docusign

Q1 FY25 Investor Prepared Remarks

June 6, 2024

Allan Thygesen, CEO

Blake Grayson, CFO

Safe Harbor

This presentation contains "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on our management's beliefs and assumptions and on information currently available to management, and which statements involve substantial risk and uncertainties. All statements contained in this presentation other than statements of historical fact, including statements regarding our future operating results and financial position, our business strategy and plans, market growth and trends, objectives for future operations, and the impact of such assumptions on our financial condition and results of operations are forward-looking statements. Forward-looking statements in this presentation also include, among other things, statements on pages titled "Guidance" in this presentation and any other statements about expected financial metrics, such as revenue, billings, non-GAAP gross margin, non-GAAP operating margin, non-GAAP diluted weighted-average shares outstanding, and non-financial metrics, as well as statements related to our expectations regarding the benefits of the Docusign IAM platform and Docusign's utilization of its stock repurchase program, including the expected timing, duration, volume and nature of share repurchase under such program. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential," or "continue" or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions.

Forward-looking statements contained in this presentation include, but are not limited to, statements about: our expectations regarding global macro-economic conditions, including the effects of inflation, volatile interest rates, instability in the global banking sector, and market volatility on the global economy; our ability to estimate the size and growth of our total addressable market; our ability to compete effectively in an evolving and competitive market; the impact of any data breaches, cyberattacks or other malicious activity on our technology systems; our ability to effectively sustain and manage our growth and future expenses and achieve and maintain future profitability; our ability to attract new customers and maintain and expand our existing customer base; our ability to effectively implement and execute our restructuring plans; our ability to scale and update our platform to respond to customers' needs and rapid technological change, including our ability to successfully incorporate generative artificial intelligence into our existing and future products; our ability to successfully execute our go-to-market and sales strategy for our IAM platform; our ability to expand use cases within existing customers and vertical solutions; our ability to expand our operations and increase adoption of our platform internationally; our ability to strengthen and foster our relationships with developers; our ability to retain our direct sales force, customer success team and strategic partnerships around the world; our ability to identify targets for and execute potential acquisitions and to successfully integrate and realize the anticipated benefits of such acquisitions; our ability to maintain, protect and enhance our brand; the sufficiency of our cash, cash equivalents and capital resources to satisfy our liquidity needs; limitations on us due to obligations we have under our credit facility or other indebtedness; our ability to realize the anticipated benefits of our stock repurchase program; our failure or the failure of our software to comply with applicable industry standards, laws and regulations; our ability to maintain, protect and enhance our intellectual property; our ability to successfully defend litigation against us; our ability to attract large organizations as users; our ability to maintain our corporate culture; our ability to offer high-quality customer support; our ability to hire, retain and motivate qualified personnel, including executive level management; our ability to successfully manage and integrate executive management transitions; uncertainties regarding the impact of general economic and market conditions, including as a result of regional and global conflicts; our ability to successfully implement and maintain new and existing information technology systems, including our ERP system; and our ability to maintain proper and effective internal controls.

Additional risks and uncertainties that could affect our financial results are included in the sections titled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report on Form 10-K for the fiscal year ended January 31, 2024 filed on March 21, 2024, our quarterly report on Form 10-Q for the quarter ended April 30, 2024, which we expect to file on June 7, 2024 with the Securities and Exchange Commission (the "SEC"), and other filings that we make from time to time with the SEC. The forward-looking statements made in this presentation relate only to events as of the date on which such statements are made. We undertake no obligation to update any forward-looking statements after the date of this presentation or to conform such statements to actual results or revised expectations, except as required by law.

Non-GAAP financial measures and other key metrics

To supplement our consolidated financial statements, which are prepared and presented in accordance with GAAP, we use certain non-GAAP financial measures, as described below, to understand and evaluate our core operating performance. These non-GAAP financial measures, which may be different than similarly-titled measures used by other companies, are presented to enhance investors' overall understanding of our financial performance and should not be considered a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP.

We believe that these non-GAAP financial measures provide useful information about our financial performance, enhance the overall understanding of our past performance and future prospects, and allow for greater transparency with respect to important metrics used by our management for financial and operational decision-making. We present these non-GAAP measures to assist investors in seeing our financial performance using a management view, and because we believe that these measures provide an additional tool for investors to use in comparing our core financial performance over multiple periods with other companies in our industry. However, these non-GAAP measures are not intended to be considered in isolation from, a substitute for, or superior to our GAAP results.

Non-GAAP gross profit, non-GAAP gross margin, non-GAAP operating expenses, non-GAAP income from operations, non-GAAP operating margin, non-GAAP net income and non-GAAP net income per share: We define these non-GAAP financial measures as the respective GAAP measures, excluding expenses related to stock-based compensation, employer payroll tax on employee stock transactions, amortization of acquisition-related intangibles, amortization of debt discount and issuance costs, fair value adjustments to strategic investments, acquisition-related expenses, lease-related impairment and lease-related charges, restructuring and other related charges, as these costs are not reflective of ongoing operations and, as applicable, other special items. The amount of employer payroll tax-related items on employee stock transactions is dependent on our stock price and other factors that are beyond our control and do not correlate to the operation of the business.

When evaluating the performance of our business and making operating plans, we do not consider these items (for example, when considering the impact of equity award grants, we place a greater emphasis on overall stockholder dilution rather than the accounting charges associated with such grants). We believe it is useful to exclude these expenses in order to better understand the long-term performance of our core business and to facilitate comparison of our results to those of peer companies and over multiple periods. In addition to these exclusions, we subtract an assumed provision for income taxes to calculate non-GAAP net income. We utilize a fixed long-term projected tax rate in our computation of the non-GAAP income tax provision to provide better consistency across the reporting periods. For fiscal 2024 and fiscal 2025, we have determined the projected non-GAAP tax rate to be 20%.

Free cash flow: We define free cash flow as net cash provided by operating activities less purchases of property and equipment. We believe free cash flow is an important liquidity measure of the cash that is available (if any), after purchases of property and equipment, for operational expenses, investment in our business, and to make acquisitions. Free cash flow is useful to investors as a liquidity measure because it measures our ability to generate or use cash in excess of our capital investments in property and equipment. Once our business needs and obligations are met, cash can be used to maintain a strong balance sheet and invest in future growth.

Billings: We define billings as total revenues plus the change in our contract liabilities and refund liability less contract assets and unbilled accounts receivable in a given period. Billings reflects sales to new customers plus subscription renewals and additional sales to existing customers. Only amounts invoiced to a customer in a given period are included in billings. We believe billings can be used to measure our periodic performance, when taking into consideration the timing aspects of customer renewals, which represents a large component of our business. Given that most of our customers pay in annual installments one year in advance, but we typically recognize a majority of the related revenue ratably over time, we use billings to measure and monitor our ability to provide our business with the working capital generated by upfront payments from our customers.

For a reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measure, please see "Reconciliation of GAAP to Non-GAAP Financial Measures" at the end of this presentation.

Allan Thygesen
CEO



Introduction

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 vs. the fourth quarter. Q1 non-GAAP operating margin increased approximately 2 percentage points to 28.5% vs. 26.6% last year. 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 $1B 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.

Product Innovation

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:

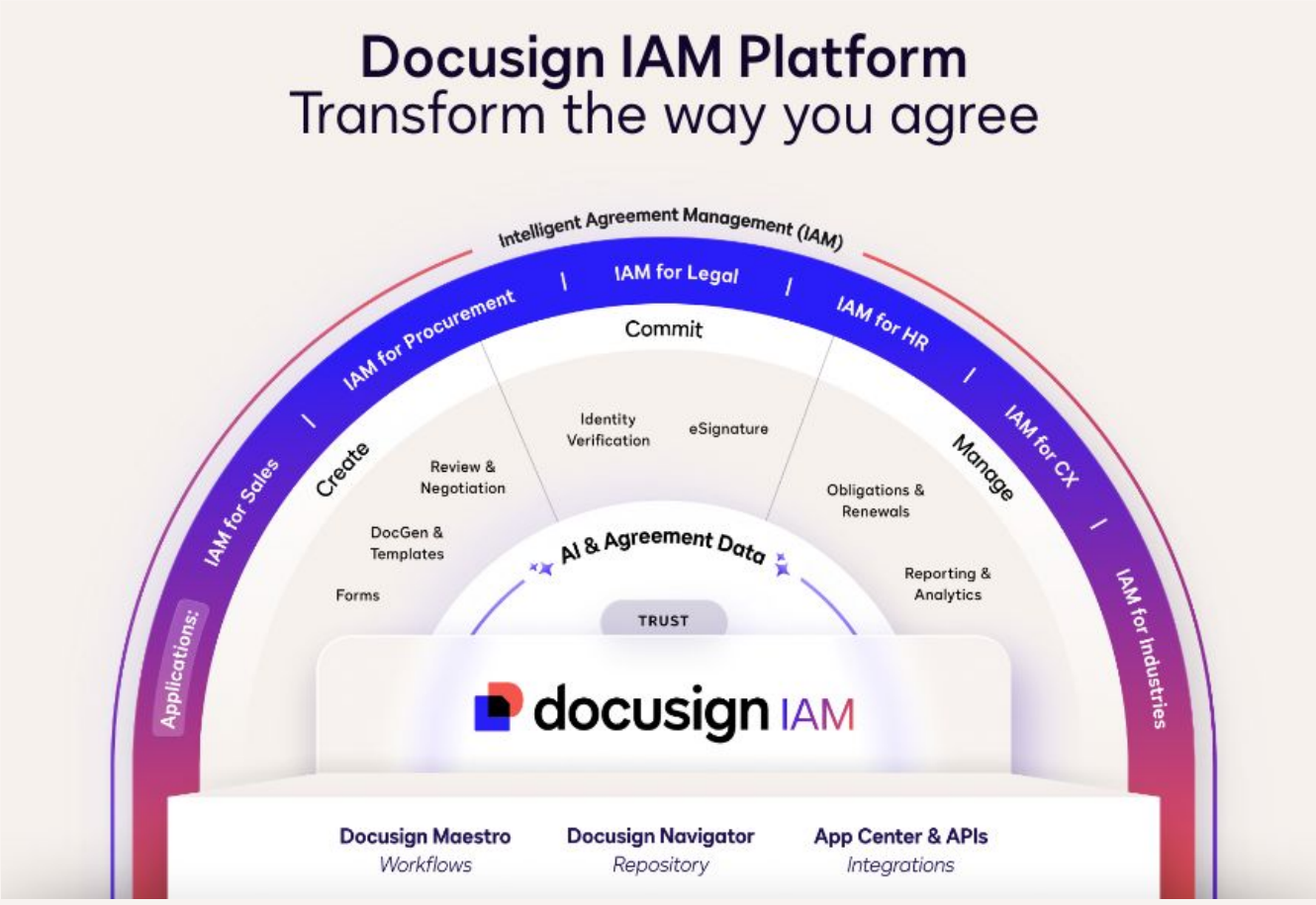
- **Docusign Maestro**, our new agreement workflow builder, to automate the creation of agreements without using code. With Maestro, customers can configure custom agreement workflows in minutes — combining Docusign capabilities like eSignature, ID verification, and data verification with third-party 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, **Docusign App Center**, to help customers easily integrate 3rd 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.

Product Innovation

On May 30th, Docusign IAM launched with availability for our small and mid-market customers in the US, 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. 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.



Omnichannel go-to-market

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 $1.4B in contracts through Docusign CLM.

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

Closing

In closing, Q1 was an important step forward as we re-imagine Docusign. With Intelligent Agreement Management, we're 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.

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.

Blake Grayson
CFO



Introduction

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.

Business stabilization

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 $300k 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 $300k 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 50k is the highest sequential gain we have seen in 2 years, since Q1 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. 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.

Financial and operating efficiency

Turning to our financials, operating & financial efficiency initiatives drove strong performance in Q1.

Non-GAAP gross margin for Q1 was 82.0% vs 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% vs. 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 vs. 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 & 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 benefitted 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 vs. 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 vs. 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 vs. 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.

Financial and operating efficiency

To that end, during Q1 we used $149 million in cash to repurchase shares, more than three times greater vs. 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 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 $82 cents, a $10 cent per share improvement from $72 cents last year. GAAP diluted EPS was $16 cents vs. $0 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 fiscal 2024 to 19% in Q1 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.

Guidance

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 to $2.932 billion, or a 6% year-over-year increase at the midpoint. Of this, we expect subscription revenue of $705 to $709 million in Q2, or a 6% year-over-year increase at the midpoint, and $2.844 to $2.856 billion for fiscal 2025, or a 6% year-over-year increase at the midpoint.

For billings, we expect $715 to $725 million in Q2 and $2.980 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 vs. 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 2025.

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 to 213 million for both Q2 and Fiscal 2025.

Closing

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 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.