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DocuSign, Inc.

First Quarter Fiscal Year 2024 Earnings Call

June 8, 2023

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Thank you for joining DocuSign's First Quarter Fiscal Year 2024 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.

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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. (Operator instructions).

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 Q1 Fiscal Year 2024 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 first Fiscal Year 2024 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.

We're pleased to have delivered a solid start to the fiscal year, reporting financial metrics that exceeded our guidance. We announced new product innovations to enable smarter, easier, trusted agreement workflows.

First, some highlights from this quarter's financial results. Q1 total revenue came in at $661 million, up 12% versus prior year. Q1 non-GAAP operating margin came in at a healthy 27%, driven by our continued focus on profitability and efficiency. We're pleased with the early traction we are making against our objectives, however we do continue to operate in a challenging macro environment with cautious customer sentiment evident in moderating expansion rates.

Last quarter, I shared our plans to accelerate our product release cycles in Fiscal 2024. What you will see is that our roadmap builds on DocuSign's strength as the world's leading eSignature company, while also

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moving us towards enabling the entire agreement journey with intelligent workflows. We are deepening these capabilities to deliver more strategic value to our customers.

With that, let me touch on three new releases that shipped this quarter.

First, as mentioned on the Q4 call, DocuSign Webforms launched in April. In the first few weeks since launch, we are seeing strong traction for Webforms across verticals, including financial services, real estate, healthcare, and life sciences, leveraging our differentiated approach to streamlining how agreements are generated. WebForms is simple and powerful for both senders and signers. They're easy to use and customers benefit from the ability to more easily capture and leverage data from their agreements.

Next, we made strong progress penetrating and innovating in highly regulated markets. One example is our work in the healthcare vertical which is undergoing dramatic digital transformation. We are proud that our eSignature product can now seamlessly connect to electronic health records in the U.S. market, including from Epic and Cerner, in accordance with industry standards. This will modernize the patient experience and improve efficiency for healthcare companies while also deepening DocuSign's presence within the vertical.

And finally, we introduced DocuSign ID Verification Premier, our tier of ID solutions which meet the highest levels of trust, security and compliance. Our first offering within this tier is ID Verification for EU Qualified eSignature. By combining verification of an ID with confirmation of the presence of the person on the ID, it fully replaces face-to-face verifications and a hand-written signature under EU law. We look forward to leveraging this powerful offering as we expand our business in Europe.

More broadly, our strategy is to partner closely with leading identity services companies to integrate the best-of-breed solutions into our platform.

Looking ahead, I'd like to share our vision and thinking on generative AI. In brief, we believe AI unlocks the true potential of the intelligent agreement category. We already have a strong track record leveraging sophisticated AI models having built and shipped solutions based on earlier generations of AI. Generative AI can transform all aspects of agreement workflow and we are uniquely positioned to capitalize on this opportunity. As an early example, we recently introduced a new limited availability feature, Agreement Summarization. This new feature, which is enabled by our integration with Microsoft's Azure Open AI service and tuned with our own proprietary agreement model uses AI to summarize a document's critical components, giving signers a clear grasp of the most relevant information within their agreement while respecting data security and privacy. Future launches will include search across customer agreement libraries, extractions from agreements, and proposed language and edits based on customer, industry and universal best practices.

DocuSign is a trusted partner to leading companies across many industries. As a leader in agreement workflows, we can use AI to deliver important value to customers by leveraging the world's largest set of agreement data, our proprietary agreement models and deep integrations with best-in-class third-party models.

We are excited to showcase new products and enhancements on our Intelligent Agreement Roadmap including significant AI powered innovations at our user conference, Momentum. The event will kick off next week in Santa Clara with virtual and in-person events in eight cities around the globe over the next few months.

Turning to our initiatives around our omnichannel go-to-market, we are continuing to drive deep relationships within our partner ecosystem and enhancing our AI capabilities. We were honored to be showcased in the main keynote at Microsoft's Build Conference as one of the first companies using Microsoft Azure Open AI. This further underscores our growing relationship with Microsoft and the opportunities we're seeing to enhance our AI capabilities.

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During the quarter, we also joined the SAP Endorsed Apps program. eSignature has been rigorously tested and validated by SAP to ensure that it seamlessly integrates with SAP solutions and meets their high standards for quality and performance. We are pleased with the progress we are seeing across our partner ecosystem, which will continue to drive further adoption of our products globally.

Last quarter I shared how we are investing in product-led growth and self-serve capabilities in order to drive more go-to-market efficiency and deliver a better experience for our customers. This is one of our most important areas of investment as we evolve how DocuSign goes to market and further integrate our digital, direct and partner selling motions.

Our digital business had stronger relative performance in Q1 as we launched a number of improvements on our website and within our product experience. These changes were designed to grow traffic through conversion rates and drive monetization – and it's just the beginning. Whether it's a small business or a large enterprise, our vision is to make it easy for every type of customer to buy and consume our products in any way they prefer: self-serve, through our direct sales teams, or through a partner.

Turning to our go-to-market execution in the first quarter, we're pleased with how our field team navigated the distractions in Q1 as we rebalanced our approach. However, we are seeing more moderate pipeline and cautious customer behavior coupled with smaller deal sizes and lower volumes. We recognize it's a dynamic, competitive environment across multiple categories; we are confident in our premium positioning, especially in complex and high-value use cases.

As we've stated, international expansion remains a largely untapped opportunity for us. We're making investments not only with market-specific product innovation like Identity Verification, but also in stronger local market presence to strengthen our footprint. We recently released funding to further invest in Germany and Japan, and in Japan, of note, we just went live with our first CLM customer this past quarter.

Further supporting our focus on international expansion, I am pleased to share that Anna Marrs, Group President of Global Commercial Services and Credit and Fraud Risk at American Express has joined our Board of Directors and as a member of the Audit Committee. She is a fantastic operating executive with deep global experience and will be a great asset to the Board and the Leadership Team.

Finally, I am thrilled with the key hires we've announced to round out our leadership team. Most notably, Blake Grayson will be joining as DocuSign's new CFO next week. Blake's considerable track record and experience in finance leadership roles, category-leading public companies including Amazon and The Trade Desk make him a very strong addition to the DocuSign Leadership Team.

I'd also like to take this opportunity to once again thank you to Cynthia for her tremendous contributions to DocuSign as both a Board member and as our CFO for the last four and a half years. I'm grateful for her partnership and strategic leadership as the Company navigated immense change.

In closing, we had a solid start to the year with strong financial results, continued traction on the key pillars of our strategic vision to transform agreement workflows and intelligence, and in rounding our leadership team with high caliber talent. We look forward to continuing to share progress as we execute against our initiatives this year.

Now, let me turn the call over to Cynthia to walk through our financial results and outlook.

Cynthia Gaylor

Thank you, Allan, and thanks to everyone for joining the call today.

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We had a solid start to the year, exceeding our top line and operating margin guidance. We made progress during the quarter against our priority initiatives and demonstrated leverage in our operating model. We remained focused on delivering value for our customers with easy-to-use, high ROI products, which in today's macro environment continues to be increasing important as customers look for ways to drive more efficiency in their businesses.

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

For the first quarter, total revenue increased 12% year-over-year to $661 million and subscription revenue grew 12% year-over-year to $639 million. Our international revenue grew 17% year-over-year and reached $168 million for the first quarter, representing 25% of revenue.

First quarter billings rose 10% year-over-year to $675 million. As a reminder, billings can fluctuate quarter-to-quarter due to the timing of deals and complexion of renewals. The macro environment continues to create uncertainty for our customers and we're seeing the impact of smaller deal sizes and lower expansion rates across the business as customers scrutinize budgets.

Q1 billings outperformance was driven by a higher rate of on-time renewals. We are encouraged by initial signs of improved sales execution across our install base. We added approximately 45,000 new customers during the quarter, bringing our total customer base to 1.4 million, a 13% increase year-over-year. This includes the addition of approximately 9,000 direct customers to reach a total direct customer base of 220,000, a 21% year-on-year increase.

We also saw a 20% year-over-year increase in customers with an annualized contract value greater than $300,000, reaching a total of 1,063 customers. This slight decline quarter-over-quarter was primarily driven by customer buying patterns, lower expansion rates and partial churn.

Dollar net retention was 105% for the quarter. We continue to see headwinds impacting our expansion rates coupled with muted customer buying patterns in a tough macro environment as budgets remain under scrutiny and customers optimize existing spend. Looking ahead, we expect the Q2 dollar net retention to continue to experience downward pressure.

From a vertical perspective, we saw pockets of relative strength within insurance and business services, highlighting the importance of our diverse customer base and durability of our model while we continue to see headwinds across financial services and real estate.

Non-GAAP gross margin for the first quarter was 83% compared with 81% a year ago. First quarter subscription gross margin was 85% compared with 84% a year ago.

Q1 non-GAAP operating income reached $176 million compared with $102 million last year.

We delivered a record non-GAAP operating margin of 27% compared to 17% last year. This year-over-year improvement demonstrates our focus on profitability and the leverage in our business model. We remain committed to investing in a disciplined way to transform broader agreement workflows that will drive our top line over time. As we move through the year and execute against our operating plan, we expect a quarterly decrease in operating margin.

Non-GAAP net income for Q1 was $150 million compared with $77 million in the first quarter of 2023.

The Fiscal 2024 non-GAAP tax rate remains at 20%.

Q1 non-GAAP EPS was $0.72.

We ended Q1 with 6,586 employees compared to 7,642 the year prior.

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Operating cash flow in the first quarter grew 19% year-over-year to a record high of $234 million for a 35% margin. This compares with $196 million or 33% in the same quarter a year ago.

Q1 collections were at an all-time high, benefiting from seasonality and enhanced automation and operational efficiency.

Operating cash flow includes one-time cash expenses of $20 million in Q1, related to the 2024 restructuring plan we announced in February.

Free cash flow for the quarter was $215 million or a 32% margin, compared to $175 million or 30% in the prior year, a 23% year-on-year increase.

We exited Q1 with more than $1.4 billion in cash, cash equivalents, restricted cash and investments.

Turning to our share repurchase program, we repurchased over 700,000 shares during the quarter for approximately $40 million, which demonstrates our confidence in the durability of our business. As a reminder, we have strong cash flow and an attractive balance sheet that gives us flexibility to optimize our capital structure with a focus on opportunistically returning capital to our shareholders.

With that, let me turn to our Q2 and Fiscal ’24 guidance.

While we are pleased with our Q1 financial results, it is still early in the year and we remain cautious in our outlook, given moderating expansion rates and slowing customer demand driven by the uncertainty in the current macro environment and continued competition, particularly in more basic eSignature use cases.

For the second quarter and Fiscal Year 2024 we anticipate total revenue of $675 million to $679 million in Q2 for growth of 8% to 9% year-over-year, and $2.713 billion to $2.725 billion for Fiscal ’24 for growth of 8% year-on-year. Of this, we expect subscription revenue of $658 million to $662 million in Q2 or growth of 9% year-on-year, and $2.64 billion to $2.652 billion for Fiscal ’24 or growth of 8% to 9% year-over-year.

For billings, we expect $646 million to $656 million in Q2 or flat to 1% growth year-over-year, and $2.737 billion to $2.757 billion for Fiscal ’24 or growth of 3% to 4% year-over-year.

We expect non-GAAP gross margin to be 81% to 82% for both Q2 and Fiscal ’24. We expect non-GAAP operating margin to reach 24% to 25% for Q2 and 22% to 24% for Fiscal ’24.

We expect non-GAAP fully diluted weighted average shares outstanding of 207 million to 212 million for both Q2 and Fiscal ’24.

We are pleased with the financial results in Q1 along with the resilience and focus the team has demonstrated as we continue to evolve the business. We maintain a disciplined and focused approach to delivering profitability of scale as we invest for the long term.

In closing, I want to thank our amazing team for their commitment to delivering for our customers and partners, and driving forward the vision for smarter, easier and trusted agreements.

On a personal note, the last four and a half years has been an incredible adventure, helping the company operationalize tremendous growth at scale while providing a stabilizing force through unprecedented change. I am looking forward to what comes next and to seeing DocuSign continue to be the innovator of defining how the world agrees.

With that, we will open up the call for questions. Operator?

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Operator

Thank you.

We will now be conducting a question-and-answer session. (Operator instructions).

Our first question comes from Tyler Radke with Citigroup. Please proceed with your question.

Kylie Towbin

Hi. This is Kylie Towbin on for Tyler Radke. First off, Cynthia, just wanted to say congratulations and thank you for your time. You'll be missed.

On that note too, with Blake starting next week and the additions of Dmitri and Kurt too, would love to hear about sort of all of their biggest areas of initial focus. Thanks.

Allan Thygesen

Yes. Blake will obviously step into Cynthia's shoes and take on the CFO responsibilities, so this will be about executing our operating plan, helping us uncover both top line and bottom line opportunities, and in general executing on our strategic roadmap.

I think Dmitri will lead our product teams, so reporting (inaudible) President of Product and Technology. He's very deep, strong background from a number of different enterprise software companies and has been a real category creator and innovator. We're thrilled to have attracted him. Obviously product vision and leadership is incredibly important to our future, so this was a key hire for us and we're delighted to have Dmitri onboard.

And Kurt is leading our Security organization, which has enormous implications both from a risk and compliance perspective. We have a particular—given the nature of our business of managing highly sensitive documents and processes, it's essential that we maintain the trust of our customers. I think we've done a good job of that so far. I think Kurt will—it's a critical role with obviously responsibility to maintain and further grow that as we delve deeper into agreement workflows.

Kylie Towbin

Great. Thanks. Just one more, maybe for Cynthia. With the 8 point beat on billings this quarter, how did the early renewals trend relative to your expectations? With the full year raised a little bit less than the beat, is it fair to say that the amount you raised guidance was operational beat and the rest was potentially pull-forward? Thanks.

Cynthia Gaylor

Yes. Thanks Kylie, and thanks for the kind words.

I think we were really pleased with the performance in Q1 and particularly on billings. The beat on billings was mainly due to strength we saw in on-time renewals, which means the team did a great job executing across our install base. So we saw less on the early renewal front and so that is factored into the guide. I would say that's probably the driving force of what we're seeing.

When you think about kind of the push-through on the guide, I would say that's really colored by the dynamics we're currently seeing in the business and some of the softness that I talked about in the prepared remarks around expansion rates and some of the other metrics. We think the guide is reasonable for what we're seeing, but the Q1 beat was mainly driven by on-time renewals in the install base.

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Operator

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

Bradley Sills

Sorry. I think I was on mute. My apologies. Sorry.

The question was on—good, good, great. Good luck, Cynthia. It's been great working with you.

I wanted to ask a question around Agreement Cloud. I know it's still early here but where is the focus there? There are some components that I believe are already—you're already well positioned for upsell into the base, like eNotary and Analyzer. Just curious if that's an area of focus increasingly from here. Thank you.

Allan Thygesen

Yes. We are focused on delivering a full suite of workflow tools across the agreement journey, and then an intelligence layer that sort of can assist really at every stage. I think we've shipped components of that in the past, but I think we're really looking to bring all of that together and fill out that suite, if you will. We'll do a lot of that work this year. Some of the releases that you saw in Q1 were very much emblematic of that.

I'd add to that I think the biggest change in our roadmap beyond that clear focus and articulation on agreement workflow is really the advent of generative AI. We've been working on AI for several years. As you know, we have products like Insights that leverage earlier generations of AI models, but given the enormous change there, that's a fantastic opportunity to really unlock the category and so we're investing very heavily there. We released some new products, and we'll release more next week at Momentum, but I'm sure we'll talk more about AI during the call, so I'll stop there.

Bradley Sills

Sounds exciting. Thank you, Allan.

Operator

Thank you. Our next question comes from Mark Murphy with JPMorgan. Please proceed with your question.

Mark Murphy

Thank you very much. Cynthia, could you just remind us what is it mechanically that causes subscription revenue to decline a little sequentially in Q1 and then returning to some amount of sequential growth in Q2? I know there was an element similar to that last year, but I'm just wondering if there is anything anomalous in Q1, or is that a pattern that would recur seasonally as we get into Q1 of next year?

Cynthia Gaylor

Yes. Q1—good observation. It's mainly due to the number of days; there's fewer days in the quarter in Q1. This Q1 had a few less days than other quarters and so that's the main factor there. I think the revenue per day is up, but the function of days in the quarter impacts that for this particular Q1.

Mark Murphy

Okay. Just as a quick follow-up, how is the behavior if you drill down into the real estate verticals and if you think about it across both residential and commercial, is there any sign there that might cause you to think

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there could be some firming up, perhaps as interest rates stabilize or just having better performance in the equity markets? Is there any signaling there that is creating a sense of stability or optimism maybe as you get closer to the second half?

Cynthia Gaylor

Yes. It's a good question and we're certainly not economists, but I would say in general—in our prepared remarks we covered this—but the macro, we are seeing kind of customer sentiment across the base. I think for DocuSign we have a diversified customer base, which really helps us in up and down markets. I would say real estate and pockets of financial services continue to be softer than some of the other verticals like manufacturing or business services, which were stronger. I would just say, I don't know that we can prognosticate like what the future holds there, but we do have a diversified customer base that does help insulate our business given the long tail there, but real estate definitely is continuing to show softness along with other sectors or subsectors that have interest rates or mortgage exposure in this environment.

Mark Murphy

Okay. Thank you and congrats on the nice execution in Q1.

Cynthia Gaylor

Thank you.

Operator

Thank you. Our next question comes from Brent Thill with Jefferies. Please proceed with your question.

Brent Thill

Thanks. Allan, just following up on the overall environment, would you characterize what you're seeing now as pretty consistent with what you saw last quarter? Have things stabilized, maybe improved a little bit? Just trying to understand the shape of what you've seen quarter-over-quarter.

Allan Thygesen

I think the macro environment is relatively consistent. I would say, digging in a little deeper, if you look at it—let's start with segments—maybe slightly better performance in the SMB segment than in the enterprise segment. I think part of that is larger companies just tend to be more immediately sensitive the business cycle. They also have centralized purchasing departments and other ways of, I should say, tightening spending in a very directed way. That subtle change, let's say, may be slightly more pronounced this quarter than previous quarter. We continue to grow faster internationally than domestically, but I don't think that that's a material change.

From a vertical perspective, as Cynthia mentioned, some strength, but I think those are much the same sectors that were doing a little better last time and perhaps financial services, obviously a little bit more challenged. But by no means all, by the way. It's localized, let's say, in real estate and a few other things.

Overall, it's a pretty balanced picture. I wouldn't say there were major changes in our environment. We are, of course, hoping to induce more change in the environment for our product roadmap and we're excited with the new releases that we had and you'll see a very rapid pace of new releases over the next few quarters. So, we hope to disrupt that beyond the macro.

Brent Thill

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Great. Just a quick follow-up for Cynthia. Twenty-seven percent margin in the quarter, yet you're guiding 23% for the year. Why such a big stepdown throughout the year?

Cynthia Gaylor

Yes. We outperformed margins by quite a bit in Q1 and I think it really does demonstrate what we've been talking about for a while now, which is leveraging our business model. It's amazing when you don't spend money, you can make a lot of money. But that being said, we're focused on profitability, but also executing on the investments in a disciplined way and I think you kind of saw that in Q1.

However, as I mentioned in the prepared remarks, our expectation is to continue to invest as we move through the year. We got a little bit slower start as we kind of evaluated coming into the year to that spend, but we expect to kind of catch up. So when you get to the end of the year, by quarter the margin should go down by quarter, which is implied in our guide but then also the run rate and bow wave going into next year, we'll be fully invested against that. That's our process.

But we'll be disciplined. We're still in the long-term target range, and we're raising the year by 1 point relative to where we were 90 days ago, so, we're really pleased with that, but we will invest for the long-term opportunity.

Brent Thill

Thank you.

Operator

Thank you. Our next question comes from Alex Zukin with Wolfe Research. Please proceed with your question.

Alex Zukin

Thanks for taking the question. Congrats on good execution in the quarter. Maybe just the first one, Allan, you kind of teased on wanting to talk a little bit more about AI. So, I'll kind of zoom out a little bit and just ask, if you think about the priority list for the company to reinvigorate the growth engine, stack rank in your mind, is it new products? Is it AI monetization? Is it the PLV opening up kind of the umbrella? Stack rank, if you would, your strategic thought process on how to kind of reaccelerate growth for the business. Then, I've just got a quick follow-up.

Allan Thygesen

Yes, it's a good question. I think these things all impact us in different timeframes, right? Overall, I would say product innovation is going to be the biggest driver and unlocker of our medium- to long-term growth. We do believe that we have very credible low-hanging fruit from better execution on our self-serve and product-led growth motion, and so that's a top priority to drive greater efficiency in the near to medium term.

I think the AI impact is perhaps the biggest in the long term. We are starting to ship products, as I alluded to, and we'll announce more next week, but in terms of its overall impact on the business, I think it's still behind the other two in the near to medium term. But in terms of the long-term potential of our category of agreement workflow, I think it's a massive unlock and a fantastic opportunity for DocuSign. I think we're exceptionally well positioned.

Maybe one other comment about that. Lots of companies talk about AI and there are commercial AI models available at the consumer level and to really any enterprise who will pay the fee. We believe that our opportunity is both category specifically just lends itself to AI at every stage. But then if you look at

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DocuSign, we have deep experience built over multiple years of building agreement-specific models; it's not the same as drafting a high school essay. We have a deep expertise and the level of accuracy that's required there. We also have the largest data set of agreements of any company, I think, on earth, which puts us in a position to help our clients to extract more value out of AI models.

Then lastly, we are, of course, executing very deliberately and intentionally on partnerships with the leading cloud vendors and taking full advantage of the innovation that they're powering. I alluded to our work with Microsoft, and we of course are talking to the others as well.

Alex Zukin

Super clear answer and very interesting. Maybe just as a follow-up, Cynthia, it's a bit unusual to hear about outperformance on billings driven by in-line renewal trends. We've heard it before on early renewals, but it implies that a year ago your renewal trends were either below seasonal average or that your guidance was kind of intenting on below plan renewal. Maybe can you just help us understand how do you set that plan? For the rest of the year, are you assuming that renewals come in at the rate they came in, in Q1? Are you assuming a bit worse? Just help us kind of understand that dynamic for the rest of the year.

Cynthia Gaylor

Thanks for the question. It is a good one, and I agree with you, it is a bit unusual. But I think the dynamic is for software companies, with subscription models you have a certain level of on-time renewals, early renewals, late renewals that there's spill in and spill over every quarter, and we model it out pretty granularly. I think what we saw in Q1 is the dynamic of two things; with on-time renewals, which means renewals that don't fall into the grace period and spill over to the following quarter, our rate of renewal is consistent, and so it's really a timing of deals. Those deals for on-time renewals more landed in Q1, which means in Q2 the implication is there's less spill over into Q2, so that is now baked into the guide. We think it's attributable to two things. One is execution by the team that focuses on the install base, better execution and kind of closing what's in front of them, which is great. We're really pleased with that. And then I think the other is, there is a macro dynamic of less early renewals. Customers are really scrutinizing their budgets. And when you look at kind of things like expansion rates and deal sizes and volumes, those are coming down.

Again, that's all baked into the guidance, but I would look at the outperformance on billings in Q1 as a timing piece, and again, it's baked into our full year guide. That's why you're seeing kind of partial push through relative to other options there.

Alex Zukin

Understood. Thank you, guys. Congrats.

Allan Thygesen

I would just add to that, that we were very intentional, obviously, about encouraging our teams to focus on renewals and on consumption within our existing contracts. I think I just want to echo what Cynthia said, that we made some adjustments there in terms of with our organization and our incentive models and I think that was helpful as well. Kudos to Steve and his team.

Operator

Thank you. Our next question comes from Shebly Seyrafi with FBN Securities. Please proceed with your question.

Shebly Seyrafi

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Thank you very much. Allan, can you talk about the potential for the company to become a double-digit revenue growth company again? I note that the guidance for billings this year embeds around 3% to 4% growth, which is less than half of your revenue growth expected this year. I think in response to Alex's question, you talk about product innovation, self-service, like near-term growth drivers and AI longer term could be the biggest. So, I'm just wondering if things gel with AI in a few years from now, just talk about the potential for the revenue growth to be double digits again.

Allan Thygesen

Yes. Well, just to go back in time, I think '23 was a year of change for DocuSign—Fiscal '23 last year was a lot of change. As I said on previous earnings call, this year is really about setting the foundation for growth. That is still true, and we're starting to really make good progress, I think, on that foundation.

We are very excited about the long-term potential, and we are reshaping the company to deliver on that. But that kind of transformation is not achieved overnight. We're not changing our guidance beyond what we're providing guidance for next year at this time. But I'd say all the early signs in terms of our initiatives in product innovation, self-serve, as you mentioned, the growth of the partner channel, and operational efficiency, I think all of those will contribute to that.

We believe we have a very strong opportunity and that AI could be an incremental unlock beyond the core momentum in the business. More to come when we're ready to share next year targets later in the year.

Shebly Seyrafi

Okay. As a follow-up, the product revenue or innovation that you alluded to, is that referring to the three new releases, the Webforms, the highly regulated markets and ID, and add some additional products perhaps later this year? Just elaborate on what you mean by the product innovation.

Allan Thygesen

Yes. I think overall my goal has been to dramatically improve our pace of innovation and pace of product releases. I think we did a good job of that in Q1, and there's more to come here in Q2. In fact, we'll share some parts of our Q2 releases next week at our user conference.

I look at that at every quarter. You'll see pretty meaningful new functionality across our vision of delivering agreement workflow. Some of the things that I'm most excited about that we intend to deliver this fiscal year, but a little further out include things like searching across your repository of agreements. As you can imagine, incredibly important functionality. No one really delivers that today. I think we are planning to do that before the end of the year.

Another example of something more evocative and enabling future growth of the categories we call orchestration, which basically enables you to pick components of the DocuSign suite and any third-party app that we interface with and combine them in ways that are custom for your organization and workflow. We've had a lot of increase for that over the years. No one has ever delivered that in the agreement space, and we intend to do that. Those are examples of things that are more evocative and could unlock the full potential of the category.

Shebly Seyrafi

Thank you.

Operator

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Thank you. Our next question comes from Rob Owens with Piper Sandler. Please proceed with your question.

Rob Owens

Great, and thanks for taking my question. I think building on Brent's question a little earlier, I just wanted to better understand the pace of spend as we move throughout the year, because I guess 90 days ago you had an operating margin that was at the low end, ramping throughout the year, and now the inverse is happening where you have the high watermark in Q1 and incremental spend. Just trying to understand, was there a change relative to spend trying to accelerate incremental products? What's going on from that perspective?

Cynthia Gaylor

Yes. I think in Q1—again, it's a good observation. I think in Q1 we saw lower spend across categories, so we just got a slower start to the year. Part of it went across the investment areas and the key priorities and net new hiring kind of got off to a slower start. However, we expect that to kind of ramp as we move through the year. We'd expect Q1 to be the high watermark, Q2 to come down slightly, and then Q3 and Q4 to moderate in the low 20s would be what we would expect. So, the year will come up a point, but the overall spend, again, in the run rate and the bow wave will be in line with our expectation coming into the year across the AOP.

Rob Owens

I guess, secondarily, could you talk about pricing and what you're seeing in the more tradition eSignature market throughout the various lenses, I guess, of where you're at in SMB and what enterprise looks like? Thanks.

Allan Thygesen

What I would say overall is there's no question that compared to three, four years ago, the category is more competitive, especially in basic use cases and so the overall market softens. That said, our win rates are relatively stable. We are and remain clear market leader. I think everybody else prices off us. We have, I think, a very strong value proposition and a resulting premium. I mean, customers value the convenience and trust that we have, the higher signed rates, the faster time-to-sign, as well as a variety of enterprise-grade capabilities, integrations, security, privacy, etc.

I'd say the price environment continues to be highly competitive and we think we're the market leader. We try to make sure we're paid for that, but we also don't want to lose business unnecessarily. We're trying to be more agile in that regard in larger enterprise deals where there may be a blend of both.

Over time, as we layer in a lot of the functionality I've talked about, we're hopeful that we can bring greater value to our clients and that that will allow us to overall increase our dollar footprint with our enterprise and mid-market customers.

Rob Owens

Great. Thank you very much.

Operator

Thank you. Our next question comes from Josh Baer with Morgan Stanley. Please proceed with your question.

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Josh Baer

Thanks for the question and congrats on a good quarter. One for Allan, one for Cynthia. On CLM and Agreement Cloud, it's clear you're in a strong position to really leverage AI. You talked about some of the ways that you're going to do that to improve your solutions and add more value. I guess I'm wondering how would you gauge customer interest and timing of that interest? Does the opportunity get pushed out at all? Are customers needing to reevaluate CLM in the context of AI and take time? Are there enterprise customers that are thinking about doing it in-house? If you could talk about some of that, like the time to realize the value unlock, or are you seeing near-term momentum?

Allan Thygesen

Yes, that was a lot of questions. I think first thing I'd say is there's definitely strong customer interest in the category and the features and functionality. We see lots of inbound inquiries. We have some of our large SI partners who are making significant investments in their CLM practices. So the overall demand environment, I think, is robust and I don't think we've really seen any slowdown or hesitation because of AI. If anything, people's expectations have just been raised on what's possible.

At the same time, CLM definitely skews more enterprise. It does have longer time to value. It's therefore, more impacted by macro and cautious customer behavior; deal cycles get longer and so on, so those two things are pulling in opposite directions.

Overall, I would say CLM we believe has great potential, but it also hasn't quite fulfilled its promise yet, right? It's been too custom, too services heavy, too long time to value. So we really want to reimagine the category to be software-first with quick time to value, delightful workflow across all of the functions that use it and just exceptional out-of-the-box analytics and insights driven by AI. We are engaging with leading companies across a number of industries, so we're seeing people reimagine how their legal departments operate, whether it's for risk assessment or compliance or extracting business value.

One that I particularly liked is we work with a lot of pharma and biotech clients. They use CLM to quickly analyze and assess their corpus of agreements. That allows them to respond to market events, create efficiencies, mitigate risk. They use our Insights product to understand the rebate opportunities in their supplier agreements. That's a great example of really extracting business value beyond just being more efficient in how you manage your agreements.

Overall, we're very bullish on the category long term. We think it does need to be reimagined and we intend to lead that.

Josh Baer

Great. Just a real quick one for Cynthia. Professional services revenue, I think was a record this quarter. Anything to call out for the strength and upside there?

Cynthia Gaylor

Yes. In that Professional Services and Other category, we do still have some on-prem software that's part of the legacy product suite. There was a Q2 deal that fell into Q1, so again, it's really the timing of deals. That was an on-prem deal that led to that upside in the PS and Other line.

Josh Baer

Okay. Thank you. Cynthia, congrats and good luck.

Cynthia Gaylor

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Thank you, Josh.

Operator

Thank you. Our next question comes from Jake Roberge with William Blair. Please proceed with your question.

Jake Roberge

Thanks for taking my questions. You talked a lot about the product-led growth initiatives that you started to put in place, but just thinking about the other end of the spectrum with your direct sales motion, now that Steve has been in the seat for a little over a year, are there any new opportunities that he's looking into for that direct motion? I know you talked a little bit about partners international, but you're still kind of in those eight direct field territories internationally. Just curious if there's any updates on the direct side.

Allan Thygesen

Yes. That continues to be the vast majority of our business, and I don't see that changing in a very long time. I think Steve has now the team fully in place; they've all ramped and just a new level of professionalism and maturity there. We are working to augment their capabilities in every area. So, whether it's our marketing, our training efforts, our bundling, I think we have opportunities in every area to become a better enterprise sales software company, and Steve is helping us move in that direction. That just continues to be just critically important for the Company. I think we're making good progress there and as we ship more product, we have I think a sales channel that's very ready and able to capitalize on that.

Jake Roberge

Great. Then just digging a little deeper into generative AI, opportunity seems pretty interesting with your agreement models and then just ability to better utilize all the data within your contracts. I'm curious how you're thinking about maybe your monetization plans for the tech. Then, I know it's still early days, but is that something that could start showing up early next year, or is that still too early there?

Allan Thygesen

As I alluded to earlier, I do think relative to just execution on our agreement workflow roadmap and PLG, it's a little further out in terms of impact.

In terms of monetization, I expect AI features to be both bundled as part of our baseline products, strengthening their functionality and value, as I suggested earlier, in some cases packaged as a separately charged add-on. We do both today.

If you take our Insights product, which is really our AI-driven analytics product for CLM, we both have a standalone SKU—it's sold separately—as well as a premium bundle. I think we're going to need to learn a little bit more about how customers want to use this and what the key value drivers are before we finalize how we price the different features, but certainly mindful of wanting to deliver the most value and capture the most value for DocuSign as we price it.

Jake Roberge

Great. Thanks for taking my questions.

Allan Thygesen

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Yes.

Operator

Thank you. Our next question comes from Michael Turrin with Wells Fargo Securities. Please proceed with your question.

Michael Turrin

Thanks. Appreciate you fitting me in. Just one for me. Maybe on expansion rates, we're hearing some software companies started to comment around when they'll hit a 12-month period and start to lap some of those impacts. Is there any sense you have at this point in time around where or when the expansion headwinds start to settle, assuming we remain in a similar environment? And gross retention rates, I know you had a comment last quarter on those. Are those still holding consistent here? Just any additional context is helpful. Thanks.

Cynthia Gaylor

For sure. Thanks for the question, Michael. I think expansion rates—our dollar net retention rate came in at 105%, and for Q2 we'd expect that to continue to come down. Overall across the business, when you look at the different metrics, pressure on expansion rates is the largest contributor to the pressure we're seeing on the top line metrics. So, we would expect that to continue just based on what we're seeing and what we're expecting in Q2 on dollar net retention. Again, that has been really attributable—if you think about why is it compressing things around customer buying behaviors, scrutinizing budgets more generally, some of the tea leaves around the macro factors. You have to remember we're a land-and-expand model, and so within that, as companies land, the rate of them expanding is coming down and you see that even this quarter in some of the customer metrics. I think those handful of things are really driving kind of that expansion rate. You see it more backward looking in dollar net retention, but you see it in some of the other metrics on a real-time basis as we move through the quarters.

Michael Turrin

Then, gross retention rates, I know you mentioned partial churn, but are gross retention rates consistent still?

Cynthia Gaylor

We don't disclose gross retention, but I think when we look at various things like the expansion rates—and we do internally look at churn rates—expansion rate is really driving kind of the compression that we're seeing more and then some of the other pieces.

Michael Turrin

Thanks, Cynthia. Best of luck to you. Thanks.

Cynthia Gaylor

Thank you.

Operator

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

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George Iwanyc

Thank you for taking my question. Allan, maybe could you expand a little bit on what you're seeing in international markets and how you're leveraging partners and ecosystem expansion there?

Allan Thygesen

Overall, I think we're seeing some softness right across the business; international is not an exception, but on a relative basis I think it's a less meaningful factor. It is growing faster than our domestic business. It is the largest part of our addressable market, and we're still only 25% of our revenue so we have a huge untapped opportunity. Most of the international markets are at an earlier adoption phase. I think a lot of that is due to regulatory history and cultural habits, but we see that really starting to change now. It's one of the reasons that give us confidence to invest. As I mentioned, we're particularly—beyond the major English-speaking markets and a few existing large European markets like France, we're really investing in Japan and Germany to fully capture the opportunity there.

Beyond the investment in our direct sales and back-office functions in those markets, self-service and partners, as you alluded to, are key levers. That includes partnerships with SIs. I met several in my international travels, distributors, etc. And of course, our self-service capabilities are particularly suitable for reaching a lot of markets where we can't put a lot of resources on the ground.

We're investing heavily on the product side. I mentioned the ID Verification. We're a qualified trusted service provider in the EU. We have a dedicated team and a pretty strong in-market customer relations on that front.

Overall, I'm very bullish on international opportunity and I think the entire company is excited that we're aligned and investing. We are being quite disciplined with which markets we're adding, should we say, direct sales efforts into, and the rest will be partner and self-service enabled.

George Iwanyc

Okay. Just a follow-up on, you mentioned the EHR interoperability in your opening remarks. What are you seeing in healthcare right now?

Allan Thygesen

I think it's one of our bigger opportunities from a vertical perspective. We're seeing everything from insurers to hospital chains to chains of doctors offices adopting signature and forms-based solutions to aid patient log-in and registration and disclosure. I think really low-hanging fruit; it's still early days in the digitization of healthcare system and I think we can play a really meaningful role in that. We're seeing a lot of inbound interest in that. But it's a highly regulated area, so the bar is higher to participate. I think the good news is I think we're in the front of the market there, and it's a positive competitive dynamic for us as well.

George Iwanyc

Thank you.

Operator

Thank you. Our last question comes from Jackson Ader with SVB MoffettNathanson. Please proceed with your question.

Kyle Diehl

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Great. Thanks for sneaking us in. This is Kyle Diehl on for Jackson. Just a quick one. I think, Cynthia, you might have alluded to it, but as we're thinking about investment in the back half of the year, is that kind of higher velocity that can be adjusted as you go? Are those investments—talking about what's flowing down to the operating margins, is that longer-term strategic, or moreso in a year? Thanks.

Cynthia Gaylor

Yes. I would say we evaluate as we move through the year, but the intention right now is to invest into the plan that we had coming into the year. It just got off to a slower start, so I'd expect the expense to be higher in the back half of the year. Again, we're really pleased to be able to increase the margin for the year by a point, but the bow wave and the run rate we would expect to be about the same, but I'm sure the team will evaluate it as we move at pace.

There are pieces around headcount as we hire people that will naturally bring down the margin because that's by far our biggest expense category, but things like T&E and third-party vendor spend, we're always looking at those areas as well.

Allan Thygesen

Okay.

Operator

Thank you.

Allan Thygesen

That was the last question?

Operator

Yes. I would like to turn the floor back over to you, Allan, for closing comments.

Allan Thygesen

Thank you. Thank you, Operator. Thank you all for joining today's call. We appreciate your support as we continue to make progress towards our long-term vision for the business.

In closing, I think we delivered a solid start to the year and we remain focused on our execution to deliver value to our customers and our shareholders. I do want to reiterate my enthusiasm for our product roadmap as we are confident that our investment in innovation and talent will be key moving forward.

If you want to continue to see some of the progress we're making, I encourage you to watch our one-hour keynote at Momentum on Wednesday next week as we share more updates on our visions and our products. I also look forward to sharing more with you throughout the year.

Thank you very much.

Operator

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

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