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DocuSign, Inc.

Second Quarter Fiscal Year ’24 Earnings Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Thank you for joining DocuSign’s Second Quarter Fiscal Year ’24 Earnings Conference Call.

At this time, all participants are in a listen-only mode. After the speakers’ presentation, there will be a question-and-answer session.

As a reminder, this call is being recorded and will be available for replay from the Investor Relations section of the website following the call. (Operator instructions).

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

Heather Harwood

Thank you, Operator

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Good afternoon, and welcome to DocuSign’s Q2 fiscal year 2024 earnings call. I’m Heather Harwood, DocuSign’s Head of Investor Relations. Joining me on today’s call are DocuSign’s CEO Allan Thygesen, and our CFO Blake Grayson. The press release announcing our second quarter 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. Any forward-looking statements are based on our assumptions and expectations to date, and except as required by law, we assume no obligation to update these statements in light of future events or new information.

During this call we will present GAAP and non-GAAP financial measures. In addition, we provide non-GAAP weighted-average share counts and information regarding free cash 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 closed out the first half of the year strong by delivering solid second quarter financial results. We continue to drive momentum in our business by making progress against our key initiatives and delivering enhancements to our product portfolio. Exiting the quarter, I feel energized, having recently come off our Momentum events where we visited eight cities spanning five continents. We met with thousands of partners and customers, who were excited to hear about our dual-track plans to improve agreement workflows.

In the near term, we’re focused on the agreement management layer: We’re taking something that is quite complex for our customers and making it easier and more delightful. Over time, we’re building the intelligence layer that will unlock agreement data. We presented our future vision, publicly shared our product roadmap, and received tremendous validation after showcasing product demonstrations aligned to these two priorities over the quarter.

Let me share some highlights from this quarter’s financial results. Q2 total revenue came in at $688 million, up 11% versus prior year, and Q2 Non-GAAP operating margin came in at 25%. While we are pleased with our results, like many others, we are seeing continued macro pressures tempering expansion rates. However, we remain focused on what we can control: executing against our initiatives to drive innovation and operational efficiency, further setting the foundation for growth while navigating an uncertain environment.

Now I want to highlight our pace of innovation, driven by our delivery of new features and products. The progress we are making demonstrates how we are expanding upon our leadership in eSignature. As I said, we’re thinking about our roadmap on two horizons: in the short term we are looking to ship new features and functionality that differentiate DocuSign and streamline agreement workflows, bringing in new

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customers and continuing to deliver value to existing customers. To that end, we continued to expand our Identity Verification portfolio announcing the global launch of liveness detection for ID Verification.

Liveness detection technology leverages AI-powered biometric checks to prevent identity spoofing, which results in more accurate verification without the signee being present. ID Verification is already helping our customers, our data shows that it has reduced time-to-sign by about 60%. Later this year, we expect to expand our functionality with a Wallet feature that will enable frequent users to save their profile, driving improved efficiency and convenience. These add-ons will be available for all of our plans, including our standard plan, representing an important differentiator for DocuSign’s product offering for all customer types.

As I’ve stated in the past, the value of an agreement is in the data and every step of the workflow will benefit when it's automated, intelligent, and seamlessly integrated into core business systems. Web Forms is delivering on that vision. During the quarter we shipped and announced more and increasingly sophisticated capabilities to our Web Forms offering. In July, Web Forms became available on DocuSign’s FedRAMP Moderate environment, which unlocks new possibilities for our federal, state, and local government customers to digitize their forms. We will also soon ship advanced reporting capabilities enabling users to unlock data from their agreements to uncover actionable insights and drive data-driven decisions.

This quarter, we also announced that DocuSign Monitor is now available to our CLM customers. Monitor provides a comprehensive and holistic multi-product view of user activity on one dashboard for both CLM and eSignature, ensuring organizations can quickly and easily detect, investigate, and respond to suspicious activity before incidents occur. For our customers it’s powerful reassurance, losing even one high-value agreement can have a significant business impact.

We are seeing large marquee organizations across industries, including tech and finance, select DocuSign CLM to transform how they automate their end-to-end agreement processes across their entire enterprise. As an example, we closed one of our largest CLM deals ever this quarter. This customer is a leading national residential solar company, turned to our CLM solution to help automate over 1,200 of their agreement templates. Leveraging our document generation and workflow management capabilities, CLM helps them automate the agreement process across teams, adding simplicity and security.

While our CLM today represents a small contribution to our overall business, we saw solid year-on-year growth, which is a reflection of our leading market position. We are encouraged by the wins, and we have just begun to tap into the potential for this market.

More broadly, we continue to make meaningful progress towards our vision of smart agreements. Before we discuss our final update, it’s worth grounding this portion with a reminder of what’s generally true in the market: individual solutions work, but customers suffer when putting together solutions combining different product categories like CLM, e-signature, workflow management, document storage, and so on.

Today, only the largest enterprises with resources and IT sophistication can link these solutions together, and only at significant expense. This depresses the overall consumption and size of the market. We are on a multi-quarter path to evolve our offerings toward a platform capable of coordinating broader processes at a fraction of current complexity.

Our goal is to unlock the market for intelligent agreement management for millions of businesses, automating billions of hours of manual work and improving business outcomes. Today we are already monetizing AI directly through our CLM+ product and indirectly through its use in our products, such as Search.

Our next step on that journey is with AI Labs. With AI Labs, we are co-innovating with our customers. We provide a sandbox where customers can share a select subset of agreements to try new features we’re testing. Our customers get early access to developing technology, and we receive early feedback that we

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will incorporate into our products. By working with our customers in the development phase, we’re further reinforcing the trusted position we’ve earned over the last 20 years.

Next, let me provide an update on the progress we are making with our go-to-market capabilities, balancing scale with efficiency. As we evolve how DocuSign goes to market, integrating our digital, direct and partner selling motions to leverage an omni-channel approach, I’d like to provide an update on the progress we’re making in our self-serve, product led growth channel.

The PLG and self-serve capabilities are one of our most important areas of investment. In addition to our continued focus on delivering against our product roadmap, we're improving our customer experience by making DocuSign products much easier to try and buy. With such a diversified customer base it’s critical we deliver delightful self-service experiences, not just for growth, but also for scale and efficiency. We made good traction over the quarter, noting higher traffic conversion rates of new customers on our website. We’ve also unlocked expansion opportunities for customers directly within their product experience, resulting in relative strength through our digital channel.

We expanded relationships within our partner ecosystem, which is an important part of our omni-channel approach to drive reach and scale. In Q2, we launched pay-as-you-go offering for our ISV partners. It enables ISVs to embed DocuSign eSignature in their agreement workflows on a consumption basis. Over the course of the next few months, we will have been featured partners in some of the most important technical conferences, most notably at Google Next, Dreamforce, Deutsche Telekom’s Digital X, and Microsoft Ignite.

One of the key pillars of our omni channel is strengthening our direct sales productivity. This was the second consecutive quarter of a higher than anticipated rate of on-time renewals, which is a positive sign of increasing go-to-market execution. It’s contributed favorably to our billings outperformance for the quarter, which Blake will touch on in the financial update.

In our international business, expansion remains the largest part of our addressable market and we are making progress. This past quarter, one of Australia's largest banks expanded their relationship with us. A customer since 2020, they use our solutions to streamline both internal and customer-facing business processes in an effort to remove friction, reduce cost, and deliver better experiences. The upside potential in our international business is large, and as I had commented previously, we met with hundreds of our international customers through DocuSign’s Momentum events. The excitement about our product roadmap was contagious, and we look forward to growing our presence globally.

We are shaping the future of the agreement category and building on our global scale and trusted market position. The future of agreements is not about attaching yourself to a legacy document format. As we continue our product evolution by adding intelligence and unlocking the data trapped in agreements, we’re increasing productivity, reducing friction, and saving our customers' time. This is a fundamental shift in the agreement space.

I am confident in our competitive advantage, as DocuSign is the largest player focused solely on improving the agreement process. Moreover, there is no other company focused on the full end-to-end agreement process for companies of every size, from SMBs up to the world’s largest enterprises.

In closing, I want to thank DocuSign’s employees worldwide for their collective power in driving our success. I'm proud of the tremendous job the team has done navigating the dynamic environment.

I’d now like to welcome Blake Grayson who, as you know, joined us in mid-June as our CFO. Blake has proven to be an invaluable addition to our team, and I look forward to our continued partnership. Let me turn it over to Blake to review our financial performance.

Blake Grayson

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Thanks Allan, for the kind words, and good afternoon, everyone. I’m really excited to join my first earnings call as DocuSign’s CFO. Over the last few months I’ve gained considerable exposure into the workings of our business and value proposition as we look to transform agreement workflows.

First, I’d like to share what led me to join DocuSign. DocuSign has a powerful brand and a scale in our customer base that is rare in the enterprise software space. We deliver high ROI products that enable our customers to complete agreements faster, easier, and more securely. The opportunity for our business is quite large, and while I am optimistic about our future, we still have work to do to achieve our goals, particularly in a demand environment where companies are appropriately scrutinizing their investments.

With that, let me turn to our Q2 results.

For the second quarter, total revenue increased 11% year-over-year to $688 million, and subscription revenue also grew 11% year-over-year to $669 million. Our international revenue growth outpaced our domestic business with 17% year-over-year growth to reach $180 million in the second quarter, representing 26% of our total revenue.

When I think about the market opportunity ahead, I am excited by the greenfield space that exists internationally. It is a largely untapped market and a key pillar of future growth. I look forward to updating you on our progress as we work to increase our footprint globally.

Second quarter billings rose 10% year-over-year to $711 million. Similar to last quarter, our Q2 billings outperformance was driven by a higher rate of on-time renewals. It is encouraging to see us maintain the higher level of sales execution we saw in Q1 through the first half of the year. However, given the macro environment and headwinds in some expansion metrics, we continue to expect billings growth deceleration in the back half of the year, which is in-line with our previously communicated expectations.

We added approximately 37,000 new customers during the quarter, which brings our total customer base to 1.44 million, a 12% increase year-over-year. This includes the addition of approximately 6,000 direct customers, to reach a total direct customer base of 226,000, an 18% year-over-year increase.

We also saw a 6% year-over-year increase in customers with an annualized contract value exceeding $300,000, with a total of 1,047 customers. Similar to last quarter, the quarter-on-quarter decline in this customer segment was primarily related to customer buying patterns, lower expansion rates, and partial churn. However, as we ship innovative features to deepen our product lineup and differentiate our offerings, more customers are recognizing the value of adopting our features and frictionless functionality. This increases product stickiness, and we are pleased that over 50% of our direct customers have now adopted five or more features, an increase of nearly 10 points year over year.

Dollar net retention was 102% for the quarter. We’re seeing continued macro pressures resulting in moderated expansion rates. As we expect customers to continue scrutinizing budgets and optimizing spend, we anticipate the Q3 dollar net retention rate to trend downward.

From a vertical perspective, we saw pockets of relative strength within healthcare, insurance, and business services. One of the most significant strengths I've gained insight into is DocuSign's broad and diverse customer base, which enables us to help offset pressures from verticals that are more sensitive to the interest rate environment, such as real estate. Given the large breadth and depth of our install base and the investments we’re making in product innovation, we believe that as the macro environment stabilizes or improves DocuSign will be well positioned to capture expansion opportunities.

Non-GAAP gross margin for the second quarter was 82%, in line with the prior year. Second quarter non-GAAP subscription gross margin was 85%, also in line with the prior year.

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Q2 non-GAAP operating income reached $170 million, up 51% from the prior year. Non-GAAP operating margin of 25% was up nearly 700 basis points compared to 18% last year. As discussed on last quarter's call, we are executing against our investment plan. Our philosophy on investing is consistent: we’ll maintain continued disciplined investment to drive growth in our top line over time. Although we expect to ramp investment in the back half of this year, we still expect to exit the year with operating margins better than they were prior to our restructuring efforts.

Q2 Non-GAAP EPS was $0.72, an improvement of $0.28 from last year of $0.44.

We ended Q2 with 6,748 employees, compared to 8,061 the year prior.

Second quarter operating cash flow was $211 million, representing a 31% margin, and an increase of 75% versus the same quarter a year ago. Free cash flow for the quarter was also up 74% year over year, coming in at $184 million, representing a 27% margin. As I am learning more about the business, I am impressed with our ability to consistently generate strong free cash flow.

With regards to the balance sheet, we exited Q2 with more than $1.5 billion in cash, cash equivalents, and investments. We currently have approximately $725 million in convertible debt that will be maturing over the next few months. Our strong cash position is a reflection of the operating leverage in our business model that provides a strong level of flexibility. As we think about utilizing this cash, we will do so thoughtfully, ensuring our capital is strategically deployed.

Related to this, we re-deployed excess capital during the quarter and repurchased 583,000 shares for approximately $30 million. We also announced today that we are increasing the size of our share repurchase program to $500 million, up from $200 million, as we continue to focus on being opportunistic, reducing dilution and returning excess capital to shareholders as appropriate. In addition to our share repurchase program, during the quarter we used $40 million to pay taxes due on RSU settlements, reducing the dilutive impact of our equity programs.

With that, let me turn to our Q3 and Fiscal ’24 guidance.

To reiterate, while we’re pleased with our Q2 financial results, we’re also cautious in light of an uncertain macro environment and competitive dynamics.

For the third quarter and fiscal year ’24, we expect:

Total revenue of $687 million to $691 million in Q3, or a 6% to 7% year-over-year increase, and $2.725 billion to $2.737 billion for Fiscal ’24, or an 8% to 9% year-over-year increase. Of this, we expect subscription revenue of $669 million to $673 million in Q3, or a 7% to 8% year-over-year increase, and $2.649 billion to $2.661 billion for Fiscal ’24, or an 8% to 9% year-over-year increase.

For billings, we expect $668 million to $678 million in Q3, or a 1% to 3% growth year-over-year, and $2.804 billion to $2.824 billion for Fiscal ’24, or growth of 5% to 6% year-over-year.

We expect non-GAAP gross margin to be 81% to 82% for both Q3 and Fiscal ’24.

We expect non-GAAP operating margin to reach 22% to 23% for Q3 and 23% to 24% for Fiscal ’24.

We expect non-GAAP fully diluted weighted average shares outstanding of 207 million to 212 million for both Q3 and Fiscal ’24.

In closing, I want to thank our team for their warm welcome and their commitment to work with our customers in a challenging environment, and I look forward to connecting with many of you in the near future. We are focused on executing against the key initiatives that we believe will drive future long-term

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growth and expansion, as well as being mindful of efficiency opportunities that will set us up for profitable, sustainable growth.

As Allan mentioned, we are the only company at scale that is solely focused on helping customers improve the agreement process. We look forward to keeping you updated on our progress as we continue to evolve the agreement workflow category and help our customers become more productive and more efficient.

That concludes our prepared remarks. With that, Operator, let’s open up the call for questions.

Operator

Thank you. (Operator Instructions) Our first question comes from the line of Mark Murphy with JPMorgan. Please proceed with your question.

Male Speaker

Great. This is (inaudible) on for Mark Murphy. Thank you for taking the question and congrats on the healthy execution this quarter. Allan, just quickly on the AI front. You discussed a number of the exciting AI product launches you had at the recent Momentum Conference. Are there any specific products you would call out in which you see the greatest incremental monetization or upsell potential longer term, whether that's around ID Verification, agreement summarization, or some of the other areas for example?

Allan Thygesen

Yes. Look, I think we think AI will impact practically all of our products at every step with the agreement workflow. I don't know that there's just a one call out, but maybe to rattle off a couple that I'm most interested in. I certainly think that the broader, should we say, agreement analytics category is poised to be completely revamped with generative AI. We were an early investor in that category. We saw that coming together with CLM four or five years ago, and made a couple of strategic investments and been a leader in that space, but have been held back by fundamental technology.

I think now with generative AI, we can do a substantially better job more seamlessly, lighter weight with less professional services. So, I'm very excited to think about how it transformed the CLM category and enables us to deliver more intelligent agreements.

I think you mentioned IDV. I agree 100%. Fundamentally, that entire category is AI-enabled. The upload and ingestion of your ID Recognition of it and then that Liveness Detection where we're detecting who you are and that you are present and matching that to ID, that would simply not be possible without today's AI technology and really takes—just dramatically reshapes the ability to trade off risk and convenience. So, I think that's a good one.

But I really do think that it works across the entire flow. We use it today. When you use DocuSign eSignature today, we automatically recognize your field. That's the AI working, detecting what's going on in the agreement. I put them in that order though.

Male Speaker

Great. Thank you. A quick follow-up for Blake. Any context that you can provide in terms of how the macro environment might have trended for Q2 relative to Q1? Were there any signs of improvement and underlying demand trends or maybe pockets of relative stability? Thank you.

Blake Grayson

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Sure. Thanks for the question. I think that from a macro perspective, overall, it seemed pretty similar, I think, from Q1 into Q2. You've got certain verticals and certain areas that show relative strength, and we talked about those, calling on a couple in the prepared remarks. You have other verticals that are obviously still under some stress, and so we have to deal with that. I think that on the macro side, the biggest pressure point that I think we deal with is how CFOs, people in my position, are generally scrutinizing investments across the board. For us, it's trying to work with them and provide the best value that we can. But I would say nothing stands out from Q2, I think, from into Q1, but we're still in, obviously, a bit of an uncertain environment.

Operator

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

Luv Sodha

Hi. This is Luv Sodha on for Brent Thill. Thank you for taking my question, and welcome to Blake. I wanted to ask one to Allan. Maybe, Allan, could you talk a little bit about the go-to-market execution? I know you mentioned the focus on product-led growth, but just talk about how it has been, with the focus on product-led growth, what has been the approach to attract larger customers? Has it been more challenging? Or is it in line with your expectations?

Allan Thygesen

Yes. I'd say, first, we remain primarily dependent on our direct sales channel. That is our primary go-to-market. That will be the case for the foreseeable future. So, the execution that you're seeing in the numbers is a result of that. I'm particularly happy with the customer (inaudible) and renewal management team who delivered, as we mentioned, another quarter of strong on-time renewals. Also, a huge emphasis all throughout the pre-sales, sales, and post-sales process on adoption of features that make our products more sticky and more valuable to customers. As Blake alluded to, we saw nice progress there.

As we look ahead, it will be critical to continue that transformation of the sales organization, given the expanding breadth of our product offering, and the need to pitch at an even higher level. But I'm very bullish on the progress that our direct team is making. I'd be remiss if I didn't also mention I think we made a significant adjustment, as you will all recall, in February, with restructuring effort—95% of that effort was in the field organization. Yet, we, I think, are continuing to be able to execute, so that speaks highly, I think, of the management team's effort there.

I'd just add beyond the direct sales execution, as I mentioned, is primary, there are two other points. The digital part, where we are seeing really good progress and that business is growing a little bit faster, and I'm very pleased with the progress there. Then the third leg of the stool is our partner channel, and we are starting to ship features that will enable us to grow that channel so that we can have a really nice omnichannel direct self-serve and (audio interference) go-to market.

Luv Sodha

Perfect.

Allan Thygesen

I think I interrupted you. Go ahead.

Luv Sodha

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Yes, just had a quick follow-up for Blake. Just on the net dollar retention, Blake, I know you said it would trend down a little bit further from the 1% or 2%, but any indication as to when we could potentially see some stabilization in that metric?

Blake Grayson

Yes, sure. Just a reminder, and then it's also for me as I'm learning the business, the DNR, the dollar net retention, is only for our direct customers and only for those with a tenure of at least a year. Our communications on this figure is in line with our previous communications regarding the trends. As covered in the prepared remarks here, you heard me say we do expect continued pressure into Q3.

In a tough macro environment where companies are scrutinizing investments, it can lead to smaller expansion opportunities, and this is really why the product development focus for us and the road map is so important, because that's how we can try to provide chances to impact that trend. That's exclusive of macro forecast. So, for us to impact that number, that's kind of that longer-term product road map that we can drive to essentially be able to provide customers the chance and opportunity to do more with us to provide them better ROIs and better productivity opportunities.

We've got a lot of initiatives underway to try and make progress there. But with regards to trying to call any time further out beyond Q3, we're not prepared to talk about that at this time.

Operator

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

Tyler Radke

Yes. Thanks for taking my question. I wanted to just get your perspective, Blake, and congrats on the role here. On the international opportunity, you highlighted that as a big opportunity that you saw coming on board. But how are you thinking about the size of that business potentially over time? Any thoughts on potential investments that you can make to better go after that? Thank you.

Blake Grayson

Sure. I think from just my history, one of the experiences that I bring and just the perspective is the international business. In a previous role at Amazon, I led finance for the international group there. The TAM outside of North America is huge and yet it only reflects 25%, 26% of our total revenue. So, I think the opportunity for us over the long term there, there's no reason why that shouldn't grow as a percent of the total.

I think that you heard Allan talk about the expansion opportunities. We just opened an office in Munich in Germany, and so we are making investments there and we are seeing those green shoots of opportunity. So, it's a process for us, right? When we talk about product development, we talk about product development globally. It's not like a North America only kind of endeavor. When we do that and we keep a focus on the global nature of this business, I'm cautiously optimistic that we have an opportunity to really expand our footprint there.

Allan Thygesen

Yes. Maybe I can add a little bit more color there. On the product side, let's take Germany as an example, we launched the ID Verification for EU Qualified last quarter. We’re qualified for a trust provider in the EU, and it puts us in a very unique and strong market position. The German market is particularly sensitive to those regulatory issues.

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One of the things we're launching and that we previewed at Momentum—which is our conference—is a wallet capability where, essentially, once you logged in once with this ID system, you can auto log-in in the future, further reducing the friction added by having more security. That's been the traditional risk trade-off that companies have faced. So, we’re, I think, very optimistic about our position in the German market. As Blake mentioned, we just booked an office there, and I'm going there again next Sunday.

In Japan, we're at an even earlier stage of market development. Just at the end of August, we launched a fully localized CLM, which I believe is the first western-style CLM introduced in Japan, and there's a lot of interest and appetite for that. I was in Tokyo a few weeks ago. We're very bullish on the opportunity in the Japanese market as well.

Beyond the markets where we can invest at that level, we will use our self-serve and partner channels to ensure that we're available essentially everywhere where agreements are signed.

Tyler Radke

Great. Thanks for the color. A follow-up question just on underlying growth. Certainly, there was some interesting slides in the presentation. But if I look at four quarter trailing billings quarter—sorry, rolling four-quarter billings growth, it seems like billings growth over the last four quarters has been stabilizing in the low double digits. You saw subscription growth only decel about one point this quarter. Do you feel like the business is kind of stabilizing here? How should we just think about the normalized growth environment as you process the puts and takes on the quarter? Thank you.

Blake Grayson

Sure. I'll take a stab and Allan will jump in, I'm sure if he wants to add any color. Yes, generally, really pleased with how Q2 performed. But like you heard in the prepared remarks, we still have work to do ahead of us. We did double-digit billings and revenue growth year-over-year in Q2. Customers are adopting five or more features—direct customers are adopting five or more features at an increasing pace year-over-year. Our total customer count grew double digits year-over-year. International grew well. We also produced really strong free cash flow for the quarter. We generated $187 million free cash flow of a pretty large foundational base of customers. Obviously, we need to work on retention rates and drive growth, but a decent quarter for us.

I think with regard to the future, there are puts and takes every quarter with that billings number. I appreciate that you're using the four-quarter trailing number. I think that's a good way to look at it. Over Q1 and Q2, we have that strength in on-time renewals, right? And it's forecasted to continue, but there is pressure, as we've previously mentioned, around lower expansion rates and some macro uncertainty. So, that billings number can be a little volatile. I would say that the full year guide that we just announced for billings is actually a bit stronger than it was after our last quarter.

For me, as I think about the business and what I'm most focused on is how do we turn the chapter to a new period of growth, we have to be focused on the long term on continuous product innovation that can drive that future expansion. That takes some time. But again, we have a very large kind of core fundamental base book of business—that's the free cash flow generator. But for us, going forward, we're excited to deliver on a product road map that we believe over the long term can deliver growth opportunities.

Allan Thygesen

I think that's well said, Blake. I would just add I think this is a transformational year for DocuSign where we're making the investments to enable the next phase of growth. We're happy that we're able to sustain the business nicely. But we're not satisfied with that, and we are planning and executing towards further acceleration in the years to come.

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Operator

Our next question comes from the line of Jake Roberge with William Blair. Please proceed with your question.

Jake Roberge

Hi. Thanks for taking the questions. Has the macro started to impact the top of funnel at all? Or are most of the headwinds still related to just that expansion motion? How is linearity of demand throughout the quarter? Have there been any noticeable changes on the macro front, especially as we've gone through July and August?

Blake Grayson

Sure. I'll take a stab. Let me try to address your last question first. I think on the linearity, it's generally in line with our historical trends. Monthly results can be volatile in this business, just due to our sales cycle. What I would say is that the linearity trends, if you will, they're already reflected in our guide. So, nothing material to call out from a linearity perspective.

I think on the macro component for us, the expansion, I think, is the biggest part. As I referred to before, we have a very large base of business, over 1.4 million customer accounts, and so that, I think, is on the expansion side is what is probably the more impactful component, and you can see that in the DNR rate.

Allan Thygesen

Yes. I think you’re spot on that. I would simply add that the relative strength in our digital business reflects that the SMB segment is doing well. That is new customer acquisition, I think it reinforces the themes that Blake was talking about.

Jake Roberge

Helpful. Allan, you made quite a bit of organizational changes over the past year with two (inaudible), a new CFO, Head of Sales, and President. Do you feel like the structural changes are behind us at this point? When do you think those changes start bearing more fruit for DocuSign just as a broader org, just given those changes likely take a few quarters, if not years to play out?

Allan Thygesen

You're absolutely correct. We've made a substantial effort over the last 15 to 18 months to attract a world-class leadership team that has deep experience but is also hungry for the excitement and the challenge of DocuSign's next chapter. I'm really happy with who we've been able to attract. I think it speaks to the opportunity into DocuSign's brand and the quality of the Company. The kinds of folks that we've been able to attract not just after (inaudible) but also prior.

I do think we have a relatively full team now, both directly reporting to me, and in fact, in the next couple of layers. I don't have any open positions, really the top two layers for me, and that's not been the case for a long time. So, I think we're really making good progress also in filling in some of the key leadership roles at the next level. I feel like the organization is now more ready and poised to fully capitalize on the opportunity ahead of us.

In terms of how that plays into—that is the enabler for and the requirement for both the product road map, the GTM transformation, and then the growth in the outer years. If we didn't do that first, we couldn't make progress on the other things.

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Operator

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

Bradley Sills

Great. Thank you so much. I wanted to ask a question around the international strength you're seeing. Any countries you'd call out there? And as you've been investing in international, are there any regions that we should expect to see perhaps some incremental traction from here?

Blake Grayson

I'll just comment. Regionally, I wouldn't say there's necessarily one standout versus the rest. But I just think we had general strength outside of North America, which I actually appreciate, because it just goes to the notion about the product and the value offering that we have, and so how do we expand that larger going further.

I think also that as far as new plans and new regions, we'll take that on a case-by-case basis. The one nice thing for us, I think, in this business is the marginal cost to expand is not terribly large with us. For us, it's opening a sales office and that kind of thing, and you want to have the situation laid out appropriately in order to have the right leadership and scale and things like that. But I don't have anything with individual countries to reference other than the anecdotes that Allan already provided around Asia and Europe.

Allan Thygesen

But in general, I'd say I think all the international regions—Europe, APAC, LATAM—all grew at double digits.

Blake Grayson

Yes. It was strong across the world is what I would say for us. Internationally, we're pleased with our international progress regardless of the region.

Allan Thygesen

Yes.

Bradley Sills

Great to hear. Just with regard to the restructuring effort and the direct sales organization, do you feel like—Allan, I think your comments are that you feel like you got the right team in place. But are the efforts to restructure the existing organization, is that largely in the past? Do you feel like you're kind of set up now such that you're in a place where the plan and the organization in place from here can execute? Thank you.

Allan Thygesen

We don't have any plans for any major restructurings of our sales organizations. I mean, obviously, you're always tuning things, and I think we're continuing to evolve that, but nothing major and nothing that we could be on the scale or considered like a risk or anything like that.

Operator

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Our next question comes from the line of Karl Keirstead with UBS. Please proceed with your question.

Karl Keirstead

Okay. Great. Thanks. Maybe a couple for Blake. Blake, if you don't mind unpacking the 3Q billings guide, it obviously implies down $33 million. I know we had that phenomenon two years ago, but it's typically up sequentially. Is this a function of the greater on-time renewals? Anything else that you might flag around that? Thank you.

Blake Grayson

Sure. Yes, the guide reflects continued—the trends that we're seeing in the on-time renewals. The function of the on-time renewals for us is that every customer situation is different, right? Deals can renew on time; they can be renewed early or they can be pushed out. Every quarter puts and takes on that. The first half of the year has been strong due to sales execution. There are deals that may normally have slipped out to Q3 and got closed in Q2. So, that's a positive.

But renewals, obviously, while super important for us and really drive that foundational free cash flow generation, it's more of a timing thing than it is for on the growth side. I think the positive to note for us on the on-time renewals is that we're not relying on discounts or incentives to drive that improvement in that on-time renewals. It's better sales execution. The teams work really hard just to stay on top of those things when they come up for renewals because an on-time renewal is just a deal that renews on schedule. So, that's super strong.

With regards to the guide as far as other pressures, that's just the macro pressures we discussed earlier with the DNR, essentially the net retention components and the pressures that we're seeing there.

Karl Keirstead

Yes. Okay. Makes sense. One more, Blake, your predecessor—it was never a formal guidance, obviously, around operating cash flow. But the soft color was that it might land for this fiscal year, "A couple of points below operating margins." Is that still roughly your framework as to where cash flow margins might shake out this year?

Blake Grayson

Yes, I'm not in a place where I want to guide to a specific cash flow margin, so to speak. I think for me, what I'm looking for in the business is a long-term cash generation company that drives profitable sustainable growth. I think that the fact that we've delivered, I think, $211 million of cash flow of operations, $184 million of free cash flow, those were pretty healthy yields. You'll see those fluctuate in the quarter based on timing and such. But it's a cash generating business and model that, as a CFO, I'm selfishly super excited about.

Operator

Our next question comes from the line of Josh Baer with Morgan Stanley. Please proceed with your question.

Josh Baer

Great. Thank you for the question. I had one more just to clarify on the topic of on-time renewals, so that was part of what drove billings upside this quarter, but now you're saying that the guidance now reflects sort of the same level of on-time renewals. Is that right that there's kind of been a change in how you're incorporating the idea of on-time renewals into guidance? Now, if things stay the same in Q3, you wouldn't see upside to billings?

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Blake Grayson

Right. I'll try to clarify this a bit more, and I'm learning this as we go. The thing with on-time renewals is that essentially doing an on-time renewal that may be in the prior year was pushed out, affects your ability to continue that momentum. So, it's a timing situation. With that strength in the first half, even though you have execution that continues, it's just you kind of run out of room a little bit on it. So, it's really more of a timing situation than a growth opportunity. That's why you see that. Again, that was in the previously communicated guidance last quarter, and we actually increased the full year guide for this year. It's all been in there in the guidance, but it's just that nuance of how on time flows through.

Josh Baer

Okay. Got it. One more, just on sort of the big picture agreement process and workflows, I was just wondering are there certain departments or workflows where DocuSign should own that full agreement process versus others where maybe the basic DocuSign eSignature is integrated into in HR onboarding or some other departmental or workflow? How to think about the two different possibilities there? Thank you.

Allan Thygesen

Yes. I would say people use DocuSign for all kinds of workflows. But if I was going to pick areas where we had a particularly strong early start, from a vertical perspective, obviously, in the finance and real estate area, that was very strong. Then, I'd say, it moved on to all forms of B2B sales—were very enabled by DocuSign, and we see that a lot. Now, we're seeing quite a few HR applications, as you alluded to. So, we have strong partnerships there with Workday and with SuccessFactors, and a lot of deployments in that.

And in procurement. Particularly, these days enterprises are very focused on procurement management and automating that process and making it more efficient and more transparent. We see more adoption there as well. So, as an example, a lot of our strength in the pharma space comes from procurement use cases.

We have a fantastic relationship—to pick a different one—with NVIDIA, who uses DocuSign both for eSignature and for CLM. It's really focused on their supply chain efforts.

So, really, at this point, it's very broad across all the major enterprise workflows and many industries, practically all industries. But we started in different—we had some industries that were fixed starters for the eSignature movement, if you will. But at this point, it's pretty broad. Does that help?

Operator

Our next question comes from the line of Jackson Ader with MoffettNathanson. Please proceed with your question.

Jackson Ader

Great. Thanks for taking our questions, guys. First one on the product set or the feature set. It's much broader and deeper than it was even just a couple of years ago. I understand, given the macro environment, it’s probably hard to pass or to expect to get all the value you've been putting into products back from your customers. But I'm curious, how are you making sure that once the macro headwinds subside that you don't put $10 of value into the product and only get $5 back? Just to make up numbers.

Allan Thygesen

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Yes, it's certainly a fair push. What I would say, what we've done here over the last nine months or so is really pick up the pace of innovation and product release. Adding heft to our core products, I think the big transformation of DocuSign into this broader agreement platform and the intelligence layer is still ahead of us. We previewed some of that at (inaudible) and some early releases at Momentum. If you haven't already watched the Momentum keynotes, they’re up on our website and it gives a really good overview of where we're heading.

Just as an example of things that I think are to come that make this really a more at-scale holistic platform things like Orchestration, where we are enabling customers to dynamically assemble workflows related to agreements. Components of every part of the DocuSign—every one of our interfaces to third-party ISV applications, I think it is going to be incredibly powerful in rearchitecting how agreements get done. That's an example.

I think Enterprise Search was something that we will begin to roll out in Q4, and that is—being able to do that semantically across your entire agreement base. To use an example, let's imagine that you're looking for (inaudible) in your contracts. Today, that would be a large team of lawyers spending months going through all your agreements. We can deliver that and have the AI dynamically interpret all the synonyms and ways in which that might be expressed, and give you all the agreements that are relevant to that query. That's really transformational capability that we do not provide today.

I just want to say that, to date, many of these releases have been complementary to the products that we've been shipping for a while. They're great, and I think it's giving us even more of a market leadership position. But the broader repositioning of DocuSign as the enabler and creator of this agreement workflow and agreement intelligence model is still to come. We will begin, I think, delivering against that later this year, and then all throughout next year and so on. I think we have so much runway ahead of us from a product perspective.

Jackson Ader

Okay. Great. A quick follow-up. Blake, what's the plan or what should we expect for stock-based comp? I'm surprised to see it up year-over-year just given the trend in headcount.

Blake Grayson

Sure. Stock-based comp as a percentage of revenue in Q2 is about 22%, and that's held relatively steady for us. We review that number with our outside compensation and consultant were slightly higher than our average peer group. The driver on the year-over-year increase has a lot to do with the new leadership folks that we've brought on to the team—me being one of those people—and you'll see that. It is something we're definitely paying attention to and mindful of, but that's the big gap when you're asking about between headcount and cost. That will take time, obviously, but we'll work through that.

Operator

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

Alex Zukin

Hi, guys. Thanks for taking the question. Congrats on a solid quarter. I guess two for me. The first one, I want to go back to the question around net retention because that, I think, is really, really important. To some extent, how much of the net retention dynamic is under your control, meaning how much of it is a macro pressure versus competition and consolidation or repair loss effectively?

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I ask that because to some extent, you've already released a number of really interesting new products. They’re in market. CLM+, CLM, the Identity product that you talked about. So, is there any way to kind of just give us some confidence around like what level to the question earlier it shouldn't dip below or how many quarters after the cohorts that you're comping normalize that we should start seeing it at least be stable?

Blake Grayson

Sure. It's awfully challenging for me to try to look into that crystal ball and tell you on the cohort side. What I would say is I think you've nailed it in your question that it's a combination, right? We have a combination of macro effects that essentially as customers scrutinize their investments, and they're trying to save every dollar they can, what do they do. But then it's also combined with that, we have it under our control that if we can execute and provide products that customers want and over time we expand, it gives us that opportunity for expansion.

I think it's a double kind of a component that affects that rate. Part of it's under our control, and then part of it also is the macro environment. But at the end of the day, I feel like if we can execute on that product road map, over time it kind of (inaudible) stays in our hands. Allan will probably have more to add.

Allan Thygesen

No, I agree 100% with that. Look, we've said that it was going to be a few quarters of downward trend, and then we will see how we do with the product release system, but we certainly want to get it to a healthier level, and it's our expectation that we will be able to do that. So, that's as much as we can say at this point.

Alex Zukin

Okay. That makes sense. I guess the other question is, again, it feels like a bit of a tale of two cities, right? To some extent, you've got the double-digit growth, both in billings and in CRPO and subscription revenue. But then to the question Karl asked, your guidance implies billings in the very low single-digit range in the second half, it implies that even subscription revenue growth goes down into the 6% range exiting the year. I appreciate the conservatism, we do love it. But if you think about the business itself, and that's why that NRR question comes back, the Street has you accelerating in Q1, and to some extent, accelerating next year. Just help us level set—that exit rate that you're looking at for Q4, what would be the factors that you would be expecting to have to see for it to kind of get better from there?

Blake Grayson

Right. Again, I mean, our full year guide is in line or better than it was in the previous quarter. So, we're staying in line or better in that guidance. I think that like we've talked about and referenced a couple of times on the call that the strength in the on-time renewals is what has driven that outperformance in the first half of the year, and then the pressure like you noted on DNR expansion rates and macro uncertain, it creates volatility for us.

Frankly, over the long term—and I'm not putting a time line on that, but it's how do we reaccelerate growth and particularly around the product innovation that we have in front of us. As a company, I would tell you that 70-plus percent of our time as a leadership team is on how do we evolve this product road map in a way that customers like, appreciate, and provides us the opportunities for expansion. So, that's what we're solely focused on. We believe that if we can deliver on that road map that the results will show themselves.

Allan Thygesen

I agree with that. I would just say, in my mind, the best thing that happened this quarter—yes, I'm proud of the solid execution, kudos to the team. But the fact that we were able to present our vision and road map

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to customers and partners, and that they enthusiastically validated that. Everywhere I went, it was incredibly gratifying and tells us I think we're on the right path.

I think we're very bullish on the long-term future growth for DocuSign. I think that bullishness just became more pronounced as a result of the sharing of the road map and the feedback that we got. So that is our goal is to deliver against that. I think if we do that, all will be well.

Maybe to close—thank you, everyone, for joining us today. We're pleased with the results and feedback, and we're driving transformation here at DocuSign. We want to balance our product investments with operational efficiency and drive shareholder value. Thank you for joining us.

Operator

Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time and have a wonderful day.

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