no long-term debt.

Consistent with the changes we made in our operating model last year, we expect to generate positive cash flows from operations in 2024.

Geographically, our revenue mix by region in the fourth quarter of 2023 was 49% for EMEA, 34% from the Americas and 17% from Asia Pacific. This compares to 46%, 35% and 19% from the same regions in the fourth quarter of last year, respectively. For the full year 2023, the revenue mix by region was 47% from EMEA, 34% from the Americas and 18% from Asia Pacific compared to 46%, 35% and 19% from the same regions in 2022, respectively.

I will now provide an update to our financial outlook. The adjustments we made to our operating model in 2023 to rebalance our cost structure with our expected growth profile, combined with our focus on operational rigor in driving efficient growth resulted in our expectation of a substantial improvement in our 2024 cash generation and profitability. For the full year 2024, we expect revenue to be in the range of $238 million to $246 million, consistent with our previously communicated target range of low to mid-single-digit growth. ARR to be in the range of $160 million to $168 million and adjusted EBITDA to be in the range of $47 million to $52 million, consistent with the low to mid-range of our previously communicated target of 20% to 23% margin for the year.

We also expect to generate cash from operations in 2024 in the range of $39 million to $43 million, which includes approximately $5 million in restructuring-related payments. And for CapEx to be in the range of $10 million to $11 million, primarily consistent with capitalized software costs.

Consistent with our focus on operational efficiency and best practices, we have made changes to improve the long-term financial position of our company. As discussed in prior calls, we made a decision to sunset our deal flow, on-premise e-signature and stand-alone risk analytics solutions and that many customers of these products are transitioning to our cloud-based e-signature and other offerings. We estimate there will be a net impact to both revenue and ARR of less than $1.5 million from sunset products by the end of 2024.

Beginning January 1, 2024, we transitioned our identity verification solution from our security business unit to our Digital Agreements business unit to reflect its [greater] alignment with our Digital Agreements product portfolio. We expect the sunsetting of products to result in a modest sequential decline in first quarter 2024 ARR and NRR primarily related to the timing of contract expirations.

By business unit and considering the relocation of identity verification to Digital Agreements, we expect a modest first quarter sequential increase in Digital Agreements' ARR, offset by a sequential decrease in Security Solutions' ARR.

Lastly, we made changes that will affect our gross profit margin in 2024. We relocated certain costs in Digital Agreements, mainly related to customer support and professional services from sales and marketing expenses to cost of revenues. This change, combined with an expected increase in depreciation of software capitalization costs, which we started depreciating in 2023 is expected to reduce Digital Agreements gross margin by approximately 700 basis points in 2024. Excluding these items, we estimate Digital Agreements gross profit margin will increase by about 200 basis points in 2024 as compared to 2023.

That concludes my remarks. Victor and I will now be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from the line of Rudy Kessinger with D.A. Davidson.

Rudy Grayson Kessinger ***D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst***
There's more moving pieces on this model than I'm sure anybody on this call can count. Jorge, could you just -- I mean a number of comments. I guess, gross margins, I'll keep it simple, 67% this year, we should -- what should they be next year?

Jorge A. Garcia Martell ***OneSpan Inc. - CFO***
Thanks for the question. So I would expect for next year, there's a few dynamics that I want to walk through before I tell you a number. So first one is, next year, you heard about the increased amortization or depreciation of software capitalization costs. So that's going to continue to impact DA higher than it did this year, right. The second component is on the security hardware is the mix of EMEA versus APAC clients and the product mix as well, which drives that gross margin for that particular business. And so we continue to see -- we ended this year with better-than-expected APAC versus EMEA. We expect, in 2024, to normalize a bit, so we'll see that more consistency EMEA versus APAC margin, so that we'll see a little bit of a drop there. So net debt, I think you would expect that the 2024 gross margin to be consistent with 2023. This just puts something (inaudible) consistent is kind of the high level answer.

Rudy Grayson Kessinger ***D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst***
And then just to read it back to make sure I caught it all correctly. We should be expecting maintenance and support in both Digital Agreements and Security Solutions to continue to decline. And then on hardware, it's actually a pretty strong quarter. Was there any pull forward then? And do you expect hardware to be flat or up slightly again next year or down?

Jorge A. Garcia Martell ***OneSpan Inc. - CFO***
So you're correct on the maintenance and support, so you would expect that to continue to decrease. Again, that's by the side on the DA side of the house is the end of life for on-premise to SaaS is those conversions. We will expect that lower. On the Security side, again, we expect that lower because of the perpetual to term conversions, right? So I think that by the [signs] so the answer is yes there. On the hardware, we did have a very strong Q4 2023 because of the product mix and the client that as I mentioned, APAC generally comes with higher margins than some of the largest banks at EMEA, right, lower margins on average. And so we expect that to normalize a little bit in 2024. Some of the deals that were accelerated, we would from upside from Q1 to Q4 included higher margins, okay. And so that's why when you look at Q1 this year, Q1 2024, we would expect not only seasonally lower revenue on hardware, which is normally normal for a company our case, but also because we pulled some of the better margin deals into Q4, right. So you'd expect that to impact as well in Q1.

Rudy Grayson Kessinger ***D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst***
And then Victor, I guess, just more kind of high level, having been here for a few months now. Just where do you see the opportunities to drive higher levels of growth on a sustainable basis? As we all know, the business has struggled to really achieve that for a long time now. Where do you see room to improve the go-to-market organization and drive higher levels of growth?

Victor T. Limongelli ***OneSpan Inc. - Interim CEO***
Yes. Thanks, Rudy. I mean there are a couple of things. One, I've been here just 2 months. Yesterday was actually my 2-month anniversary. So I don't want to get into too many details, but I think on the Security side of the business, there are opportunities. We did mention a new product last quarter. We have other things planned for later in the year. And there are some adjacent markets that we haven't really been in like workforce authentication that might provide opportunities as well. So overall, we're going to be looking to identify those. And even within our existing businesses, segment the customer base so that we can spend our time on the highest value areas. So there's some potential growth in that way as well.

Operator
Our next question will come from the line of Gray Powell with BTIG.

Gray Wilson Powell ***BTIG, LLC, Research Division - MD & Security and Infrastructure Software Analyst***
A few questions on my side. Maybe to start off, Victor. So you just mentioned you've been at the firm for 60 days. What surprised you the most so far? And then just kind of following up on Rudy's questions. I mean in terms of potential changes, I know you don't want to say too much, but should we expect them to be more operational in nature, just getting more efficient or more strategic.

Victor T. Limongelli ***OneSpan Inc. - Interim CEO***
Thanks, Gray. What surprised me? I don't know if surprise is exactly the right word, but one of the things that really struck me as I got involved over the last 60 days is the strength of the customer relationships we have. I mean, 60 of the top 100 banks is an incredible asset for the company. So that's the first thing. And then the second thing is the team has been working really hard. And you can see it in the execution in Q4, did very well through a lot of change. Rudy had mentioned the amount of moving pieces, and there's certainly been a lot of change over the last 6 months, and the team has executed very, very well. As to your second question, operational efficiency is absolutely an important feature of our 2024 plans. It's the overriding feature, I think. But we are also going to explore areas for increased growth. As we do that, though, we're going to be -- we're going to do it in an efficient way. So if we decide to move into an adjacent market, you should not expect us to go hire 30 or 40 salespeople to go after it. As we identify opportunities, we'll test, we'll iterate and we'll try to do it in a super efficient fashion.

Gray Wilson Powell ***BTIG, LLC, Research Division - MD & Security and Infrastructure Software Analyst***
And then I just had a question on sort of the cost savings that you achieved last year. So you have some good charts in the slide decks over the course of the year. I just want to make sure I understand it correctly. So the cost savings totaled close to $59 million at the end of 2023. I guess my question is what is the starting point on the cumulative number? Like we know that $15.5 million came out in Q4. We know that $24 million came out in Q3. Just wondering how much came out during the first half of the year. We try to like sort of just line up how things should have expanded?

Jorge A. Garcia Martell ***OneSpan Inc. - CFO***
Yes. So I can take that one, Gray. So if you look at -- so Q2 cumulative and you have to take a step back

and think about we had the Phase I and Phase 2, right? Phase 1 was completed. The range for that was 10% to 12%. We ended up, I think, 11.8%, so close to the high end, and that was completed early in 2022. Then Phase 2 kicked off. And so I would say Q1 and Q2 from Phase 2, plus a little of the new actions that we announced in Q2, that totaled about $19.1 million, right. And so that was completed. That is the number we'll give is $19.1 million in Q2. So like year-to-date. And then in Q3, you add another $24 million that we discussed last quarter, plus the $15.5 million this quarter, that's your $58.5 million.

Gray Wilson Powell ***BTIG, LLC, Research Division - MD & Security and Infrastructure Software Analyst***
So the trend line is $19 million, $24 million, $15.5 million, Q2 to Q3.

Jorge A. Garcia Martell ***OneSpan Inc. - CFO***
Correct. You got it.

Gray Wilson Powell ***BTIG, LLC, Research Division - MD & Security and Infrastructure Software Analyst***
Then last one on my side. All right. So I mean, I understand that the cost savings, like phase in, right, like these are sort of end of quarter numbers that we're talking about. Was there anything like onetime in nature that created a headwind because, I mean, we're talking about like huge cost-saving numbers, but EBITDA for the year went from like $6 million to $12 million. So I'm just trying to like reconcile like what appears to be very large cost-saving numbers versus the lower growth on EBITDA in 2023?

Jorge A. Garcia Martell ***OneSpan Inc. - CFO***
Yes. I think part of the equation that to factor in is that we started in Q1 and we exited Q4, but we started in Q1 and the first half was of Q2 really investing heavily in sales and marketing. And I think that's with the piece that you also have to factor in. Just to give you an example, number of sellers. We hired, I believe, in the first 4 months of 2023, probably about close to 38, 39 sellers, right. And so when you start taking that investment that we made earlier in the year, then the offset with this cost savings, you have to take all into account to get to that number, okay.

Operator
(Operator Instructions) Our next question will come from the line of Alex Hantman with Sidoti.

Alex Hantman ***Sidoti & Company, LLC - Executive Officer***
This is Alex Hantman on for Anja Soderstrom. My first question, I would love to hear a little bit more context around the guidance. So I think you mentioned that you're on target for the low to middle of guidance for revenue and EBITDA. Can you talk about some of the scenarios that bring you from the low to mid and maybe even to the higher end?

Jorge A. Garcia Martell ***OneSpan Inc. - CFO***
Thanks for the question. So I think part of that range is to account for the lumpiness that you see in the hardware business, as you know, is lumpy because of the timing of shipments. So part of that the guide there is to consider that lumpiness. The other component is primarily on the term on the security software that is -- you'll see this sometimes these pops of revenue, right? And that's because, again, is

primarily recognized upfront from a license perspective, term license perspective. And so some of these deals may or may not close in a particular quarter, particular year, you'll have those pops. Where you have a lot more seasonality or expectation of trends is more on the completely SaaS business which is DA. And so that doesn't play that much of a factor, although obviously, there is some new logo or new revenue potential there. So those are the 3 factors, Alex that I can comment to you regarding the range.

Alex Hantman ***Sidoti & Company, LLC - Executive Officer***
And I think you very briefly mentioned sales force, but I was wondering if you could elaborate on average, what level of productivity would you say the sales force has achieved? And how much room for improvement do you think there is?

Jorge A. Garcia Martell ***OneSpan Inc. - CFO***
Yes. We don't normally comment on those metrics, Alex. One of the things that I think is -- and I love to get your -- you can chime in here as well. But one of the things that we are -- this has been tasked with, obviously, is identifying efficiencies and that includes sales and marketing. And that includes working with Samy and Sameer as the GMs to improve the efficiency of our sales dollar spend as well as the productivity for our sellers. So Vic, I'll turn it over to you for additional comments there.

Victor T. Limongelli ***OneSpan Inc. - Interim CEO***
Yes. Thanks, Jorge. So not just at OneSpan, but any company, it takes -- it typically takes a while for salespeople to ramp up and become fully productive. And one of the things I think you saw in OneSpan over the last few years is there were a whole bunch of new sales people. Just started. Going through a 6-month or longer ramp-up period and the productivity wasn't high. At this point, we have -- Jorge, you can probably provide the details, but a much more tenured team than we had a year ago. People who have at least hit a year or over close to the year mark. And so naturally, we expect that productivity to increase as their -- they have been in the positions longer and have been working the accounts longer.

Operator
That concludes today's question-and-answer session. I'd like to turn the call back to Joe Maxa for closing remarks.

Joseph A. Maxa ***OneSpan Inc. - VP of IR***
Thank you, everyone, for joining us today. We appreciate your time and look forward to sharing our progress with you next quarter. Thanks again, and have a nice day.

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