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Mike Cikos, Analyst, Needham & Company

All right. Thanks for joining us today. I'm Mike Cikos, I am the analyst covering infrastructure, analytics software, as well as cybersecurity here at Needham, for Needham's NGC. This is our 25th year doing it. Pleased to announce that we have with us the management team from OneSpan, the CEO, Matt Moynahan; and the new CFO, Jorge Martell. Thank you for joining us today.

Matt Moynahan, Chief Executive Officer

Thank you.

Mike Cikos, Analyst, Needham & Company

Maybe just to level set before we launch into questions. Trying to be cognizant of the audience that we have between here and the webcast, but can we just walk through OneSpan's basic value proposition? And really if you could incorporate into that conversation competitive dynamics and where you think OneSpan's competitive differentiation is?

Matt Moynahan, Chief Executive Officer

Sure, sure. So OneSpan has been around for 30 years, obviously public for about 20 years, but feels like a completely new company right now. We repositioned the company in May to be a digital agreement security company. What is that? I've spent 30 years in cybersecurity. Almost all of cybersecurity sells into IT security, right, protecting laptops, protecting servers, protecting infrastructure. Digital agreements is essentially when enterprises interact with their customers, they go into a transaction with a customer, and the result of that transaction is an agreement. Think of it as a digital version of a contract. It could be anything really. But that contract has legal consequences, legal liability.

So a digital agreement security company is really someone who brings cybersecurity in enterprise class way to the engagement model when enterprises engage with their customers, it could be B2B, it could be B2C and it's really, I believe, it will be one of the first companies in the Web 3.0 era that brings cyber security to the front office engagement, not the back office protecting infrastructure.

And OneSpan has been around for 30 years serving enterprises, particularly the banking of financial services industry in the very early days of digital transformation, doing online bank account openings, doing identity verification, authentication, and transaction signing, which is essentially think of it as an audit trail on steroids. Those three things on the security side are customer facing, touching revenue generating transactions. So we have a long history in that.

The other part of the company is an e-signature company, very similar to DocuSign. Okay. I believe we are the only enterprise class alternative to DocuSign in the market. And that's really important because those documents touch customers as well. So our entire business is customer facing, unlike any other security company out there. And so our value proposition is taking security from the very engagement with an unknown customer and weaving it through that transaction process all the way through to completion of the transaction and storage of the artifact.

And I do believe that eVaulting will be an important part of that as this new Web 3.0 era deep fakes and what have you, take off and prove themselves out over the next two to three years. So, very bullish on the company, and really, it's a unique value proposition in the space from the sum of its parts, which haven't been put together. And we'll talk a little bit more about operating.

Our unique value proposition is that you can consider us a secured version of DocuSign, okay. And it's very, very important if you don't know who you are engaging with. If you don't know the person signing the contract, there is legal consequence to it. Okay. And that is going to play out not just in digital processes that require paper, but any digital transaction, whether there is paper involved or not. 30 years ago, wire transfers had paper associated with them. Now they don't. And so we're building what we call transaction cloud, which is to both help organizations automate and digitize paper-based processes with our core expertise in e-signature, but it's much, much bigger than that where we're focusing on transactions on any type when enterprises engage with consumers whether it be a B2B or B2C consumer.

Mike Cikos, Analyst, Needham & Company

And I know we're starting to pick up on here the like, again, I know you spoke a little bit about your prior experience. What attracted you to OneSpan in the first place? And then I guess in the time that you've been here, can you describe the progress that you've made under your tenure as far as directing the company?

Matt Moynahan, Chief Executive Officer

Yes, I think it's been an interesting ride. So, I've spent almost my entire career, 25 years plus, in cybersecurity. And I started out my career at Goldman Sachs and went right into cyber. I have been in almost every part of cybersecurity from, Symantec, to Veracode, code scanning intelligence literally. And every single company, right, provides sort of a point product or a point solution largely targeted at the CIO or CISO. Okay. And literally going in and protecting an organization. Even some of the more fascinating things that have been happening in identity recently are understanding when credentials and identities get stolen from employees, don't let people in or on my network. Okay.

Businesses need to grow by engaging with customers globally. I don't know any company in the world that doesn't want to go online, sell more products, find more customers, and anytime you get a new customer, it's an unknown entity, okay. And so the history of the company was super attractive because there's no other cybersecurity company that touches customer-facing, revenue generating transactions. They all operate in the shadows as they should, based on the threats, they are trying to stop. The new threat, the new digital attack surface is for customers. And people have forgotten about that.

If you onboard a nation state to a process, or if you do business with someone that isn't who they say there, there's legal consequences to it, right. And that's why notaries exist, right. And then, so there is a very unique value proposition here. To pull this thing off, we needed a new team and a new mindset. It was a better company than people would realize. When I was doing my diligence on the company, listened to every earnings announcement, read every single 10-K going all the way back, and the company had a couple bumps on the road, I would say it was definitely not managed with a strategic direction in mind.

And you'll be very funny – it's funny, I went into the team on the first day and said, it's funny how this team who hasn't grown for three years is going to be the exact same team that's going to grow for the next three. And we have it, right, largely because we gave them a direction, we gave them a sense of purpose, and we told them what their job was. And it's funny what can happen magic with just by giving an alignment in the true north for the company. And I'm proud of the team. We had to transform most of the management team. I've never had to do a complete rebuild like this. Typically it's a handful one, two, or three. This was really a shift not only in the team itself to bring more scale experience, but it was just, we needed a growth mindset in the company, right? And you sometimes just get trapped in your own box. And the team we have now, including Jorge is just a fundamentally different mindset and seizes the opportunity as opposed to the other way around. So very excited by that.

Mike Cikos, Analyst, Needham & Company

And Jorge, we are going to touch on today is kind of interesting introductions congratulations on Jorge’s appointment in September. Can you talk about your experience, what brought you to OneSpan? And then if there is anything that we should be thinking about as far as the mindset that you're trying to bring as far as optimize, expand or looking for places to cut? How should we be thinking about what you're trying to drive here at OneSpan?

Jorge Martell, Chief Financial Officer

Yes, absolutely. So similar to Matt, what drove me too was the potential this company has to be the market leader in this space. Right? There is so much opportunity, and it's a brand awareness, education, it's change of mindset, Matt has talked about that. And we're really building those pillars, right, within the operation. So one of the things that I'm bringing is financial discipline, right, across the organization, right. And I'm partnering with Matt, I'm partnering with the rest of the executive team, we all need to be in the same mindset, right. And it's proven that that is the secret sauce, right, behind maximizing, expanding margins. You know what I mean. So that's – the other side as well is, top line growth, being a leader in the market, but then grow profitably, right, which is the second component, right. And that's what I'm focusing my time on as well,

And so we're all aligned, Matt has set the tone at the top in terms of where we want to be and when we grow up as a company everybody is aligned. And I think you can feel that alignment across the entire organization. It's pretty cool.

Mike Cikos, Analyst, Needham & Company

That's great. And just to close a loop on the management discussion, but do we think that OneSpan has the team in place, or is there still maybe incremental building that needs to take place at the margin at this point?

Jorge Martell, Chief Financial Officer

I feel like we're locked and loaded and really I feel very, very good about the team. I mean, obviously to see the team in action, right. I think that's the biggest thing in mind. People ask me, what keeps me up at night is getting this team, which is super capable to do as best work as fast as we possibly can do.

People talk about the time, value of money. Really, to me, a time value of execution is everything, right. So now it’s game on the past couple of quarters, it was building this foundation, putting the scaffolding in place, getting the foundation set, and January 1 was the first day of our three-year plan. But I feel very, very good compared to a year ago with that equally important obviously the executive team is the face of the company, but there has been a lot of progress at the second and third layers in the company, right, both in terms of getting some of the capable people that were here for a long period of time with the old Vasco company in the right jobs that also augmenting them at the L2 and L3 layers. So I feel very good.

Mike Cikos, Analyst, Needham & Company

Awesome. And I know we'll be touching on the transformation plan later, but I think one of the big things that a lot of investors are trying to figure out in this conference is macro. Can you talk about how the changing economic landscape has impacted your customers? Are you seeing changes in spend or buying behavior? How have they been reacting given the market landscape?

Matt Moynahan, Chief Executive Officer

Yes. No, it's interesting. I mean, so I think it's sort of been a tale of two cities, which I talked about in earnings announcements. We have the security side of the house and then we have the e-signature side of the house. Over time they come together, but right now they are separate markets for the most part. We're fortunate despite the fact that there is an over concentration, I hate to – I hate to say that we're banking financial services company. That was the old mindset, but the very fact that we have a high concentration there has served us well. Most of the business that we do are with very large banks that are attached to online banking. That's not going anywhere. In fact, in many cases, we've seen a spike.

And so in the security segment we have seen some headwinds with regard to the components and the token side of our business, which obviously is considerable. No impact to the bookings per se, but more on the shipment and ability to recognize revenue on that front. We talked about $4 million to $4.5 million going into the first half of the year during the last earnings call. And that's still approximately right.

And then on the security software side we've seen pretty resilient approach to the same thing, soft tokens. Again, most of it is protecting end users as they go and do mobile banking.

On the e-signature side, a little bit different. We're so small still, right, it's not as if we are the market. So the market conditions are moving us. I do believe that the vast majority of what we need to do is just heads down and execute. But e-signature is not as strategic as cybersecurity. And the top five are top seven projects that might be up there, depending on the customer might it get down to the top three or four. And then it really depends on what customer you are going into and what is the strategic priority for e-signature.

The other impact and I do believe we're mostly through the post-COVID recalibration if you will. But the other impact is that our stuff is embedded in other people's stuff. We private label everything we do, which I believe, is a very important feature for cybersecurity. DocuSign now is, I think, the top 10, top 15 most fished brands out there using the brand as a social engineering attack, no different than Adobe and weaponizing PDFs or what have you. So we private label everything, and we are embedded in other people's contracting processes. It's a great place to be. They want their brands on it, but because of our concentration in mortgage and refinancing the economic impact of things like fewer cars being purchased or mortgages being taken out or refinancing, does see that downstream impact on the volumes that we would see transacting in those contracting areas.

Most of that doesn't prohibit people from purchasing, but it might be a slightly lower volume, or it might prevent them from going into what we would call, additional purchases based on a robust economy where they are buying more transactions. So, we've seen a little bit of that as this economic sort of cycle has prolonged.

Mike Cikos, Analyst, Needham & Company

And just to build that on that last point, I know we had mentioned, like mortgages and insurance, right? And I'm just trying to think, is there anything anecdotally you can share from the sales force with respect to sales cycles? Is this change on the customers' part more specific to verticals like we're talking to here? Or is it maybe more tied to specific geography? Any incremental color on that one?

Matt Moynahan, Chief Executive Officer

Yes, I'll just say something, turn over to you Jorge. But I don't think that it's a sales cycle issue. I really think it's a budget prioritization issue. I mean, I think it's not a secret that people are hunkering down for an economic winter here, right? And so again, depending on the company we go in, our biggest issue right now is brand recognition. Our biggest issue is getting bets, it's not whether we win. That's not the issue.

So I say sales cycle still remained about six to nine months depending on the seller and the organization. But I am focused more on the operations and the environment right now given our size.

Jorge Martell, Chief Financial Officer

I mean, just to add, so, we manage the business, regionally, right, APAC, EMEA, et cetera. So some of these geos may have some nuances like geopolitical, in EMEA and things like that. So those may impact a little bit. I think why we were seeing more again, is just the fear of that recession, right? How is it going to impact things like that? So it goes back to Matt's point about the prioritization of the projects internally, and et cetera. And then here in the U.S. you see that mainly in those two sectors, the mortgage and insurance, that type of thing.

Mike Cikos, Analyst, Needham & Company

Okay. And on the component shortages that you had cited earlier as well, just as a reminder for folks, but how long has OneSpan been facing that dynamic of, is there anything we're doing as far as dual sourcing, or how are you guys trying to resolve this issue?

Matt Moynahan, Chief Executive Officer

Yes, it's a great, great question. So I have been in the hardware business before, and I get say this team is excellent. I mean, we have some of the top supply chain people on the planet, so very, very proud of the work they do. And I want to recognize them for that. This has been existing for two years. We just started talking about it a year ago, because it became bigger than OneSpan's ability to management, obviously globally, the supply chain has been an issue, primarily with two things, microprocessors and display interfaces for our Cronto product, right. So specifically on that, there has been other supply chain issues we've been dealing with, but we've been dealing with them in mitigating risk along the way.

And so, it's there, we do expect it to get better in the second half of this year for the product lines that have been affected. The bigger issue really that has changed over the past six months is just in the geopolitical issue with China, right? You've seen things with Apple actually now launching with supply from India on day one. That wasn't the case. They had always launch with China first, and they would follow-up with India for the masses. They are now doing it in a multi-vendor scenario. We are looking at the same thing, right. So we will be adding suppliers in other parts of the world. We do have some over in Eastern Europe, and we will be making sure that we, over the course of the next two years of our plan, reduce the dependence on China for certain components so we don't have this issue as dramatic as it is right now.

Mike Cikos, Analyst, Needham & Company

And again we'll be getting to the transformation, but I think another thing that's been front and center for folks is the focus on profitability versus growth.

Matt Moynahan, Chief Executive Officer

Yes.

Mike Cikos, Analyst, Needham & Company

Right. So maybe you can help us think about the profitability that OneSpan is currently delivering in the context of how you guys are maintaining investment for growth versus demonstrating scale and leverage to the model.

Matt Moynahan, Chief Executive Officer

Yes, it's super important. We did break out obviously two segments to show how we're managing the business and that was really to start beginning restoring our credibility with the investor base, right? OneSpan, until we had this vision, it was sort of a complicated animal and you can go into the 10-K and look, right. The company was sort of buckling under its own weight. I had an investor asked the other day, Matt, how do you view the company now that you are on the inside versus your outside in view? I said, it's the same, the investors were, right. It was confusing. We had to manage the business better, right.

And so, just given our starting point, we have to grow profitably. Okay, now we will manage one division for growth and the other one for cash and that balance has to come to profitable growth, including the markets have changed too, right? But I do feel like we've got the management team and the controls in place to have a strong, profitable growth story.

Jorge Martell, Chief Financial Officer

Yes, I'll just add a couple things. One is that we talked about the financial discipline, right? And also the execution of the synergies and cost settings that we have executed, under Matt, from Phase 2, Phase 1 we hit our number the max, 10 to 12, we hit 12. We're about nine of the 20 to 25 over the next three years. So we feel good about that. And so you'll see those manifesting themselves into the numbers, right? So just increased profitability. We implemented more rigor on cap software, so we benefited from that as well. Another benefit is well from, it's still on top level market, particularly for quality people, right. And so we see that's a benefit there. And that's going to continue, right. I mean, it's no secret, we're investing in 2023, right, in our sales and marketing. But we want to grow profitably. So, that's really the mandate here.

Mike Cikos, Analyst, Needham & Company

And I know, again, you already touched on segmenting of the business, it sounds like it was really done for transparency reasons. But can you kind of walk us through what the strategic rationale was for splitting out the business into those two segments? As well as how transparent you have been, I know Jorge was touching on that a bit before.

Matt Moynahan, Chief Executive Officer

Yes. I mean, listen, I mean, we had – the company lost its credibility. I think we had some unforced errors and foot faults, right over the past three years, and I've put myself in that category now as CEO of the company, and we had to clean it up. And so what does that mean, right? The company has a very good portfolio, right. It's been around for 30 years for a reason. It builds very, very good products. But the market was confused around what the company was, what areas of identity do you play with? What areas of mobile security do you play with? So we need to really shine light on the portfolios.

You think of the digital agreement side as NewCo and the security side as Oldco. Think of the digital agreement side as cloud, think of the security side of it as on-premise, okay. And we're going to manage them that way. Now, new products like our DIGIPASS CX, which is a cloud-based, token security token, okay, will be launched in the digital agreement side, right? I would say this is an artificial separation to begin the rebuild of trust and credibility with the investor community so that they can see exactly what we're doing with the investment dollars that then will produce the blended return across those two things. But we will manage the on-premise for cash and slightly lower growth given the market we sit in, in the identity space. And new products will be launched in the digital agreements side of the business.

I'll give you an example, remote online notary, right, or our Virtual Room product. You should use our token for high assurance authentication into a virtual environment. I'll tell you, I just had a meeting with the investors the other day. And there was, I came into the meeting, there was three investors in the virtual meeting on Zoom, and then a fourth box came up, no video. Okay. I tell the story a couple of times. And I went to the bottom of the box and looked at the person's name. The name was Sean Williams. Some guy comes on and says, hey, it's not Sean, it's Mike. And I said, how the hell do I know?

I mean, they all laughed. And I said, no, I'm serious. How the hell do I know? And I don't know anybody here. Why did Elon Musk pull back verified accounts by Twitter? In one day after he said it, you can't stop it, you can't stop it. So identities need to be verified in virtual, and physical and digital environments. And so those all the products we have. But that market that we've been operating is a little bit smaller. The future is very relevant. It just needs to come in a different form factor called the cloud. And so over time, you will see the value proposition combined, and you'll see our security portfolio be managed just like that. Legacy security portfolio while the new products are baked into the digital agreement side. Until then, we want to be very clear and transparent on how we're doing and hold ourselves accountable for managing the business appropriately.

Mike Cikos, Analyst, Needham & Company

And with the way that those segments are currently structured as well; is there a way to think about, or can you share anything as far as win rates? Have they been improving since we've seen the segmenting because there's very little focus around them? And then how does the competitive sections bind these different segments as well?

Matt Moynahan, Chief Executive Officer

No. It's a great question. So I'm very excited this year. This is the first year in the history of at least the past five years, perhaps longer that there will be one sales force that can sell all products. Can you imagine if you're a large bank or large enterprise and you have three, OneSpan salespeople showing up, not coordinated, selling a sliver of the portfolio, okay, it doesn't make sense. I mean no enterprise would want that, nor is it efficient and so bringing together the team for the first time is a big part of our unified go-to-market and should bring operating efficiencies to the company. That's too early to speak to the impact that that's had. January 1st was the first time that they're launching with a single quota in the entire portfolio across all products with named accounts. And so now that the march has begun, but I do anticipate that to provide benefits for the company.

Mike Cikos, Analyst, Needham & Company

Great. And I do want to cycle back to the go-to-market, but just to close the loop I know we were talking about the transformation as well, right? And I think that there were two big programs announced; one with relation to headcount restructuring, one with relation to product portfolio management. Can you just walk us through both those programs where we are? What's the status? How much is left?

Matt Moynahan, Chief Executive Officer

Yeah. I mean, I'm very proud of the team. You think about when I came in about a year ago, we immediately moved to restructuring the company and the same time sort of growing it. I mean, the team was pretty, I mean, this gives you a sense of the legacy of the historical VASCO DNA inside of this company. I mean, I don't know how many companies that grow through a completely structuring and realignment with new CEO, right? That wasn't growing for the past three years. And that's the DNA that's in the company. And so that restructuring is really important.

Now, what I – what I did was, and I do believe this break the bone and reset it as fast as you possibly can, because time is money. And so we made some decisions around sunsetting our on-premise e-signature product. We sunset our risk analytics product, which wasn't built for purpose. We sunset our Dealflo, which was an acquisition coming from six months ago and did some great work transferring a lot of customers from Dealflo to our e-signature platform.

That said, those products created probably mid-single – mid-single digit impact to revenue this year and pipeline, and we still grew, right? And so that was getting those things through the system and the decisions made should provide our operating leverage year two, year three as we get off of those products. So obviously a portion of it will happen this year, but that's a multi-year thing as you move enterprises from one platform to the other, but it was critically important for us.

Mike Cikos, Analyst, Needham & Company

And can you also talk, like if I think about the sunsetting of products, right? How was that handled as far as the communication of two customers? And then I guess, was there, there was a component, I assume of churn versus how many customers were you able to migrate to maybe products that you were continuing to deliver?

Matt Moynahan, Chief Executive Officer

Yeah. Well, there's so a couple things. One is OneSpan has an enterprise class portfolio where we're maturing is creating an enterprise class go-to-market, but – and that was really important. I think this was the first big sort of enterprise, sort of action that we took with customer sunsetting products and then communicating with them and then getting them to come along for that journey, thus very proud of how the team performed. I mean, they sales force understood why we were making these things, investing in the long-term and trying to make sure that we had our focus to execute. The engagement model was very good. In fact it gave us a reason to go and talk to customers about something, which is benefit.

Yet the first step is go in there and have a conversation, even if it's a tough conversation, if it's respectful, enterprises will come along. And then I will say I'm quite pleased on the e-signature side that where there was opportunity given the feature set in our e-signature. We had many customers come over from the Dealflo to the e-signature platform. Obviously, Dealflo is a different product than pure e-signature, but I do feel like we exercised that muscle and it was successful. And it's just rinse and repeat now going forward, and how we engage in portfolio management decisions that should happen continuously inside of the company.

Mike Cikos, Analyst, Needham & Company

Great. And then with respect to DocuSign, I know you had mentioned them earlier just to drive it home for folks, but can you walk us through the differences that you guys see in the technology? The go-to-market, does that messaging resonate with leads and customers today?

Matt Moynahan, Chief Executive Officer

Yeah. So first of all, I have a lot of respect for DocuSign, but I don't know any market in the world that doesn't have a global number two, even Amazon who invented the mighty Cloud, right? Microsoft seven years later came up and arguably as valuable, if not more valuable from a cloud perspective. Every market needs a credible number two and we will be that. I do believe based on my customer conversations that customers view us as the more secure alternative; I believe we are. And the only enterprise class alternative to DocuSign. One of the investors asked me today and said Matt; does the world need another e-signature product? And I said, they need us, that's for sure. There's so many e-signature products out there, but I wouldn't say they're enterprise class. The ability to orchestrate millions and hundreds of millions of documents and audit trails and time-stamping and signature is a different class there.

And so we will be that steady march. In fact, we should be right now, right? There's DocuSign, there's a big air pocket, and then there's everybody else and we're the leading pack of everybody else. We will become that number two. But we're not trying to beat DocuSign, I mean; Amazon came up through the developer community, right? The Microsoft went into the enterprise level. We're coming at it from the global enterprise level down. DocuSign came from the SMB and the document world moved up. We think more terms of security and regulation and compliance. DocuSign is more of a document centric company with CLM, more like Adobe probably. We're totally different and so we're looking to go into enterprises and partner with them as they think about putting their business in digital portfolios, whether it's a bank account or a mortgage, pick your business process, helping them digitize it, whether it has paper or not and then securing that process to manage security and regulatory risk.

It's a very, very, very different value propositions. I personally think of e-signature as a feature. It's a feature of a business process that has paper associated with it, but not all processes have paper, not do customers want it in all cases. So I think it's just a fundamentally different mindset where as you transact internally with NDAs and SOWs yeah, when you go external and start on-boarding vendors and on-boarding customers, the whole world changes from a risk and regulatory compliance standpoint. So we think we can supply both, but clearly DocuSign is a good competitor with us. But it's we're so small right now that we'll talk about this in a couple of years when we've become more of a competitor. But right now they are the market, but I think that will change certainly over the next three to five years.

Mike Cikos, Analyst, Needham & Company

Thanks for that. And go-to-market, I know you had spoken about the unified sales force. The other thing too that the management team has spoken about previously is the increased productivity, I'm sorry, increased capacity that the company's looking to layer in. So can you help us understand the hiring, the thought process behind that hiring incremental burden of those – of those carrying costs as we think about the out years?

Matt Moynahan, Chief Executive Officer

We have to be very prudent in how we do this. But we did as I stood there in May, I think we had 46 sellers globally, and we talked about doubling that over the course of the year. We are on target for that. I am very pleased with the level of talent that's coming into the company. I personally interview anybody coming into the sales force in any position. I don't care who it is, an inside sales rep all the way up to our strategic account managers and that's been great.

I think the sellers that are coming in field, the importance not just to hit their number, but as part of the transformation, and there's a different DNA that's coming in the company. So we're on target to double. We have to be careful though, again going back to Jorge's point around reasonable growth and reasonable profit, not to get too far ahead of ourselves until the marketing engine gets ramped up. So we monitor this very, very, very closely.

We want the Goldilocks approach, just enough sales capacity to handle the demand and not get too far ahead of us so that the sellers aren't productive, and so that's something where we watch like a hawk. And if we feel that the demand signal is there and we're getting the pipeline built, then we'll layer on more sales capacity to it, if not we'll be very, very prudent on how we do that to make sure it's sufficient growth.

Mike Cikos, Analyst, Needham & Company

And how long does a new hire take to ramp to become fully productive for you guys? Is there, I guess building on that, are there any metrics that we can look from the outside in to determine the ROI on those investments that you guys are making?

Matt Moynahan, Chief Executive Officer

It's interesting, we talk about time to productivity, the first thing is time to competence to build pipeline, right? And so the company hadn't historically monitored the time to ramp, when does a seller become competent enough to actually build pipeline with that pipeline then you produce. So I would go back to my comment, I still think it's six to nine months depending on the seller. The good news is, is that the e-signature is more of an application sale, right? That there's more talent out in the market at the application layer than there is for security, right?

It's a very, very different type of sale to go in there and talk about some of the arcane natures of Cronto, encryption and things of that nature versus something that's tangible.

Everyone knows e-signature, right? And so we just have to get the right sellers and build out our sales enablement capability, which we are and just, I think it's just part of our enterprise growth plan. But let's still say its six to nine months regardless.

Mike Cikos, Analyst, Needham & Company

And with the structure of the sales force down as well, right? If you have this unified go-to-market, can you help us think about the layers that that go into that sales enterprise machine, right? Whether it's customer success or there are people that are geared more towards foraging versus hunting something like that. How is that structure today? And has it been again more of an organizational reset versus what we had previously?

Matt Moynahan, Chief Executive Officer

Yeah. No, it's a great question. And so we have – we are investing in sales as Jorge talked about, and one of those investments is investing in customer experience. We have shown, again the biggest challenge we have is brand recognition. But we have shown when we get the right enterprise with the right seller, enterprise things happen. Our ASPs quadruple and the land then turns into expand, right? And that we've shown it time and time again. We just haven't had enough of those experiences because of the reduced sales capacity and some of the marketing, which really – the marketing engine wasn't in place.

So we're very bullish on that. So what that means is that we have created a customer experience group led by Stuti Bhargava who's our customer – Chief Customer Experience Officer, and we've combined four sub-functions into that group: the professional services, the customer success managers, the product support and the renewals team. And they all work in concert with sales to hand off the customer internally so that we give them concierge type service, so that like any good SaaS company, there's incremental engagement on the upselling cross-selling happens that hasn't existed in the company. And so it's a – that's a new function but very excited by it and the impact it can have.

Mike Cikos, Analyst, Needham & Company

Great. And I guess another thing, you had spoken to the marketing already, but I'm just trying to think about OneSpan has been communicating as well, the idea that you want to accelerate new logo acquisition. So the unified go-to-market makes sense. The doubling your capacity makes sense. I guess in that context with the new logo acquisition can you also discuss what the company's doing to drive an expanded type of funnel to help attract folks to the OneSpan platform?

Matt Moynahan, Chief Executive Officer

I'm sorry, again it's just building on every element of our enterprise muscle, right, and marketing is a key one. We focus on it every single day and that goes everything from making sure that the contents indication is right to the digital engagement and digital programs. And we will invest in our brand building, but it's not as if we're going to go take out OneSpan billboards, right? So it really is just the instrumentation of the marketing engine to make sure that we're reaching the top of the pyramid more effectively. We do have a good portion of our businesses as SMB, but that was a drag on our productivity actually. We don't have an efficient self-service model right now, right, and we have to get that in place. It's a strategic initiative, but the core to our growth as new logos in the mid-market and above, and instrumenting our engine to go get that demand signal from them. In the meantime we have our sellers with named accounts going out there and engaging, but those two things have to happen in concert.

Mike Cikos, Analyst, Needham & Company

So I guess just building on that, again if I think about it, it sounds like over the medium term, maybe longer term OneSpan will be looking to build out more of a self-serve for the SMB. And so in that context, can you also help us think about how much of the business today is segmented between what you would describe as SMB versus mid-market versus enterprise?

Matt Moynahan, Chief Executive Officer

Yeah. So we have about 55% – 55% as enterprise, 45% right now is SMB, but it's not as efficient as it should be on the SMB. You can think about the expenses being spread across those almost similarly. That's what we have to change, right, I mean good, modern SaaS companies should be self-service, not just for the SMB, even for the enterprises to do try buy. And I don't know the last time I looked; I think one of our competitors has 40% of – 40% of their business, SMB. SMBs good business if you can serve it cost effectively. And that's just what we have to do is make sure that we can optimize the engagement model at the lower end of the period without having our selling machine focus at the high end. That also gives us an ability to try buy and automatically convert over into a cloud-based e-signature platform or other types of products. But that just hasn't been the history of the company. So that's a core focus for us.

Mike Cikos, Analyst, Needham & Company

Great. And I have a couple more questions on product launches, product roadmap. Does anyone have any questions before I keep going?

[Question Inaudible]

Matt Moynahan, Chief Executive Officer

It's a lower part of the pyramid, and I would say mid-market, not SMB, pure SMB, but think about this top half of the pyramid and bottom half of the pyramid, that would include mid-market firms as well.

Mike Cikos, Analyst, Needham & Company

Anyone else? All right, great. Shifting to the product roadmap map. I know you had mentioned Digipass CX as an example? Can you talk through that product? I know virtual room actually just became generally available right around the time. Jorge was coming on board, so. Can you help us think about the new product launches for the company as well?

Matt Moynahan, Chief Executive Officer

Sure. Digipass CX which stands for cloud services or cloud experience the CX on Digipass it will be a commercially available in Q2 of this year. We are engaging now with customers and having conversations around that, very bullish on it. Again this is our current products talk to back office servers' on-premise and banks or our cloud Digipass CX will be the first cloud-based token for us that talks to our cloud with not just authentication services, but a whole set of services for it, including doing things like logging into virtual room, right? So this can be broadly used across many, many, many different applications for high assurance step up authentication, okay, and that's all cloud-based, and it will be launched as a subscription model. So it'll be a pure ARR based product that will be launched in the digital agreements side of the house, okay.

The virtual room was also launched. Virtual room, think of it as a set of capabilities. A good example would be something like remote online notary. Remote online notary would be an ability for a customer to do notaries online and it uses all of our virtual room capabilities like video, co-browsing, document signing, the official authorization and stamp. Another example would be a virtual branch, right? The branch now that are closed post-COVID, you can come in and you actually sign a document, you can review your insurance forms or whatever it may be. So think of it as a high assist sort of office if you will, but it's done virtually and securely.

So we need to go find more applications for that. We're in several conversations with partners around that, but I'm quite excited by the potential. We have a little bit more work to do to determine the many applications that we believe we have for that product. But I would anticipate there are year two and year three of our plan to be the primary years where the growth would come from those two products with year one seeing some contribution.

Mike Cikos, Analyst, Needham & Company

Okay. And a question for Jorge, really coming back to the financials, but there's been a lot of wrangling when thinking about balance sheets, cash flow margins. Can you help us think about is there any incremental debt that's going to be coming due as well as the free cash flow margins for the business? As you guys are growing the business for these two segments, should we think about any changes to have those margins have been historically versus where they're going?

Jorge Martell, Chief Financial Officer

Yeah, so we have no debt, so balance sheet is clean. So we closed Q3 with $94 million in cash, and so that, that is the investment, that is the resource we have for the deployment for growth, right? I think you know, optimizing and when you think about the two segments, digital agreements, when you think about security, right? So security generates a lot of cash, and we continue to do that. So you'd take that investment and then you put it in the – to fuel that growth, to turbo-charge that growth that Matt is talking about, right? So that's really the mentality here and we're continue to do that.

Mike Cikos, Analyst, Needham & Company

Okay, awesome. And then just two minutes left here. So last question on my side; but if I think about OneSpan, then you guys seem to have like this, this holistic playbook that you're executing against, right? We've spoken about the transformation as far as the headcount reductions, the product portfolio pruning, the launch of new products, the sales force. I guess what would you focus investor attention on? If you're leaving us with one or two key bullets from this fireside, what would you want us to really focus on near term as far as how management is executing and OneSpan's products is success in the market?

Matt Moynahan, Chief Executive Officer

Yeah. I think it's really becoming an enterprise class company, right? The company had slowed down, a lot of it was servicing its installed base, which served the company well for a long period of time, but it didn't focus on new logo acquisition – new enterprise logo acquisition. I think, getting an enterprise class sales and marketing capability that can go out there and target and new enterprise logos and take those deals down, particularly in competitive situations with a global player like a DocuSign is what I would focus on, right? And as our enterprise class muscle gets going, there's no reason why that shouldn't happen, it takes time.

That's what we've been hard at work at the last two quarters, getting the infrastructure in place to do that. And some of it's just so basic blocking and tackling that was absent, but you have to do it. You have to get the databases, you have to get the content to talk to customers, you have to syndicate, and so that's underway, and I think that's the journey for us over three years to go from great company with an enterprise class portfolio to a really great enterprise class company focusing on digital agreements, but I'm confident we can do that.

Mike Cikos, Analyst, Needham & Company

Terrific, and we'll leave it there. But thank you very much for joining us guys. Definitely appreciate it.

Matt Moynahan, Chief Executive Officer

Appreciate it.

Jorge Martell, Chief Financial Officer

Thanks for having us.

Mike Cikos, Analyst, Needham & Company

Thank you.