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Transcript

Q3 2022 OneSpan Earnings Conference Call

Tuesday, 01 November 2022

Joe Maxa Thank you, Operator. Hello, everyone, and thank you for joining the OneSpan Third Quarter 2022 Earnings Conference Call. This call is being webcast and can be accessed on the Investor Relations section of OneSpan's website at Investors.OneSpan.com.

Joining me on the call today is Matt Moynahan, our Chief Executive Officer, and Jorge Martell, who joined as our new Chief Financial Officer in early September. This afternoon, after market close, OneSpan issued a press release announcing results for our third quarter 2022. To access our 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 2022, are forward-looking statements. These statements use words such as believes, anticipates, plans, expects, projects and similar words, and these statements involve risks and uncertainties and are based on current assumptions.

Consequently, actual results could differ materially from these expectations expressed in these forward-looking statements. I direct your attention to today's press release and the company's Form 10-K and Form 10-Q filings with the US 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 November 1, 2022. 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.

Matt Moynahan Thank you, Joe. Hello, everyone. Welcome to our third quarter earnings call. I'm pleased to begin today's call by welcoming Jorge Martell to the OneSpan team as our new Chief Financial Officer. Jorge is a well-rounded and operationally focused CFO, with strong experience in global finance.

He joined us from Extreme Reach, a global leader in creative logistics with an end-to-end cloud based technology platform, where he was instrumental in the execution of the company's organic and inorganic global growth strategy. Jorge is another great addition to our transformational leadership team, as we focus our strategic plan to drive increased growth and profitability over the coming years.

Now, turning to our third quarter financial highlights. We had a strong quarter overall, including record bookings and Digital Agreements, driven by several customers committing to longer-term contracts, given the enterprise-class quality of our solution. As a result, total company bookings were at the highest level in eight years.

Protecting high-value, high-assurance B2B and B2C transactions remains a high priority for our customers, even in a challenging macroeconomic environment. Booking strength was broad-based across North America and most of Europe, though we did see some pockets in Europe and Asia where sales cycles lengthened.

Total revenue in the quarter grew 9% year over year to $57 million, notwithstanding approximately $4.5 million of foreign currency headwinds. Adjusted for constant currency, revenue grew 18%. Annual recurring revenue grew 14%.

Excluding the FX impact of approximately $3 million, ARR grew 17%, in line with our full year 2022 guidance range. In addition to FX, ARR was impacted by timing of contract renewals and certain customers adjusting their purchase volumes to reflect post-pandemic normalised levels. We were profitable on an adjusted EBITDA basis, which benefited from operating efficiencies and ongoing cost-saving initiatives as compared to prior quarters.

Next, I want to briefly discuss two important seven-figure ARR e-signature contract wins during the quarter. Both were competitive enterprise expansion deals with existing Digital Agreements customers which resulted in significant increases in ACV, TCV and contract duration.

The first one was with a leader in cloud banking software. This customer increased its contract length with us from one to three years and its TCV by nearly four times. The second one was with a large insurance and wealth management firm that increased its contract length from three years to five years and its TCV by nearly three times. Both of these large contracts highlight the strength and reliability of our enterprise-grade e-signature solution and demonstrate the land-and-expand paradigm we're emphasising internally.

In our Security Solutions segment, demand for mobile security and server solutions continued to be strong, driven by an ongoing escalation in mobile fraud attacks. Digipass bookings were also strong, at their highest level in three years as customers placed orders earlier than typical to compensate for increased lead times related to electronic component shortages. We are also pleased that our mobile security suite won the 2022 SC Award for Best Mobile Security Solution during the quarter.

Now I'll spend a few minutes on the progress we are making on our strategic transformation plan. As we've mentioned before, a key part of our transformation has been the continual strengthening of our executive leadership team to bring scale experience to the company. I am pleased to tell you that with the recent additions of Jorge, our CFO, and Stuti Bhargava as our first Chief Customer Experience Officer, this important milestone is largely complete.

I continue to hold the dual role of CEO and Chief Revenue Officer as we transform the company, train and enable our sales team to sell all of our solutions and add to our talent base. We anticipate filling the Chief Revenue Officer role by the end of the year.

Since our Investor Day in mid-May, we increased our direct sales force by approximately 20% and believe we are on track to double the team by the end of 2023. Although the labour market remains challenging, we have found success hiring experienced and highly qualified individuals, many of whom come from cybersecurity and digital agreements companies.

I've been meeting with, evaluating and personally approving every sales candidate we hire, and I can tell you our message is resonating as candidates are universally excited about our market positioning and growth strategy.

Not only have we been hard at work ramping our sales and marketing efforts, during Q3, we made solid progress unifying our go-to-market strategy to enable the sales team to sell our entire solution portfolio across our five product pillars, verify, authenticate, interact, transact and store.

In addition, the realignment and go-to-market focus around our OneSpan 1000 Program, which prioritises growth at our largest 1,000 enterprise and target accounts, is nearly complete, and we launched multiple orchestrated, account-based sales and marketing campaigns for both our Digital Agreements and Security Solutions segments.

As I mentioned in past quarters, new logo acquisition and demand generation continue to be key priorities for the company. We continue to make investments in our sales and marketing engine to increase the pace of new customer acquisition. We also recently launched Virtual Room as part of our plan to provide new, innovative solutions to customers and will be launching our next-generation, cloud-connected Digipass device in the near future.

As a reminder, Virtual Room is a white label solution that enables companies to engage with their customers to provide high-touch digital customer systems as well as execute agreements and transactions in a secure face-to-face virtual environment. Virtual Room is gaining interest from our target customers to enable secure use cases like wealth management, private banking and capital markets.

Our go-forward strategy is resonating with customers and employees around the globe. We're adding new enterprise-class solutions to our portfolio, and we're increasing our sales force and expanding our go-to-market capabilities to take advantage of the opportunities we see ahead.

Our vision is that the world of digital agreement processes will evolve to require security throughout the entire transaction lifecycle, not just at the point of authentication. This is the basis for our OneSpan transaction cloud platform strategy. We will continue to update you as we introduce new solutions and make progress on our strategic plan. I will now turn the call over to Jorge to take you through our third quarter financials. Jorge?

Jorge Martell Thank you, Matt, and good afternoon, everybody. I'm really excited to be a part of OneSpan and the new management team and look forward to helping drive growth as we implement our strategic plan. I hope to meet all of you face to face in the near future.

I'm pleased that we reported a strong quarter from our top and bottom line, largely driven by improved operational discipline and execution in the business. ARR grew 14% year over year to $136 million. ARR specific to subscription contracts grew 25% to $101 million and accounted for approximately 75% of total ARR.

Dollar-based net expansion, or DBNE, which we define as the year-over-year growth in ARR from existing customers, was 109%. DBNE was impacted by FX, longer sales cycles in certain international regions, timing related to contract renewals and some customers right-sizing their volumes to reflect post-pandemic levels.

Revenue grew 9% to $57.1 million, led by 25% growth in subscription revenue to $22.3 million and 11% growth in Digipass tokens to $19.8 million. We also experienced a 1% growth in maintenance revenue. These revenue increases were partially offset as a result of our security software licence transition from perpetual to term, which is included in professional services and other revenue.

Gross margin was 67% compared to the prior quarter and compared to 70% in the third quarter of last year. And I'll provide additional colour by segment in a couple of minutes.

GAAP operating loss in the third quarter was $5.6 million. GAAP operating expenses included a $3.8 million impairment charge related to our decision to sunset non-core solutions and $2.7 million of non-recurring items related to our restructuring plan. Operating expenses benefited from our cost reduction plans, increased R&D software capitalisation costs, and by approximately $3 million from changes in FX as compared to last year.

Regarding our cost reduction plan, last quarter, we mentioned that phase one was essentially complete, with annualised savings of $11.8 million, near the high end of the $10 million to $12 million called for in the plan. We made progress on phase two of the plan during the third quarter. Restructuring charges were approximately $2.7 million, and annualised savings increased by $3 million to approximately $9 million in total.

As a reminder, phase two of the plan calls for total cash charges related to severance and benefit costs associated with headcount reductions of approximately $10 million to $17 million during the period covering the last three quarters of 2022 to the year-end in 2025. It is also expected to result in approximately $20 million to $25 million in annualised cost savings.

Q3 adjusted EBITDA was $4.5 million or $2.8 million higher than in the same period last year. Adjusted EBITDA margin was 8% compared to 3% last year. The year-over-year increase in adjusted EBITDA was largely driven by higher revenue, cost reduction initiatives, capitalised software costs and lower than anticipated headcount additions due to a challenging labour market.

GAAP net loss per share was $0.18 in the third quarter of 2022 compared to $0.02 in the third quarter of 2021. Non-GAAP earnings per share in the third quarter of 2022, which excludes long-term incentive compensation, amortisation, non-recurring items, including the impairment of intangible assets, restructuring charges and the impact of tax adjustments, was $0.03, consistent with the third quarter of last year.

I'll now discuss our Digital Agreements segment quarterly results. Digital Agreements' ARR grew 20% to $46 million, led by 24% growth in subscription ARR to $41 million. Q3 revenue grew 20% to $12.2 million, including 25% growth in subscription revenues to $10.3 million. Similar to last quarter, the vast majority of subscription revenue recognised in the quarter was ratable, with the sequential increase influenced by the timing of contract start dates.

Gross margin was 80% compared to 72% last year. The higher gross margin was largely a result of increased scale and efficiencies combined with a one-time credit from a cloud service provider, resulting in approximately a six-point benefit.

Operating income in Q3 was $2.2 million as compared to $0.1 million last year. Increased revenue and gross margin were the primary drivers of the improved performance. As a reminder, our transformation plan is still in its early stages, and we plan to invest for growth in this segment, including the hiring of additional talent to drive top line growth to increase sales and product development.

Turning to our Security Solutions segment quarterly results. ARR grew 11% to $90 million, led by 26% growth in subscription ARR to $61 million. Subscription revenue grew 25% to $11.9 million, driven primarily by expansion contracts from existing customers for on-premise mobile security and server solutions.

Total revenue for this segment grew 7% to $44.9 million, with growth in mobile security, server solutions and Digipass tokens, partially offset by expected decreases in legacy Dealflo and perpetual software-based licences. We continue to focus on driving subscription revenue growth. We also continue to see a healthy demand for our Digipass tokens.

Last quarter, we noted that supply chain challenges could impact quarterly Digipass revenue by up to $2 million in the second half of this year. While we continue to manage through these challenges, we expect electronic component shortages to delay shipments of certain Digipass SKUs from Q4 to the first half of 2023 in the amount of $4 million to $4.5 million.

Security Solutions gross margin was 64% compared to 69% in the same period last year. Factors impacting gross margin included an increase in electronic component prices, product mix and an increase in shipping expenses. Operating income for the segment was $5.7 million and operating margin was 13% as compared to $10.7 million and 25% last year. The primary differences from last year can be attributed to lower gross margin and the $3.8 million impairment charge discussed earlier.

Turning to our balance sheet, we ended up in the third quarter of 2022 with $94 million in cash, cash equivalents and short-term investments compared to $98 million at the end of 2021 and at the end of last quarter. We used $2.4 million of cash in operations during the quarter, primarily related to changes in net working capital, and we have no long-term debt.

Geographically, our revenue mix by region in the third quarter of 2022 was very consistent with the prior quarter. 45% came from EMEA, 36% from the Americas and 19% from Asia-Pacific. This compares to 42%, 34%, and 24% from the same regions in the third quarter of last year, respectively. And with that, I'll turn it back to you, Matt.

Matt Moynahan Thank you, Jorge. We estimate revenue in the first nine months of 2022 would have been $9 million higher and our revenue growth rate would have been six points higher at 11% had currency exchange rates been constant compared to the year-ago period. Based on current exchange rates, we expect additional FX pressure in the fourth quarter.

I also want to point out that we made several important portfolio management decisions recently, in line with our strategic plan to focus our efforts on our most relevant solutions as we entered the first year of our strategic plan, beginning January 1. The sunsetting of certain assets, including Dealflo, will contribute to revenue and ARR headwinds over the coming quarters, but also enable us to reallocate resources and focus our efforts on our highest growth opportunities.

For the full year 2022, we expect the following. Total revenue to meet or exceed full year 2021 revenue despite FX headwinds, ARR to be in the range of 12% to 13%, which is near the bottom of our previous guidance range of 16% to 18% when excluding an estimated FX impact of 3% to 4% and considering the downstream impact to our business from strategic portfolio changes in the macroeconomic environment, and adjusted EBITDA to be in the range of positive $1 million to $3 million as compared to our prior guidance of negative $5 million to $7 million.

In closing, we believe we have momentum in our strategy and our teams as we head into fiscal year 2023. We have been hard at work over the past six months to put in place the foundation of our three-year plan. This plan includes increased revenue predictability and a more balanced contribution across product lines, business segments and geographies over time.

I am proud of our team and the progress we've made to date. We look forward to updating you again next quarter. With that, Jorge and I will be happy to take your questions. Operator?

Operator Thank you. If you would like to ask a question today, please press star followed by the number one on your telephone keypads. If you choose to withdraw your question, please press star followed by two. When preparing to ask your question, please ensure your phone is unmuted locally. And our first question today goes to Gray Powell of BTIG. Gray, please go ahead. Your line is open.

Gray Powell Okay, great. Yes, thanks for taking the questions. I just had a few here. Maybe starting off high level, how do you feel about your pipeline and the visibility you have on demand today versus six months ago?

Matt Moynahan Jorge, I'll take this one. I feel actually increasingly good on all the… Can you hear me okay?

Gray Powell I can hear you, yes.

Matt Moynahan Okay. All right, thank you. Sorry. I feel increasingly good with the visibility we have in the operational rigour taking hold really in every part of our business, without stop. Obviously, I have dual visibility as CEO and CRO, and I'm very pleased with the teams and the process behind our ability to get visibility, number one, and then two, multi-quarter visibility going forward.

As you know, a key focus and priority for us has been demand generation, and so we continue to focus on that. And new logo acquisition is one of our top priorities, which in turn obviously drives new pipeline. Our execution on existing customers has been improving, and you do see an increasing portion of our pipeline coming from installed base customers, as our sales team is unified now and has the ability to sell the entire portfolio. That said, getting the flywheel spinning on the new logo acquisition obviously will take multiple quarters, to get that right.

Gray Powell Okay, that's helpful. And then we're still working on some of the moving parts of the model, so hopefully this question is okay. But can you just help me understand? You had a pretty big revenue beat. In comparison, it looks like ARR was a little bit light. There's the guide down, even on constant currency basis.

So can you help us just square those items? Was there some extra term licence revenue or longer contract duration, or just how should we think about the sustainability of that revenue upside you posted in Q3? Because at least the headline numbers are pretty good.

Matt Moynahan Yes, I can take the high level, Jorge, then if there's anything to add, please do. Obviously, in revenue, we do have the mix component coming from on-premise subscription software, and the revenue recognition related with that, as well as our perpetual hardware business.

Look, despite the supply chain issues, we are seeing strong demand for the hardware products. So those two pieces are almost a buffer, if you will, on the revenue side of things and, as we all know, can be lumpy from time to time, given the nature of our business. But that works in favour of the revenue line.

ARR in this particular case was impacted by a couple of known lost contracts that were in place but were in effect in Q3, so we felt a little bit of a dampening from that. We did experience some churn in our SMB space as we pivot to the enterprise. And those were two of the primary drivers for that.

And we also talked about a little bit of a dampening effect on the ability to cross-sell coming from sunset products. Those portfolio decisions that we spoke about over the past couple of quarters are now in effect, and that did have a slight dampening effect on ARR as well, given our inability to go cross-sell and upsell end-of-life products. So those were the three primary drivers that would give you the difference between the top line performance and ARR.

Gray Powell Understood. Okay. Thank you very much.

Matt Moynahan Thank you.

Operator Thank you. And our next question goes to Anja Soderstrom of Sidoti. Anja, please go ahead. Your line is open.

Anja Soderstrom Hi. Yes, thank you for taking my questions, and congratulations on the good progress you appear to be making. You were mentioning that sale cycles are getting a little bit longer in some regions. Can you just elaborate on that, what you're seeing there and if you think that's going to be affecting other regions as well as we go forward?

Matt Moynahan Sure. Just at a high level, if you look at our portfolio, I'd say the lengthening sales cycles were more associated with the Digital Agreements side than the security software side. In fact, we're seeing good demand for the tokens. We have obviously a difficult time meeting that demand, with supply chain constraints. The security software products continue to do well, given that they're largely tied to online banking and the authentication and identity verification of online banking end users, and so that's a positive for us.

The Digital Agreements business, really, think of it as a mix between internal use cases, with things like NDAs and internal documentation and business processes, and external use cases that are typically used with external customer engagements. Think of it as mortgage lending, refinance. We also have a healthy business with being integrated into platforms, given our private label capability.

The internal projects, from time to time, depending on customer, we have seen some lengthened sales cycles as CIOs look to reduce the top priorities inside of companies, given the macroeconomic environment. On the external use cases that are customer-facing, we have seen some downstream impacts of transaction volumes lessening, which might impact a larger upsell or a purchase at renewal or contract expansion, mid-year.

So think of it as a Tale of Two Cities, internal with regard to the internal projects measure up to a reduced waterline as far as the corporate priorities in the macroeconomic environment, then the external use cases being tied to transactions like mortgages and refinance. And so that's just introduced some of the pause in our customer base, particularly mortgage-related and insurance-related verticals.

Anja Soderstrom Okay, thank you. And then in terms of expanding your sales team, moving ahead pretty aggressively, can you talk to how fast you think they're going to become productive? How long is the training cycle for new reps?

Matt Moynahan Yes, that is a great question and something we're hard at work at, which is a global enablement. We enabled North America in Q2. I was over in Europe personally for the European enablement session. Then we will do APAC in Q4.

And we have our sales kick-off, with a high percentage of content of enablement, in January. So this is an ongoing process. We are tracking to plan, are slightly behind hiring on the sales force, but we believe we're tracking to plan to double the sales force by the end of next year.

And so as I discussed when we rolled out the plan in May, the three significant variables for us to go drive global performance in the plan are getting the sales team productive, the time to ramp, the quota attainment, the quota levels themselves and deal size.

And so I feel good with the enablement efforts that have been taking place, but we have to go see those sellers in action as we enter into FY 23. It's all very new right now, but I feel comfortable with the rate and pace of the enablement. And now we need our top sellers to go out there and do a great job for us.

Anja Soderstrom And what's your churn, and how that's changed in recent months?

Matt Moynahan We had a couple of contracts that were known churn and that manifested themselves this quarter. And that was one of the areas of contribution to the dampening effect on ARR. We are new, essentially, to the SMB space from a cloud infrastructure standpoint, and we did experience some churn in the S of that segment, the small business.

Our focus has been historically on the enterprise, and that's where another dampening effect took place, in the SMB. Nothing chronic, but we did have those two one-off situations manifest themselves in Q3. No major trend, no major change to the trend line.

Anja Soderstrom Okay. And just one last one. What's driving the upside in the adjusted EBITDA guidance versus the previous guidance?

Matt Moynahan Jorge, do you want to speak to that?

Jorge Martell I can take this one. Yes, I can take this one. Can you hear me okay?

Anja Soderstrom Yes.

Matt Moynahan Yes.

Jorge Martell Okay. So I think there's a couple of factors here. One is our discipline, financial discipline that we've been executing over the past few months. That has impacted obviously the operation. Some cost discipline on capitalising software expenses is one for sure.

The other portion is also headcount-related as some of the restructuring initiatives that we had been talking about, you're starting to see that impact, that benefit roll through sequentially as well. And then there's a little bit of upside as well with hiring deluxe hires, I would say, with respect to in certain areas or in pockets of different departments. I think those are the three largest ones that I can comment on.

Anja Soderstrom Okay, thank you. That was all from me.

Jorge Martell Thank you.

Operator Thank you. And the next question goes to Rudy Kessinger of D.A. Davidson. Rudy, please go ahead. Your line is open.

Rudy Kessinger Hey, thanks for taking my questions. I want to go back to Gray's question first, just on the revenue upside in the quarter. Is there any finer point you can put on the term licence mix in the quarter? Were either of those two large e-signature renewals that you called out term licence? It's just still a tough model to grasp, with subscription in Digital Agreements up 18% quarter over quarter, and the maintenance and support was up sequentially too. So how much of that was driven by licence?

Matt Moynahan Yes, we had a couple of significant contracts that closed at the end of Q2. And as you know, Rudy, the way the subscription models flow, they didn't really have much of an impact in Q2. So I think that's another element where we had two contracts close at the end of Q2 that manifested themselves in Q3 from a top line perspective.

But there's no major departures other than… The only comment I can really make is that we will experience lumpiness from time to time, given the product mix that we have at the moment, which still has a heavy on-premise component on the security software side.

And on the Digital Agreements side, we still have this large deal phenomenon. That's what's different to the enterprise, where they have an overweighted impact on any given quarter. And I don't anticipate that to change over the next two to three quarters, until we get the flywheel spinning on the new logo acquisition.

Rudy Kessinger Okay. And then on the Dollar-based net expansion rate at 109%, down seven points from 116% last quarter, going by the definition of that figure, gross churn shouldn't be impacting that number. So a seven-point decline quarter over quarter, again, is there just any finer points you could put on why such a pretty significant drop-off in that metric?

Matt Moynahan Do you want to take that, Jorge? Or let me speak to one of the dampeners, which I mentioned, Rudy, is some of the sunset decisions on the portfolio management. We did sunset Dealflo, we did sunset risk analytics, and we did sunset the on-premise version of our Digital Agreements.

All three of those products had pipeline associated with them, de minimis in the big scheme of things, but in order of single digits to mid-single digits of millions of pipeline that was in play. And obviously, when customers hear of an end-of-life decision, that does impact their purchase decision, understandably.

Many of those conversations have converted into discussions around other products. But those products were not as generally available for cross-selling into the installed base that we had, which obviously has a higher percentage of banking customers than at this particular time. So that was one of the meaningful reasons that impacted that decline, quarter over quarter.

Rudy Kessinger Okay. And then just lastly from me, it looks like you didn’t buy back any stock in the quarter after you spent $5.7 million buying back stock in Q2. Just what was the thought process behind that decision? Especially if you consider that the stock was trading down in the $8 to $9 range in September, why not buy back any stock in the quarter?

Matt Moynahan Yes, at a high level, we continue to evaluate that. And obviously, we do believe the stock is at an attractive level. We took a pause as we put a fine point. Obviously, as you know, we rolled out the new strategy to the investment community in May and have been very hard at work, building out a corporate development strategy to support that, including M&A.

And we thought that it was prudent to take a pause to make sure that we had all of our corporate allocation sources and uses aligned before going further on that. But certainly, we do believe the stock is at a very attractive valuation and there’s always an opportunity for us to re-enter the market at current levels. And that’s a continuous discussion with the board.

Rudy Kessinger Got it. That’s it from me. Thanks for taking my questions.

Matt Moynahan Thank you, Rudy.

Operator Thank you. And as a reminder, if you would like to ask a question today, please press star followed by the number one on your telephone keypads. And our next question goes to Nick Mattiacci of Craig-Hallum. Nick, please go ahead. Your line is open.

Nick Mattiacci Hi. This is Nick on for Chad Bennett. Thanks for taking our questions. So as we think about the three-year CAGR targets given in May, I guess, given how much has changed in the macro and with FX and now the updated ARR guidance for this year, are you thinking about the linearity of that three-year targeted CAGR any differently?

Matt Moynahan At the moment, we are not. The big factor here, given our size, is really the ramping of the sales and marketing efforts in that front-end engine. I do feel very good about the enterprise-class nature of our products, and when we do land enterprise customers, they behave like enterprises would both in terms of deal size and contract length.

And so, right now, no change to our guidance. I feel very comfortable with where we're at. But obviously, the first half of next year is incredibly important for us, to see the productivity of our selling community and the deal sizes, as we re-orient the company to the upper half of the pyramid. So no change to the guidance right now.

Nick Mattiacci Got it. And then maybe if you could expand more on the upcoming launch of the cloud connected Digipass token. I guess, any more colour you could give on that offering, and if that may change the revenue recognition of hardware sales or add a recurring component to that business?

Matt Moynahan It will be launched with a ratable recognition model associated with it. So when we do launch the cloud connected device, it will be pure ARR in the traditional sense. It's a service. It's not a piece of hardware anymore. I am very much looking forward to getting this device into the market.

Historically, as many of you know, hardware was sold by a separate sales team in a separate sales motion to a portion of our installed base. With a unified go-to-market, we do intend on taking this cloud connected device and connecting it to everything.

Our firm belief is that the high-assurance security for transactions that require it, whether it be a document or a banking transaction, may be able to take advantage of this capability. Certainly, the Digital Agreements process, the Virtual Room product which we just relaunched, as well as our traditional banking core.

We do plan on making an announcement soon on that product. And given the supply chain element and the uptake with it, this will obviously be a multi-quarter journey for us as we go and engage our sellers on what is a new business model, but one that we're seeing a very favourable response from our installed base customers. But we haven't talked much further than that, and we don't give product line guidance on this. So, happy to take you offline to talk about some of the dynamics, but you'll see more information coming on that soon.

Nick Mattiacci Got it. Thanks for taking our questions.

Matt Moynahan Thank you.

Operator Thank you. We have no further questions. I'll hand back to Matt for any closing remarks.

Matt Moynahan I'd like to thank everyone for joining for this call. We appreciate you going along on this journey with us, and we look forward to updating you again in one quarter's time. Thank you for your time today.