



# LEGION PARTNERS

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Response to Company Presentation

May 2021

[ProtectOneSpan.com](https://ProtectOneSpan.com)

OneSpan's Board fails to acknowledge it has long underperformed and lacks critical skillsets in modern cloud-first recurring software revenue – **this is not the right Board to guide OneSpan going forward**

1. OneSpan argues it cannot provide segment-level profitability to better enable a sum-of-the-parts (“SOTP”) analysis **despite its peers doing so** and **referencing this critical data** in prior communications to stockholders
2. OneSpan's investor presentation **cherry-picks dates and peers** to argue its total shareholder returns are “admirable” – **yet the opposite is true**
3. OneSpan argues its self-refresh has added relevant skillsets when instead it has installed new directors with **legacy technology backgrounds** and/or **personal connections** to incumbent directors

# Misleading Claim #1: OSPN Does Not Have a Hardware “Business”

The Board’s excuse for refusing to provide segment-level profitability directly contradicts how OSPN management has described the Hardware business for years – until 2 days prior to Legion nominating directors



# Misleading Claim #2: Providing Segment-Level Profitability is “Impossible”

Prior to Legion nominating directors, OneSpan’s CFO assured Legion that the Company was working on segment-level profit disclosures and was aiming to have it ready “by Q2” of this year – so what happened?

## References to Segment-Level Profitability in OSPN’s 5/19/21 Presentation

**We Modified Our Incentive Plans to Align Compensation and Strategy**

- As our business and strategy have evolved, we took the same approach to executive compensation.
- Previous reviews of our CEO’s compensation plan focused heavily on requests for a review of benchmarking practice in 2019 based on our CEO’s executive compensation opportunity was tied to this one metric.
- This approach to compensation was at odds with the fact that the hardware token business, which generated for 78% of total revenue in 2019, is not as profitable at the gross margin level as its recurring software.
- As an average and measure our ability to calculate and service our Board advised the CEO’s compensation opportunity.
- In 2020, 75% of the value of our CEO’s annual incentive opportunity was tied to software-related metrics such as Adjusted EBITDA, Customer Wins and Annual Subscriptions and Service Revenue. This supports our mission to be increasingly software-focused business model.
- Management cannot achieve target payout under the Annual Incentive Plan by outperforming on hardware authentication sales alone.

*“...the hardware token business –which accounted for 78% of total revenue in 2015– is not as profitable at the gross margin level” (page 61)*

**Legion’s Rationale for Selling Hardware Authentication Was Misguided**

Legion’s demand that we sell the hardware component of our authentication business is based on spreadsheet-driven math rather than the complex aspects of managing a business transformation while providing customers with solutions that they require.

**Legion’s Rationale for Selling Hardware**

- Selling the hardware component of our authentication business is a one-time purchase. Customers pay for the hardware component up front, but the software component is sold on a recurring basis. Customers can’t see the value of their business until they start using the software component.
- Our hardware component is a one-time purchase. Customers pay for the hardware component up front, but the software component is sold on a recurring basis. Customers can’t see the value of their business until they start using the software component.
- Our hardware component is a one-time purchase. Customers pay for the hardware component up front, but the software component is sold on a recurring basis. Customers can’t see the value of their business until they start using the software component.

*“The hardware component...is very profitable at the operating income level...” (page 72)*

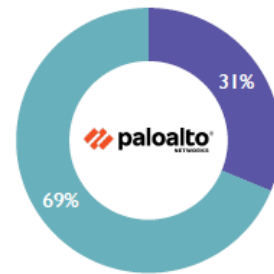
**Despite evidence that OneSpan possesses segment-level margin data, the Board claims this data is “impossible” to calculate and provide to stockholders**

# Misleading Claim #3: Market Participants Can Easily Perform a SOTP Analysis

The Board cites other technology companies as examples where investors perform SOTP analyses, but most provide segment-level profitability – critical disclosure that can enable market participants to perform a SOTP analysis and help achieve fair valuation multiples in the public markets

## OSPN 5/19/21 Presentation (page 73)

Hardware Is Not a “Structural Impediment” to a Fair Valuation



“Additional transparency on FCF further bolsters our confidence in our SOTP valuation methodology.”

Morgan Stanley Research Note, February 23, 2021

## Palo Alto Networks Segment-Level Profitability Disclosure

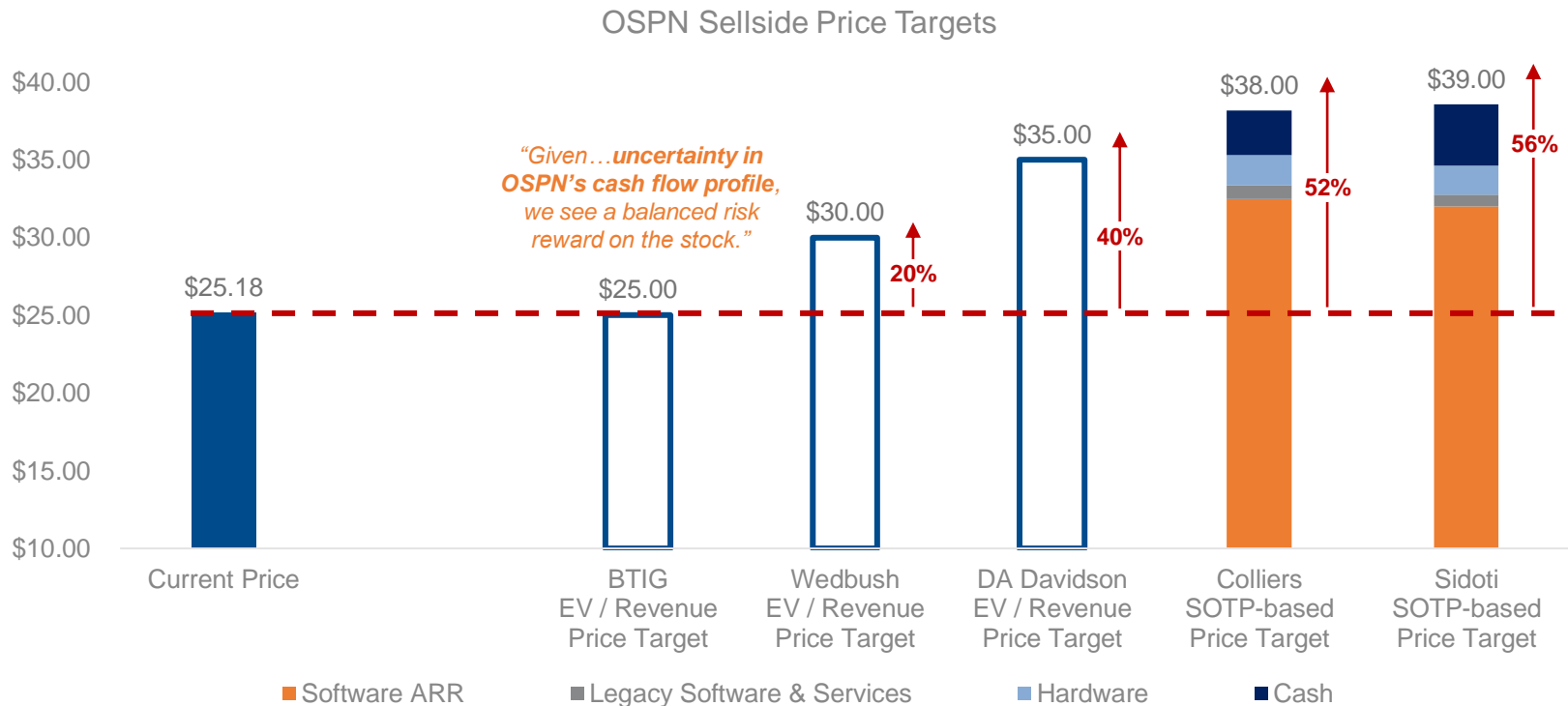
### Raising outlook for NetSec

	Firewall - Services & Support - NetSec Network Security		MCS - Software Revenue - CloudSec Cloud & AI		Palo Alto Networks	
	FY'20	FY'21	FY'20	FY'21	FY'20	FY'21
Billings <sup>1</sup>	\$867m	\$937m	\$388M	\$738M	\$4,302M	\$5,290M
ARR <sup>2</sup>	\$867m	\$937m	\$388M	\$738M	\$4,302M	\$5,290M
Revenue <sup>3</sup>	\$3,090M	\$3,600M	\$3,18M	\$605M	\$3,408M	\$4,205M
Gross Margin (Non-GAAP) <sup>4</sup>	77%	77%	63%	61%	76%	75%
Op Margin (Non-GAAP) <sup>5</sup>	28%	29%	-80%	-45%	18%	18%
Adj. FCF Margin (Non-GAAP) <sup>6</sup>	38%	42%	-59%	-43%	28%	30%
Lifetime Customers <sup>7</sup>	>73,000	>80,000	>8,000	>9,000	>75,000	>82,000

Investors must know an asset's revenue and profits in order to value it fairly – why is this such a difficult concept for the Board to comprehend?

# Misleading Claim #4: Only Legion “Believes Our Valuation Gap is this Wide”

The Board refuses to acknowledge OSPN’s widely-observed and steep valuation discount to its intrinsic value and appears disinterested in developing a credible plan for closing this glaring valuation gap



**If the Board cannot recognize the problem, it will never find a solution**

# Misleading Claim #5: Legion’s Changes to Our Peer Group are “Disingenuous”

We compare OSPN’s TSR performance to the Company’s own peer set (from its Fiscal 2020 Form 10-K) and carefully developed two peer groups that closely match OneSpan’s business and financial characteristics

Board Accusation	Legion Philosophy / Response
“The companies Legion added are all strongly growing, pure software companies”	Our Cybersecurity Peer group contains several hardware and software peers, and an <b>overwhelming majority</b> underwent a transition to a cloud-based recurring revenue business model
“Legion has deleted from our list companies that are much closer in size” like Tenable (TENB) and SecureWorks (SCWX)	We <u>actually included</u> TENB and SCWX in our Cybersecurity Peer group and added multiple peers with less revenue than OSPN, including nCino (NCNO), Alkami (ALKT) and Mitek (MITK)
“Legion adjusted our set of proxy peers by...adding dissimilar companies”	We refrained from including Company-selected “peers” with little relevance to OSPN, such as those selling manufacturing software, pricing optimization software or fundraising software to non-profits  Instead, we focused exclusively on 1) cybersecurity, 2) banking/eSignature software, and 3) mixed SaaS/term-based licensing recurring revenue peers
“OneSpan...should not be compared to deca-billion dollar” companies	Why did the Board proceed to compare OSPN to Cisco, Dell and Apple?



**While the Board has since corrected its false claim of Legion “removing” certain peers, these hasty accusations in its originally filed investor presentation appear aimed to distract stockholders from OSPN’s long-term underperformance**



# Misleading Claim #6: “OneSpan has Performed Admirably for Shareholders”

In order to demonstrate modest outperformance, the Board utilizes peers from its 2021 proxy statement, not peers used for TSR comparison in its Fiscal 2020 Form 10-K, which conveniently omits the two highest performing peers from the Form 10-K peer group

In addition, the Company only shows 1, 2, and 3-year time periods, used a seemingly random end date of 4/30/21, and excluded the NASDAQ despite referring to the index in a previous letter

OSPN Relative TSR as of 4/30/21						
OSPN vs.	1 Year	2 Year	3 Year	5 Year	10 Year	15 Year
 Proxy Statement Peers  Peer Median	4%	(5%)	4%	(215%)	(178%)	(317%)
Proxy Statement Peers Peer Average	(102%)	(139%)	(393%)	(1,057%)	(758%)	(317%)
Company Peers (per 10-K) Peer Median	(11%)	(6%)	(21%)	(215%)	(178%)	(264%)
Company Peers (per 10-K) Peer Average	(197%)	(58%)	(70%)	(203%)	(258%)	(264%)
NASDAQ	3%	(28%)	(25%)	(138%)	(269%)	(315%)

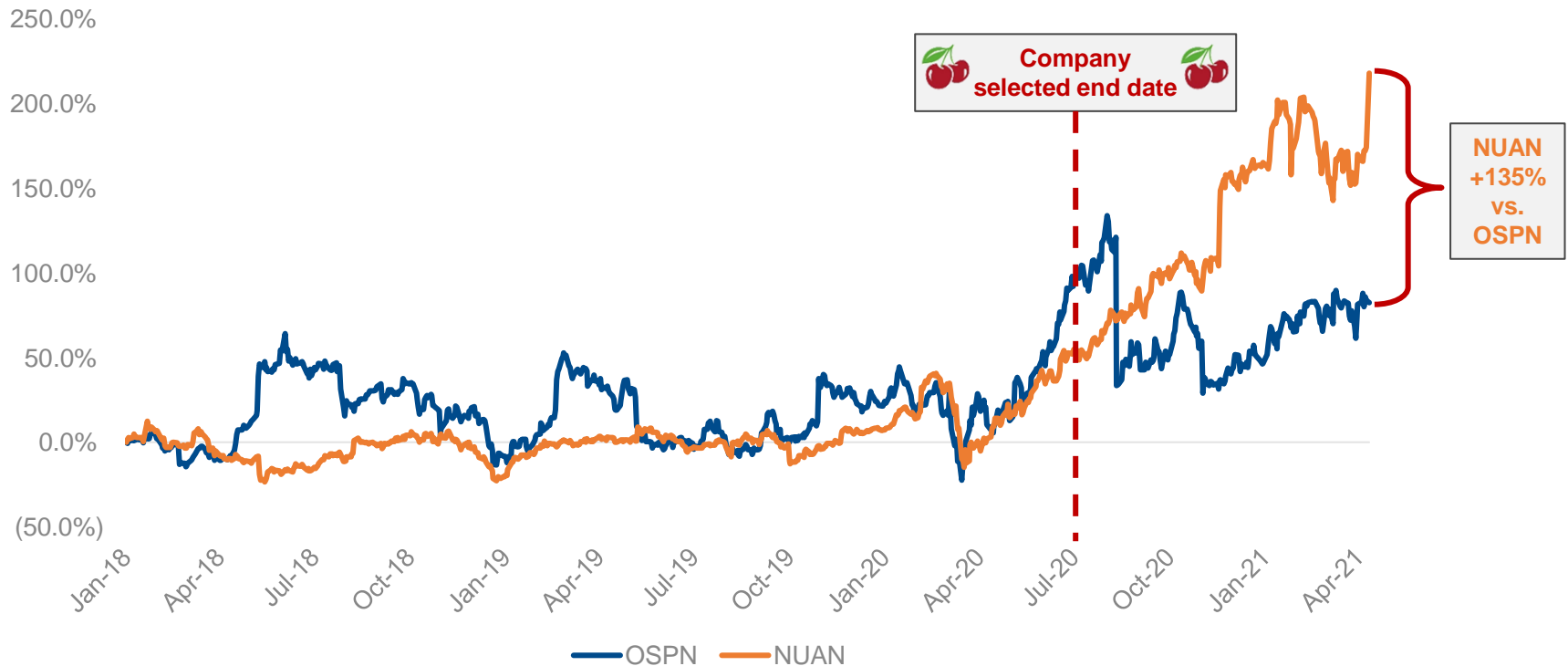
OSPN Excludes All Periods Over 3 Years

**Whether using average or median, the result is largely the same –  
long-term TSR underperformance**



# Misleading Claim #7: Nuance Case Study Shows OSPN's "Impressive Performance"

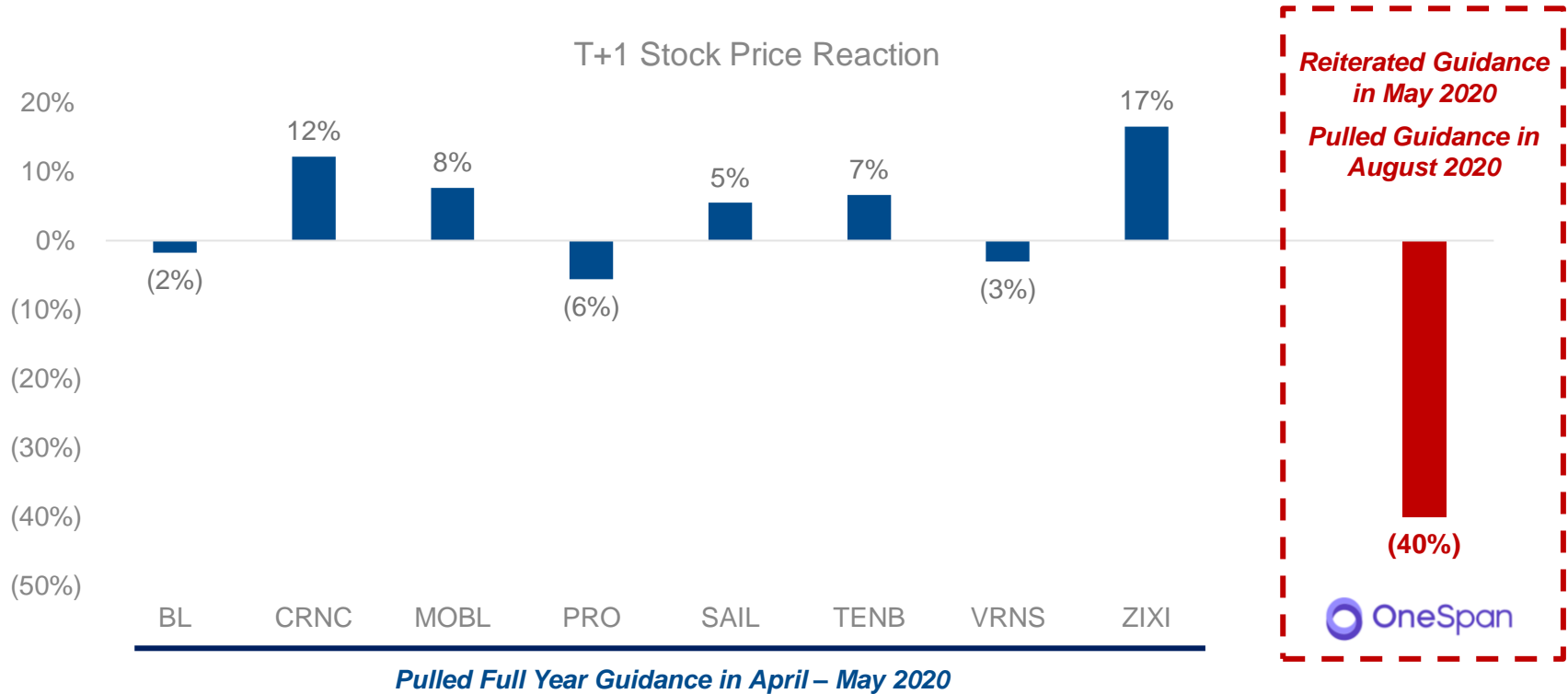
The Board selected an end date of June 30, 2020 "prior to the impact of the pandemic" to demonstrate OSPN's temporary outperformance versus Nuance (NUAN) – however, NUAN drastically outperformed OSPN through April 2021



**The Board appears to have selected an end date immediately prior to OSPN's 40% stock price crash in a single day**

# Misleading Claim #8: Many of OneSpan's Peers Also Pulled Full Year Guidance

The Board claims that many of its peers also pulled full year guidance during the pandemic – however, these peers did so in April and May 2020 while OneSpan *reiterated* its guidance, only to pull full year guidance later in August 2020



**OSPN's August 2020 debacle was mostly of its own making due to Hardware volatility – not COVID**

# Misleading Claim #9: “Compensation is Aligned with Performance”

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## We believe the Company’s executive compensation programs were poorly designed, and remain poorly designed

- The 2018-2020 long-term incentive plan mirrors the Company’s 2018 revenue mix
  - OneSpan’s revenue was 50% hardware and 50% software & services in 2018
  - However, the plan’s performance goals are for **2020**
  - This plan did not align with the Company’s go-forward strategy of transitioning to recurring software revenue – unsurprisingly, **OSPN TSR underperformed during this period**
- The 2020-2022 long-term incentive plan still relies heavily on metrics that are not aligned with the go-forward strategy of transitioning to recurring software revenue
  - GAAP Revenue has a 50% weighting and Adj. EBITDA has a 25% weighting
  - Legacy Hardware and perpetual licensing revenue have upfront revenue recognition, whereas recurring software revenue is recognized ratably over time
  - We fear OSPN’s TSR will continue to underperform

**The Board’s reactive changes to executive compensation  
seem too little, too late**

# Misleading Claim #10: “Recent Strategic Acquisitions Have Added Value”

While the Board will claim its acquisition of Silanis (OneSpan Sign) has added value, buying into DocuSign’s IPO would have delivered *double* the gain in half the time – the value generated for OSPN stockholders has clearly underperformed

Company / Asset	DocuSign®	e-SignLive™ by Silanis / OneSpan Sign
Beginning Value	\$5.2 billion Market Cap IPO on 4/24/18	\$85 million Acquisition on 11/25/15
Current Value	\$46.5 billion Market Cap	\$400 million High-Level Estimate
Return on Investment	8.9x 126% IRR	4.7x 35% IRR

**Why hasn't the Board done more to achieve fair value for its eSignature business?**

# Misleading Claim #11: Legion “Supported” Marianne Johnson’s Board Appointment

Legion never approved of Marianne Johnson’s appointment to the Board – after interviewing Ms. Johnson, we recommended against her candidacy

## Board’s False Portrayal of Legion’s Views in the 5/19/21 Presentation

*“Legion was given the opportunity to interview both Ms. Hassan and Ms. Johnson and expressed support for these two directors, stating they would “truly enable [Scott Clements] and his team to achieve the success they deserve while operating as a public company” (page 78)*

## Actual Excerpt from Legion’s 2/7/20 Email to the Board



*“As for Marianne, we believe any of the three candidates we presented would be a better fit for OneSpan’s board, particularly from a technology angle in terms of enterprise cloud SaaS and cybersecurity.”*

**In the Board’s original presentation, it misrepresented an email from Legion in order to falsely portray support for Ms. Johnson’s candidacy – while they have since corrected this “mistake,” we believe this further damages the Board’s low credibility when portraying its “version of events”**



# Misleading Claim #12: The Board Has Added Modern “Cloud” Software Leaders

OneSpan’s stated goal is to become a cloud-first recurring revenue company, which requires a vastly different set of experiences and skills than those gained working at legacy, low-growth and largely on-premise software companies









	OSPN’s Recently Added Directors	Legion Nominees with True Cloud-First Experience
Representative Companies		
Average Organic Growth	1% GDP-like growth	11% 10x faster
Technology	Legacy on-premise – installed on-site	Cloud-based deployment – nothing done “on-site”
Business Model	Largely one-time sales for SMBs – low visibility	Largely subscription-based recurring revenue for Enterprises – high visibility
Relevance to OSPN?	<p>CDK and Cox: software for auto dealerships</p> <p>Equifax: suffered a massive cyberattack</p> <p>Deluxe: “Cloud” segment includes logo design</p>	<p>World-class cloud-first software companies</p> <p>Next-generation cybersecurity leaders</p> <p>High-growth firms largely based in Silicon Valley</p>

**Which group does OneSpan wish to be in?**

Note: CY2020 organic revenue growth of public companies used for average; recently added directors refer to Marianne Johnson, Al Nietzel and Garry Capers; company logos refer to operating and board experience  
Source: SEC Filings, OSPN Company Presentation (5/19/21, page 50), Capital IQ

# Vote for Legion's Nominees on the WHITE Proxy Card

OneSpan's incumbent directors are far outmatched by Legion's nominees' backgrounds and experiences pertinent to the Company's go-forward strategy

Incumbent Director, Age Position	Tenure (Years)	Industry Background	Hardware Experience	Modern Software Experience			Other Public Board / Investor
				C-Level Executive	Technical	Public M&A	
 <b>John Fox, 77</b> <i>Chairman and Chair of Compensation Committee</i>	16	Professional Services					
 <b>Jean Holley, 62</b> <i>Chair of Corporate Governance and Nominating Committee</i>	14	Logistics; Telecom Equip.; Building Materials					
 <b>Matthew Moog, 51</b> <i>Member of CG&amp;N and F&amp;S Committees</i>	8	Radio; Consumer Internet		✓			
 <b>Marc Zenner, 58</b> <i>Chair of Finance &amp; Strategy Committee</i>	2	Investment Banking (Generalist)					
Legion Nominee, Age Position							
 <b>Sarika Garg, 45</b> <i>Former Chief Strategy Officer, Tradeshift</i>		Enterprise Software / Fintech		✓	✓	✓	
 <b>Sagar Gupta, 33</b> <i>Senior Analyst at Legion Partners (6.9% stockholder of OSPN)</i>		Technology Investor				✓	✓
 <b>Michael McConnell, 54</b> <i>Board Director, Executive and Investor at numerous technology firms</i>		Tech Executive, Board Director and Investor	✓	✓		✓	✓
 <b>Rinki Sethi, 38</b> <i>Chief Information Security Officer, Twitter</i>		Cybersecurity Software	✓	✓	✓	✓	

# Proxy Solicitor Information

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Please vote your WHITE proxy card today



If you have any questions, require assistance in voting your WHITE proxy card, or need additional copies of Legion's proxy materials, please contact:

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