Docusign Inc.

Second Quarter Fiscal Year 2027 Earnings Call

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CORPORATE PARTICIPANTS

Gary Fuges, *Vice President, Investor Relations*

Allan Thygesen, *Chief Executive Officer*

Blake Grayson, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Bill McNamara, *Evercore ISI*

Jason Zhang, *Wolfe Research*

Tyler Radke, *Citigroup*

Michael Turrin, *Wells Fargo Securities*

Ria Naidu, *Jefferies*

Chris Quintero, *Morgan Stanley*

Patrick Walravens, *Citizens JMP*

Patrick McIlwee, *William Blair*

Rishi Jaluria, *RBC Capital Markets*

Will Power, *Robert W. Baird & Co.*

Jacob Gideon, *Bank of America*

P R E S E N T A T I O N

Operator

Good afternoon, ladies and gentlemen. Thank you for joining Docusign's Second Quarter of Fiscal Year 2027 Earnings Conference Call.

At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. As a reminder, this call is being recorded and will be available for replay from the Investor Relations section of the website following the call.

If anyone should require operator assistance during the conference, please press star, zero on your telephone keypad.

I will now pass the call over to Gary Fuges, Vice President of Investor Relations. Please go ahead.

Gary Fuges

Thank you, Operator.

Good afternoon. Welcome to Docusign's Second Quarter of Fiscal Year 2027 Earnings Conference Call.

Joining me on today's call are Docusign CEO Allan Thygesen and CFO Blake Grayson.

The press release announcing our second quarter of fiscal 2027 results was issued earlier today and is posted on our Investor Relations website, along with a published version of our prepared remarks.

Before we begin, let me remind everyone that some of our statements on today's call are forward-looking, including any statements regarding future performance. We believe our assumptions and expectations related to these forward-looking statements are reasonable, but they are subject to known and unknown risks and uncertainties that may cause our actual results or performance to be materially different. In particular, our expectations regarding factors affecting our pace of innovation and customer adoption are based on our best estimates at this time and are therefore subject to change. Please read and consider the Risk Factors in our filings with the SEC together with the content of this call.

Any forward-looking statements are based on our assumptions and expectations to date and, except as required by law, we assume no obligation to update these statements in light of future events or new information.

During this call, we will present GAAP and non-GAAP financial measures. In addition, we provide non-GAAP weighted average share counts and information regarding free cash flow and ARR. These non-GAAP measures are not intended to be considered in isolation from, a substitute for, or superior to our GAAP results. We encourage you to consider all measures when analyzing our performance. For information regarding our non-GAAP financial information, the most directly comparable GAAP measures and a quantitative reconciliation of those figures, please refer to today's earnings press release which can be found on our website at investor.docusign.com.

With that, I'd like to turn the call over to Allan.

Allan Thygesen

Thank you, Gary, and good afternoon everyone.

Q2 capped a strong first half of execution. We delivered further on our roadmap to accelerate innovation in our Intelligent Agreement Management, or IAM, platform. We unlocked even greater customer value within IAM and further extended IAM's functionality into the tools where our customers work, while driving efficiency as we scale. Our platform strategy is working, as reflected in IAM now accounting for 15.1% of total ARR, up from 12.6% in Q1.

We generated strong financial results in the second quarter with $876 million in revenue—up 9% year-over-year—and a 32% operating margin, and approximately $300 million in free cash flow that helped support over $300 million of share repurchases in Q2. As reflected in our increased ARR guidance for fiscal year 2027, we believe we are well positioned for continued execution in the second half of this year and beyond.

I'll review our product innovation and go-to-market highlights for the quarter, and then Blake will review our Q2 financial performance and updated guidance. We'll then take your questions.

Building on the foundational strength of our market-leading eSignature offering, IAM is uniquely able to aggregate, analyze, and unlock the value of an organization's agreement data to improve business decisioning. Point solutions and standalone AI tools cannot address the breadth of this challenge, securely and at scale, the way Docusign IAM can. Customers have now ingested more than 300 million documents through IAM's Agreement Manager.

And we're scaling IAM efficiently. As we outlined in a new series of blog posts, IAM's AI-native architecture is processing workloads at significantly lower marginal costs than offerings that route to external LLMs. This is a key reason we were able to significantly increase cumulative documents ingested in IAM sequentially in Q2 while maintaining high gross margins over the same period.

Since our last call, we launched key products and integrations to strengthen IAM across every step of the agreement lifecycle, from new AI assistant and agentic capabilities, extending IAM into additional surfaces where customers work, and increasing the functional specialization of the platform. Taken together, they signal how IAM is delivering more customer value and shifting from managing agreements to acting on them across every function that touches a contract.

In August, we launched AI assistant and agentic capabilities that help organizations unlock greater value and accelerate workflow automation. IAM's new agentic features include: an AI assistant that powers contract analysis and redlining and triggers agentic workflows; pre-built agents for common use cases including document intake and vendor renewal; an Agent Studio where customers can build, govern, and deploy custom agents for specialized uses like executing business playbooks, compliance auditing, and evaluating vendor pricing; and the ability to embed agents directly into IAM's Workflow Builder for end-to-end agreement management. This powerful agentic suite is adding value for business out of the gate. In user testing, the AI assistant cuts the time it takes for customers to summarize, review, and finalize agreements, like NDAs, in half.

Docusign continues to make IAM available across an ecosystem of partners to meet customers where they work via the Docusign MCP server, the agreement layer for agentic enterprise. In June, we announced the general availability of the Docusign app for the Slack Marketplace, providing agentic contract workflows directly in Slack, as well as an integration with Perplexity to help teams automate contracting workflows and facilitate collaboration across their business partners. In August, we also added Google Cloud's Gemini Enterprise for Legal. These are in addition to existing connectors with Anthropic, Gemini, OpenAI, and Microsoft Copilot. While still early, MCP adoption continues to ramp, with cumulative active accounts more than quadrupling during the quarter. Docusign as the agreement layer will be open to every agent at the end of this month when Docusign's MCP server goes GA.

Additionally, we're bringing contract lifecycle management into the AI Age with the general availability of IAM Agreement Manager's integration into Docusign CLM. All CLM customers can now leverage a single, AI-driven repository for eSign and CLM to unify fragmented data, expand access to agreements and its associated data, and reduce manual processes and implementation costs. Further, this integration connects CLM's robust workflow capabilities with IAM's next-generation functionality, including AI-powered search and extractions, MCP connectivity to external AI platforms, and IAM's new agentic suite. It's one more step towards expanding IAM further into our existing enterprise base, and customer reception has been highly encouraging.

In Q2, we made AI-Assisted Web Forms generally available, enabling users to transform static documents into interactive, shareable forms. The ability to unlock hundreds of millions of legacy documents and their associated data is a game-changer, especially for document-intensive industries like financial services, government, and healthcare.

Our strategy is resonating with customers and prospects across both direct and digital channels. Our direct sales teams executed well in the quarter with IAM exhibiting strength across all of our geographic regions and customer segments. Here are a few examples of customer wins in Q2:

Salesforce is deploying IAM as a trusted system of record for agreements, turning key agreement data into actionable signals that guide decisions.

Oppenheimer is using IAM to streamline onboarding, build AI-powered workflows, and empower advisors to provide a world-class customer experience to the firm's wealth management clients.

SailPoint, a leader in adaptive identity security, is deploying IAM across its organization to accelerate sales contract processing and gain greater visibility into the business.

Upstart, an AI lending company, is automating customer and borrower workflows to reduce onboarding timelines from months to weeks, and accelerate time to revenue.

Optimizely, a leading digital experience platform that helps companies build, manage, and test their websites, is adopting Docusign IAM to streamline sales agreements and accelerate quote-to-revenue. IAM's Agreement Desk provides a shared collaborative workspace where teams can review, redline, and approve contracts faster.

And HydroCorp, a leading provider of water safety compliance services, has adopted IAM for Sales, integrated with Salesforce, to eliminate manual handoffs and accelerate sales processes. The time required to prepare a new contract has decreased from two to three hours to 20 minutes.

These examples all demonstrate how Docusign is reaching across industries and customer sizes to deliver value and transform businesses across the global economy. We're excited about the potential we have in front of us.

In closing, we are executing on our strategy. We're accelerating our pace of innovation with efficiency, and delivering customer value within our platform and through our integration partners, while delivering strong financial results.

I'm proud of the Docusign team's commitment to our mission. By increasing our fiscal year 2027 ARR guidance and IAM's contribution to it, we enter the second half of the year on the front foot, and we're confident in our ability to execute further on our strategy.

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

Blake Grayson

Thanks, Allan, and good afternoon everyone.

As Allan shared, our Q2 performance reflects continued solid execution across our core priorities. The foundation of that momentum is our deliberate focus on driving product and feature differentiation for our customers via the IAM platform, unlocking productivity and value for their businesses. We are delivering product innovation at a rapid pace, and we're seeing that translate into accelerating IAM adoption, which now accounts for 15.1% of our annual recurring revenue.

We have also maintained strong operational discipline—expanding operating margins year-over-year and generating nearly $300 million in free cash flow this quarter while opportunistically redeploying that capital back to shareholders, all while continuing to invest thoughtfully in our core growth engines.

I'll now walk you through our financial results for the quarter and our updated outlook for the rest of the year.

Q2 revenue was $876 million, up 9% year-over-year on an as-reported basis that included a 1.3 percentage point benefit from foreign exchange rates, with international representing 31% of total revenue. After adjusting for the FX tailwind and last year's strength in digital add-ons, year-over-year revenue growth accelerated by nearly 1 percentage point.

Our Q2 growth drivers align closely with the trends we've seen over the past several quarters. IAM adoption again slightly exceeded our expectations, continuing its trajectory as an increasingly meaningful part of our business. And that strength was well balanced, with solid IAM gains across all regions, including our commercial and enterprise segments. Gross retention remained healthy during the quarter and continued to show steady progress, as well.

Dollar Net Retention, or DNR, from our direct customers was 103% on a rounded basis, up modestly from last quarter and the prior year. For fiscal 2027, we continue to expect a modest improvement in DNR on a year-over-year basis. Looking ahead, we see an opportunity to further build on this momentum as we deliver greater customer value, particularly by deepening IAM adoption.

Total customer growth remained strong in Q2, accelerating to nearly 10% year-over-year to over 1.9 million customers. Accelerating customer growth was driven in particular by our digital channel while customer engagement across the platform also showed solid momentum, driven by steady year-over-year growth in both envelopes sent and contract utilization – our key measure of customer consumption.

We also saw the number of customers spending over $300,000 in ACV grow 14% year-over-year to nearly 1,300, the second quarter in a row of double-digit growth. We remain encouraged by the early adoption of IAM among our larger customers as we continue to demonstrate its strategic value to enterprise companies.

Turning to profitability, we continue to balance disciplined expense management with targeted investments in product innovation, specifically across the IAM platform, to deliver incremental value to our customers and ultimately, accelerate growth.

In Q2, non-GAAP gross margins were 81.7%, down slightly compared to the prior year, as expected, due to our ongoing cloud migration investment. We continue to expect fiscal 2027 gross margins to decline slightly year-over-year due to this migration, which remains on track to be largely complete by the end of this fiscal year. I'm proud of the Docusign team for helping deliver consistently strong gross margins even as more customers adopt our AI-driven features in the IAM platform. As Allan mentioned, a lot of work goes on behind the scenes to provide not just a great customer experience, but to do so with fiscal discipline.

Non-GAAP operating income was $277 million in Q2, up 16% year-over-year. Operating margin was 31.6%, up 180 basis points compared to the prior year and outperformed our guidance midpoint by 160 basis points. Approximately half of the outperformance relative to our guidance was driven by stronger revenue that naturally flowed through to operating profit. The remaining half was driven generally equally between continued operating cost discipline, including managing our hiring ramp, and higher capitalized software costs related to more engineering capacity directed toward capitalizable development projects. These capitalized costs are reported in our capital expenditures and do not have an incremental impact on free cash flow.

Non-GAAP diluted EPS in Q2 was $1.16, a 26% year-over-year improvement, and GAAP diluted EPS was $0.40, a 33% year-over-year improvement. The strong year-over-year growth was driven by a combination of improving operating results, including lower stock-based compensation, as well as a declining share count driven partially by our stock buyback activity.

We ended Q2 with 7,137 employees, up 3% year-over-year. While we are hiring across all of our global offices, all of our year-over-year headcount growth in Q2 was from lower-cost locations and we generally expect that trend to continue.

In Q2, free cash flow was $296 million and up over 35% from the prior year, representing a 34% margin. Strength in Q2 compared to the prior year was driven primarily by improving operating leverage in the business along with continued gains in working capital management. As a reminder, free cash flow can vary quarter-to-quarter due to the timing of payments and collections. Over the trailing 12-month period, Docusign has generated $1.2 billion in free cash flow, which is up nearly three times from the amount we generated in the full year of fiscal 2023.

Over the past 3.5 years, Docusign has been singularly focused on building new sources of long-term value creation for our customers, particularly via IAM, while being ever mindful of generating durable and profitable growth.

Our balance sheet remains strong, ending the quarter with just under $1 billion of cash, cash equivalents, and investments. We have no debt on the balance sheet.

In Q2, we repurchased $307 million in stock, which helped reduce our total diluted shares outstanding by 8% year-over-year to 193 million. Our core focus remains on generating strong free cash flow while funding strategic growth initiatives, and returning excess capital opportunistically to shareholders. We ended the quarter with $2.1 billion remaining under authorization for future share repurchases.

Stock-based compensation expense declined to 17% of revenue in Q2, an improvement of 3 points year-over-year as we continue to focus on improving our efficiency in this area.

With that, let me turn to guidance.

For the third quarter, as-reported revenue is expected to be in the range of $886 million to $890 million, an increase of 9% year-over-year at the midpoint on an as-reported basis, including a 1 percentage point tailwind from FX.

Non-GAAP gross margin is expected to be in the range of 81.5% to 81.9%.

Non-GAAP operating margin is expected to be in the range of 31.3% to 31.7%.

Non-GAAP fully diluted weighted average shares outstanding is expected to be between 191 million and 196 million.

For fiscal year 2027, we now expect as-reported revenue in the range of $3.499 billion to $3.507 billion, an increase of 9% year-over-year at the midpoint on an as-reported basis, including an approximately 1 percentage point tailwind from FX. Our update to full-year revenue guidance includes passing through the entire outperformance we delivered in Q2, plus additional outperformance assumed in the second half of the year, partially offset by incremental foreign currency headwinds of approximately $4 million.

We now expect non-GAAP gross margin between 81.5% and 82.0%, non-GAAP operating margin between 31.0% and 31.5%, non-GAAP fully diluted weighted average shares outstanding between 190 million and 195 million, a meaningful reduction from the prior year as we continue to expect that our buyback activity will be an important driver to more than offsetting dilution.

Turning to ARR, we continue to expect an acceleration in full-year ARR growth compared to the prior year. More specifically, we now expect fiscal 2027 ARR growth to be in the range of 8.5% to 9.0% year-over-year. This compares to 8.0% ARR growth in fiscal 2026. We now expect that IAM ARR will represent between 18% and 19% of total ARR exiting Q4 of fiscal 2027.

For detailed commentary on top and bottom line factors to guidance, please see the Modeling Considerations appendix in the prepared remarks and investor deck presentations on our Investor Relations website.

In closing, our Q2 performance builds on a strong start to fiscal 2027, balancing operational efficiency with ongoing IAM platform expansion. We remain encouraged by growing IAM adoption as we drive more value and efficiency for our customers. These results support our actions to raise our full-year guidance for ARR, IAM's share of total ARR, total revenue excluding the impact of foreign currency, and operating margin. Entering the second half, our focus remains clear: improve the features and experience for our customers across the platform that can help us accelerate ARR growth, drive continued operating leverage, and deliver long-term value for shareholders.

With that, Operator, let's open the call for questions.

Operator

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

Thank you. Our first question comes from the line of Bill McNamara with Evercore ISI. Please proceed.

Bill McNamara

Hi. This is Bill on for Kirk, and thanks for taking my question.

Looking across the portfolio, which products or offerings are currently outperforming your expectations, and to what extent are those areas contributing to the improvement in dollar net retention to 103% versus 102% last quarter?

Allan Thygesen

Yes, thanks for the question. We saw performance across the board, across eSign and IAM, and IAM obviously being the main driver of the growth acceleration that we saw and that we are projecting for the remainder of the year.

Blake Grayson

Yes, and I'll just take a second to add on top. I would say one of the things that we saw this quarter that is exciting or encouraging for us is that the contribution from expansion is contributing a larger portion of our improvement in dollar net retention as we've seen previously. Just as a reminder, we made some good retention gains over the past few years. The vast bulk of that has come from retention. Now what we're starting to see is more contribution from the expansion side of the business, which is encouraging; it's a little bit more balanced. Obviously, with the size of the book we have, gross retention is a huge lever for us, but we are seeing expansion play a bigger role in that.

Bill McNamara

Great. Appreciate you taking my question.

Operator

Thank you. Our next question comes from the line of Alex Zukin with Wolfe Research. Please proceed.

Jason Zhang

Thank you for taking the question. This is Jason on for Alex.

On some of your product announcements this quarter, you have shipped IAM connectors into ChatGPT, Slack, Perplexity, Gemini. Essentially, you're embedding the agreement intelligence inside the AI platforms rather than competing with them. First, maybe can you help us understand the commercial model here? Do you need to upgrade to IAM in order to use those connectors? Also, is there any of that contributing to IAM attach for users today? How are you viewing those as a separate distribution channel for IAM? Thank you.

Allan Thygesen

Yes. First of all, as you noted, we announced a number of different integrations. We actually will be sharing news about our MCP server going general availability at the end of the month, so I think that's pretty exciting.

In terms of the value to the business, I think customers are still examining exactly how they want to deploy agreements across different tools. We've always had a strategy of being available in any tool that the customer is their source of truth and is their work environment that people want to be in. Longstanding relationships with Salesforce and Microsoft, Workday, SAP, and so on. This is a logical extension of that as people adopt general-purpose chat engines like, as you mentioned, ChatGPT and Anthropic and Gemini, or a powerful tool like Slack or some of the new legal tools. There are now new technologies available to make Docusign's workflow and agreement intelligence available that way. We think that's a natural extension of our highly successful strategy of a balance of the very powerful tool Docusign offers itself, as well as making it available in any third-party tool that it wishes to. Our enterprise clients can even integrate it themselves via using our APIs or using MCP.

Operator

Thank you. Our next question comes from the line of Tyler Radke with Citi. Please proceed.

Tyler Radke

Yes, thank you for taking the question.

Just going back to, I guess, a combination of the strength you saw in large customers, but also top of funnel. As we think about the IAM capabilities, can you just talk to how much of this raise and momentum would you attribute to better execution versus new capabilities, new use cases being unlocked by some of the innovation that you've done and the expansion that the IAM suite has been able to unlock? Thank you.

Allan Thygesen

I think it's intrinsic to our IAM strategy to expand the number of use cases for our technology. We've obviously always been very, very strong in sales and that continues. For a variety of sales-related use cases, customer experience use cases, we're seeing a lot of interest and deployments now in the procurement area. HR is another area where people use Docusign technology. So I'd say it's very broad in terms of the functional applications.

From a customer perspective, we are very strong across all customer segments. You see strength both in our commercial and our enterprise business. One noteworthy thing I think this quarter is we're really starting to see deal sizes pick up. At the very top of the book, we saw the largest deal we've ever done in the U.S. public sector, the largest deal we've ever done in LatAm. Taking a slightly broader view, the number of $300K-plus deals were up 14% year-over-year. That comes from both enterprise and mid-market, but that's another evidence of the overall growth in deal size. And as Blake alluded to on the expansion point, I think there's more to come there.

So we're really excited about that, and that's part of what gives us the confidence to raise our ARR book.

Tyler Radke

Thank you.

Operator

Thank you. Our next question comes from the line of Michael Turrin with Wells Fargo. Please proceed.

Michael Turrin

Hey, thanks very much. Appreciate you taking the question.

If we just kind of parse the growth metrics, the ARR metric is outpacing what we're looking at in terms of constant currency revenue growth. I know we're deemphasizing billings, which has been a bit noisy, but just help us parse what's driving the delta between the growth rates, what makes ARR the better metric in terms of gauging the overall results, and what drove confidence in increasing the ARR growth rate for the rest of the year. Thanks very much.

Blake Grayson

Sure. I'll take a stab at this one.

The first thing I want to communicate across is the underlying momentum in both revenue and ARR is strong. Bear with me as I walk through this a little bit, because on the revenue side, it can be a little complicated.

First, really pleased with Q2 execution, right? Beating the high end of the revenue guide and after adjust for the incremental headwind from FX relative to the prior guide, we're passing through the entire Q2 beat, and we're also raising the second half revenue expectation slightly. But also remember there are some components to revenue that are not included in ARR. That's primarily revenue acceleration from early renewals, digital add-ons, and then there's some professional service fees that can fluctuate as well. But once you adjust revenue for the impact of both FX and those digital add-ons, we're actually accelerating Q2 revenue growth by just under 1 percentage point year-over-year, and our guidance also includes an acceleration year-over-year in the second half as well.

I'd encourage folks to look at the extra detail on this. It's in the Modeling Considerations section of the prepared remarks. We split it out a little bit more this quarter, so you can see the tailwind from the launch of digital add-ons last year, and then the headwinds we started facing in Q4 of '26 as we've been actively working to transition a number of these customers to subscription plans.

Additionally, remember digital add-on revenue is recognized based on usage, whereas subscription plan revenue is recognized ratably over the period. Then also just importantly with that kind of noise in there that I've tried to normalize for, the impact from digital add-ons in Q4 of this year should be pretty immaterial.

So just stepping back a second, we're pretty excited about the momentum we're seeing from IAM adoption, because it starts with ARR and then flows eventually through revenue, and then also second half shows some acceleration of the revenue line as well.

Operator

Thank you. Our next question comes from the line of Brent Thill with Jefferies. Please proceed.

Ria Naidu

Hi, this is Ria on for Brent. Thank you for taking the question.

I just wanted to strengthen the customer metrics. I think you've mentioned the second quarter of double-digit growth in the greater than $300,000 ACV cohort, and that deals are also getting larger. Do you mind just touching on a little bit about what's driving the strength upmarket in particular? Thank you.

Allan Thygesen

Yes, that's coming very much from the IAM part, but we're also doing well on the Sign piece, so there's still some large deals getting signed there. But the bulk of the expansion and growth there is driven by our IAM products. We're seeing that really across different functions and industries. So there's not a particular pattern. Docusign has such a big diversified pool of customers and we still have a long, long way to go. It's exciting to see the progress, but we have an incredible installed base, and we're very excited about the opportunity to help all of them benefit from this next generation of agreement management.

Operator

Thank you. Our next question comes from the line of Chris Quintero with Morgan Stanley. Please proceed.

Chris Quintero

Hey, guys. Thank you so much for taking the questions.

I wanted to get your thoughts on the IAM adoption, specifically around maybe some of the key go-to-market lessons that you've learned as you've rolled it out and gotten some of this early adoption that you're calling out here.

Allan Thygesen

Yes. I think, as we've shared before, we've been very pleased with how quickly customers are able to roll out some of the immediately available functionality, things like the intelligent repository and so on. Some of the workflow tools obviously take a little longer because people have to adjust their workflows, but we are really pleased overall with where that's going and that's obviously key to our long-term health and value with customers. But I'd say all the early signs are very encouraging.

Chris Quintero

Excellent. Thank you.

Operator

Thank you. Our next question comes from the line of Patrick Walravens with Citizens. Please proceed.

Patrick Walravens

Oh, great. Thank you very much. Congratulations, you guys.

Allan, your prepared remarks, you talked about IAM is uniquely able to analyze and unlock the valuem, but then you give this metric. You say that we have now ingested 300 million documents. I was meeting with a lawyer recently who's—they use both Claude and OpenAI, and he's allowed to upload 20 documents at a time. And you guys have 300 million. Can you just explain for investors, very simply, because I think this is a big part of the investment thesis here. Why is it so important that you guys have ingested so many agreements? What is the benefit to you? What is the competitive advantage that you get from that?

Allan Thygesen

Right. I think there's a couple of points there. First, the overall size of the corpus that we've uploaded just allows us to have incredible richness and heterogeneity in our data set. These are all private consented agreements, not just what's publicly available. So that gives us a richness and that is in turn what powers our accuracy.

Then the second point is, in order to manipulate very large agreement libraries, no individual customer obviously has 300 million, but there are customers that have many millions of agreements. You need to build your architecture such that that is performant and cost effective. Docusign, I think we realized that problem at the beginning and built our system that way. So we're taking advantage, for example, of a variety of preprocessing to make the system performant. This also lowers costs. So we're able to create the right balance of scalability, performance and accuracy.

I think it's a combination of those two. It's the overall size of the library that gives us a richness and accuracy detection, and then it's the ability for an individual customer to have these very large agreement libraries and have great experiences for the various users that need to access that. You can't sit there and wait for five minutes or upload 10 documents at a time and then figure out you missed one and now you got to go back and find the one you're missing.

Docusign has deep familiarity with agreements. As an example, we can extract the prevailing terms from a very large library set of agreements. Often there will be 50, 100, 200, 300 agreements governing a single relationship between a company and its customer, a company and its vendor. Figuring out which terms actually prevail is a significant effort for an individual lawyer; we can do that automatically.

So this scalability applies at many levels and I think it's a very meaningful competitive advantage for us as we go forward.

Patrick Walravens

Awesome. Thank you.

Allan Thygesen

Mm-hmm.

Operator

Thank you. Our next question comes from the line of Patrick McIlwee with William Blair. Please proceed.

Patrick McIlwee

Hi, Allan and Blake. Thanks for taking my question and nice results this quarter.

My question is really, as IAM becomes a larger percentage of ARR, can you help us distinguish how much of that ARR represents migration or reclassification of spend that previously might have sat in core eSigs or CLM versus truly incremental wallet expansion? Or said another way, when a customer moves from Sign to IAM, is there anything you can share in terms of the typical uplift you're seeing in total contract value?

Blake Grayson

Sure. Let me take a stab at that.

The bulk of the IAM percentage of ARR that we're driving is from our existing install base. That said, we still have a very healthy NewCo segment that we're driving through that as well. But you can imagine, just with the size and the scale of the customers that we have, we have around 290,000 direct customers right now, 1.9 million total customers. That's a pretty nice situation to have for an install base. You can go talk to them about this platform drawer. So that's the bulk of it right for us to do. We also have NewCo.

With regards to expansion, we don't disclose the level of expansion. We have said and will continue to say that it is a meaningful expansion rate when you see people sign up for IAM for the first time. We also see people upgrade right in the middle of their contract that they signed with us. We also have situations where customers may have a retention situation that we use, right, for that for them. We also have situations where enterprises—right? This is very early for us still in the enterprise space. Even though we're excited about it. Right now we are seeing these green shoots of opportunity, there's just a number of reasons. And you've got competitive reasons as well.

So there's kind of a list of reasons on the expansion side, but we are seeing a healthy expansion from customers when they upgrade from just an eSignature motion to a much richer, much deeper partnership with Docusign in that relationship.

Patrick McIlwee

Okay, great. Appreciate the thoughts.

Operator

Thank you. Our next question comes from the line of Rishi Jaluria with RBC. Please proceed.

Rishi Jaluria

Oh, wonderful. Thanks so much for taking my questions. Nice to see continued strength and resilience in the business.

Maybe I want to start on IAM, which obviously we've all been talking about. But I want to think about the connector side. Can you walk us through mechanically what type of customer does one need to be to actually be leveraging them to the full extent? Is this something that can be a separate distribution channel for IAM? And maybe, importantly, as we think about the discovery process of new customers coming to you, can this be, beyond distribution channel, even just a discovery channel that via some of these connectors and integration with AI systems, it just brings more customers potentially to you using top of the funnel? Thank you for the call. Thank you.

Allan Thygesen

Yes. It's a super interesting area. First, I'd say we're seeing just incredible interest in the MCP connector. I think I mentioned on the call that we had a quadrupling of requests on that. It's just a very—it's an area that lots of people are interested in across all company sizes.

I don't think that there's a strong pattern there. Obviously, companies with more IT resources would have more capacity, but we're seeing even smaller companies feel very comfortable using the MCP connector to integrate. And some of our early users of our agentic rollouts were smaller and midsize companies.

In terms of the distribution questions that you raise, I think it's still very early for people to discover what connectors are available and for that to trigger a buying or connection process.

Now, if you already have Docusign and you go to, let's say, Slack, OpenAI and you see that there's a connector, then you can pretty easily download that. But that doesn't drive incremental revenue. It's an interesting question. If you didn't realize that and you go to those sites, does that in some way serve as marketing for Docusign? I think it's still too early for that, but I think we'll get there. I absolutely believe that these platform—people will build on these platforms and that they will come to them in part looking for what can I connect to with them. Docusign is one of the most ubiquitous, powerful connectors that lets you access some of the most important, highest value data in the enterprise and so I think it puts us in a great position.

Now, you, of course, have to have an IAM license to be able to do that and the existing credit model and so on applies for these calls. But it's a very exciting area, but it's still very early, I think, for customers to discover that and to build the whole mechanism for the entire discovery and funnel process, if you will. But we absolutely believe that that'll be the case. Even today in our sales and marketing, we obviously promote it. It's an important part of people feeling comfortable that the Docusign platform is future proof.

Rishi Jaluria

Okay, got it. That's super helpful.

Then just a quick follow-up and maybe a little bit more philosophical in nature. I think today we're all having conversations about what happens if the engagement layer goes to Claude or OpenAI. Now, historically, Docusign has always had—a lot of it was, or most of it was being shared via API. It used to be 80% of eSignatures were via API call. So maybe as we're all dealing with existential risks, maybe talk about some of the learnings that you can gain from eSignature and successfully navigating that, providing a workflow without necessarily needing to have that, "engagement layer" as we think about it today, and how we should think about applying that to IAM, especially as we think about some of these transitions. Thanks.

Allan Thygesen

Yes. First of all, just on a factual note, I don't think we've ever said that it was 80% of eSign volume that was triggered via API. We've said that it's more than 50. So just to clarify that.

But yes, we do have a lot of experience with people triggering Docusign functionality from inside all kinds of applications. We've found that that really augmented our value proposition. Many customers—people who work in contracts more on a daily basis may access—may be Docusign power users that access the app natively. Others work in their preferred tool, let's say a Salesforce, for example, and they only experience Docusign through that and that's where they trigger the personalization of a contract or sending something for signature and so on. You can now extend that, as an example. We now offer the ability to access your agreement library from inside of Salesforce. You could imagine doing the same inside of SAP or other enterprise applications.

Now we're adding, as you said, this agentic and chat layer. I think you're going to have a distribution of users and use cases. For some users and use cases, they'll want all the functionality and tooling that comes with being in the app. Some will want to stay in their, shall we say functional application, like the names that I mentioned. And some will have quick questions: they just want to get in and out and they want to use a general-purpose chat engine. I think enterprise software companies going forward will need to support all those modalities. We are already doing that.

Rishi Jaluria

All right. Very helpful. Thank you. I apologize for throwing out the wrong number. I will remember 50%. Thanks for the reminder.

Operator

Thank you. Our next question comes from the line of Will Power with Robert Baird. Please proceed.

Will Power

Okay. Great. Thanks.

Hey, Blake, it'd be great, I think, just to get any updated views on how you think about guidance philosophy, conservatism that you bake in. I guess what I'm getting to, is a 1-point beat what investors should generally expect as you lay out guidance?

And then a quick second question. Headcount was up a bit, I guess, in the quarter. Just be interesting to know what you're prioritizing. It sounds like it's lower-cost areas, but where the hiring is focused?

Blake Grayson

Sure. First on the first question with regards to the size of the beat, again, great quarter, really happy Q2 outperforming the top end of our revenue guidance. I think that just from a top-level standpoint, no concerns at all with where we landed. We continue to improve our forecasting here. And I think you've now seen this from us a few quarters in a row. This question has come up in the past. But it doesn't surprise me, as we get better and better at forecasting on that revenue base that those beats, I think it's not something that we think about or plan for, if you will. So no concerns at all on that.

With regards to the headcount side, we are very focused on making target—like we said in the prepared remarks—target investment towards IAM. So there's obviously, just like at any company that I think is doing its job well, you are looking at your resource allocation and you're trying to make sure are you allocating those resources to the most important projects? The roadmap that we believe that customers will enjoy and be delighted by and then hopefully retain with at a higher rate and then will expand with us at a higher rate as well.

Now, what we are doing, as you can see, is we're managing it pretty tightly, right? We are taking advantage of lower-cost locations, but we still are hiring across all of our global offices. I think that's been kind of a—something of a theme that I think you can see from us over the past few years. If you go back to four years ago, our operating margins have gone from the high teens, right, to 32% or so. I think our headcount is down from Q2 of fiscal '23. It's down, I think, around 10% for us over that period, yet our revenue is up 40%. So we are still investing in the business and being mindful about those things and I'm just excited about that management. But we are making target investments in IAM.

Will Power

Thank you.

Gary Fuges

Operator, we'll take one more question. Thank you.

Operator

All right. Our last question comes from the line of Matthew Bullock with Bank of America. Please proceed.

Jacob Gideon

Hi. This is Jacob Gideon on for Matt. Thanks for taking our questions.

Could you just talk a little bit about the pricing and packaging evolution on the eSignature plans, specifically in the digital channel? We've seen the launch of some different consumption models in other non-U.S. geos like Canada. I was just hoping you could talk about what's resonating well and maybe what's motivating some of those changes. Thanks.

Allan Thygesen

Yes, I can quickly comment, and Blake can jump in as well.

Yes. We are testing different pricing and packaging. We've been doing that for a long time. We're testing something in Canada right now, as you mentioned. I think the results look good, but we're not announcing any broader geography changes at this time.

But overall, I think our view is, look, eSign continues to be the premium product in the category. It has better consumer recognition and trust. People tend to respond at higher rates and faster. The tooling for using the product internally at companies is significantly more robust. Security compliance features are richer. It's supported in every market around the world and recognized by regulatory authorities. So we still have a very, very strong position in Sign and we are I think holding our position as the choice of companies that are discriminating and for use cases that are important. We intend to continue to do that.

We want to make sure that we package and price our Sign product for maximum value, so that's what you're seeing us experiment with.

Blake Grayson

I'll just add on a little bit, too. I think from the digital side, I'm proud of the team because for those of us that have worked in e-Commerce before, there's a lot of testing that goes on. What is your conversion rate? What do those customers look like after you sign them up? How are we doing at the top of the funnel in order to grow our accounts nearly 10% for this quarter?

I would just say testing and the new pricing and packaging is something I think that great digital companies do and it's something that we're always going to be kind of leaning into.

Jacob Gideon

Great. Thanks for taking the question.

Allan Thygesen

You're welcome.

Okay. Thank you, Operator, and thank you to all who joined today's call.

In closing, our platform strategy is working. We remain focused on delivering even greater value for our customers, accelerating ARR growth, and driving continued operating leverage for our shareholders.

Thank you all for your support. We look forward to talking to you next quarter.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.