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DocuSign, Inc.

First Quarter Fiscal Year 2025
Earnings Conference Call

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CORPORATE PARTICIPANTS

Matt Sonefeldt, *Interim Head of Investor Relations*

Allan Thygesen, *Chief Executive Officer*

Blake Grayson, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Jake Roberge, *William Blair*

Tyler Radke, *Citi*

Brent Thill, *Jefferies*

Pat Walravens, *JMP Securities*

Rishi Jaluria, *RBC Capital Markets*

Josh Baer, *Morgan Stanley*

Scott Burg, *Needham & Company*

Brad Sills, *Bank of America*

Michael Turrin, *Wells Fargo Securities*

Arsenije Matovic for Alex Zukin, *Wolfe Research*

Karl Keirstead, *UBS Securities*

Analyst for Mark Murphy, *J.P. Morgan*

George Iwanyc, *Oppenheimer*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Thank you for joining DocuSign's First Quarter Fiscal Year 2025 Earnings Conference Call.

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At this time, all participants are in listen-only mode. After the speaker's presentation, there will be a question-and-answer session. As a reminder, this conference call is being recorded and will be available for replay from the Investor Relations section of the website following the call. If anyone should require operator assistance during the conference, please press star, zero.

I will now pass the call over to Matt Sonefeldt, Interim Head of Investor Relations. Please go ahead.

Matt Sonefeldt

Thank you, Operator.

Good afternoon, and welcome to DocuSign's Q1 Fiscal 2025 Earnings Call.

Joining me on today's call are DocuSign's CEO, Allan Thygesen, and CFO, Blake Grayson. The press release announcing our first quarter 2025 results was issued earlier today and is posted on our Investor Relations website as well as a published version of our prepared remarks.

Before we begin, let me remind everyone that some of our statements on today's call are forward-looking. 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 product innovation 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 Thygesen

Thanks Matt, and good afternoon everyone.

We're off to a strong start in fiscal 2025. We launched a significant expansion to our company strategy with our announcement of the DocuSign Intelligent Agreement Management platform. We also announced the acquisition of Lexion to accelerate the AI powering our platform.

We continue to make clear progress on our three strategic pillars: accelerating product innovation, improving our omnichannel go-to-market capabilities, and increasing operating and financial efficiency. Our core business showed ongoing signs of stabilization. In Q1, revenue was $710 million, up 7% year-over-year. Dollar net retention improved versus the fourth quarter. Q1 non-GAAP operating margin increased approximately 2 percentage points to 28.5% versus 26.6% last year.

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Free cash flow generation remained strong, improving 8% year-over-year to $232 million and resulting in a 33% free cash flow margin. Strong cash flow gives us confidence to continue investing in our growth while opportunistically returning capital to shareholders, including through the new $1 billion buyback authorization that we announced today. Blake will share further business and financial details in his comments. Over the last 18 months, we have tightened operating efficiency, stabilized the business and customer relationships, and launched a new platform that will support long-term growth.

In Q1, we made a number of announcements that showcase our commitment to increase product innovation for customers. At our flagship customer event Momentum24, we outlined a bold new vision for Intelligent Agreement Management and shared our product roadmap for that vision. We believe the launch of DocuSign Intelligent Agreement Management is a landmark moment in the Company's transformation. DocuSign Intelligent Agreement Management - or DocuSign IAM - addresses customer pain points across the agreement journey. Companies experience universal friction and frustration in managing agreements, and the costs add up. According to a recent study by Deloitte, poor agreement management systems and practices cost nearly $2 trillion in global economic value annually and cost workers billions of hours in lost time.

With DocuSign IAM, customers can transform agreement data into insights and actions. Our new platform enables customers to create, commit to, and manage agreements all in one place. Our new capabilities help customers improve contract review cycles, streamline workflows, and boost productivity organization-wide.

The DocuSign IAM platform is a significant departure from our past approach of only offering standalone products. The platform combines our current products - including our market-leading e-signature and CLM products - with new platform services that customers have asked for, including: DocuSign Maestro, our new agreement workflow builder, to automate the creation of agreements without using code. With Maestro, customers can configure custom agreement workflows in minutes, combining DocuSign capabilities like eSignature, ID verification, and data verification with third-party apps to connect to their business processes.

Second, DocuSign Navigator, to store, manage, and analyze a customer's entire library of accumulated agreements. This includes past agreements signed using DocuSign eSignature, as well as non-DocuSign agreements. Navigator leverages AI to transform unstructured agreements into structured data, making it easy to find agreements, quickly access vital information, and gain valuable insights from agreements.

And third, the DocuSign App Center, to help our customers easily integrate third party applications into their agreement workflows without any coding or expensive custom development. This is particularly powerful for DocuSign Admins and Process Builders, who can easily configure IAM for their unique agreement management needs. At launch, our App Center features commonly used apps from Salesforce, ServiceNow, HubSpot, Stripe, and document-sharing services like Google Drive and Microsoft's OneDrive and Sharepoint.

In addition to creating new platform services, we also unveiled application suites for specific functions within organizations. DocuSign IAM launched starting with IAM for Customer Experience, IAM for Sales, and IAM Core for general-purpose usage. In time, we will also launch IAM applications for legal, procurement, and HR teams, as well as for specific industry verticals.

On May 30th, DocuSign IAM launched with availability for our small and mid-market customers in the U.S., with select plans also available in Canada and Australia. DocuSign IAM will roll out to more customers and more geographies over the next year. As we execute this rollout, we are focused on increasing flexibility for customers. IAM unleashes the ability for companies of all sizes to manage their agreements, significantly expanding the agreement management market.

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CLM, which remains our sophisticated enterprise offering, showed us the importance of giving customers an advanced set of workflows and deep agreement intelligence. IAM takes the learnings from CLM and applies them to a platform with broader agreement functionality that is accessible for any size customer to any member of their organization.

AI is central to our platform vision, and we are thrilled to welcome Lexion to the DocuSign family. Lexion is a proven leader in AI-based agreement technology, which significantly accelerates our IAM platform goals. We maintain a high bar for acquisitions, and Lexion stood out due to its sophisticated AI capabilities, compatible technology architecture, and promising commercial traction with excellent customer feedback, particularly in the legal community. Additionally, we are bringing exceptional talent and strong AI leaders into DocuSign. The acquisition of Lexion marks an important step forward in our platform journey.

Let's turn to our omnichannel go-to-market, our second strategic pillar.

In Q1, momentum was solid across the direct, partner, and digital routes to market. Overall customer growth remained consistent with Q4 at 11% year-over-year. Envelopes sent and contract utilization both saw modest year-over-year improvements for the second quarter in a row. International and CLM revenue growth continued to meaningfully outpace total revenue growth.

The partner channel continued to show improvement with strong growth from key partners like SAP and Microsoft. For example, DocuSign is one of the first Copilot integrations in 365, Microsoft Dynamics, and Salesforce Sales Cloud, creating access to agreements in productivity and sales applications. Across all channels, we are focused on creating global engagement with customers.

Behind a new DocuSign brand that is focused on bringing agreements to life, we welcomed thousands of customers and partners to our largest customer event of the year, Momentum24. This flagship New York event was the kick-off to a larger Momentum series spanning 8 events in 5 continents. This engagement paves the way for rolling out localized versions of DocuSign IAM in our largest international markets.

At these events, we recognized several customers who stand out for their innovation and business impact by deploying DocuSign capabilities within their companies. In sales and customer experience use cases: J.P. Morgan's Commercial Bank Services has quickened its lending process by over two weeks across its base of clients; and Red Hat now has 7,000 users on DocuSign CLM sending over 30,000 sales-related envelopes for signature annually.

Customers using DocuSign in procurement and legal use cases stand out as well: Meta used DocuSign to analyze over one million contracts across customers, partners, and suppliers; Santander UK transformed its lending fulfillment process in its corporate and commercial bank including reformatting its facility agreements through automation; and Flowserve, one of the world's leading providers of fluid motion and control panel products and services, manages over $1.4 billion in contracts through DocuSign CLM

What's exciting is that this is just the beginning for DocuSign helping customers navigate their agreement management journeys.

In closing, Q1 was an important step forward as we re-imagine DocuSign. With Intelligent Agreement Management, we are leveraging our market leadership in e-signature and CLM to define a broader market opportunity by solving age-old customer problems that have never been addressed. We believe IAM unlocks a new wave of value for customers as the system of record for agreements, and a new phase of growth for DocuSign.

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Thank you to our entire team for your passion and dedication to realizing our vision for customers. We're proud of what we've accomplished in recent months and quarters. And we're just getting started.

With that, let me turn it over to Blake.

Blake Grayson

Thanks Allan, and good afternoon everyone.

We delivered strong business and financial results in Q1 that continued to demonstrate stabilization in our core business. In addition, we maintained our focus on operating efficiency while continuing to invest in the newly launched IAM platform, critical AI capabilities, and omnichannel go-to-market initiatives that we believe can help drive our long-term growth aspirations.

Q1 financial performance showed solid topline growth, improving operating metrics, and continued efficiency gains resulting in strong operating income and free cash flow generation. Total revenue in Q1 increased 7% year-over-year to $710 million, and subscription revenue grew 8% year-over-year to $691 million. Billings grew 5% year-over-year to $710 million. The billings outperformance compared to our guidance was driven primarily by higher early renewals as well as stronger retention rates. International revenue, a key long-term growth driver, continued to grow at approximately double the overall revenue growth rate and now represents 28% of total revenue. We continue to be excited about the long term opportunity we still have remaining in our international markets.

Similar to the past two quarters, we are encouraged by several continued signs of business stabilization.

First, as Allan mentioned, our dollar net retention rate improved to 99% in Q1 from 98% in Q4. This is the first sequential quarter-on-quarter improvement in several years. Gross retention rates improved modestly year-over-year, which was the primary driver of the sequential improvement in dollar net retention. We expect that these recent stabilization trends will continue, and in Q2, we anticipate dollar net retention rate to be flat to down slightly. Longer term, we believe there is significant opportunity for growth across both our core business and with the addition of the Intelligent Agreement Management platform through continued customer penetration and new expansion.

Second, usage trends once again showed modest improvement, similar to what we experienced in the second half of fiscal 2024. Envelopes sent increased slightly year-over-year, compared to the year-over-year declines we saw at this time last year.

Consumption, a contract utilization measure, also improved slightly year-over-year, led by increases in the healthcare, insurance, and technology verticals.

Third, the number of large customers spending at least $300,000 annually remained stable at 1,059 in Q1, relatively similar to customer counts from Q4 and Q1 fiscal 2024. We saw lower volatility in large customers compared to Q1 of last year, when the number of customers spending over $300,000 decreased sequentially by 2%. Also, bookings from customers with total contract value over $1 million continued to increase by double digit year-over-year rates in Q1.

Fourth, new customer acquisition growth remained strong in Q1, with total customers increasing by 11% year-over-year, for the third consecutive quarter, to 1.56 million. Our quarterly absolute net account additions of over 50,000 is the highest sequential gain we have seen in two years, since Q1 of fiscal 2023. This was driven predominantly by growth in Digital customers that grew 11% year-over-year to 1.3 million. We will continue to focus on driving self-service features and adoption through our PLG motions. Direct customers grew 13% year-over-year to 248,000.

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As we begin the measured rollout of Intelligent Agreement Management across segments and geographies, the scale of our customer base creates strong long-term expansion potential for the business and continues to be a unique asset across the software landscape.

Turning to our financials, operating and financial efficiency initiatives drove strong performance in Q1. Non-GAAP gross margin for Q1 was 82.0% versus 82.6% last year, in-line with guidance, given the ongoing cloud infrastructure migration that we expect will take place throughout fiscal 2025. Q1 non-GAAP subscription gross margin was 84.2% versus 85.2% last year, also impacted by the migration.

Non-GAAP operating income in Q1 was $202 million, up 15% year-over-year to a record-high 28.5% operating margin. This is up nearly 200 basis points versus Q1 last year and a significant increase from the 17.4% operating margin from two years ago. The improvement from last year has largely come from efficiency gains within our sales and marketing departments, where we've been able to reduce our spend as a share of revenue by over 200 basis points from a year ago, to 33% of revenue compared to 42% of revenue two years ago. This has provided us the ability to continue investing in R&D at a consistent percent of revenue.

In Q1, non-GAAP operating margin benefited from lower headcount related to the previously announced restructuring. We incurred $29 million in GAAP-specific restructuring charges in Q1, in-line with our previous communications. A portion of the outperformance in non-GAAP operating margin relative to our guidance was driven by expense timing.

We ended Q1 with 6,441 employees versus 6,586 at this time last year, approximately 2% lower than the prior year. We will continue to manage our hiring plans to align our sales organization with our digital and partner GTM motions, support long-term growth opportunities in R&D, and realize efficiencies of scale in G&A.

We continue to benefit from a business model that generates significant cash flow. Free cash flow in Q1 increased to $232 million with a 33% margin versus 32% in Q1 of last year. Efficiency initiatives continued to yield working capital improvements. In particular, collections efficiency has been a point of strength. We ended Q1 with less than 1% of our accounts receivable over 90 days past due, a significant improvement year-over-year. As discussed last quarter, we anticipate our full-year free cash flow margin will more closely approximate non-GAAP operating margin for fiscal 2025. Related to that, we expect to see a lower free cash flow yield rate in Q2 versus Q1.

The balance sheet is in a strong position. At quarter end, we had $1.2 billion of cash, cash equivalents, and investments. We currently have no debt on the balance sheet. This strong financial foundation allows us to harness significant free cash flow generation to support future investment as well as redeploy excess capital opportunistically to shareholders.

To that end, during Q1 we used $149 million in cash to repurchase shares, more than three times greater versus the $40 million in share repurchases in Q1 of the prior year, and slightly more than we repurchased in all of fiscal 2024. We also used $42 million in cash to pay taxes due on RSU settlements, reducing the dilutive impact of our equity programs.

As Allan mentioned, the Board recently authorized an increase to our open-ended buyback program of $1 billion, which is on top of the approximately $140 million we have in remaining existing authorization.

With regard to capital allocation, we also closed the Lexion acquisition on May 31st. Lexion is a strong strategic fit for DocuSign. We have a disciplined valuation framework and high culture bar for acquisitions, and I am excited for the opportunities this ultimately can provide for our customers. Lexion's technology will accelerate our AI-powered IAM roadmap and Lexion's founders and team will help strengthen our technical foundation with their AI-industry leadership experience. In terms of financials, Lexion will not

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have a material impact on revenue and non-GAAP operating margins in fiscal 2025, and the financial impact is reflected in our current fiscal 2025 guidance.

Non-GAAP diluted EPS for Q1 was $0.82, a $0.10 per share improvement from $0.72 last year. GAAP diluted EPS was $0.16 versus zero cents last year. Diluted shares increased approximately 1% year-over-year to 210 million shares. We are encouraged by gains in both non-GAAP and GAAP profitability, and we continue to target improvements in annual GAAP net income and per share profitability as we work to manage the dilution and cost of our equity programs.

In Q1, stock compensation expense as a percent of revenue, excluding the impact from restructuring, declined by 170 basis points year-over-year, from 21% in Q1 of fiscal 2024 to 19% in Q1 of fiscal 2025. We continue to expect stock-based compensation, excluding the impact from restructuring, to be approximately flat year-over-year in fiscal 2025, and expect that cost as a percent of revenue to decline year-over-year.

Related to our GAAP financials, in fiscal 2025 it is reasonably possible that we will release a valuation allowance on certain existing deferred tax assets, which was discussed in our 10-K that was published last quarter. When released, we estimate this would have a GAAP-only financial impact of decreasing our non-cash tax expense by approximately $750 to $850 million. Further details will be found in the 10-Q filing.

With that let me turn to guidance. For Q2'25 and fiscal year 2025, we expect: Total revenue of $725 to $729 million in Q2, or a 6% year-over-year increase at the midpoint. For fiscal year 2025, we expect revenue between $2.920 billion to $2.932 billion, or a 6% year-over-year increase at the midpoint. Of this, we expect subscription revenue of $705 million to $709 million in Q2, or a 6% year-over-year increase at the midpoint, and $2.844 billion to $2.856 billion for fiscal 2025, or a 6% year-over-year increase at the midpoint.

For billings, we expect $715 million to $725 million in Q2 and $2.980 billion to $3.030 billion for fiscal 2025. As continually shown in recent quarters and years, billings are heavily impacted by the timing of customer renewals, which can create meaningful variability from period to period. This impacts year-over-year and sequential quarter-over-quarter comparisons and is further amplified by the scale of our book of business.

As discussed in our results call last quarter, we expect Q2 to have the lowest year-over-year billings growth rate in fiscal 2025 primarily given comparisons versus last year's strong on-time renewal performance and the timing impacts of various customer contracts.

We expect non-GAAP gross margin to be 80.5% to 81.5% for Q2, and 81.0% to 82.0% for fiscal 25. We expect non-GAAP operating margin of 27.0% to 28.0% for Q2 and 26.5% to 28.0% for fiscal 25.

During the year, we continue to expect to realize lower costs from the restructuring announced in February, as well as several ongoing efficiency improvement initiatives across the Company. Our ultimate goal is to invest in long-term growth opportunities, in particular in R&D, while generating efficiencies that allow us to scale profitably. We expect non-GAAP fully diluted weighted average shares outstanding of 208 million to 213 million for both Q2 and fiscal 25.

In closing, we are pleased to report another quarter of progress against our three strategic pillars: accelerating product innovation, enhancing our go-to-market initiatives, and strengthening our financial and operational efficiency. Q1 showed solid progress in improving the relationships with our customers and stabilizing business fundamentals, and we remain pleased with our overall profitability and free cash flow generation. We are committed to continuing to invest in realizing our vision of Intelligent Agreement Management. With over 1.5 million customers worldwide and a strong position as the default, trusted

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partner for customers with their agreements, we believe the future is bright as DocuSign endeavors to execute against our long-term strategy to deliver a new, AI-powered, IAM platform.

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

Operator

We will now be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. In the interest of time, we ask that you limit to one question and rejoin the queue as time allows.

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

Jake Roberge

Hi. Thanks for taking my questions. Blake, could you just help us understand how recent consumption trends were factored into your subscription guide. It sounds like consumption improved in the quarter but it doesn't look like the full subscription beat was pushed through to the guide. So I'm curious if you started to see any impacts from the macro as you exited the quarter or if the guide really is just conservatism in getting out in front of any potential macro headwinds. Thanks.

Blake Grayson

Thanks, Jake. Thanks for the question. I think if you look at the guide and especially if you look at it into the full year, we actually lifted our full year mid point guide in total revenue by slightly more than our beat in Q1. There's a little bit of back and forth between the sub revenue line and then the professional services and other revenue, and that's really just a function of us getting a little bit more granular as far as contracts and maybe on-prem versus what we had assumed in our forecast and such.

I would tell you on the macro side, Q1 was highly consistent from a linear monthly perspective, and actually as we get into May as well which we've been really happy with. I haven't seen any material shift as companies continue to scrutinize investment spend. We've had another quarter of stabilizing signs (phon), both in consumption and usage, both trended up modestly for us. So I think it's also the fact for us that being able to see the account growth that we had in this quarter of over 50,000, it's also encouraging, I think, from a macro perspective just because of the size of our book of business and the size of the account base that we have. So I'm pretty happy about that.

Jake Roberge

Thanks for taking the questions.

Operator

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

Tyler Radke

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Thanks for taking the question. I wanted to ask you—you clearly have a lot of announcements and momentum with the announcement of IAM. Can you just help us understand how specifically the Lexion deal fits into that vision. Do you feel like with the combination of Lexion, your core eSignature, some of the assets around SpringCM and Seal, you have the complete product? Are there other areas you're looking for? Just any feedback that you could share from customers post that launch and how it's being perceived. Thank you.

Yes, I'll take that one. First of all, on Lexion, our engagement Lexion really started in the fall when we decided as a team that we thought we could go even faster in the agreement as there was just so much headroom and it was so integral to our strategy. We keep a close tab on the venture (phon) ecosystem in our space and have a good idea of which companies to look at. We established a technical framework for evaluating their models and then ran several companies through that and Lexion came out ahead, As we dug in further we looked at the ease of integration into our existing platforms and they've scored extremely well on that. I was also really persuaded by the way that they engaged very deeply with customers, listened extremely well. They had hundreds of customers and so that was, I think, a terrific validation of their platform.

In terms of how it adds to DocuSign, I think in overall agreement AI there are extraction quantity and quality. We augment the platform. Another area where I think they're really market leading is in legal workflow. So, we're full automation for lawyers. For example, if you're ingesting (phon) a third party agreement, how can you immediately use AI to assess the agreement, understand how terms may deviate from your standard templates and highlight language that you might want to propose as a counter that immediately accelerates productivity for the legal teams and they've done an excellent job with that.

So, overall, that's how it fits in. It's perfectly complementary to what we have. So, it was really hand in glove and we're very excited to have brought them on as you probably know, we closed that deal last Friday and that team is now—they carry DocuSign. Just trying to think if there were other aspects to your question.

Early response to IAM, maybe quickly. We obviously built the IAM road map heavily based on customer feedback and problem statements around the pain throughout the entire agreement journey. And as a result, we've had very good feedback during the early access and beta phases. We have hundreds of clients live on what we have now shifted to general availability. We went into GA actually last Thursday. So it is now commercially available. The initial release is targeted at North American commercial customers and then over time we'll layer in more segments and geographies. But it's exciting to be out there and (inaudible) couldn't be stronger.

Maybe one last thing on that point. In addition to customer feedback, I've been really pleased with the response from the partner channel. We've had—DocuSign's eSignature product didn't need a ton of integration. (Inaudible) to do that themselves. With CLM, we engage more with the side channel. But with IAM, this is really a full end-to-end platform for agreement management, and we've had tremendous engagement some of the global Sis, from large practices around company transformation, legal agreements and who've been looking for a platform that could support those efforts.

So, very bullish on that and that's obviously great validation for us.

Tyler Radke

Thank you.

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Operator

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

Brent Thill

Thanks. Blake, 28.5 % up margin in Q1, yet you're guiding below that at the midpoint for the full year. I guess, when you think about the investments that need to happen to kind of hit that range, can you walk through what would cause margins to go down to make that number for the year?

Blake Grayson

Sure. Thanks for the questions. The 28.5% coming in above the midpoint of our guide, a fair chunk of that is driven not just by the revenue beat but also by expense timing, Brent. If you look at our, in particular our non-GAAP G&A expenses, on year-over-year basis is actually down on an absolute dollar basis, which while we expect those to grow at a pretty low rate, being down year-over-year is really more of a function of timing perspective.

So when you smooth that out it's actually pretty steady throughout the year. Now what we're trying to do here at DocuSign is balance this continued focus on operating efficiency but also making sure that we maintain the right investment in order to get IAM launched, engaged with customers, iterated with the product team and then sold out to them.

So I think, for us, what we're trying to do is balance that focus on efficiency and productivity and we're always going to do that, but making sure that we set ourselves up in the best way possible in order to support something that we believe can really be a catalyst for us in the long term to really try to accelerate our growth.

Brent Thill

Just quickly for Allan. I think your aspirations to be a double-digit grower, I know you're not guiding for that this year, but is there anything that's still—is inherently an obstacle in your way to achieving that longer-term goal?

Allan Thygesen

No, I think that's what we're all rallied around. We feel that that's a reasonable long-term aspiration for us. Certainly, given the significant expansion of the addressable market with the launch of IAM, we think we have plenty of headroom to do that.

So, no nothing—this is still an execution game. I do want to stress that while we achieved some super milestones this quarter with the product launch and the marketing relaunch of DocuSign, the go-to-market side is still ahead of us and we think are starting in a very strong position with a customer base of 1.5 million paying customers a month and all of the positive affinity that we have and our experience with eSignature and CLM and so on. Obviously, we built the product very heavily based on customer feedback. But it's still an evolution. I think we sell to enterprises very heavily today. I think we're in 92% of Fortune 500 and similar stats in other countries. But there's a difference between selling a point application and an enterprise platform for agreement management and I think we still have some growing to do there.

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So I'd say from an execution standpoint, that's where I'm most focused. But we feel it's in our control. We have a large addressable opportunity, a great set of products, strong customer relationships and it's just up to us to capitalize on that.

Brent Thill

Great. Thank you.

Operator

Next question comes from the line of Pat Walravens from JMP. Please proceed with your question.

Pat Walravens

Great. Thank you. The launch of the IAM platform is super exciting but it does make me wonder, what are you guys going to do in terms of creating a repeatable go-to-market motion? How are you going to sell this in a consistent manner given the way its rolling out and the old product versus the new ones?

Allan Thygesen

Yes. (inaudible). First of all, we designed IAM to be very broadly applicable, right. So, historically, if you think about the broader contract management space and CLM in particular, it was really only accessible to the very large enterprises who could afford all the customization integration that was needed. IAM is more lightweight and can be deployed to a much broader set of companies into a much broader set of users in any company that deploys it. The key to your question is, that also means that it's a much more natural upsell, if you will, or cross sell to our eSignature product, which obviously has much broader distribution of the CLM product.

So, look, I don't want to underplay that this is an evolution, as I just mentioned, in terms of the scale of the story and the number of constituencies (inaudible) that sales process. On the other hand, I think we're standing on the shoulders of our entire eSignature business and I think it's pretty exciting and we're already starting to close some deals. We only went into general availability a week ago, so don't want to extract too much from that. But I'm feeling pretty good about our ability to develop a repeatable motion, starting the commercial space and then moving up into our enterprise customers. And we're seeing amount of inbound on the platform right now.

Pat Walravens

Great. Thank you.

Operator

Next question comes from the line of Rishi Jaluria with RBC Capital Markets. Please proceed with your question.

Rishi Jaluria

Wonderful. Thank you so much for taking my question. I just want to drill a little bit into Lexion. You mentioned it immaterial but you paid $135 million for it, its got hundreds of customers. Maybe can you walk us through of the rate in the guide for the full year, how much of that is attributable to Lexion versus

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improved execution? Maybe you could give us just give a little bit of color for our own models, how to think about Lexion. Thank you.

Blake Grayson

Sure. We're not breaking it out just because of its size and immateriality. It's not material to revenue or op margin for us. The overarching message that I would like to send on Lexion is that the purchase of Lexion is about integrating the technology into the DocuSign IAM platform. That opportunity for us, we think, in the long term can apply to the well over million customers that we have. That's what really excites us about spinning that flywheel. It's obviously extremely early days. And I can't even say extremely, like loud enough, I guess, because we just closed on this transaction six days ago. But that is really what we're excited about in the long term from Lexion. That integration and the ability to spin our flywheel and our AI development faster so that we can make IAM and the platform more valuable to our customers.

Allan Thygesen

Maybe I'll just add to that to say, we took a lot of comfort from the fact that they had validated their platform with hundreds of customers. But as Blake said, the primary motivation here was in being able to deploy that capability across our entire IAM suite. I do want to emphasize, we intend to continue to support the Lexion product, the Lexion customers, and as IAM integrates Lexion features, then we'll make that platform available to the Lexion customers.

Rishi Jaluria

Thank you.

Operator

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

Josh Baer

Great. Thank you very much. Wanted to stick to IAM. Wondering what capabilities are missing or need to be rolled out in order to serve the broader the market, up marketing the enterprise. Was wondering if you could shine a little light on what happens from an economic standpoint as customers adopt IAM.

Allan Thygesen

On the first point, look, there's a long list of stuff that you could imagine the very largest customers will want, the never-ending list. To give you a sense. Something that a large company would be particularly concerned about would be things like access control. So ability to tightly control who can access which agreements. That's something that needs to be robustly tied into existing commission systems and so on, and we are working on building that out.

Another area of functionality that we've announced, our intention to launch later this year is in the area of being able to review and edit and develop agreements based on playbooks. Again, having a playbook system for agreements tends to be a characteristic of larger companies, and you'll see some of that functionality deployed in IAM, as well as more robust we should say agreement editing capability, and that's where Lexion will play in.

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In terms of the pricing structure, historically, our core eSignature product has principally been sold on an envelope capacity basis – so (inaudible) envelopes – although we also do offer seat configuration, and CLM has predominantly been sold on a seat basis. We are evolving towards IAM sold principally on a seat basis with adjustments for different user profiles and then overlays for different premium functionality.

So that's something that we're managing carefully. We want to make sure that customers would just need our basic eSignature product, can continue to buy that in a way that they're accustomed. Customers who want to take advantage of IAM and all their richness of what were launched can do that, and that is sold at a premium to packages that we historically had. That's how we've been thinking about it.

Blake Grayson

To pile on to what Allan said, our overall philosophy as we think about IAM is that if we can create more value for customers and we believe pretty strongly that IAM is going to do just that, customers will agree to share in some of that value with us and it could come in a number of different ways. It can come from perhaps expansion as we become more integral to a customer and their workflows and their processes, or it can also become a stickier relationship, right, where we can drive better retention trends as well.

So just to add on top from what Allan said.

Josh Baer

Great. Thank you.

Operator

Next question comes from the line of Scott Burg with Needham. Please proceed with your question.

Scott Burg

Hi everyone. Thanks for taking my questions. I have two. Let's start with the continuing theme on IAM. Obviously, at the conference customer interest is high. It sounds like investor interest is high on it too. It almost seems like this is probably your big bet for the next leg of growth for the Company But how do we think about the impact to model here going forward? It was just released. I know it's going to be released to commercial customers first and gradually moved up market as you build out the future functionality set. But just the play for fiscal '27 or fiscal '28, or do you think we can see some revenue impact maybe as early as next year that's at least somewhat meaningful to the overall profile of the company?

Allan Thygesen

I think we'll see some lift here, but we're not ready yet to talk about the exact magnitude. But yes, that would be a reasonable expectation.

Blake Grayson

Yes. And I would just say this is the challenge, right, which is we just launched this in general availability here a week or so ago and it's going to take time to ramp. I think one of the things we also have to keep

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in mind is just the general size of the book of business that we have and the renewal cycles that we have as well. So I think our full year guide is just around $3 billion in billings.

As far as the magnitude to move that needle it's going to take some time. I'm mostly excited right now, to be honest, about getting the launch out and getting the customer experience right and giving the team kind of the urgency to iterate on those things. That's honestly for me in the early days of a new product launch what we need to focus on besides, obviously, the go-to-market components as well. If we get those right, that's the input that we then get that flywheel to spin on billings into the future.

Scott Burg

Got it. Helpful. And then I wanted to follow up on the stability comments from earlier. Now that you feel that the business needs to be at least in the right position, how do we think about upside of revenues over the near term? Does it come more from the install base with some of the stability there or is the upside driven more from net new sales and net new customers coming on board in this macro where everything's a little bit more challenging? Just wanted to see how you kind of balance those two and what might be the greater driver in the near term.

Blake Grayson

(Audio interference). I just want to say we're focused on both. Our ability to improve our gross retention rates, obviously, on a large book of business can have large impacts. While I'm super excited about the stabilization trends that we have, we have room to improve. Right? So we're focused greatly as an organization on that. We are—I mean, there are a lot of good steps that we took in this last quarter in order to improve those retention rates, sort of allocating customer success resources, it's being far more granular about getting in front of renewals and large renewals and how we're going to approach them and so forth. If it's focusing on sticky feature adoption because we believe that's an input metric to be able to drive the output of kind of lower churn and such, which obviously helps you grow your billings. That's a big deal.

Now on the expansion side, obviously, we still have a lot of penetration available just within eSignature, but on top of that, obviously, the big investment we're making is in IAM. So can—be able to drive expansion through those areas while improving renewals for us. I think we end up in a spot where we're really happy with. I think maybe to Allan's point earlier, the messaging is that the execution is what we are most responsible for and we need to focus on because we really do believe the opportunity is there and there's a clear need for the products and features that we're launching at the customers now.

Scott Burg

Excellent. Thank you.

Operator

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

Brad Sills

Great. Thank you so much. I wanted a question here on IAM. Exciting new launch here. As you guys make the pivot from more transactional eSignature to more of a suite approach here where you're getting more into workflow automation, could you speak to the level of preparedness for the sales channel to

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make that type of a consultative sale? I know these things don't happen overnight. If you could speak to kind of the road map there for making that transition towards a more strategic vendor in a more consultative sale. Thank you.

Allan Thygesen

Yes. So that's been top of mind, I'd say, internally, and we have probably the largest enablement program in the Company's history that has been underway over the last several months and it's ongoing right now. I think that is a huge effort. At the same time, we're working on revising every aspect – how we organize our teams, how we engage with partners. I mentioned the importance of ESIs. Complementing our direct sales efforts with a more robust and more frictionless reseller and distribution channel to further accelerate that and IAM is available to partners on day one.

So all of that goes into it. But we can't take our eye off the ball. We have an existing business with Velocity that also needs to be maintained. So we need to be able to execute on both of those at the same time and we're balancing those, I think. So far so good. But, look, I'm under no illusions. This will be a journey probably over the next several years as we mature our entire go-to-market to take full advantage of this opportunity. But first we had to conceive of it, develop it, ship it, and position it overall. I think now that begins and so far, I'm feeling very, very good about it. I don't think, in my 20 months at DocuSign, I think this is as optimistic and excited as the Company has felt ever.

Brad Sills

That's great to hear. Thank you, Allan.

Operator

Next question comes from the line of Michael Turrin with Wells Fargo Securities. Please proceed with your question

Michael Turrin

Great, thanks. Appreciate you taking the question. You had a comment around Q2 as the trough in terms of billings growth. So I wanted to give you a chance to expand on what drives that. How is it visibility? How much of it is getting out of tougher renewal cohorts or other factors at play that are driving the expected improvement as we work further into the year?

Blake Grayson

So, this is in line with what I talked about last quarter with regard to kind of the quarterly trends. So, the issue we have with Q2 is we've got two really hard—two hard comps, particularly around renewals. If you'll recall that in the first half of 2024, and particularly in Q2 in 2024, we had really quite strong on time renewal volume. If you'll recall, we made some changes to our incentive program with our sales force such that we began incentivizing on time renewals and retention (inaudible) and we saw pretty large gains from that. And so we have a hard comp against that. And then on top of that, if you heard from the prepared remarks for Q1, part of the outperformance for our Q1 billings relative to our guidance is driven by early renewals. So a little bit of a pull forward from Q2 into Q1 for that. And so, just like in line with the same kind of discussion that I provided last quarter, we expect Q2 to be that profitable (phon) in billings and then to accelerate a bit into the back half of the year and that's indicative in the full year guide that you can see.

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Michael Turrin

Okay. Just a small follow on. Is there anything we should be mindful of in terms of the added functionality, the broader agreement platform that could change the renewal dynamics either having kind of pulled any activity into anything ahead of that, or could just add complexity that's better longer term but impactful near term that we should be thinking about at all here.

Blake Grayson

I think relative to the IAM platform is brand new, obviously. Obviously, there's nothing in the Q2 guide reflective of any expected kind of changes and stuff like that. I think, to be fair, those changes that we see, which we're obviously going to track diligently, again, it's going to reflective of this $3 billion business. So I would expect not material movements from it, but we're going to evaluate it over time. There's nothing in particular I would call out.

Michael Turrin

Thank you.

Operator

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

Arsenije Matovic

Hi, this is Arsenije Matovic for Alex Zukin from Wolfe Research. Following up on a prior question, and not asking for what the contribution is but simply, excluding Lexion, would your full year guidance for revenue and subscription revenue have been raised on an organic basis? Just on macro, has your outlook changed since you first set full year guidance? Thank you.

Blake Grayson

So let me answer the second question first. On macro, our macro stability has been very consistent, I would say through this year. So no change on the macro side for us. We've actually continued to see consumptions and usage accrue.

To your first question on Lexion. We're not breaking out and it's not material to our numbers, it's not material to revenue or operating margin.

Operator

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

Karl Keirstead

Okay, great. Thanks. Maybe I'll direct this to Blake. Blake, on the Q1 numbers, it's good to hear your color commentary around the core stabilizing and new logos being good and transaction volumes being good. But objectively when we look at Q1, it was a very skinny revenue beat and revenues were down sequentially and the billing beat was normal to a little bit light. So actually, the numbers don't support the

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view that things are stable or improving. It feels like there must have been some kind of offset that you saw. Maybe it was that 4Q was super strong and it left the tank a little dry for 1Q. I'm just trying to figure out why Q1 wasn't a little bit more robust if in fact your commentary about demand is that it was in fact pretty stable. Thank you.

Blake Grayson

Sure. So, with regard to your comment on the beat, we beat the top end of our guide for revenue. I think what you might be referring to is historically the Company has had some larger beats over time, and I think it's hard to talk to those relative to how you forecast and such. But I'm quite pleased with how we performed in Q1 relative to that.

With regard to the other comment you made on the sequential drop. There's a function of days in the quarter that affects that, so as you go from Q4 to Q1 there's two more days in Q4 (inaudible). So you have to keep that in mind that as well.

So again, I think that the performance of the Company actually is quite reflective of the metrics we called out with the dollar net retention rate improving sequentially for the first time in several years, with the account growth doing well, with the billings growth coming in, I think, it was$20 million in the midpoint guide and, of course, some of that is early but some of that is also based on that stronger growth on retention rate. So nothing that I would call out and say there was any type of an offset like you were suggesting.

Karl Keirstead

Okay. That's encouraging. Thanks, Blake.

Allan Thygesen

If I can just add to that. I would just say we've had some significant outperformance on past forecasts. We've been trying to both tighten the range and give you guys more precise guidance and I think we've got a pretty good handle on the business now and so we're able to be a little bit tighter.

I completely agree with Blake. We feel very, very good about it. It was very solid. There was really nothing material changing in the demand environment, and as Blake said, so will the underlying operating metrics (inaudible) meaningful improvement. So we continue the stabilization theme.

So I think that's the sentiment that we have here and I think it does show in the numbers and we expect the stabilization theme to continue.

Operator

Next question comes from the line of Mark Murphy with J.P. Morgan. Please proceed with your question.

Male Speaker

Hi, this is (inaudible) on for Mark Murphy. Thanks for taking the question. Blake, can you walk us through what might be embedded in the forecast in the back half in some of the more rate sensitive markets, such as real estate, given mortgages. I'm just looking at the concerns around the backdrop of higher for longer and want to see how that might be impacting the guide. Then I also had a quick follow up on IAM for

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Allan. Just in the early IAM adoption, is it so far trending faster than the initial launch of CLM several years ago?

Blake Grayson

I'll start (audio interference). So on the macro side, the way we handle our forecast, we forecast based on what we see and what we know. So, as far as verticals go, real estate continues to be one of those verticals. Its not terribly probably surprising. That has been under pressure, so the general assumption is that would continue. So, I don't see any terrible risk for higher for longer because it's based on what it is today. So as I think those verticals have actually opportunities for us, when the interest rate environment improves. But nothing aggressive. We don't make kind of like future forecasts on the macro side in our guidance.

I'll let Allan follow with the second part.

Allan Thygesen

Yes. Look, it's been a while since we got into the CLM space through the subscriptions of Spring and Seal, and that point it was categories that were already established. But I would just say that our goal with IAM is to be—offer significantly broader functionality that at the same time is much easier to adopt, more configurable and more broadly applicable to a broader set of customers and a broader set of users inside those customer organizations.

I think CLM has historically been a pretty exclusive club because of the heavy lift involved and because it was just optimized for particular power users. This is a much broader play. It encompasses CLM and eSignature but it's much broader.

So, I certainly expect over time that IAM business will become meaningful and larger than our CLM business, but they're just on different maturity curves.

Male Speaker

Very helpful. Thank you.

Operator

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

George Iwanyc

Thank you for taking my question. Allan, could you drill down a little bit more into the strength you're seeing with the self-serve motion and the digital efforts and maybe (inaudible) expand on that, provide some perspective on what you're seeing with SMBs?

Allan Thygesen

Overall, I think we're continuing to grow our digital business very nicely. I think we're quite pleased with the progress there, and that investment and effort will continue. I think this is the year where we go—we're just not improving the journey for customers that are natively digital and have stayed in the digital

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realm, but also (inaudible) much better self serve options for our direct customers, for those that are serviced by our sales teams, as well as for partners. A lot of that functionality is rolling out this year and that'll just free up time and resource internally and bring better customer experience.

So I'm feeling pretty good about that. We have some nice upcoming functionality on the digital side that will continue to create that faster momentum.

(Multiple speakers)

Blake Grayson

Yes, and just to add on top. If you look at our quarterly net account additions, the bulk of those, over 50,000 came from the self service kind of channel for us. We've made improvements on targeting for our marketing side, better targeting enhancements. We also improved the experience this quarter to more from trial to purchase, so to become a paying customer. We've also reduced friction with regards to things as, I'd call them as simple as payments. Essentially, we launched ACH for customers and we've also reduced the number of payment failures that we have.

So there's things that we can also work on the back end in order to kind of speed up that self service channel as well in addition to those that are a little more tactical relative to the longer-term efforts that Allan's highlighted.

Allan Thygesen

Yes, maybe one last thing. I think at the end you also asked about broader SMB trends. Look, I love the SMB business. I think we are blessed to have a very robust SMB business. This provides a balance. I think if anything, I like having that diversification right now. We're well represented across enterprise midmarket in SMB and I think the enterprise environment might be slightly tighter than the SMB environment right now.

So, overall, we have a very balanced book and I think it's working in our favor.

George Iwanyc

Thank you.

Operator

Thank you.

Allan Thygesen

Okay. I think we'll wrap it there. Operator, if that's okay. Thank you, Operator. Thank you all for joining today's call. In closing, I am proud of the progress that DocuSign continues to make and excited for the value we'll create for customers through the Intelligent Agreement Management platform. So we appreciate your support and as we continue to realize that vision. Thank you.

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Operator

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

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