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DocuSign, Inc.

Fourth Quarter and Full Fiscal Year 2023 Earnings Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Thank you for joining DocuSign's Fourth Quarter and Full Fiscal Year 2023 Earnings Conference Call.

At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a -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 this call.

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I will now pass the call over to Heather Harwood, Head of Investor Relations. Please go ahead.

Heather Harwood

Thank you, Operator. Good afternoon and welcome to the DocuSign Q4 and Fiscal Year 2023 Earnings Call. I'm Heather Harwood, DocuSign's Head of Investor Relations.

Joining me on the call today are DocuSign's CEO, Allan Thygesen, and our CFO, Cynthia Gaylor.

The press release announcing our Fourth Quarter and Fiscal Year 2023 results was issued earlier today and is posted on our Investor Relations website.

Now, let me remind everyone that some of our statements on today's call are forward-looking. 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 the pace of digital transformation and factors affecting customer demand 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. These 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 flows and billings. 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.

I'd now like to turn the call over to Allan. Allan?

Allan Thygesen

Thanks Heather, and good afternoon everyone.

Our fourth quarter marked my first full quarter as DocuSign's CEO. Having led our organization for five months with the opportunity to meet many of our customers, partners and employees, I'm even more optimistic today about the future of DocuSign.

We had a solid finish to a transitional year, delivering across key financial metrics in Q4 while making tangible progress against our key priorities. Q4 total revenue came in at $660 million, up 14% versus prior year, finishing the year with $2.5 billion of revenue and 19% year-over-year growth. Driven by our continued focus on profitability and efficiency, we reported 24% non-GAAP operating margin for the quarter and 21% for the year.

While we are pleased with our Q4 results, I also want to acknowledge today's challenging macro environment. Customer sentiment continues to be cautious and that is reflected in moderated expansion rates.

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Before we get further into business updates, I want to acknowledge today's news that Cynthia Gaylor has decided to step down from her role as Chief Financial Officer. Cynthia has been with DocuSign for nearly 4.5 years, first as a board member and chair of our Audit Committee, and the last few years as our CFO. I know many of you know Cynthia well and got to know her even better over time as part of the DocuSign story. I want to thank Cynthia for her unwavering commitment and strategic leadership these last few years. She's been a great partner to me during my first months as CEO, and she's been instrumental to the Company and the Board as we've navigated a period of dynamic change while laying a strong foundation of sustainable, profitable growth at scale. I thank her for her support during the transition as we search for a successor.

Let me turn back to the business. During Q4, we refined and communicated DocuSign's strategy throughout our organization to drive greater alignment on how our teams can deliver more strategic value to our customers. Today, we have a clearly defined strategy in place.

To underscore the key pillars of our strategic vision, we are inspired by customer feedback; our focus is to deliver smarter, easier and trusted agreements. We are improving the reach and efficiency of our go-to-market by developing a world-class self-serve experience, strengthening our direct sales productivity and amplifying our sales and marketing partnerships. We're also strengthening our internal operational efficiency by optimizing and modernizing systems and processes.

But it's important to emphasize that even as the market leader in eSignature, we are just at the beginning of capitalizing on the opportunities to redefine and truly reimagine what a smarter agreement looks like. Today, eSign provides an online replica of a static document. While that is a huge improvement in convenience and productivity for senders and signers, it's hardly the endpoint; just like creating digital copies of maps or recorded music was the beginning of a reimagination of long-established categories, fundamentally altering creation, distribution and use. Our goal is to turn flat agreements into structured data that can be used to make intelligent decisions.

The value of an agreement is in the data. Every step of an agreement can deliver more value when it's automated, intelligent and seamlessly integrated into core business systems. DocuSign is uniquely positioned to redefine the agreement processes across every industry.

Along these lines, we've released several new product enhancements during the fourth quarter including expanded integrations to better collaborate in Microsoft teams, Slack and Zoom. And for eSignature, we enabled new AI-assisted document highlighting and signing capabilities in mobile and web for faster time to value.

In April, we will release WebForms, which will help customers deliver a better and simpler experience by moving from legacy contract forms to a modern web and app experience. We also plan to accelerate our release cycles in Fiscal 2024 with innovative and differentiated solutions that simplify the agreement process while we identify new ways to revolutionize how businesses initiate, negotiate and manage agreements.

There's substantial interest in the industry about rapid advances in AI, and large language models in particular. We are already leveraging sophisticated AI models for contract analysis and automation of some workflows, and we're very excited to harness generative AI data and pattern identification as yet another way we can increase productivity, reduce friction and save our customers time.

As we move forward, (inaudible) can be a compelling part of our business and we are encouraged by the significant interest from some of the very largest players in our industry who recognize our domain leadership and expertise and want to partner with us.

Moving to our product-led growth and self-serve initiatives, we've made solid progress over the last few months, modernizing our commerce experience to reduce friction, improve ease of use and provide

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customers more flexibility. We have expanded seat capacity available—our web and mobile sites. We have expanded currency options available to make the buying process easier in international markets. We gained traction with these initiatives as we exited the quarter, and we will continue to keep you updated on our progress.

Further, as you saw in an announcement a few weeks ago, I couldn't be more excited to have Robert Chatwani joining our team as President and General Manager of Growth. Robert brings a wealth of experience and we look forward to benefiting from his insights and expertise from more than two decades of scaling global technology companies. He joins DocuSign from an organization that's broadly recognized as having a world-class product-led growth motion. Executing on our product-led growth strategy is a key priority for the Company as it will be a primary driver of customer acquisition, conversion and expansion. I'm thrilled to have Robert leading our efforts in this area.

Then into our go-to-market, we're just coming off our global sales kickoff last week and I can tell you that the sales team is incredibly excited and energized for the year ahead. We're focused on delivering across three complementary channels: direct, self-serve and partners, and to provide world-class customer success driving customer growth and retention through all three.

As an example of global growth and multi-product expansion, this past quarter a leading global consulting firm who has been using eSignature for a decade expanded and added our CLM+ product. This is a competitive sales cycle, since the customer was already in the process of implementing a competitor's CLM solution in a few countries. However, DocuSign won preferred vendor status with CLM and the customer has since rolled us out in six countries across two continents and has built integrations with their internal systems and with DocuSign partners Salesforce and ServiceNow.

Related to go-to-market, I want to acknowledge the restructuring we recently announced. It was a difficult decision but it was a critically important step for our company to reshape and rightsize our organization for the opportunity ahead. It was not a broad-based restructuring; 95% of the workforce reduction was in our worldwide field organization. Our assessment was that DocuSign could capture more efficiency in our overall go-to-market across all segments and that we could unlock more profitable growth by investing part of the savings in product development and innovation.

Now, the direct channel remains absolutely critical to our future. We are rebalancing our approach towards offering a lighter touch experience with more self-serve capabilities that give customers of all sizes choice in how they engage with DocuSign.

That pivot, in turn, frees up resources to invest more in our self-service motion and expanded roadmap for agreement workflows, new AI capabilities, accelerating our migration to the cloud, and improving our internal systems. That in turn will create an even stronger and more valuable offering for our customers and for our sales teams to sell.

We still have some work to do to strengthen our self-serve experience over the next six to 12 months, and while we may see some modest near-term disruption, we are confident these are the right steps going forward to drive innovation and growth for our customers for the long term. And additionally, a stronger self-serve motion will enable greater expansion opportunities internationally.

Turning to our internal operations and processes, Anwar Akram recently joined as our Chief Operating Officer and will play a crucial role within our organization. Anwar's focus is to bring together and transform our strategy, develop new strategies around pricing and packaging, driving incremental efficiencies internally, and help evolve early stage ideas into future growth initiatives.

Related to these efforts, I noted on the last call that we rolled out product bundles to introduce more features and functionalities to our customers. I'm pleased to share that these bundled promotions performed better than expected and we saw good adoption for our new SMB customers in particular. Our

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experience suggests that customers that adopt a broader set of features, renew and expand their commitment with us. You should expect to see more initiatives around pricing and packaging in the future, including bundling and ensuring early adoption of our highest value features.

Finally, I would like to update you on our partner ecosystem, another key pillar of our strategy.

We're seeing good progress with a number of our largest software partners. ServiceNow is a good example, highlighted by the launch of the CLM spoke as part of ServiceNow's Automation Engine. Our partnership has gained momentum with several leading organizations utilizing our integration to digitize their agreements. This is directly aligned with our focus on capturing opportunities by integrating more deeply with partner applications.

In closing, this year has been one of incredible change for DocuSign, and in Q, we made meaningful strides towards defining our strategy and rightsizing and optimizing our organization. We believe the foundation has been set and that we are in a better position to navigate the evolving macro environment while investing for opportunities that enable long-term profitable growth. We're optimistic about the year ahead for DocuSign, and we're committed to delivering meaningful customer and shareholder value.

We look forward to sharing further progress on our initiatives as we redefine how the world comes together and agrees. We will enable smarter, easier and trusted agreements.

With that, let me once again thank Cynthia and turn the call over to her to walk through the financials. Cynthia?

Cynthia Gaylor

Thanks Allan for the kind words.

I'd like to start off by thanking our employees (inaudible) execution. We closed out the year strong and I'm proud to share that we achieved an impressive milestone for the Company, delivering $2.5 billion of revenue for the fiscal year, reflecting 19% growth year-on-year.

Our Q4 results were solid, demonstrating the durability in our business model and DocuSign's important position in the broader ecosystem. While we are pleased with our results and execution in Q4, we continue to experience a challenging macro environment with softening demand trends, including moderating expansion rates. However, we are seeing healthy results as customers recognize that DocuSign offers high ROI applications that are easy to use, efficient and cost effective.

With that, let me turn to our Q4 and Fiscal '23 results.

For the fourth quarter, total revenue increased 14% year-over-year to $660 million, and subscription revenue grew 14% year-over-year to $644 million. Total revenue for the year reached $2.5 billion, a 19% increase over last year, and subscription revenue was $2.4 billion, a 20% year-over-year increase.

Our international revenue grew 19% year-over-year to reach $165 million in the fourth quarter. For the full year, international revenue grew 29% to $260 million, representing 25% of total revenue for both periods.

Fourth quarter billings rose 10% year-over-year to $739 million. For the full year, billings increased 13% to $2.7 billion. We added approximately 30,000 new customers during the quarter, bringing our total installed base to 1.36 million at the end of the year, a 16% increase year-over-year. This includes the addition of approximately 9,000 direct customers to reach a total direct customer base of 211,000, a 24% year-over-year increase. We also saw a 27% year-over-year increase in customers with an annualized contract value greater than $300,000, reaching a total of 1,080 customers.

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Dollar net retention was 107% for the quarter. The headwinds we've highlighted over the last couple of quarters continue to persist and, as a result, we are seeing muted growth in our expansion rates. We expect this to continue into Q1, and as a result would expect the dollar net retention in Q1 to trend lower.

Non-GAAP gross margin for the fourth quarter was 83% compared with 81% a year ago. For the full year, gross margin was 82%, in line with last quarter. Fourth quarter subscription gross margin was 85%, consistent with last year. For the full year, subscription gross margin was also 85%, flat versus prior years.

Q4 non-GAAP operating income reached $155 million compared with $104 million last year. Non-GAAP operating margin was 24% compared to 18% last year.

For the full year, non-GAAP operating income rose 23% to $517 (phon) million and operating margin was 21% versus 20% in Fiscal 2022. In Q4 we saw lower expenses for employee-related costs related to the workforce reduction announced in September, which contributed to the strong operating margin in the quarter.

Non-GAAP net income for Q4 was $133 million compared with $100 million in the fourth quarter of last year. For the full year, non-GAAP net income was $419 million, up from $411 million in Fiscal '22, a growth rate of 2% year-over-year.

As noted on our Q1 call last year, we introduced a non-GAAP tax rate on our non-GAAP net income calculation for Fiscal '23 as we reached consistent non-GAAP profits for the prior 3 years. We are using a non-GAAP tax rate of 20% for Fiscal 2023 and Fiscal '24.

Q4 non-GAAP EPS was $0.65, while full year non-GAAP EPS was $2.03.

Let me take this opportunity to share a bit more context regarding the recent restructuring. As Allan mentioned, this was a difficult decision and one not made lightly, but it was an important decision aligned with our strategy to reshape the Company and free up resources to invest in critical areas across our innovation and product development efforts.

As we outlined in the filing last month, we expect to incur related restructuring charges ranging from $25 million to $35 million with the majority of the expenses and related cash to be incurred in Q1 of this year, with the restructuring substantially completed by the end of the second quarter.

We ended Q4 with 7,336 employees compared to 7,461 last year.

Operating cash flow in the quarter grew 56% year-over-year to $137 million, representing a 21% margin. This compares with $88 million, a 15% margin in the same quarter a year ago.

Free cash flow for the quarter was $113 million, a 17% margin, compared to $70 million, a 12% margin in the year prior, a 61% increase year-over-year.

As we mentioned on our last call, we went live with a new ERP in Q3 which delayed some of our cash collections last quarter. As a result, we saw strong cash collections this quarter in addition to lower restructuring cash payments on a relative basis.

For the full year, operating cash flow was $507 million, representing a 20% margin, compared to $506 million, a 24% margin a year ago. Free cash flow declined 4% year-over-year to $429 million, a 17% margin compared to $445 million, a 21% margin in Fiscal 2022.

We exited Q4 with more than $1.2 billion in cash, cash equivalents, restricted cash and investments.

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With that, let me turn to our Q1 and Fiscal '24 guidance.

As a reminder, on our Q3 earnings call, we provided a preliminary outlook for Fiscal '24. We are pleased to narrow the preliminary range we provided, incorporating our Q4 landing and the dynamics of the current environment into our guidance. We anticipate the macro environment will remain challenging as we move through the year, and as Allan mentioned, we may also see modest near-term disruption as we realign our sales force and shift to more of a self-serve motion.

For the first quarter and Fiscal Year '24, we anticipate total revenue of $639 million to $643 million in Q1 for growth of 9% year-over-year, and $2.695 billion to $2.707 billion for Fiscal '24 for growth of 7% to 8% year-over-year. Of this, we expect subscription revenue of $625 million to $629 million in Q1 for growth of 10% to 11% year-over-year, and $2.633 billion to $2.645 billion for Fiscal '24 or growth of 8% year-over-year.

For billings, we expect $615 million to $625 million in Q1 or flat to 2% growth year-over-year, and $2.705 billion to $2.725 billion for Fiscal '24 or growth of 2% year-over-year.

We expect non-GAAP gross margin to be 81% to 82% for both Q1 and the fiscal year. We expect non-GAAP operating margin to reach 21% to 22% for Q1, and 21% to 23% for Fiscal '24.

We expect non-GAAP fully diluted weighted average shares outstanding of 207 million to 212 million for both Q1 and Fiscal '24.

Fiscal '23 was a year of transition, and we are pleased with our execution and the progress we are making as we navigate a challenging macro environment. We remain committed to delivering sustainable growth and profitability at scale and we will continue to be disciplined with our investments across strategic priorities. We are focused on delivering long-term value to our customers, partners, employees and shareholders. Looking ahead, we are encouraged by the steps we are taking and look forward to updating you on our progress as we move forward.

The journey to $2.5 billion has been hard work and a testament to the compelling value proposition DocuSign brings to our customers. Together, we have played an important role in how the world agrees. I look forward to the future.

And finally, I'll be here a little while longer, as Allan said, so no goodbyes for now. With that, we will open up the call for questions. Operator?

Operator

Thank you.

Our first question comes from Brad Sills with Bank of America. Please proceed with your question.

Bradley Sills

Great. Thank you. Cynthia, congratulations on your next move. It's been a pleasure working with you.

I wanted to ask one on the moderating expansion activity that you saw during the quarter. was it a certain cohort of customer where you saw that? Was it across the board? Was it in that enterprise cohort or just the broader base? Just any color on that and any segments that you might have seen that occur. Thank you.

Cynthia Gaylor

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Thanks, Brad. I think on the expansion rate, I think it's a continuing trend that we've been talking about over the last few quarters, which is, as the book of business has grown and the macro environment has softened, the rate at which customers are expanding is slowing, so that growth rate and expansion is slowing. I would say there wasn't a big change in Q4 relative to the couple of quarters before but it a continuing trend that's putting some pressure on the top line.

On the cohorts, we actually do do a lot of analysis on the cohorts and I would say some of the cohorts are probably expanding at a slower rate and some are moderating the rate at which they're expanding, but I'd say overall, it's having the same impact. Part of it is, as we've talked about in past quarters, is a little bit of a law of large numbers; as that book of business gets bigger, you need more and more expansion dollars to move it and so customers are still expanding, but when you look at the top line, that's probably the biggest factor kind of impacting the compression of some of those growth rates.

Bradley Sills

Understood. Thanks, Cynthia.

Operator

Our next question is from Brent Thill with Jefferies. Please proceed with your question.

Brent Thill

Thanks. Allan, just on the sales overhaul, can you just talk to how long you expect this to send kind of wake turbulence through the sales organ when you feel like you kind of resume full strength? And I had a quick follow-up for Cynthia. Just as it relates to the billings growth decel from 13% to 2%, can you just give us a sense of kind of what you're factoring into that? Thanks.

Allan Thygesen

I'll go first. Thanks, Brent.

I think on the sales force side, I think we are in a significantly more stable situation than six, let alone 12 months ago. Attrition rates have slowed. We've got I think a pretty full team in place. Steve has done a very nice job with that. There's more better execution, better predictability. Part of what gave us the confidence to take the restructuring action was in fact that and that we could see what our sales capacity was and we felt we had a little bit of excess capacity there, as well as a keen understanding of where we could deinvest and free up resources to invest elsewhere.

We're being cautious and saying there could be a little bit of disruption as some of the—particularly at the very low end, some of the business that might previously have had a little bit of human touch; we'll try to do that more, particularly through a self-serve motion, but I think that should play out in a relatively very quick order over one to two quarters.

But I think the sales force is actually in the best place it's been for a while. We just had our global kickoff last week in I think I'm representing them saying that they are incredibly energized by the road map and they all have slightly larger territories now too, so it's a very positive feel, I think, throughout the sales team.

Cynthia Gaylor

I'll take the billings question, but before I do that, I realized I misspoke on international revenue.

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Just to clarify, international revenue grew 29% to $620 million. I think I said $250 million, so just a clarification there.

On the billings question, I think it's related to a couple of things. One is as we talked about last quarter, we're expecting a slower start to the year. I think when you look at the macro environment, we certainly—it hasn't gotten better and you could probably sense it's maybe gotten a little bit worse. And on top of that, we have made some changes to the field, which we think could cause some disruption. So I think that's certainly playing into both the revenue and the billings guide we're giving to the year.

I'd also say we always guide to what we can see. I think we can see Q1 better than we can see the rest of the year, but given the 1% guide in Q1 we would expect that to kind of improve as we move through the year and some of the investments we make may start to take hold. So I think those are some of the dynamics kind of (audio dropout).

Bradley Sills

Thank you.

Operator

Our next question is from Jackson Ader with SVB. Please proceed with your question.

Jackson Ader

Great. Thanks for taking my questions, guys.

First one on the macro environment, how does the macro environment actually impact you? Is it number of employees at your customers are coming down and so they don't need as many envelopes? I'd be surprised if it were the DocuSign line item is like getting a bunch of scrutiny in IT budgets or something, but just given the ROI and the traditionally very quick payback, I would think that eSignature would be a place where people are actually like more willing to invest in a tough macro environment. How do I square that?

Allan Thygesen

Yes. Thanks for the question. The first thing I would say is the overall macro environment just affects businesses of all sizes and their ability and willingness to spend on all kinds of software, including ours, but I don't think we're particularly more macro sensitive or a little less than others.

In terms of the industry mix in the economy, we do have a little bit of overexposure, if you will, to real estate and a few other sectors that have been a little tougher. On the other hand, we are quite diversified and have some real strength in sectors like health and manufacturing, telecommunications, so that's balancing out.

In terms of the value prop, I agree with your statement. I think there is a very quick payback. I think we're seeing that. That's also a key part of DocuSign's competitive value proposition vis-a-vis other competitors, people tend to respond—they're more likely to respond to an agreement. They're faster to respond and they have a better positive experience.

Overall, I think the macro environment presents some clouds for IT budgets of companies of all sizes. We are seeing maybe a little bit more vertical exposure than the average company but are generally pretty balanced. I think our value prop remains quite strong.

Jackson Ader

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Okay. Great. Then a very quick follow-up. How much of the, like, second kind of round of restructuring was factored into the preliminary margin guidance for the year that was given, Cynthia, on last quarter's call?

Cynthia Gaylor

Thanks for the question. To be clear, in the outlook we provided the most recent restructuring was not factored into (audio dropout). We were evaluating scenarios for this fiscal year as part of our annual plan in areas that we want to invest in across the strategic priorities, but that wasn't contemplated specifically at the time or baked into the outlook we provided.

That being said, I think as we went through the process of the annual (audio dropout) it was clear that we needed more room for investment across the key priorities. As Allan articulated, the plan is to invest in R&D in particular and innovation and kind of shift some of the investments into that initiative as well as PLG self-serve. So, we were able to come a little bit above the outlook we provided. If you remember in Q3 on margin we said at the low end of our long-term target range, which is 20% to 22%. The long-term target range, just as a reminder, is 20% to 25%, and our guide for the year is 21% to 23%.

We are going to be reinvesting, but we also increased the margin by a little.

Jackson Ader

Got it. Got it. All right, thank you very much.

Operator

Our next question is from Tyler Radke with Citi. Please proceed with your question.

Tyler Radke

Yes, thanks for taking the question. Just going back to the sales reorg and kind of the strategy moving forward and the move to a self-serve model, I was just wondering if you could elaborate on that and just kind of what your vision is for the Company. Where do you kind of make the threshold for when a sale becomes self-service? Is it at a certain deal size, or maybe do you only have salespeople industry or specialization like CLM? If you could elaborate on that.

Then just a quick follow-up for Cynthia. Just given that we've seen a cumulative risk of close to 20% of the workforce, I guess, why wouldn't margins be higher for next year? You did about 24% EBIT margin on a non-GAAP basis here in Q4 and I think that was without a lot of the benefits you're seeing from the cost savings. So I guess, why wouldn't we see higher margins in that next year given 20% lower headcount? Thank you.

Allan Thygesen

I'll take the first one. Since our go-to-market, historically DocuSign has been very heavily focused on a direct sales motion for customers of all sizes and we will retain direct sales as our principal go-to-market channel, and it's a huge strength for the Company, and we certainly want to continue to improve there, but we feel we want to complement it in two areas. One is with the self-serve motion, and that's not just for the little customers. That's for customers of all sizes. We just think that all customers appreciate an opportunity to self-serve for certain types of activities at all stages of their journey with us. I'll come back to that in the second.

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Then third, we are really focused on maturing our partner go-to-market where we can use distributors and resellers in some international markets. We can partner with ISVs to be directly embedded in their applications. We have significant activity there, but can meaningfully improve.

Let me quickly return to the self-serve piece in particular. I want to make sure that it's clear, we want to stop treating digital and direct sales as separate channels over time. We essentially want to offer all customers the opportunity to self-serve, if and when they wish, and I expect many customers will avail themselves of that. Then as a corollary, I want our sales teams to see the self-serve options as a positive complement to their activities. I think that's what we did at Google. I think that's what Robert did at Atlassian, and I think that's what a lot of companies that are natively digital in their motion do, and we have a tremendous amount of opportunity there. That's our overall go-to-market plan.

Cynthia do you want to take the second half?

Cynthia Gaylor

Sure. I totally understand the question. I would say Q4, the 24% margin was higher than probably what our steady rate is for a couple of reasons. One is we had just gone through the fall restructuring, so that really dropped to margin. Then in addition, the hiring in Q4 was slower than we had anticipated in the quarter, so as we kind of look into this year, we see the opportunity in front of us and we want to invest into the key pillars of the strategic priorities that Allan talked about, right, in the product, in innovation, and then in PLG self-serve. we're really putting that money from the second restructuring back into the business to really level set against those key areas.

Operator

Our next question comes from George Iwanyc with Oppenheimer. Please proceed with your question.

George Iwanyc

Thank you for taking my question.

Allan, maybe digging into the product bundling traction you're seeing, can you give us some color on the adoption rates with SMBs and maybe put that in perspective of what you're also seeing from competitors?

Allan Thygesen

Yes. First of all, on a segment basis—and I think Cynthia alluded to this—we have first of all a very balanced customer portfolio, so we have a significant SMB and mid-market business and a big emphasis on growing our enterprise business. I'd say on balance I don't know that there's a huge difference in momentum between those sectors. I know some companies are reporting particular challenges in SMB. I don't think we're seeing that. In fact, we had some nice momentum on new accounts in particular, so I was pleased to see that.

I think in terms of—that was the segment piece. What was the other part of your question?

George Iwanyc

Just what you think from a competitive perspective/

Allan Thygesen

On competition. There's no question that over the last three to five years, the market has gotten more competitive. I don't know that we're seeing a material change in how competitive it is here in the last few

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quarters. I think we continue to be the market leader. We don't spend as much time worrying about what other people are doing. I think we want to really redefine the category and set the direction for the industry and I think we're well on our way to doing that. That's where we're focused from a competitive standpoint, if you will.

In terms of the tactics, we are looking on pricing and packaging and how can we be as agile as possible by segment, by country. There might be a few countries where we've gotten a little too far off the market and so we're looking at that very carefully. I mentioned some bundling opportunities during my prepared remarks. We think there's a lot of opportunities there.

There's some enterprise license agreements. Some of our largest customers, we really want to be the ubiquitous eSignature solution in every instance where they want to deploy that. We're in the process of both building out the product to enable that for embedding as well as direct sales and in structuring our license agreements so that that is as attractive as possible for our largest clients.

Cynthia Gaylor

One thing I would just add on the SMB, we did see some relative strength there across our business. We ran some experiments in Q4, particularly around the bundles or around increasing number of seats, so we did see kind of a higher volume of SMB deals at lower price points. Higher volume, lower price, which we thought, especially like in NewCo was a positive sign, as Allan mentioned. Just a little bit more color there.

George Iwanyc

Thank you.

Operator

Our next question is from Scott Berg with Needham & Company. Please proceed with your question.

Scott Berg

Hi everyone. Thanks for taking my questions and congrats on the strong finish to the year.

I guess, Allan, I wanted to focus on product strategy going forward because product seems to be a big theme of where you want to invest in going forward. But leveraging off your WebForms comments, how should we think about your product road map maybe over this next, I don't know, 12 to 24 months? Is it going to be more of the little small add-on solutions, like what WebForms is likely to bring, at least from what my assumptions are of that product? Or is there an opportunity to see some product that is maybe a little bit more transformational? Something that could give your sales and maybe bookings or billings more of an uplift going forward. Thanks.

Allan Thygesen

Actually, I think WebForms has a little bit more potential than that. We are very optimistic because I think it really it epitomizes the transformation of agreement with sort of a static representation of a traditional form to completely new customer experiences. The other thing it does, of course, is it makes it much easier to capture all the metadata around the agreements, which is really where we're heading in the longer term. When you think about what we want to do is we want to decompose agreements into dynamic objects that can be filled both with data from the customer side and from the signer side, and WebForms is the first step of that process. There's a lot more coming in the remainder of the year along those lines. We're quite bullish on the cumulative impact of all of those launches, but obviously Version 1.0 will have some gaps.

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In terms of the transformational piece, I think I touched a little on the AI piece. We have a lot of opportunity there. We will be making some announcements on that later this spring, as the beginning of a new product in that area. Over time, I think the work that we're doing now to completely revamp how we leverage AI is very exciting.

If you think about the application of AI in the agreement space, a lot of the excitement right now around chat GPT and the other, the competitors are around basically text generation, and that has an obvious analogy to the agreement space of drafting contracts. We do think that's very exciting and that there's value to be captured there, and we will absolutely pursue that. But if you look at where companies actually find value from agreements, it would be more in the extraction of data and value out of the agreements, as well as the search and analytics on that. You can also apply AI to that and that's an area where I think we are uniquely positioned to deliver a very compelling value, and we've got a number of large customers who are very excited to work with us on that type of next-generation AI activity. I don't think—that's not going to hit in the next couple of quarters, but in terms of the longer-term road map and delivering on our vision, it's incredibly exciting and could really provide some transformational growth.

Operator

Our next question is from Rishi Jaluria with RBC Capital Markets. Please proceed with your question.

Rishi Jaluria

Wonderful. Thanks so much for taking my questions. I have two here.

First, I wanted to start with kind of re-embracing more of your routes around self-service and PLG. I think the strategy makes a ton of sense and should absolutely help your sales efficiency as well. From a product standpoint, is there anything that you need to do to make kind of that self-service PLG motion more intuitive or easier, especially outside of your mobile customers, right? If we think about even the midmarket customers, there should be a lot more self-service capabilities. Anything that you need to invest in or expand from a product perspective? Then I've got a follow-up.

Allan Thygesen

First of all, I think when people first hear self-serve, they think, "Don't you already have a website, and can't people order on your website?" And of course, yes, we do, and yes, they can. But what I'm talking about is a significantly more transformational effort where customers can discover, try, embrace and really deploy products without ever engaging with a DocuSign employee, and we can then engage with them as that potential is demonstrated and expressed and we can apply our sales forces really more efficiently, so it becomes a huge multiplier for efficiency in our sales teams. That's the model that companies like Atlassian has pioneered over time and very excited to apply that at DocuSign.

In terms of how that applies across segments, it's certainly true that you can imagine an SMB customer basically remaining a purely digital customer, and we would love that, but as customers grow in scope and potentially complexity, then the application of those sales resources becomes both more profitable for us and more necessary for the customer. So, I do expect a heavier sales component as you move up-market. Midmarket has always been a core strength for us and it remains a really important segment. A lot of our products, you start there and you sort of grow out from there. I think that will remain a critical segment for DocuSign and very relevant for the expanded self-serve motion that I've just described.

Rishi Jaluria

All right. Wonderful. That's really helpful.

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Then on the international front, I recall last quarter there was kind of a talk of working closer with partners, especially in Japan, right, which is, as you know, a very unique geography, especially when it comes to enterprise software. Just wondering if you can give an update specifically on your efforts in Japan and kind of building out the partner ecosystem, especially because at least it feels like your product is viewed as significantly better than the competition, and there's great branding out in Japan. But a lot of the kind of manual processes that need to be modernized, they feel a little bit behind. I would love to kind of think -- I hear how you're thinking about the Japan opportunity and partners there. Thanks.

Allan Thygesen

Yes. We are in active discussions internally of exactly how we want to pursue Japan. I'd say Germany is another market where I don't think we have fully lived up to our potential. I agree with you, we're in a great starting position. Our initial forays into both of those markets were really mostly just a direct sales motion. We didn't put, I think, quite enough resources behind it and all the other functions, including product and our administrative functions. As you noted, in markets like Japan, the road is littered with U.S. companies that have tried to go to (inaudible) Japan. We're certainly going to be leveraging partners there.

Stay tuned. I think we'll have more to report on both of those countries during the course of Fiscal ’24, but right now, it's sort of in the planning and decisioning exactly how we're going to pursue that. But those are definitely strategic priorities within our broader international strategy.

Rishi Jaluria

Perfect. Thank you.

Operator

Our next question is from Michael Turrin with Wells Fargo. Please proceed with your question.

Michael Turrin

Great. I appreciate you taking the question.

Can I appreciate the fact that you're already operating within the stated target range on margin, but I think some of the questions are just digging out a little bit more. It seems like you could potentially push even harder given the product-led growth background, the core efficient base of the business. Why not do that with a little bit more emphasis here, and what informs the decision around balancing reinvesting into the product versus making sure the cuts you're making are the right size where you don't have to potentially go back again and make another tough decision? Thank you.

Allan Thygesen

Yes. I'd say first of all, we feel like we have trimmed the organization pretty well at this point and reallocated resources to where we'd see the highest investment.

Look, I agree with you. I think we were not sufficiently efficient from a sales and marketing perspective. I hope to make us more efficient over time. Until I see that, as Cynthia says, we want to project what we see, but you can assume that there will be a lot of emphasis on getting increasingly efficient even beyond what we have, but I'm not ready to make that part of our forecast at this time. That would certainly be the hope and expectation that we can accelerate top line and improve efficiency over time.

Michael Turrin

Thank you.

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Allan Thygesen

I would say maybe one other point on the investment piece. We feel we have a very significant opportunity. We have been, I think, a little underinvested in innovation over the last couple of years. We had and have the market-leading product and it remains an incredible value proposition, but I'm excited to reinvigorate that and get us to capitalize on the larger opportunity that I outlined earlier on this call. I think the whole team feels we already got some stuff coming out in Q1, and there will be a lot more over the next three quarters, and that will position us for growth in future years.

Operator

Our next question is from Josh Baer with Morgan Stanley. Please proceed with your question.

Josh Baer

Great. Thanks for the question.

Allan, I think you labeled 2022 well in characterizing it as a year of change. If '22 is the year of change, what's 2023 the year of? Is it execution? Stabilization? Innovation? Self-serve? What word would we use to frame 2023?

Allan Thygesen

I think change and transition for calendar '22, Fiscal '23. For this year, I think it's about setting the foundations for growth, and we are really leaning into that. I think we have a fantastic opportunity to capitalize on this very large TAM that we believe were pointed at. We are the market leader in eSignature and CLM. We are in the best position to capitalize on that opportunity, and we just need to go execute.

That's the job this year. It's not quite as much of a turnaround transitional year as last year; it's much more of a foundation and preparation for growth building year.

Josh Baer

That's great. Then one other one. Just thinking about direct versus self-serve, versus partner channels, what's the mix of business today and where do you want that to go in three years?

Allan Thygesen

I mean I think we've reported in the past that 13% of our business is digital, but a lot of that is associated by the fact that there's only a small number of products and options that you can buy on our website and so we've been pushing actively even relatively small customers to have to order from a sales rep, which I will admit I was slightly shocked to learn when I joined.

Our goal is to dramatically grow all the pieces of the business. I'm not sure it's going to be as meaningful a year from now to talk about what's digital versus what's direct because in a lot of cases a customer may order some things digitally and may talk to their sales rep about other things. Then the whole thing becomes a little bit less clear.

From a partner perspective, I don't think we've externally reported on our partner mix. In terms of partner touched it's a meaningful minority of our business. In terms of directly partner sold, that's a little smaller. I think both of those need to grow meaningfully. I alluded to this in my comments, just this one example. There's a big opportunity to embed our market-leading signature and agreement workflow products directly into third-party products. We do some of that today, but we're not set up well to serve developers

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today, so we've got a couple of quarters of work to do to really provide a world-class set of componentized tools that allow developers to pick and choose from all the things we have to create the most compelling agreement experiences inside of their products. That's going to be a really important growth driver, but I'm not prepared at this time to comment on the exact magnitude.

Josh Baer

Great. Thank you.

Operator

Our next question is from Kirk Materne with Evercore ISI. Please proceed with your question.

Kirk Materne

Thanks very much.

Allan, I was wondering if you can just talk about sort of the industry strategy or the vertical strategy, both in terms of what you're doing with the sales organization, meaning are you going to turn some of that sort of industry focus over to partners? Is there a way to build more sort of industry functionality into the product so it's just product--led in that respect. I was just kind of curious if you can just talk about the strategy on that basis. Thanks.

Allan Thygesen

Yes. It's a great question. I would say we're at the earlier phases of our verticalization strategy. We've long had a special suite of tools for the real estate industry. I think they are best-in-class and we'll continue to tweak and improve on that. More recently, we've done some, I think, really nice work, for example, in the healthcare space where we've added some compliance with a variety of federal regulations that enables our products to be used for healthcare applications, and that's driven some really nice growth. I think we have opportunities—and this is an active part of our product planning—to basically have our products sufficiently componentized that we can easily create custom workflows that are tailored to individual industries.

An obvious example, if you have something for mortgages, it's not that different from a loan application, it’s not that different from an automotive car purchase. Those are all sectors that we already have business in and where I think we have opportunities to create deeper vertical agreements.

Another example is government. We have big opportunities in the government space as well.

But I'd say we've got some work to do to really fully capitalize on the verticalization opportunity that you alluded to, which I totally agree with.

Kirk Materne

Thank you.

Operator

Our last question is from Jake Roberge with William Blair. Please proceed with your question.

Jake Roberge

Thanks for taking my questions and congrats on the results.

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Allan, you've talked a lot about reoptimization of those R&D resources. Is that more about going deeper into some of your less mature products that have big opportunities like CLM? Or is it about building the self-serve and more frictionless eSignature capabilities that you've talked a lot about. Which of those opportunities do you see being larger as we move forward?

Allan Thygesen

It's really across all of those. We are absolutely directing investment dollars towards accelerating our product-led growth motion, and so that absolutely. But in addition to that, we direct additional investment dollars into accelerating our agreement workflow road map into the CLM space and into our cloud migration. I think many of you are aware that we're in the process of migrating our suite to Microsoft Azure. We have a very strong relationship with Microsoft and this is a really important year for that migration to move some of the core workloads, some of the core compute and storage there. We felt that was deserving of more investment because once we get there, we get more scalability. We can do more of the verticalization that was referred to. We can better meet local requirements in international markets, and so it's just for a variety of reasons, the really important migration.

It won't be completed this year, but we will really get going in a material way here in Fiscal '24. Those are all areas for incremental product investment beyond the self-serve PLT side.

Jake Roberge

Okay. Great. That's helpful. Then I just wanted to double-click on the product bundles performing better than expected during the quarter. Can you provide some specific examples of those bundles and which products really stood out in terms of customer adoption?

Allan Thygesen

Very quickly, we I'd say the most successful one—and I alluded to this earlier—was what we call our NewCo bundle, so new customer acquisition, where we bundled our core eSignature product with a couple of key options, SMS and single sign-on, and we had a baseline services offering to accelerate onboarding. That was a really nice bundle. Some of our highest value features that we feel are most highly correlated with both customer satisfaction and renewal and getting people off to a good start, it really is helpful for renewal as well. I think that was the most successful, it worked really well, and we need to do more of that.

Jake Roberge

Great. Thanks for taking my questions.

Allan Thygesen

Okay. Just quick, let's just wrap up here. Thank you all for joining and for your support as we continue to evolve our business.

In closing, while this past year was challenging, the changes we're making are vital to driving our long-term growth and success. I think we delivered a solid finish to the year, and we are prioritizing our investment focus on the areas which we believe will drive increased value for our customers, employees and shareholders.

I'm really excited about the steps we've taken to accelerate innovation, improve and diversify our go-to-market, and support our vision of smarter, easier and trusted agreements. I look forward to sharing more with all of you as the year progresses. Thank you.

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Operator

This concludes today's conference. You may disconnect your lines at this time and we thank you for your participation.

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