OneSpan Inc. (Q4 2022 Earnings)
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Corporate Speakers

- Joseph Maxa; OneSpan Inc.; VP of IR
- Matthew Moynahan; OneSpan Inc.; President, CEO & Director
- Jorge Martell; OneSpan Inc.; CFO

Participants

- Gray Powell; BTIG, LLC; MD & Security and Infrastructure Software Analyst
- Rudy Kessinger; D.A. Davidson & Co.; SVP & Senior Research Analyst
- Nicholas Mattiacci; Craig-Hallum Capital Group LLC; Associate Analyst
- Anja Soderstrom; Sidoti & Company, LLC; Senior Equity Research Analyst

PRESENTATION

(Operator Instructions) I will now hand you over to your host, Joe Maxa, VP, Investor Relations. Joe, please go ahead.

Joseph Maxa^ Thank you, operator. Hello, everyone, and thank you for joining the OneSpan Fourth Quarter and Full Year 2022 Earnings Conference Call. My name is Joe Maxa, and I am the VP of Investor Relations. 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 Matt Moynahan, our Chief Executive Officer; and Jorge Martell, our Chief Financial Officer. This afternoon, after market close, OneSpan issued a press release announcing results for our fourth quarter and full year 2022. 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 2023 and our 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 February 28, 2023. 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 Matt.

Matthew Moynahan^ Thank you, Joe. Hello, everyone. Thank you for joining us on the call today. I want to start off by acknowledging and congratulating our talented employees for delivering a strong quarter and year, driven by significant improvement in operational rigor and financial discipline. I'm very proud of the team for their dedication and execution during the year that substantially redefined the company and resulted in a return to top line growth and profitable adjusted EBITDA.

Our solid 2022 results came during the year where we defined and began executing on a new strategy to become the enterprise-class digital agreement security company. We restructured the company to align to our go-forward strategy, executed significant cost savings initiatives, rationalized our product portfolio and navigated through a more challenging and uncertain macroeconomic environment, all following 2 years of negative top line growth.

Our mindset has changed. We are laser-focused on sustainable growth and profitability, and our momentum is building across both dimensions. Let's dig a little deeper.

OneSpan is known for its enterprise-class products. In fact, the strength of our products, along with the market opportunity before us, is why I joined the company 15 months ago and why many of our employees have joined over this past year. Our employees are excited. We are moving from a product company to a problem-solving company for our customers, and they see what I see, which is an opportunity to transform OneSpan into a faster growing and much larger company that is a strategic partner to enterprises around the globe.

We have great assets and great people as our foundation to build upon, and we are just getting started. The strong effort and commitment from the team over the last several quarters has me convinced we are well-positioned for continued success as we execute our multiyear growth plan.

In Q4, we completed the build-out of our transformational leadership team to bring scale experience to the company. I feel very good about each and every executive in their ability to significantly strengthen our ability to execute across their respective functional areas.

We are increasing the size of and enterprise experience in our quota-carrying sales force. We are on track to double the size of the team by the end of the year. Following our sales kickoff in early January, appropriately themed the power of one. Our sales team is now unified across the globe with every individual having the ability to sell our entire portfolio. And we have completed the realignment and go-to-market focus around our OneSpan 1000 program that prioritizes growth at our largest 1,000 enterprise customers and new logo target accounts.

We are prioritizing new logo growth this year through compensation plans and incentive structures and equally important, through increased investment in our marketing function to drive brand awareness and new logo acquisition at the top half of the customer pyramid, all designed to increase our average deal size.

Turning briefly to our financials. I'm pleased we delivered a strong fourth quarter and exceeded our full year 2022 revenue and adjusted EBITDA guidance. We also had strong bookings in the quarter and for the year. Protecting high-value, high assurance B2B and B2C transactions remains a top priority for our customers, even in a challenging macroeconomic environment. Like last quarter, sales cycles in some Asian and European regions were longer in Q4 as compared to historical periods. Overall, the sales cycle for our solutions ticked down slightly from the third quarter.

Fourth quarter and full year 2022 revenues were $57 million and $219 million, respectively. For the year, revenue grew 2% despite supply chain challenges and foreign currency headwinds. Excluding the FX impact of approximately $12 million for the full year 2022, FY 2022 revenue grew 8%. Annual recurring revenue grew 12%, excluding the FX impact of approximately $4 million, ARR grew 15%, and we were profitable on an adjusted EBITDA basis for the quarter and year, reaching $3.2 million in Q4 and $6.4 million for the year. Jorge will provide additional details on our results during his financial review in a few minutes. But before that, I would like to highlight a few significant customer wins during the quarter to give you a sense as to how and why customers are using our solutions.

We displaced a major e-signature competitor at a large auto collision repair company. This company is digitizing their retail deployment and was impressed by our favorable price per value and lack of nickel and dime pricing. A top-4 bank in the United States increased its number of mobile security suite licenses due to an expansion of mobile banking users. This bank is using our authentication and transaction sign-in technology to mitigate fraud by preventing man in the middle attacks. And a long-time European bank and mobile security suite customer upgraded their banking infrastructure and selected our cloud authentication service. They further selected our identity verification solution to identify and onboard customers. Cross-selling our capabilities into our installed base to deliver more complete solutions is a top priority in fiscal year '23.

We are also executing against our product strategy and recently made 3 meaningful announcements designed to strengthen our ability to accelerate revenue. Two weeks ago, we announced OneSpan Notary, our next-generation all-in-one digitally native service that enables notaries and end users to complete digital agreements conveniently and securely. OneSpan Notary integrates several OneSpan technologies, including identity verification, e-signature and secure video conferencing to offer the highest level of security.

Similar to our e-signature solutions, OneSpan Notary offers the ability to private label the solution to mitigate fraud and security risks from phishing attacks. It also ensures our customers' brand is out front, resulting in a trusted user experience from start to finish. We are currently in early availability program and general availability is planned for next month.

Earlier this month, we announced a new and exciting enterprise pricing model for digital agreement customers. This is consistent with our strategy to offer advanced technology and services at the most favorable price per value in the market. By accessing the OneSpan transaction cloud platform, organizations have the ability to choose the consumption model that works best for their business, including unlimited enterprise-wide transactions or unlimited enterprise-wide end-user options.

We believe this new approach will not only enable our customers to secure customer-facing and revenue-generating business processes, but will ensure they are not overbuying and under consuming, therefore, eliminating unpredictability and dissatisfaction associated with transaction pricing by our largest competitor. And last month, we announced the acquisition of ProvenDB to bring secure storage and vaulting for documents based on blockchain technology. We plan to integrate ProvenDB's technology with our transaction cloud platform to provide an end-to-end assurance model, which includes secure evolving for documents and artifacts that require the highest levels of compliance and assurance.

I believe the e-vaulting category presents a significant opportunity as the market responds to Web3 security threats. Having met with top customers across the globe, I have a strong conviction that we are on the right path with our 5-pillar solution strategy of verify, authenticate, interact, transact and E-vault.

Lastly, before turning the call over to Jorge, I would like to provide a few comments on the OneSpan transaction cloud platform. I'll then come back and provide closing comments before opening the call for questions. Our transaction cloud platform enables us to integrate our leading services to create new innovative solutions, such as OneSpan Notary. We plan to modularize our entire digital agreements portfolio, resulting in the ability to secure the entire digital transaction life cycle by seamlessly weaving together identity verification, authentication, high assurance virtual collaboration, e-signature and secure transaction e-vaulting for our customers.

We believe the time is right for this approach as organizations begin to think about transitioning to Web3 technologies and need to address the global regulations associated with identity and data privacy. The transaction cloud platform is based on the premise of open platforms that enable our customers and partners to tap into software and services through a shared infrastructure and automation when and where they want it. This enables our customers to benefit from operational efficiencies and reduce security risk while focusing their limited resources on maximizing business outcomes and delivering a compelling customer experience.

With that, I'll turn the call over to Jorge. Jorge?

Jorge Martell^ Thank you, Matt. Good afternoon, everybody. I am pleased that we reported another solid quarter, largely driven by improved operational discipline and execution in the business. For the full year 2022, we exceeded our revenue and adjusted EBITDA guidance and met the low end of our ARR guidance provided to you last quarter.

ARR grew 12% year-over-year to $139 million. Excluding the FX impact of approximately $4 million, ARR would have been 15% higher year-over-year. ARR specific to subscription contracts grew 22% to $105 million and accounted for approximately 76% of total ARR. Net retention rate, or NRR, was 107%. We defined NRR as the year-over-year growth in ARR from existing customers. We previously referred to this metric as dollar-based net expansion or DBNE. There is no change in how we would define or calculate NRR as compared to DBNE.

ARR and NRR were impacted by FX, longer sales cycles in certain international regions, timing related to contract renewals, and as mentioned last quarter, a few lost contracts, some customers rightsizing volumes to reflect post-pandemic levels and product portfolio sunset and decisions, which we expect will impact us for the next few quarters.

Fourth quarter revenue decreased 4% to $56.6 million as compared to the same period last year. This is primarily due to a strong comparable in last year's Q4 as a result of a significant number of hardware delivery orders moving from Q3 to Q4 2021 to the supply chain disruptions. Q4 2022 revenue was also negatively impacted by FX and delays in certain hardware delivery orders moving to the first half of 2023 also related to supply chain constraints. Excluding the impact of FX of $2.9 million, Q4 revenue would have been $59.5 million or 1% higher compared to last year's Q4.

For the full year 2022, revenue grew 2% to $219 million. Excluding the FX impact of approximately $12 million, revenue would have been 8% higher as compared to 2021. Subscription revenue grew 28% to $23.8 million in the fourth quarter and 30% to $89.2 million for the full year 2022. Fourth quarter gross margin was 67% compared to 63% in the prior year quarter. The year-over-year improvement is largely related to a more favorable product mix.

Operating loss in the fourth quarter was $4 million and included $1.5 million of nonrecurring expenses related to our restructuring plan. This compares to a loss of $6 million in the fourth quarter of 2021.

Fourth quarter operating expenses benefited from our cost reduction plans, lower payroll-related expenses as a result of lower headcount, increased R&D suffered capitalization costs and by approximately $1.4 million from changes in FX as compared to last year, offset partially by increases in travel, long-term incentive compensation and bonus accruals.

Regarding our cost reduction plan, as a reminder, last year, we completed Phase 1, resulting in $11.8 million of annualized savings, near the high end of our $10 million to $12 million expected range. Phase 2 began in May of last year and will continue through 2025. Annualized savings for Phase 2 were $10.1 million as of December 31, 2022. Total annualized savings for Phase 2 are expected to be in the range of $20 million to $25 million by the end of 2025, with most of the savings reinvested as part of our 3-year growth plan.

GAAP net loss per share was $0.08 in the fourth quarter and $0.36 for the full year 2022 compared to net loss per share of $0.35 and $0.77 in the same periods of 2021. Non-GAAP earnings per share, which excludes long-term incentive compensation, amortization, nonrecurring items, including the impairment of intangible assets, restructuring charges and the impact of tax adjustments was $0.03 in the fourth quarter. Non-GAAP loss per share for the full year 2022 was $0.05. This compares to non-GAAP losses per share of $0.24 and $0.41 in Q4 2021 and full year 2021, respectively.

Fourth quarter adjusted EBITDA and adjusted EBITDA margin was $3.2 million and 6% as compared to negative $0.6 million and negative 1% in the same period of last year. Full year 2022 adjusted EBITDA and adjusted EBITDA margin was $6.4 million and 3% compared to negative $5.1 million and negative 2% for the prior year. The year-over-year improvements in both periods was largely driven by continued cost management discipline, lower payroll-related expenses, capitalized software costs and favorable product mix towards higher margin subscription solutions.

I'll now discuss our Digital Agreements segment's results. Digital agreements ARR grew 18% year-over-year to $47 million. Excluding changes in FX, ARR grew 19%. Fourth quarter and full year 2022 revenue grew 15% and 19% to $12.4 million and $48.4 million, respectively, as compared to the same periods last year. Excluding changes in FX, fourth quarter and full year 2022 revenue grew 16% and 20%, respectively. Subscription ARR grew 22% to $42 million. For the fourth quarter and full year 2022, subscription revenue grew 24% to $11.3 million and 26% to $42 million, respectively. The vast majority of subscription revenue recognized in the quarter and year was ratable.

I want to remind you that we had a large multiyear on-premise e-signature contract in the first quarter of 2022, which will not repeat this year. Fourth quarter gross margin was 79% compared to 76% in the prior year quarter. The higher gross margin was largely a result of increased scale and efficiencies. Operating income in Q4 was $2.5 million as compared to $0.4 million last year. Increased revenue, combined with a higher gross margin and lower operating expenses were the primary drivers of improved performance.

As discussed previously, we plan to increase investments in Digital Agreements, including the hiring of additional talent to drive top line growth through increased sales and product development. We also plan to increase investments in lead generation to create brand awareness and accelerate sales pipeline growth. Therefore, we expect operating expenses to increase in future quarters.

Turning to our Security Solutions segment results. ARR grew 9% year-over-year to $92 million. Excluding changes in FX, ARR grew 13%. Fourth quarter and full year 2022 revenue declined 9% and 2% to $44.2 million and $170.6 million, respectively, as compared to the same period last year. Excluding changes in FX, fourth quarter revenue declined 3% and full year 2022 revenue grew 5%.

Subscription ARR grew 22% to $63 million. For the fourth quarter and full year 2022, subscription revenue grew 32% and 34% to $12.5 million and $47.1 million, respectively, driven by expansion contracts from existing customers for authentication, transaction signing and app shielding solutions. Growth in subscription revenue in both periods was offset by expected decreases in perpetual software licenses and related maintenance, the sunsetting of products, delays in certain Digipass token shipments to the first half of 2023 and changes in foreign currency.

Regarding electronic component shortages discussed last quarter, that resulted in delayed Digipass token shipments to the first half of 2023. We believe that our efforts to increase stock and optimize customer delivery plans will enable us to return to normalized delivery levels beginning in the second half of 2023.

Q4 gross margin was 64% compared to 60% in the same period last year. Change in product mix, including an increase in subscription revenue and a decrease in Digipass token shipments was the primary factor impacting the increase in gross margin. The increase in gross margin was partially offset by an increase in electronic component prices used in Digipass tokens. Operating income was $10.7 million and operating margin was 24% as compared to $9.8 million and 20% last year. The primary differences from last year can be attributed to product mix and cost reduction activities, partially offset by lower revenue.

Turning to our balance sheet. We ended the fourth quarter of 2022 with $99 million in cash, cash equivalents and short-term investments compared to $98 million at the end of 2021 and $94 million at the end of last quarter. We generated $8 million of cash flows from operations during the quarter, primarily related to improvements in net working capital. We have no long-term debt.

Geographically, our revenue mix by region in the fourth quarter of 2022 was largely consistent with the prior 2 quarters. 46% came from EMEA, 37% from the Americas and 18% from Asia Pacific. This compares to 53%, 30% and 18% from the same regions in the fourth quarter of last year, respectively. For the full year 2022, the revenue mix by region was 46% from EMEA, 35% from the Americas and 19% from Asia Pacific compared to 49%, 32% and 19% from the same regions in 2021, respectively.

Before turning to guidance, I want to remind you that 2023 will be an investment year. We are investing in our people, our marketing engine and our products to drive sales pipeline and profitable growth. Sales and marketing investments will be more highly weighted in the first half of the year to drive ACV and revenues as the year progresses, which we expect will result in increased growth and profitability in the second half of 2023 as compared to the first half of the year and instrument growth in 2024 and 2025.

For the full year 2023, we expect the following: Revenue will be in the range of $232 million to $242 million, representing roughly 6% to 11%; ARR to be in the range of $157 million to $164 million, representing a growth rate of 13% to 18%; and adjusted EBITDA to be in the range of $3 million to $6 million; I'm also pleased to provide an update for our 3-year financial targets announced in May 2022. We are currently forecasting revenue to grow at a 12% to 14% CAGR through 2025 as compared to our previous target of 10% to 12%; ARR to grow at a 20% or higher CAGR through 2025, consistent with our previous target; NRR to exceed 120% exiting 2025, consistent with our previous target; gross profit margin to exceed 70% in 2025 as compared to our previous target of approximately 70%; and adjusted EBITDA to be in the range of 10% to 12% in 2025 as compared to our previous target of 8% to 10%.

And with that, I'll turn it back to Matt for some closing remarks.

Matthew Moynahan^ Thank you, Jorge. Key priorities for OneSpan in 2023 include new enterprise logo acquisition and expanding our relationship with our installed base customers by cross-selling our entire solution portfolio to deliver complete solutions. We have a great enterprise class product set, are bringing new advanced services like OneSpan Notary to market, have an excellent core employee base to build upon and recently launched a disruptive pricing model to assist us to capture market share. These ingredients, combined with the investments we are making and our focus on operational rigor and financial discipline are all part of our multiyear plan to drive sustainable growth and profitability.

I am very proud of the team and the great progress we've made on our journey to become the clear leader in digital agreement security. Of course, anchored by our global security DNA, our new transaction cloud platform and, of course, and most importantly, our people. Jorge and I will now be happy to take your questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) We have our first question comes from Gray Powell from BTIG.

Gray Powell^ Okay. Great. Yes, just a couple on my side. Maybe to start off, just how do you feel about the visibility you have on your pipeline and the demand environment today versus 6 months ago? And then within the product lines, where do you feel like you have the most confidence on trend line? Is it on the Digital Agreement side or in the security business?

Matthew Moynahan^ I can take that, Jorge. Just maybe you can provide color. So on the visibility side, I would say, obviously, security business has been there for 30 years. So obviously, a slower growth industry for us, but deep customer relationships. So just because of the long-term history and the data points that we have, I would say the visibility is greater in security.

Digital Agreements, the green shoots are coming out of the bamboo. We have shown that when the right enterprise seller speaks to the right enterprise customer, our enterprise class product wins. And all the patterns that you would expect to see associated with that increase in deal size, et cetera, et cetera, happen. And that is why we're so focused, laser-focused on new logo acquisition, the top half of the pyramid. And so good long-term visibility with security. The short-term visibility that we do have with the behavior of our digital agreements product when we sell it to the right customer is everything you'd expect. And now we just need to go build a broader pipeline and new logo acquisition, digital agreements to get similar visibility to that we have over our 30-year history in security. But I do believe we've made significant progress year-over-year in improving that visibility.

Gray Powell^ Understood. Okay. That's really helpful. And then with the new pricing model on the digital agreements cloud, how does your pricing stack up to your main competitor? And I know it's only been out there for like, I don't know, a week or 2. But how has the reception been so far?

Matthew Moynahan^ Good, actually. So it's only been out there for a couple of weeks, but I would say we have presented it at least a dozen times to major enterprise customers. We have received from one large customer verbal that is very promising. And it is obviously in one of the larger customers in North America. And so the pricing model is really designed to solve 2 [ills] with the way this market operates. OneSpan much like our larger competitor, priced off transactions or the equivalent of an envelope. It's almost imagine going back to the early days of the signature and walking into a company and asking them to predict how many signatures they have on contracts. It's only almost impossible to do that, yet asking them to sign up for a volume and to pay for it upfront, very, very difficult.

So what we're seeing now post-COVID and more in a normal run rate maturing market that I would say still early innings is we see the unpredictability and the ability to determine how many signatures are going to happen and then an unwillingness by the current pricing model when they get driven into -- they get driven into contraction at the end of a contract. And so this pricing model is really designed to eliminate both of those, the 2 greatest sources of dissatisfaction in the marketplace. And so I'm very bullish on this. I think in a macroeconomic environment like this, we will be able to enable significant cost savings in what is a maturing market and drive market share shift.

Operator^ Our next question comes from Rudy Kessinger from D.A. Davidson.

Rudy Kessinger^ I'm curious -- I know you're only giving annual guidance -- but just how should we think about the ARR growth trend line, I guess, throughout the year? Is 12% growth in Q4 going to mark a bottom? Or does it potentially still tick down another couple of points before reaccelerating throughout next year?

Jorge Martell^ I can take that, Matt. Rudy, thanks for asking the question. So as you pointed out, so the way we think about ARR, as you point, is the 12% was growth, nominal currency, 15% constant currency. We guided to 12% to 13% last quarter. We gave a 3% to 4% in terms of FX. So there's a few factors to think about into 2023, particularly the first half of the year. Rudy, one is we signaled -- and maybe you guys know about it -- some churn and contraction that we saw, we expected and materialized last quarter. We're going to have that impact for the next few quarters. We also, as you know, we sunset some of the products. It's a key decisions that we've made. And so 3 products, Dealflo, Risk Analytics, and the on-premise of the Digital Agreements. And so those few factors will continue to impact us for the next few quarters really into 2023 until it sort of bleeds out.

Now the other thing that we're also doing is converting -- in the case of Dealflo, for example, we're converting -- trying to convert those customers into our e-signature solution that we've been successful, but not everybody is going to convert. And so we have some headwinds from that perspective. The other component, Rudy, to consider here is the conversion for perpetual term -- perpetual term recurrent revenue. So that is almost complete at this point in time. So you will have that dynamic factor in as well. And then just lastly, when you think about the 12%, as I said, $3.9 million was FX. Depending on what the macro does in 2023 -- nobody has a crystal ball. So that could be a headwind or a tailwind for us. And so that's my response to you, Rudy. Matt, do you have any thoughts on that?

Matthew Moynahan^ Yes. The only one we're hard at work operationalizing new logo acquisition and getting more hands into the -- getting more products into the hands of our sellers. And so OneSpan Notary which has general availability next week, every bank in the world has a Notary. We're very excited about the ability to go reach out to our installed base with the new product line. And then we've also announced ProvenDB acquisition, which is another product, again, not commercialized at this point. There are customers on it, but we are going to be doing the integration into our product portfolio. But that would be another product that will be coming in the market in the second half of the year. And that would also allow us to do the upsell and cross-sell in a different way than we've had historically. So I feel good about that. So that remains to be seen in FY '23, how that counterbalances some of the FX -- some of the headwinds from some of the portfolio management decisions we had to make. But we'll see what those puts and takes are, but I'm very positive about the new products coming into the family.

Rudy Kessinger^ Okay. And then on the sales side, you said you're still on target to double head count by the end of this year. I guess last quarter, you said you were up 20% since May. Do you have an update on that figure? Just how much you've added since May? And then on the reps you've added, curious how they're ramping versus your expectations. And then in the existing tenured reps, I'm curious -- I know it's still early days since you've kind of unified the sales teams, but have you seen any increases in productivity? Just what are you seeing there?

Matthew Moynahan^ Yes. So we're up north of 50% from where we were in May. So we are tracking slightly ahead of plan to where we would want to be entering into the month of February. So I feel good about that. I'm personally interviewing every single sales executive coming into the company and also meeting with them within the first 30 days. And I can tell you, obviously, we've had great sellers here over the course of time at OneSpan, but I can tell you that the new type of talent that we're bringing in, particularly with enterprise application experience, is really augmenting our current security sellers in a great complementary way. So I would say it's early days, obviously, given the number of new heads that have come in in the past 3 or 4 months, but there's nothing to suggest that we're not tracking according to plan, and we'll continue to give updates over the course of the year.

Operator^ Thank you. We have our next question comes from Nick Mattiacci from Craig-Hallum.

Nicholas Mattiacci^ This is Nick on for Chad Bennett. Matt, maybe if you could expand on your project vision when you talk about Web3, including the recent acquisition of ProvenDB. And if you could comment on the extent this product road map is being defined by what you're hearing from your customers.

Matthew Moynahan^ Sure, sure. No, it's very interesting. So I believe -- and I've been in cyber for 25 years -- that the security market is going to fundamentally change. And you've seen it happen with the explosion in the identity over the past 10 years in with markets like identity and access management that have been around for 30 years, really getting prominence because the security threat has moved to the end user.

Most of enterprise security companies focus on protecting enterprise assets. laptops, cloud payloads, clouds, network interfaces, what have you, even Norton Antivirus and McAfee, which are consumer products, are protecting the laptops, not the end user. And so we've seen this explosion. And if you look at what's happening with Microsoft and some of the tech providers in the identity market in general, understanding who you're doing business with is paramount. The first attack surface was employees trying to break into companies. It is now going to move to the end user level.

Any time a new customer is onboard or a partner is onboarded to a company, and every company wants more online and more customers, this trend is not going to stop. They become an attack surface and/or regulatory risk. And so this is really taking all of our capabilities, breaking the bone and resetting them in a way where we can be the first enterprise security company and it helps any company that's doing business online have a trust model that begins with engaging in an unknown customer and partner and leading that security through the identity process, the authentication process. If that engagement model requires virtual interaction transacting with our e-signature, then ultimately securing the artifact of that transaction in a blockchain-like environment so that it's immutable, is really what I believe is needed when you think about transacting business in the web with the world of deep fakes and increasingly, asset classes coming under attack that are represented in the forms of documents and other types of audit and compliance records. And so that's exactly what we're trying to do. We're just taking it from the employee level, which has created a multibillion identity market and moving it to the customer level and making sure that that attack surface is secure and which is increasingly challenging for security companies, we-- because we sit in the customer flow are able to do it with the best user experience in the market. And we're very excited by this. This 5-pillar service strategy is resonating, and now we've just got to go execute because the market, I believe, is moving in our direction.

Nicholas Mattiacci^ Great. And then besides the change to the digital agreement enterprise pricing model, have you made or do you plan to make any other pricing or packaging changes to other products?

Matthew Moynahan^ We will be coming out with bundles. We are moving more towards a modularized portfolio where you would purchase a base access fee to our transaction cloud platform and then can upsell or cross-sell additional seats and licenses and/or capabilities. So you can think of a ProvenDB type of technology just to visualize it for you. As someone is going through our e-signature workflow after all the signatures have been captured by the signers to have an administrator have the ability to go press push the blockchain and essentially immutably bind the identities of those signatures, the audit trails, timestamps, other records and artifacts for compliance regulatory purposes and elements of the document itself to an environment that will stand up in the court of law and can't be tampered with.

And so that would be a good example of taking ProvenDB, bolting it on to our e-signature package and having it be a true competitive discriminator for us at the end of the day, for any enterprise that has a transaction of consequence and any large enterprise out there certainly has some of that regard. So that is the way we do plan on bringing new products to market, more additional services and add-ons that can be bolted together based on the transaction requirements.

Operator^ (Operator Instructions) We have next question comes from Anja Soderstrom from Sidoti.

Anja Soderstrom^ So encouraging to see that you're taking up your longer-term growth targets, but what gives you confidence in doing so in this kind of environment?

Matthew Moynahan^ Excuse me, the question was about the rep...

Go ahead. Thank you, Jorge.

Jorge Martell^ The question was about raising our long-term targets, Matt. So, Anja, I think from a visibility perspective, as we said, 2023 is going to be an investment year for both sales and marketing, bringing [quarter-bearing] sellers driving the demand generation, market awareness, et cetera. We have a lot more visibility. Obviously, this is still early in the 3-year plan, but we feel confident about the quality of the team that's coming on board. From a sales perspective, the demand that we're seeing at both our products and the market that we are in, particularly the e-signature market, which is growing double-digits, as you know. So when you -- that's from a top line perspective. So a new logo is a priority. And we have -- we're investing in that. As I said, cross-selling is a big opportunity as well for us. In terms of e-signature to a huge customer installed base in the security portfolio that we have. And then the pricing model is also designed to gain market share. So we have those 3 headwinds, if you would, going into the long-term plan. And then from a cost perspective, we have a lot more visibility into our cost structure today than we did 6 months ago, 7 months ago, 9 months ago.

We have identified a number of projects that we are working on that will help us drive that profitable growth that we've been mentioning. And I feel pretty bullish about that. I feel pretty bullish as well about executing on the $20 million to $25 million of Phase 2 savings. As I mentioned earlier, we exited 2022 with north of $10 million of the $20 million to $25 million, and I think there's more to go and get there. So we just got to be financially discipline. I think that mentality is here to stay. The executive team, myself and Matt, we're all aligned in terms of what that means, and it's just about execution.

So Matt, do you have any thoughts on that?

Matthew Moynahan^ No. No, I agree. Thank you.

Anja Soderstrom^ Okay. And in terms of acquisitions, what can we expect -- are you actively looking at doing more or...

Matthew Moynahan^ So we are. We will continue to assess the market and any opportunities that arise, and we use the 5-pillar strategy as our guide, the identify, verify, collaborate, the interaction with e-signature and then the store. ProvenDB gets a check box for us. We have historically had some e-vaulting capabilities in the company. And this, with its secure vault, I would say, gives a firm checkmark over that fifth pillar. But we are continually scouring the market for, let's say, more tuck-in type of opportunities as this was where we bring great tech and teams to the market to drop in the hands of our sellers to drive NRR. I don't believe that there is a game-changing acquisition that needs to be done for us to complement our portfolio, but being strategic and opportunistic in this market that makes absolute sense for me and I would say the Board agrees with that.

Operator^ (Operator Instructions) We have no further questions on the line. I will now hand the floor back to Matthew for closing remarks.

Matthew Moynahan^ Thank you, everyone, for joining today's call. We appreciate the time you spent with us over the course of our first fiscal year together, and we look forward to continuing to drive successful execution as our plan. Please stay tuned for further updates and I look forward to speaking with you in follow-on one-on-one meetings. Thank you very much for your time today.

Operator^ Ladies and gentlemen, this concludes today's call. Thank you for joining. You may now disconnect your lines.