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Corporate Speakers:

- Joseph Maxa; OneSpan Inc.; Vice President of Investor Relations
- Matthew Moynahan; OneSpan Inc.; President, Chief Executive Officer & Director
- Jorge Martell; OneSpan Inc.; Chief Financial Officer

Participants:

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

PRESENTATION

Operator^ Good day, and thank you for standing by. Welcome to the OneSpan Second Quarter 2023 Earnings Conference Call. At this time all participants are in a listen-only mode. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Joe Maxa, VP of Investor Relations. Please go ahead

Joseph Maxa^ Thank you, operator. Hello, everyone, and thank you for joining the OneSpan Second Quarter 2023 Earnings Conference Call. This call is being webcast and can be accessed on the Investor Relations section of OneSpan's website at investors.onespan.com. Joining me on the call today is 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 second quarter 2023. To access a copy of the press release and other investor information, please visit our website. Following our prepared comments today, we will open the call for questions.

Please note that statements made during this conference call that relate to future plans, events or performance, including the outlook for full year 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 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 August 9, 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. Good afternoon, everyone. Thank you for joining us. Today, I would like to begin by providing a progress update on our plan to transform OneSpan into an enterprise-class company, achieved the Rule of 40, and create meaningful value for our shareholders.

We are now more than two quarters into the plan and the operating visibility we have into the execution of our transformation has increased. Given this increased visibility, it is now apparent that it will take longer than originally projected for our sales productivity and marketing demand generation engines to mature, exacerbated in part by current market conditions and increased competitive pricing pressure.

As mentioned during previous calls, sales productivity and marketing demand generation are the two most important drivers of top line growth in our three-year strategic plan. We believe our five-pillar solution strategy designed to enable us to secure an entire digital transaction life cycle by weaving together identity verification, authentication, high assurance virtual collaboration, e-signature and secured transaction e-Vaulting is sound, and it continues to resonate with customers across the globe and the need to securely digitize business processes is becoming a must in today's world of generative AI and deepfakes.

Given the visibility we have into our business, coupled with our business strategy and improved operational rigor throughout the company. We've decided to make adjustments to our operating model, including the acceleration of cost reduction initiatives to significantly improve our profitability while maintaining our long-term growth potential.

To that end, we are taking our operating segments to the next logical level to continue driving operational excellence by formally creating two distinct operating business units, digital agreements and security solutions. Each with a general manager to execute their respective business strategies of driving digital agreements for growth and managing the security segment for cash flow.

We believe these changes will enable the company to achieve 20% to 23% adjusted EBITDA margin for the full year 2024. This compares to our previous longer-term adjusted EBITDA target range of 10% to 12% in 2025.

We also expect to reach the Rule of 40 more quickly than in our original plan. It is also our intention to return up to $20 million in capital to our stockholders by the end of 2023 through stock repurchases, dividends or a combination of both. Going forward, we will provide more detail regarding our strategy to return capital to stockholders, consistent with our focus on balancing growth and profitability.

It became clear during the second quarter that the time to implement a high-performing enterprise class sales and marketing engine, primarily in our digital agreements operating segment would take more time, and therefore, take more time to achieve our full year 2023 financial targets and consequently, our three-year financial targets in this segment.

As a result, in late Q2, we proactively took actions in connection with our change of operating model to begin rebalancing our cost structure by accelerating certain cost savings initiatives. We reduced head count by approximately 5%, reduced variable spend across the organization, consolidated certain vendors and began the process of closing two offices.

We're also planning additional substantial rightsizing before the end of the year, primarily related to headcount. Providing us with the visibility and confidence in our 2024 adjusted EBITDA targets. We will continue to refine our go-to-market strategy to efficiently serve new and installed base customers in our core geographic markets. In digital agreements, we will focus our efforts in common law countries.

Security will continue to be global in nature and we will continue to focus our investments on our most promising ROI solutions such as new self-service e-signature offering that we plan to roll out in the first half of 2024. Perhaps most importantly, we are creating a performance-based culture across the company. I am very proud of the work our team is doing and what has been accomplished to date.

Today's economic environment requires strong execution, and we are improving every day. We believe we have the right executive team in place and line of sight into what is needed to effectively manage the business through the alignment of our people, products and organizational design for efficient growth.

Turning to our Q2 results. Revenue grew 6% to $56 million ARR grew 8% to $144 million and adjusted EBITDA was negative $4 million. Security operating segment performed generally as expected as preventing and mitigating hacking attacks remains a high priority for our customers, driven in part by the proliferation of cyberattacks that continue to make news headlines on a regular basis.

For example, in Q2, a large international banking customer purchased additional authentication and mobile security licenses to protect their retail banking customers. The contract was in the mid-6-figure ACV range and was the second such order in consecutive quarters from the bank, which we competitively won against multiple firms last quarter, largely due to the strength and flexibility of our mobile solutions.

We continue to have good visibility into Digipass token orders at our large banking customers who will account for the majority of our hardware revenue. We did, however, see the macroeconomic environment begin to affect orders to some extent in the mid-market banking sector.

We continue to watch the market ripple effect of the mid-market financial crisis very closely. In our digital agreement segment, macroeconomic uncertainties had a more profound effect on us in Q2 as compared to prior quarters. Increased deal scrutiny and reprioritization of customer investments put pressure on sales cycles, deal sizes and pipeline conversion rates for both expansion opportunities and new logos.

One contract I want to highlight is a three-year $2 million ACV digital agreements contract that slipped out of Q2 and closed in early Q3. It was with a long-time customer in North America that have been using our on-premise e-signature product, which we communicated at the end of last year, our plans to sunset at the end of this year.

The deal took longer to close than we anticipated, primarily due to red tape associated with the size of the contract and the use of the public cloud, which required additional due diligence by the customer. By upgrading to our leading cloud solution, this customer was able to improve its ROI driven by a reduction in infrastructure costs that more than offset the increase in price per transaction.

I also want to highlight a key win related to our new pricing model. A large customer expecting to see their e-signature volumes grow by more than 50% over the next few years, to the volume band that allows them to confidently forecast the e-signature costs as their volumes grow.

This eliminated the concern of potential catch-up or overage charges if their volume forecasts were not accurate. The customer signed a mid-seven-figure three-year contract that increased ACV by nearly $400,000.

Next, I will provide updates on key product initiatives. We are targeting the general availability of our self-service Try and Buy e-signature solution focused on the SMB and commercial market segments in the first half of 2024. Our recently launched OneSpan notary solution, initially targeting existing customers is gaining interest, and we have signed our first customer.

It currently has more than 50 trials at play, and we are working on getting regulatory approval in several additional states. We are also on track to bring secure e-Vaulting for documents and artifacts based on blockchain technology to market later this year.

Finally, consistent with our pivot to a more highly profitable operating model that includes product rationalization, -- we are discontinuing investment in marketing activities for Digipass CX. We plan to repurpose some of these investments into other new products with higher potential ROI opportunities.

In summary, we believe the actions we are taking to drive efficiency across OneSpan will accelerate our path to become a leaner, more efficient and more profitable company and provide us with a stronger foundation to achieve our commitment to create and return value to our shareholder base by growing profitably over the long term.

Jorge will now discuss our second quarter financial results in more detail. I will then come back and provide an update to our financial outlook. Jorge?

Jorge Martell^ Thank you, Matt, and good afternoon, everybody. Before reviewing our second quarter results, I want to provide details on the actions we are taking to rebalance our cost structure to drive more efficient top line growth. The actions we took in the second quarter of '23 resulted in annualized cost savings of $7.9 million.

As Matt mentioned, we are expanding and accelerating our cost savings initiatives. In addition to the Phase II $20 million to $25 million of annualized cost savings target, we are expecting an additional $30 million of cost savings. As a result, we now expect $50 million to $55 million in total annualized cost savings by the end of 2025.

We expect to realize the majority of these additional savings which will be primarily head count related by this time next year. The balance of the savings, a few million dollars related to vendor consolidation and optimization strategies is expected to be realized by the end of 2025.

Now turning to our results. Second quarter ARR grew 8% year-over-year to $144 million. ARR specific to subscription contracts grew 16% to $112 million and accounted for approximately 78% of total ARR.

Net retention rate, or NRR, was 106%. Similar to last quarter, ARR and NRR were impacted by the macroeconomic environment. We continue to see increased deal screening and longer sales cycles, resulting in more moderate new business and expansion rates, primarily in our digital agreements operating segment and to a lesser extent, in security.

These metrics also continue to be impacted, as noted on prior calls, from a few lost contracts last year and our decision to sunset certain portfolio offerings. Second quarter revenue increased 6% to $55.7 million. Subscription revenue grew 16% to $23 million, led by 20% growth in e-signature SaaS revenue and 13% growth in security software.

Maintenance and support revenue declined as expected driven by our strategic decision to sell only new recurring revenue contracts as part of our 3-year plan. Digipass token revenue increased 5%.

Second quarter gross margin was 62% compared to 67% in the prior year quarter and was impacted by customer and product mix, increases in third-party costs increases in electronic components and freight costs in our hardware business and a $1.6 million

inventory write-off related to Digipass CX. Operating loss was $17.8 million compared to $8.2 million in the second quarter of last year.

The higher loss was primarily due to a reduction in gross profit dollars and an increase in operating expenses resulting from increased investment in sales hires, contract workers, third-party marketing fees, and T&E along with increases in nonrecurring expenses related to our restructuring plan and decision to discontinue Digipass CX, among other things. These costs were partially offset by an increase in R&D software capitalization costs as compared to the same period last year.

GAAP net loss per share was $0.44 in the second quarter of 2023 compared to $0.23 in the second quarter of last year. Non-GAAP loss per share, which excludes long-term incentive compensation, amortization, restructuring charges, other nonrecurring items and the impact of tax adjustments was $0.18 in the second quarter. This compares to non-GAAP loss per share of $0.10 in Q2 of last year.

Second quarter adjusted EBITDA was negative $3.8 million as compared to negative $1.5 million in the same period of last year. The year-over-year change in adjusted EBITDA is primarily related to the investments we made over the last year, particularly in our sales and marketing functions, including the increased hiring of quota-bearing salespeople.

I'll now discuss our second quarter digital agreement segment results. ARR grew 7% year-over-year to $49 million. Subscription ARR grew 9% to $43 million. Digital agreements revenue increased 13% to $11.9 million. SaaS subscription revenue grew 20% to $10.5 million and accounted for 100% of the subscription revenue in the quarter. As discussed previously, we will be sunsetting our on-premise version of e-signature solution at the end of this year.

We, therefore, stopped selling new licenses effective January 1, 2023, and expect minimal on-premise subscription revenue this year. For comparison purposes, on-premise digital agreement subscription revenue, which is included in our total subscription revenue contributed $4.8 million in fiscal year 2020 as follows: $3.4 million in Q1, $0.2 million in Q3 and $1.1 million in Q4, respectively.

Second quarter gross margin was 72% compared to 73% in the prior year quarter. Operating loss was $7.1 million as compared to an operating loss of $0.5 million in Q2 last year and an operating loss of $6 million last quarter. As a reminder, beginning last quarter, we reallocated expenses from our Security Solutions operating segment to digital agreements, which accounted for the majority of the year-over-year change.

Slightly lower gross margin this quarter as compared to the same quarter last year, combined with increased investment in quota bearing salespeople and increases in sales and marketing travel and entertainment expenses partially offset by increased capitalization of R&D costs contributed to the change.

Turning to our Security Solutions segment results. ARR grew 9% year-over-year in the second quarter to $96 million. Subscription ARR grew 20% to $69 million and was partially offset by a decline in perpetual maintenance ARR a trend we expect to continue as legacy perpetual-based maintenance contracts shift to subscription contracts over time. Revenue increased 4% to $43.9 million.

Subscription revenue grew 13% to $12.5 million, our second highest quarter results following a very strong Q1, driven by continued demand for authentication, transaction signing and app shield solutions, primarily from existing customers.

The growth in subscription revenue was partially offset by expected declines in perpetual maintenance and support professional services and other and legacy software products that we sunset in 2022.

Digipass token revenue increased 5% year-over-year. In regard to electronic component shortages and related increases in lead times that impacted our Digipass token shipments over the last year I'm pleased that we've been able to increase inventory levels and partner with customers to optimize deliveries, which have now returned to more normalized levels.

Q2 gross margin was 59% as compared to 66% in the same period last year. The change in margin is primarily related to product and customer mix in our hardware business increased electronic component prices used in Digipass tokens, increased freight costs and increase in third-party software costs and the inventory write-off charge related to Digipass CX.

Operating income was $8.5 million, and operating margin was 19% compared to $8 million and 19% in last year's second quarter. As compared to last year, the discontinuation of Digipass CX impacted operating income by $3 million. and was offset by the reallocation of certain expenses to digital agreements and lower amortization as a result of the prior year deal flow in tangible asset impairment.

Turning to our balance sheet. We ended the second quarter of 2023 with $83 million in cash, cash equivalents and short-term investments compared to $98 million at the end of 2022.

Key uses of cash year-to-date include $6 million for operations, $6.5 million for capital expenditures, primarily related to capitalized software, $2.8 million in tax payments and $2 million in acquisition-related costs. Timing of collections and an increase in electronic component inventories for our Digipass devices to reduce supply chain risks contributed to changes in cash over the last two quarters.

We have no long-term debt. Geographically, our revenue mix by region in the second quarter of 2023 was 48% from EMEA, 33% from the Americas and 19% from Asia Pacific. This compares to 45%, 37% and 19% from the same regions in the second

quarter of last year, respectively. That concludes my remarks. I'll now turn the call back to Matt.

Matthew Moynahan^ Thank you, Jorge. I'm confident the actions we are taking to right size our cost structure, return capital to our shareholders and focus on efficient growth are the right operational and strategic decisions for the company and will help OneSpan unlock shareholder value. I will now provide our full 2023 guidance and initial 2024 targets.

For the full year 2023, we expect the following: revenue to be in the range of $226 million to $232 million as compared to our previous guidance of $232 million to $242 million. ARR to be in the range of $148 million to $152 million as compared to our previous guidance of $157 million to $164 million and adjusted EBITDA to be in the range of $0 million to $3 million as compared to our previous range of $3 million to $6 million.

For the full year 2024, we are targeting revenue growth in the low to mid-single digits range, and as I mentioned earlier, adjusted EBITDA margin to be in the range of 20% to 23%. Given the adjustments we made to our operating model, we are resetting our 2025 financial targets, and we'll communicate them at a later date. With that, Jorge, and I would now be happy to take your questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) And our first question comes from Chad Bennett of Craig-Hallum.

Chad Bennett^ So Matt, I thought when you came into the business and looked at kind of how you wanted to reorganize the business I guess, now, I don't know, 1.5 years, 2 years ago, however long ago it was. We thought the two segments actually were pretty synergistic together.

And we kind of reorganized the sales force and enabled them and train them to sell all the products across both segments and kind of more of the suite approach and so forth. And we actually hired salespeople that were qualified to do that. And accelerated our hiring this year of salespeople to do that. So what has changed in three months?

Matthew Moynahan^ Chad, good to speak with you. So the unified sales force is unifying the sales force is still intact. When I came in, there were three sales forces, one for security hardware, one for security software and one for digital agreements.

And we unified those to account control perspective where individual seller, as you mentioned, can go in and sell all products. Individual sellers will continue to be able to sell all products. So nothing has changed there.

What really has changed, as you know, when we came into the business, we simultaneously have been attacking the cost structure. But simultaneously attacking the cost structure, but in parallel, been investing in building out the infrastructure for the future. Key to any growth story really as a productive sales force and the marketing capability to essentially generate demand for those sellers. And we've invested in both. Both are necessary and they both continue to be necessary.

But really, we have more visibility into is the sum total of the performance of the existing team, combined with the new sellers, who we do believe bring more directly applicable enterprise application experience and their ramp times. And so what essentially I've taken a look at is the time to execute the transformation.

We still believe in our long-term growth potential when I think about time value of execution, the longer the execution, the more cost, as we go through this and our commitment to the Rule of 40, we also have to look at the efficient capital deployment based against that time frame.

And that's really what has changed. Now we have more visibility as we committed to in previous calls, to give you an update on the uptake of that additional sales capacity and the uptake of the marketing demand generation engine, which was essentially built from scratch -- and the manner needed to go attack a market. And so I would say, Craig -- the only real thing that Chad only thing that has changed has been the time required to execute the transformation, everything else remains intact.

And this cost rebalancing, if you will, is really just to make sure that we're efficiently deploying capital against that time frame. Our strategy remains unchanged, as I mentioned in the call, and the long-term growth potential of digital agreements, I believe, still remains intact. Increased focus with the division structure, which we started with the segment approach, I believe will facilitate that uptick.

Chad Bennett^ Okay. Then can you provide some color into where the cost cuts will land in the P&L, at least kind of rough ranges or rough numbers?

Matthew Moynahan^ I'll give you a high level, just high level and then Jorge can break it down for you a little bit more. So obviously, in parallel to that, I think we put out there $10 million to $12 million cost savings. We came in at the high end of that. That was the initial one.

That I have put into place right upon my arrival, and we also extended that restructuring to other parts of the business, rationalizing portfolios, et cetera. That we've executed very, very well against, and that execution gives me good comfort that we'll be able to execute this more profitable approach as we manage the business for the long term.

The increased spend that happened in parallel was really driven by the increased investment in sales and marketing cost -- okay? And so you recall, we are implementing a performance-based culture is critical to the future of our company and really any

company. And so you will see a meaningful reduction in sales and marketing expenses commensurate with what would be efficient spending of capital for the growth rate that those two entities are providing.

So sales and marketing in parallel we've made, as we talked about in the call, some product-related decisions to refine our focus and allow us to punch with two closed fists, if you will, across instead of across a very broad portfolio. One of those decisions was around Digipass CX, our cloud-based token, and we had a few other technical decisions. internally with regard to certain platforms and projects that we're going.

So primary message is sales and marketing with the product entering being the next largest area. Jorge, do you want to give a breakdown, a little more detail level?

Jorge Martell^ Yes. Thanks for the question. Yes. So I think, Matt, you covered pretty well, but I'll just add a couple of things. One is, I think the lion's share of what -- the cost savings will come from is going to be in sales and marketing. Secondly, it would be R&D, but also G&A.

So it's really looking at all those three OpEx categories Chad and optimizing those. Going back to what Matt mentioned is every dollar spend in the company has to have ROI tied to it and tied to products that are going to drive growth -- top line growth, and have the biggest bang for buck ultimately at the end of the day. But it's all the three categories, S&M, R&D and G&A will be impacted with the majority in S&M.

Operator^ And our next question comes from Gray Powell of BTIG.

Gray Powell^ A few on my side. Maybe just to start on the top line. Can you help us think through how much of the ARR reduction was due to more company-specific issues and the ongoing transformation versus a weaker-than-expected macro environment and just more customers delaying decisions.

Jorge Martell^ I can take this one, Matt. So Gray, just to maybe take a step back. And so -- when you look at the ARR over the last couple of quarters, ending 8% growth this quarter, that deceleration, I would say, is primarily related to, again, the taking longer, the sales on marketing taking longer, which obviously has impacted -- part of it is the macro as well, but it's partly that. The other component that I will mention as well is the product sunsetting, right? That has an impact. That's about 2% on that 8% that has had an impact on.

The other component, we mentioned this in the last two or three calls as well, which is a couple of larger clients that contracted primarily in Q3. So you'll see that for another quarter or so.

And then to a lower extent, I would say, but also important to mention is due to the macro, some of the verticals, particularly in the DA business in insurance and mortgage

continue to see that sort of like lower levels compared to the last few quarters. And so that also, again, driven by the macro, but as well, particularly impacting those verticals.

And then one of the things just to mention as well is I mentioned about the macro deals currently increasing. We saw that more pronounced in Q2, particularly in DA. One of the deals that slipped, Matt mentioned, slipped from Q2 into Q3 that deal at 2 million ACV deal that would have added another 1.5 points to it. And so I think it's a combination of both, Gray, but I think it's sort of like equally macro, but also the sales and marketing engine taking lower than anticipated, also is dampening that growth.

Gray Powell^ Okay. And so then just the next one, and I don't want to get too into the weeds on the math. But if I look at like net new ARR or like ARR additions, So that declined 45% in Q2. The midpoint of guidance implies that you add $5.6 million of new ARR in the second half of 2023 versus $4.4 million last year. I understand that you have easier comps, so I guess that helps. But can you just sort of help us think about what's driving that improvement and just sort of reaffirm your confidence level there in this new target?

Jorge Martell^ Yes. Like I said, we have that -- obviously, the deal that I just mentioned to add the 2 million ACV that's going to be part of that remainder to get to that other number for the full year. And then the other components are going to be primarily the expansion of existing clients. There's an element of new logos as well that will have, but the lion's share of that is going to be the expansion of existing clients, Chad.

Gray Powell^ Okay. Cool. And then just if I can squeeze in one more. I know it's a lot. Taking EBITDA margins from effectively breakeven or I guess, slightly better than breakeven this year, to 20% to 23%. It's just like a really big jump. So how much of that is related to natural leverage in the business versus the cost that you're ringing out from this additional restructuring?

And do you think you can hit that target even if revenue comes in below expectations again over the next, call it, 6 to 18 months?

Matthew Moynahan^ Yes, I'll take that one. So we have -- I think more of the things that improved dramatically on since we've arrived since I arrived and we had our team, which was really fully intact on January 1. And is the operational rigor in the company and the ability to tackle the cost structure in a way that was not previously able when I came in. So I feel very good about that.

We have already begun actions, and we do anticipate that the vast majority of actions will be completed by the end of this year with some happening in 2024. But we do have line of sight into that, and so my degree of confidence in hitting that range is strong, And we continue to monitor the macroeconomic environment, but we believe these estimates that we put out there are executable for sure.

Operator^ And our next question comes from Anja Soderstrom of Sidoti.

Anja Soderstrom^ Most of them have been addressed already. But I'm just curious about the increased deal scrutiny you saw in the second quarter being more pronounced. Was that more towards the end of the quarter? Or when did you start seeing that and has that developed since that started.

Matthew Moynahan^ I mean, we've had, obviously, a lot of our growth in our e-signature business has been driven by installed base customers, right, expansion. We've shown that when we get the right customer, Anja, and the product delivers, which it does, obviously, good things happen, right? And so we think there's obviously contractual situations already in place.

When it comes to a new contract, or a migration from on-premise to the cloud, like was the case mentioned in that $2 million deal that moved out of Q2 into Q3. That was specifically a result of the size of the deal, but also the number of signatures that were required to actually execute that transaction and the number of eyeballs that we're reviewing it given the macroeconomic environment.

So it's still deal specific, less so on the installed base customers because we have -- in most of the cases, we have vehicles in place. already in place. Most of it is around the new logo business that we would see already migrations from on-premise to the cloud.

Operator^ And our next question comes from Rudy Kessinger of D.A. Davidson & Company.

Rudy Kessinger^ Similar to maybe a couple of the questions that have already been asked, Matt, you've been here now for almost two years and we're still kind of yet to see any improvement on the growth profile. I guess I'm just curious, you started to hire these new reps, correct me if I'm wrong, but in May of 2022. And so if you look at that first wave of reps that you hired and you look at their productivity today, What would you attribute to those reps not ramping to productivity as expected?

Would you attribute it to the macro? Would you attribute it to sales enablement, would you attribute it I heard you call it competitive pricing pressure. What would you attribute the inability to get some -- that first wave of reps fully ramped and productive to drive faster growth this year, not happening?

Matthew Moynahan^ Sure, sure. So I came in November 29th, so it's been about a year and a half. We put in play into place the plan in May and began really in the back half of last year, adding additional reps. So as I stood there, Rudy, in May in New York, we rolled out our three-year strategic plan.

We had about 40 -- 43, 44 reps, and we committed to doubling the sales force by the end of this year okay. We did hit that target. And so really, what you've seen is a full year of performance in the company across certainly the 45 that were here, okay?

When I came in, we were partly through the year, quarter, quarter and a half through that. So I had the ability to go to that performance, and that's sort of one cohort, if you will, and the second cohort, which came in staggered on the back half of last year into this year, has many, many dates that would mark their second three -- three-quarter and four-quarter anniversary.

So that's still flowing through the system. But when you look at the sum total of the performance of the reps, so I would say it's multifold really. And it really just comes down to the fact that this company is maturing on multiple fronts, but primarily across the sales and marketing and demand generation. okay?

And so I'd say it's not one thing. The team has done a good job, but for sure, maturing every quarter since I've been here. But the ability to go get those reps ramped and get them the demand with a company whose brand is still being built is taking more time. And so that's why you're seeing -- in some of the cases, some of the restructuring that will be done, obviously, is going to be related to performance items as any company should have that.

So I think the talent that has come in certainly is augmenting the talent that was here. And now we've got to go and put together the best team we possibly can to make the sales force productive and make sure that the costs are in line with that productivity, right? We had no reason to assume that the existing reps would not be as productive in the digital agreement segment given the tenure of some of those reps. But as we've seen that play out, that is not the case.

And so I'd say the sum total of our expense in the sales given the productivity of it is part of an area we have to rebalance. I am confident that we have a good sales team. We have to make sure that in parallel we're building out the demand generation engine to feed them. and to act on it. And I would say it's a mix of the sales and the mix of the marketing demand generation that have to cross those lines have to cross for it to get to normal productivity rates, and then we're still on that journey.

Rudy Kessinger^ Okay. And then as you -- given the outlook for 24 low to mid-single digits revenue growth, should we expect ARR growth to be roughly similar to that in '24 or higher or lower?

And then when you think about getting the Rule of 40, should we think of that as now likely being more a mix of 30-ish percent margins, 10% growth as opposed to, I think, previously the targets were kind 20-20.

Matthew Moynahan^ Yes. So I'll take the last one, Jorge will then go into the ARR. So listen, since we've come in here, the new administration, so to speak, we're committed to getting to the Rule of 40. I think when you looked at the plan, it got it close to 30-through a combination of top line growth and adjusted EBITDA. Obviously, it was almost a 50-50 split between those two targeting sort of a 20-20 Rule of 40 as we exited '25 into 26, okay?

And so I think just going back to that time value of execution comment, realizing that, that was going to take time to achieve our digital agreements three-year targets, which is really the growth engine in the business, right? We know that security has a different growth profile for it. We took action, are taking action to make sure that we continue on that path to the Rule of 40 and have the majority of that equation, if you will, coming from profitability. -- okay?

As we get stronger, we'll obviously appropriately align expenses to that growth profile. But as we stand right now and given the time, we'll take to get that engine going, I think it makes perfect sense for us to go recalibrate now the expenses and profit elements of that equation and target to get into that Rule of 40, hopefully more quickly, but also in a different way than we previously stated based on the new information we have.

Jorge Martell^ And Rudy, going back to your first question. So we will be publishing sort of like full 2024 metrics and KPIs later. But I think just to address your question, I think that's the right expectation. But like I said, we're still a little premature from publishing all the KPIs for 2020. We'll do that in due course over the next couple of quarters.

Operator^ Thank you. I would now like to turn the conference back to Matt Moynahan for closing remarks.

Matthew Moynahan^ Thank you, everyone, for joining us today. I very much appreciate your time and very much look forward to our one-on-one sessions over the course of the next couple of weeks and quarter, and I look forward to giving you future updates on the company as we progress in our transformation. Thank you for your time today.

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