

Docusign, Inc.

Second Quarter Fiscal Year 2025 Earnings Call

September 5, 2024

CORPORATE PARTICIPANTS

Heather Harwood, *Head of Investor Relations*

Allan Thygesen, *Chief Executive Officer*

Blake Grayson, *Chief Financial Officer*

CONFERENCE CAL PARTICIPANTS

Brent Thill, *Jefferies*

Jake Roberge, *William Blair*

Kylie Towbin, *Citi*

Chris Fountain, *RBC Capital Markets*

JPMorgan

Patrick Walravens, *Citizens JMP*

Arsenije Matovic, *Wolfe Research*

Josh Baer, *Morgan Stanley*

Richard Poland, *Wells Fargo*

Ian Black, *Needham & Company*

Bill for Kirk Materne, *Evercore ISI*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Thank you for joining Docusign's Second Quarter Fiscal Year '25Earnings 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.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

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. If you require operator assistance at any time, please press star, zero.

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

Heather Harwood

Thank you, Operator.

Good afternoon and welcome to Docusign's Q2 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 second quarter fiscal 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 the 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?

Allan Thygesen

Thank you, Heather, and good afternoon everyone.

Docusign drove another quarter of improved stability and greater efficiency while introducing the new IAM platform that we believe will be the foundation for future growth. During Q2, revenue was $736 million, up 7% year-over-year for the second consecutive quarter; dollar net retention was consistent versus Q1 at 99%. Continued improvements in customer usage and utilization further supported stability, which Blake will describe in more detail.

Non-GAAP operating margins increased to 32%, an all-time high and significant improvement versus Q2 fiscal '24 at 25%.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

Free cash flow generation remained strong, approaching $200 million, resulting in a 27% yield for the quarter. This efficiency allowed us to opportunistically allocate capital by repurchasing $200 million worth of shares during Q2.

Our strong results reflect continued progress across our three strategic pillars: accelerating product innovation, evolving omnichannel go-to-market capabilities, and improving operating efficiency.

Let's turn to product innovation.

In Q2, we shipped the first version of our Intelligent Agreement Management or IAM platform. This is the most important launch in Docusign's recent history because of the value we believe IAM will create for our customers. IAM addresses the massive $2 trillion in lost economic value each year experienced by organizations when managing agreements.

In Q2, IAM launched to small and mid-sized commercial customers in the United States, Canada, and Australia. It's very early days, but the initial results and customer feedback are promising. So far, IAM customer win rates are higher, average deal sizes are larger, and time to close with customers is faster. Customer deal count and bookings are increasing month-over-month, with August being larger than June and July combined. Overall, preliminary IAM adoption momentum is tracking as planned and we look forward to the continued rollout to additional segments and geographies throughout the rest of the fiscal year.

Customer feedback captures the value IAM is already delivering, with customers focused on strong ease of use and fast time to value. Legal service provider Mass Tort Strategies tells us that with IAM, they anticipate "saving thousands annually" now that their completed agreements are organized and easily searchable. Midwestern healthcare provider Welia Health said that they were impressed by how quickly they put IAM to use and, within a few days, they were using Docusign Navigator as the organization's central agreement repository.

We're focused on continuously introducing and enhancing IAM's value to more customers. Before the end of this fiscal year, we will make IAM available for departmental use within large enterprise organizations in multiple languages and additional geographies, and for purchase via self-service channels. In 2025, we will unlock moving from department-level adoption to organization-wide deployments in large enterprises, add more languages, and introduce more features to escape the agreement trap. Our rollout timeline allows us to use customer feedback to refine our product and go-to-market strategies, ensuring we meet customer needs with a long-term, sustainable approach.

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

In Q2, we drove further stabilization in our core business. Overall customer growth remained consistent at 11% year-over-year for the fourth consecutive quarter, while envelopes sent and contract utilization modestly improved compared to last year. Digital and international revenue continued to outpace overall growth and remain large, long-term opportunities. In addition, we are focused on continuing to upgrade and enable our sales, partner, and self-serve strategies to sell IAM.

The direct salesforce continued to show improved execution. Direct customer growth remained strong with a 12% year-over-year increase, and large value customers with over $300,000 in ACV saw modest

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

acceleration, benefitting from the impact of our retention efforts. CLM also continued to outpace overall revenue growth.

Lastly, IAM enablement across our salesforce was a key priority in Q2. In Q3, the remaining teams in our salesforce will complete IAM training and certification, including our enterprise-focused teams and teams outside the initial launch markets.

Turning to our other routes to market, this quarter we're providing more context on the partner and self-serve channels where we've increased focus and investment.

In the partner channel, we've strengthened our strategic relationships with Microsoft, SAP, and Salesforce. Our Microsoft collaboration now includes dedicated co-selling through the Azure Marketplace and Copilot integrations, driving increased customer volume. We aim to build similar success with SAP, especially with the newly launched CLM-Ariba integration announced at SAP's Sapphire events. Also, we continue to partner deeply with Salesforce, which remains our largest go-to-market partnership with tens of thousands of jointly deployed customers. We'll have more to share about this partnership at their Dreamforce event in a few weeks.

Improving our partner and sales channels has led to enterprise customers adopting Docusign across a growing set of use cases. A prime example is Canva, the leading online design and visual communication platform, which has deeply integrated Docusign workflows to support its rapid growth. This quarter, the Microsoft integrations and co-selling agreements led to deeper agreements with global banking and insurance customers, as well as with a Fortune 100 retailer. And a leading human capital management provider has integrated eSignature functionality directly into its core product offering, allowing its customers to drive faster onboarding with new employees. We anticipate continued partner-enabled usage evolution as IAM rolls out.

Evolving our self-service capability has also been an important priority. Over the last 12 months, we've invested in building this infrastructure. Digital revenue growth has outpaced overall growth, demonstrating continued positive impact from our focus on ecommerce and execution. Our goal is to continuously improve the ability for customers to discover, try, use, and buy our products digitally, further enabling greater scale and efficiency across our business. Today, new and existing customers worldwide can use our digital platform to more easily move from free trials to paid accounts, upgrade their plans, and expand to additional products such as ID Verification and SMS Delivery, all without engaging a sales rep.

We've introduced improved personalization on Docusign.com and integrated new payment options in international markets to improve conversion rates. We expect continued strong ecommerce execution and delivery as we expand our digital growth and prepare for self-service IAM purchasing.

We're excited to welcome new Chief Revenue Officer Paula Hansen and Chief Technology Officer Sagnik Nandy, who've both hit the ground running after starting in early August. Paula and Sagnik bring large-scale experience, selling and building enterprise-customer solutions, and complete an already strong leadership team.

We are excited to continue our transformation journey. IAM represents a massive opportunity to leverage our market leadership and unlock incredible value for our customers as the system of record for agreements. We will continue to evolve, remain efficient, and invest for the future.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

Thank you to our entire team for bringing the IAM vision to life with our customers. We're proud of what we've accomplished, and we're just getting started.

With that, let me turn it over to Blake.

Blake Grayson

Thanks, Allan, and good afternoon everyone.

Our Q2 results continue to show stabilization in our core business. Besides the resiliency demonstrated by a number of key metrics, we continued to focus on balancing efficiency gains with investment in long-term growth. We achieved that balance in Q2 when we began the launch of our new IAM platform to general availability, while producing the highest operating margin in our company's history.

With regards to IAM, we've engaged with a portion of customers over the past three months and we're encouraged by early traction and customer feedback. We're in the very early days of both our multi-year transition to IAM, and in realizing our aspiration of re-accelerating our long-term growth. I'm excited to partner with our team to execute against this strategy.

Q2 total revenue of $736 million and subscription revenue of $717 million both grew 7% year-over-year. Billings were $725 million, up 2% year-over-year. As mentioned on last quarter's call, the growth rate of Q2 billings year-over-year was impacted by last year's strong on-time renewal performance and the timing impacts of various customer contracts this year. Also, as mentioned previously, we expect Q2 billings growth to be our lowest quarterly growth rate in fiscal year 2025.

International revenue represented 28% of total revenue and grew at approximately double the rate of our overall revenue. Our global expansion strategy is an important component of our long-term vision, and we are optimistic about the continued growth opportunities in our international markets. This includes IAM, which will launch in the majority of our direct international markets by the end of this fiscal year.

In addition, investments in our PLG motion continue to deliver results, and in Q2, digital revenue grew at more than double the rate of direct revenue. Specifically concerning PLG, we are improving mechanisms to allow self-service plan upgrades, and our mix of billings this quarter was slightly more weighted to digital than in the prior year.

Stabilizing trends continued from Q1 into Q2 as we saw year-over-year improvements in usage, utilization, and customer growth. That momentum underscores the resiliency of our business despite continued macro uncertainty.

Dollar net retention rate was 99% in Q2, consistent with Q1. We expect that these recent stabilization trends will continue, and we anticipate our dollar net retention rate to remain consistent through the remainder of fiscal year 2025.

Usage trends continue to show modest improvement. The volume of envelopes sent increased year-over-year for the third consecutive quarter, while consumption, a measure of utilization, also continued to improve year-over-year, particularly in verticals like healthcare, insurance and technology.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

We continued to see strong growth and stability in new customer acquisition. In Q2, total customers again grew by 11% year-over-year to approximately 1.6 million. The continued momentum in overall customer growth gives us confidence that our strategy of both self-service and direct sales options is resonating across segments and geographies. The unique scale and breadth of our customer base provides a strong foundation for the measured rollout of the IAM platform.

The number of large customers spending over $300k annually increased year-over-year and quarter-over-quarter to 1,066 in Q2. Additionally, bookings from customers with total contract value over $1 million continued to grow at a double-digit pace year-over-year.

Turning to the financials, our focus on operating efficiency continued to yield strong results this quarter.

Non-GAAP gross margin for Q2 was 82.2%, relatively in line with the prior year.

We delivered record-high non-GAAP operating income in Q2 at $237 million, up 40% year-over-year, resulting in a 32.2% operating margin of which approximately 150 basis points was attributable to one-time items associated with professional fees, which primarily consisted of insurance reimbursements and the release of a litigation reserve.

Q2 operating margin was up 750 basis points versus last year and a significant improvement over the 18.0% operating margin generated two years ago. Our improvement over the previous year underscores our ability to grow efficiently while continuing to invest in critical areas like R&D. We do expect operating margin to decline slightly in the second half of the year as we invest to support our IAM launch and continued rollout, although we still expect to exit the year with improving operating margins on a year-over-year basis.

We ended Q2 with 6,612 employees vs. 6,748 at this time last year, approximately 2% lower, reflecting our disciplined approach to hiring and resource allocation. A measured approach to hiring to support our strategic initiatives, including R&D and PLG, as well as the Lexion acquisition, drove the quarter-over-quarter increase in headcount.

In terms of cash flow, Q2 was another strong quarter. We delivered $198 million of free cash flow, a 27% margin which was in line with Q2 of last year. As expected, our free cash flow yield moderated from Q1 as we compare against the significant working capital improvements from prior quarters. That said, our collections efficiency remains strong, with less than 1% of our accounts receivable over 90 days past due. We expect that the Q3 cash flow yield will decrease versus Q2, due to the timing of compensation payments and investments we're making in the second half of this year. We continue to expect that our fiscal year 2025 free cash flow yield will more closely match our full year non-GAAP operating margin.

Our balance sheet showed continued strength, ending the quarter with $1 billion of cash, cash equivalents, and investments. We have no debt on the balance sheet. Because of the stability in our balance sheet and consistency in free cash flow generation, we can continue investing in the business and opportunistically return cash to shareholders.

In Q2, we accelerated the pace of our buyback activity and repurchased a record $200 million in share value, effectively redeploying 100% of our quarterly free cash flow generation back to shareholders. While this rate will fluctuate as we pursue an opportunistic strategy balanced against investment initiatives and the operating environment, we believe this activity further demonstrates our commitment to delivering value

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

to shareholders. We also used $39 million in cash to pay taxes due on RSU settlements, reducing the dilutive impact of our equity programs.

Non-GAAP diluted EPS for Q2 was $0.97, a $0.25 per share improvement from $0.72 last year. GAAP diluted EPS was $4.26 vs. $0.04 last year.

Related to our GAAP financials, as discussed last quarter, we released a valuation allowance on certain existing deferred tax assets. This had a GAAP-only financial impact of decreasing our non-cash tax expense by approximately $838 million. Diluted weighted average shares were flat year-over-year at 208 million shares, as our repurchase activity was weighted towards the latter portion of Q2. We are pleased with the improvements in both non-GAAP and GAAP profitability, and we are actively managing the impact of dilution and cost of our equity programs.

With that, let me turn to guidance.

For Q3'25 and fiscal year '25, we expect total revenue of $743 million to $747 million in Q3, or a 6% year-over-year increase at the midpoint. For fiscal year 2025, we expect revenue between $2.940 billion to $2.952 billion, or a 7% year-over-year increase at the midpoint. Of this, we expect subscription revenue of $722 million to $726 million in Q3, or a 6% year-over-year increase at the midpoint, and $2.864 billion to $2.876 billion for fiscal 2025, or a 7% year-over-year increase at the midpoint.

For billings, we expect $710 million to $720 million in Q3 and $2.990 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, leading to meaningful variability from period to period. This affects both year-over-year and sequential quarter-over-quarter comparisons, with the impact further amplified by the scale of our book of business.

We expect non-GAAP gross margin to be 81.0% to 82.0% for Q3 and for fiscal 2025.

We expect non-GAAP operating margin of 28.5% to 29.5% for Q3 and 29.0% to 29.5% for fiscal 2025. We will continue to focus on driving efficiencies while investing in long-term growth areas like product innovation.

We are revising our guidance to reflect the anticipated impact of our buyback activities on the non-GAAP fully diluted weighted average shares outstanding. As a result, the range is now 206 million to 211 million for both Q3 and fiscal 2025.

In closing, Q2 marked an important step toward our future with the initial launch of our AI-powered IAM platform into general availability while delivering record non-GAAP operating profit and margins. We delivered another solid quarter of execution against our three strategic pillars: accelerating product innovation, enhancing our go-to-market initiatives, and strengthening our financial and operational efficiency. We remain pleased with our overall performance, particularly the progress we've made stabilizing our business, deepening customer relationships, driving profitability, and generating consistent and meaningful free cash flow.

As we look ahead we are excited about the opportunities in front of us, particularly with our IAM platform and the rollout to more customer segments and international regions during the remainder of this fiscal year.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

We believe the future is bright for Docusign, and we remain committed to delivering value to our customers, shareholders, and employees as we continue executing our long-term vision.

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

Operator

Thank you. 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. One moment, please, while we poll for questions.

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

Brent Thill

Allan, you raised your full year guide to 7% growth, but still guiding billings for 3.5%. I think many are asking, thinking about your growth aspirations over the medium term, what are the main reasons that are giving you confidence in sustaining that growth? And just for Blake, you mentioned the record margin at 32%. Everyone would kind of love to hear what your ceiling is over the next year to two in terms of where you think you can go versus continuing to invest, and can you drive—continue to higher margins while driving that revenue growth? Thanks.

Allan Thygesen

I'll go and then you can jump in, Blake.

On the growth front, first of all, I think we're really proud of the progress we've made. I think we've really fully stabilized the current business. You can see the DNR rates both looking backwards and looking ahead. We've gotten to a better place. I think a lot of the operating metrics that we shared on the call are trending in the right direction as well. So I think on the core eSign business we still have obviously room for improvement and we're going to keep working at it, but I think we feel we're in a better place.

In terms of accelerating growth, International and CLM will provide some of that in the very short term. In long term, the main growth lever for us is IAM. It's super early. We just launched to the commercial segment in North America and Australia, obviously a subset of our business. But the early indicators are quite encouraging. Significantly larger deal sizes, faster closes, higher win rates, accelerating bookings momentum. August is larger than the size of June and July combined and it's just generally very, very positive.

With that said, it's still super early. We've got more customer segments and regions to roll out to, but we're certainly hopeful that that will show up in a more meaningful way that we can discuss with you next year and beyond.

Blake Grayson

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

Then I'll just hop in on the operating margin question.

Super proud of the team for this quarter. Once you normalize a bit—and I referenced this in the prepared remarks—about 150 basis points for one-time items still producing over 30% operating margins. It's something where as a team we've made a ton of improvement over the last two years as a company here. You look at things like sales and marketing expense as a percentage of revenue for us was 41%, I think two years ago; it was 30% for this quarter. So, just a lot of improvement, a lot of focus on productivity and efficiency.

But to your question about how much more opportunity is there out there for us, the thing that's most on my mind—and I think I can speak for the leadership team as well—is that balancing this idea of between productivity and growth, and we want to make sure that what we can do is feed this growth engine that we are so excited about in IAM and make sure that we get it launched, obviously, in all these different new regions that are coming out and new customer segments. And so while I do think there's opportunity for us into the future for continued efficiency and productivity improvements, I think the bigger focus for us right now is focusing on this growth lever, how we make sure we keep a mindset of productivity but also don't lose sight of that growth engine, because that's what we're obviously so excited about. We've made a lot of progress on efficiency and productivity, so I'm really confident in the team and out abilities there, but it's also that balance perspective that we're really focused on.

Brent Thill

Thank you.

Operator

Thank you. 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, and great to hear that win rates are improving and that customer bookings are increasing month-over-month for IAM. I'm curious if you could just expand on the early feedback that you've been getting from customers for that solution, and then why do you think IAM has been able to sell so much quicker in its early stages than what CLM previously did?

Allan Thygesen

Yes, I'll take that one.

In terms of early customer feedback, I think the most important theme is that people are just really thrilled with the ability to collect all of your agreement and get insights from them near instantly. So, both the ease of deployment, ease of use and the time to value is really strong, and that resonates with customers really across industries and across functions. There's a couple of quotes in the earnings release around that.

A couple of surprising things may provide a little bit more color. Even though we launched into the commercial segment which tends to be smaller, not the smallest but smaller customers, the average

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

customer has thousands of agreements in their repository, and so that gives you a sense that there's pain and complexity around agreement management, even in mid size and smaller companies. That gives us a lot of confidence. And we're seeing pretty rapid adoption once people have signed. They don't need a lot of hand-holding. Then as you know, we have a very ubiquitous product with eSign, 1.6 million customers. Our goal with IAM was to provide something that can provide value for all of them and really provide a differentiated value proposition going forward and the early signs are really encouraging on that front.

And we're still looking ahead to launching self-serve to get the long tail and then going into the enterprise, initially departmental adoption and, of course, in geographies outside the three launch markets. So, a lot of headroom and scaling for reach of the product as well.

But I'd say the mood inside the company is one of sort of optimism and energy and, "Hey, this is really working." It's fun.

Jake Roberge

Okay. Very helpful. Could you just talk about what led to the sales transition during the quarter and if Paula has identified any kind of changes that she wants to make since joining, or if it will be more of a continuation of the changes that you've been making over the last year or two? Thanks.

Allan Thygesen

Yes. Let me quickly address that.

Look, I think we're in a transformation moment. Notwithstanding that I think we've built a great product and the indications, early indications are really positive, it's still a transformation. We're moving from selling a singular product that's clear horizontal but has a very repeatable motion to something that's richer. It's more solution-oriented, there's more of a platform aspect and I just thought that finding a leader that I thought could really lead that transformation would be great.

Our strategy has not changed, however. I just want to emphasize we're continuing to focus on our three routes to market: our direct channel which will remain the biggest and most important; partners, which we talked a little bit more about in the earnings release. We can chat more about it. And of course, the self-serve motion. I think Paula will be a tremendous accelerant and execution leader for that strategy, and she has really hit the ground running. She's a month in and you would not know it. So, thrilled to have her.

Let me also just quickly—I don't think I answered the second part of your question about the difference with CLM.

I think CLM has historically been extremely focused at the top of the house, very large enterprise clients because they were the only ones who could handle the complexity and the custom development, the custom integration that need to happen. I think we have more customers than other vendors, but even there it's just orders of magnitude smaller in customer count than Signature. I think it's reflecting of that up front cost and tax.

There's also flexibility issues in terms of how easy is it to configure, and then in terms of reach it tends to be a relatively limited number of having specialized users. Obviously your legal team and maybe sales ops and purchasing ops. IAM, we could deploy seats to every seller, every buyer, every HR person, every

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

recruiter. They can see the agreements that are related to them. So in terms of the breadth, it's just a totally different thing.

Now, with all that said, our CLM product remains our choice for enterprises that are ready for it. It has a lot of power and flexibility. It definitely has more features than IAM, and we will continue to sell and support that for the foreseeable future. At some point in the very long run we will—as we replace more and more the pieces of IAM with—of CLM with the IAM underpinnings, things will evolve and that's the nature of things in enterprise software. But we have a market-leading product in CLM and customers who get a lot of value from it and we intend to continue to exploit that.

Operator

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

Kylie Towbin

Hi. This is Kylie on for Tyler Radke. My main question is around billings. The revenue guide for the full year was raised while the billings beat and raise was a bit smaller. Just curious if there were any term changes that caused the revenues to be raised more. Also curious if there are any seasonal changes to guidance relative to what you were messaging last quarter. Thanks.

Allan Thygesen

Blake, why don't you take that one?

Blake Grayson

Sure. Yes, that's correct. We flowed through the full beat in billings to our full year guide. We flowed through the full beat in revenue and then raised for the full year as well.

The driver of the Q2 revenue beat was really just based on timing of bookings. So, bookings essentially came in earlier during the quarter than we expected on average, particularly with some larger deals. Some anecdotes—and you've heard me talk about higher usage and consumption. We had a few deals, amongst many others, that renewed essentially earlier than we had anticipated in our model. The flowthrough or the raise into the back half of the year is really a reflection of us scrubbing that kind of dynamic, looking at it and saying, "Oh, we have some tailwind there," as well relative to our forecast, and so that's the reflection of the raise.

It's not really seasonal or a change in business or things like that because, as you all know, billings can be pretty sensitive, right, to timing. Those are really the biggest components, but the revenue raise is really reflective of the beat in Q2, which is based on timings of bookings.

Operator

Thank you. Our next question comes from the line of Rishi Jaluria with RBC Capital Markets. Please proceed with your question.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

Chris Fountain

This is Chris Fountain on for Rishi Jaluria. Thanks for taking my question. I wanted to follow up on a point in the prepared remarks you made about margins coming down in the second half just for some more IAM investments. I guess I'm just curious what's really missing at this point? Is it just more enterprise functionality? Or could you just provide some more detail on, I guess, where those dollars are going?

Blake Grayson

Yes, sure. I think if you normalize the Q2 number after those one-time items, we do have a slight decline in about 150 basis points or so from Q2 into Q3. The IAM investment component, obviously, we're supporting today primarily a North America CBU business, and we'll be supporting a lot more than that by the end of this fiscal year. So it's really just a reflection, it's part of its timing. But it's really just a reflection of making sure that we're supporting all these other international geographies that have yet to launch, as well as many other customer segments within North America as well. But even with that, our Q3 guide on operating margin is still sizably above year-on-year, and so proud of the team and the efficiency on that.

Chris Fountain

Got it. Thank you, Blake. One quick follow-up, just on the pricing model. How should we think about that for IAM and how it's evolved beyond the kind of historical pricing model? I think in the past you talked about moving more towards a seat-based traditional subscription model. Just any update there would be great.

Allan Thygesen

Yes. There's a lot of levers there. First, just to frame it. Historically, our Sign business has primarily had an envelope-based billing model, basically the number in documents sent, and you prebought capacity. That obviously doesn't make sense for IAM more broadly, and so we're anchoring it around seat-based pricing for different user types, plus adders (phon) for, shall we say, capacity related to, for example, the number of documents stored in the repository, as well as a variety of add-on services, advanced AI features, third-party identification, verification and other value-added features.

I think we're still exploring other ways in which we can best match our pricing to the value delivered. That's what you want in the pricing model. I think we've done a pretty good job out of the gate, but I'm sure we'll be learning more here over the next 6 to 12 months as we explore different customer segments and geographies. But that's the high level of how it's working today.

Operator

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

Arti Vula

Hey, this is Arti for Mark Murphy. Congrats on the quarter and the milestones, and thanks for taking the question.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

First, you guys talked about rolling the IAM platform to more customer segments and international regions through the remainder of the year. Could you double click there and just maybe provide a little bit of insight as to which types of customers or regions you're prioritizing in the near term? Thanks.

Allan Thygesen

Yes. From a customer segment perspective, if you want to oversimplify, we serve customers of all sizes, right? From two-person law firms to 100,000 employee corporations. We launched to the commercial segment, so the mid-market segment stretching down to the upper end of SMB and then here before the end of the year, we will launch a pure self-service version so that—or ability to buy IAM purely self-service, so that will allow us to reach all the way down, as well as, of course, remove friction for any customer in any segment. Then we will begin selling to the enterprise segment. I think initially, it will support mostly department level rollout, so roll out for a sales division or for an HR team or whatever. But we think we can get going with something pretty robust, and we've had a lot of inbound interest.

From a geography perspective, our primary focus was in the U.S. We also launched a version in Canada and Australia. Later this fall, the product will become available, including all the localized AI for—at least in Australia and Canada. We'll also have the U.K., and then for Germany and France. Then the product more broadly without full contract AI will be available worldwide. By the end of this year, any DocuSign customer will be able to buy a version of IAM.

Maybe just to double-click a little on the AI point, I mentioned how bringing intelligence to the agreements that you have is a key value prop for IAM. That rests on using AI to extract the essential terms out of documents and which then means you have to train models, for not just for specific languages, but the specific legal systems. The U.K., yes, it's English, but it's a different English and a different legal standard than the U.S. so you need to train those models for each of those markets.

We're making very good progress on that. I rattled off the markets that we're serving right off the bat, and we will add several more language and market combination in early next year. But that will be an ongoing project, but important to fully deliver the value in all of our biggest markets.

Arti Vula

Very helpful and great insight on the regionalization for the AI.

Turning to your remarks about hiring behind strategic initiatives as well as Lexion kind of contributing to the headcount growth, could you help us maybe size the contribution from Lexion? Just trying to kind of better understand what the organic headcount growth looks like and maybe also where you're hiring is behind that? Is that in R&D, or sales and marketing, or where are you kind of prioritizing your dollars?

Blake Grayson

Yes, sure. I'll take the stab at that one, Allan.

Lexion was a pretty fair chunk of our quarter-over-quarter headcount growth. I think we grew about 170 heads; Lexion is a fair chunk of that. But for the remainder it is primarily focused in areas across the Company that are supporting our growth initiatives. So you can imagine, places in R&D and PLG and other areas of the Company as well that support those functions or those initiatives are growing.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

I would just say, relative to headcount as well, for us, we are continuing to hire. We are continuing to hire in all of our regions. Now, that said, we're also being very mindful about that. We're being mindful of cost per location and global time zones and things like that, of that nature. So as we think about headcount growth, I would also encourage you to make sure you pay attention as well on top to OpEx growth because you'll see a little bit of a differentiation there. Again, I would just reinforce that we're very mindful of being productive and efficient as much as possible as we continue to support the growth opportunity that we see in IAM.

Arti Vula

Great. Thank you. Appreciate it.

Operator

Thank you. Our next question comes from the line of Patrick Walravens with Citizens JMP. Please proceed with your question.

Patrick Walravens

Great. Thank you and congratulations.

Allan, can I ask you a big picture question? What's your perspective on sort of the attempts to regulate AI? Then particularly here in California, you have the Senate bill that's sitting on Newsom's desk about safe and secure innovation for frontier artificial intelligence models. Does that impact you, and sort of bigger picture thoughts would be really helpful.

Allan Thygesen

Yes. First of all, I'd say we believe that it's very early with AI, and it's hard to regulate something that's not well defined. But I don't believe that any of the currently proposed regulation here or in the EU or elsewhere meaningfully affects our plans. It's probably the most important to get that out of the way.

In terms of sort of my observations as a tech industry participant and observer, I do think that there is understandable concern about the potential for AI to be misused in various ways. I personally believe the first focus should be on adapting existing regulations for AI, so looking for whether it's discrimination provisions or competition provisions, whatever it is, how can we interpret existing laws and clarify how those should apply in an AI context rather than conceiving things completely de novo.

But I'm not an expert on—was it 1047 bill? Obviously, we will adhere to the laws of markets where we operate.

Patrick Walravens

Awesome. All right, thank you.

Operator

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

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

Arsenije Matovic

Hi. This is Arsenije on for Alex Zukin. Thanks for taking the question. On dollar net retention that has stayed stable at 99% and is expected to stay stable, but why is that not expected to expand, as it seems you should have lapped pandemic renewal cohorts going into the second half of this year? And I guess to help investors gain visibility into expansion from long customers, what has the dollar retention been for customers outside of the pandemic renewal cohort? Then I have just a quick follow-up. Thanks.

Blake Grayson

Yes, sure. I'll take a stab at that. Again, just to reiterate, dollar net retention flat in Q2 at 99% and indication in the prepared remarks that we expect that to stay consistent through the remainder of the year.

With regard to the COVID comment, gosh, I think it was on our Q3 fiscal '24 earnings call I believe we shared the data point that by the end of fiscal '24, only about 10% of our book of business will be from contracts written during what I call the calendar years 2020 and 2021, it's the proxy for the pandemic, and that will continue to decline in fiscal '25. We're on track for that. We're in the mid-single-digit share for Q2, and we expect to be at the very low single-digit share in FY '25 the end. So from an impact to DNR perspective, we primarily already flushed through like that impact, generally speaking.

I think for us, the longer-term opportunities for us to improve DNR rate going forward rest both with improving renewals in our core business, improving those retention rates, and we've shown improvements in that to date, but we have more room to go that we can improve on. But then also this opportunity longer term with IAM and that provides us the ability for, I think, a real opportunity for expansion with customers based primarily on the value that we provide to them and customers being willing to share in some of that value upside.

Those are the components that I think we're most excited about, but as far as like breaking down cohorts of DNR and such, we're through the bulk of our COVID comps already.

Arsenije Matovic

Got it. Thank you. Then just to clear up, and I guess confirm, last quarter's full year subscription revenue guide included Lexion as does guidance today. Is that correct?

Blake Grayson

That's correct. It was included in our guide last quarter.

Arsenije Matovic

Thank you.

Operator

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

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

Josh Baer

Great. Thanks for the question. You mentioned higher consumption and envelope volumes and utilization a couple of times. I'm wondering if you're suggesting that you could start to see customers come back to you to expand contracts for more envelopes. And related, just wondering how much of your business now is an all-you-can-eat type of enterprise license agreements, and does the higher consumption and utilization have the same impact, just given maybe the changing mix of contracts versus prior periods? Thanks.

Blake Grayson

Sure. So with regards to verticals, yes, I think we look at our vertical consumption and envelopes sent as a proxy for the opportunity that we see with our customers for expansion over time. But for every customer it's going to be different, right? So it's a little challenging to pick a certain rate.

But consumption improved pretty well, I would say, on a prior year-over-year basis, and then envelope sent also increased for us on a year-over-year basis. So as customers run through those components and they're using more of the product, they get more excited about it.

Now, with regards to expansion opportunities—I think you asked about the all-you-can-eat component—that's pretty small for us in our core business. People are buying generally fixed rate envelopes for the most part. We have certain deals that don't do it that way, but for the most part it is. So, that actually encourages me a little bit for the IAM opportunity that we have because I think it's telling a customer in a way, “Okay, you don't have to worry as much about the consumption side of this and you get these extra features and a platform essentially that we believe adds so much incremental value for you.” I don't want to say it's an easy decision, but you can really see the line of sight there to why you would want people to expand and convert into an IAM situation, and that takes time with our customers.

We've got a $3 billion book of business with an average contract length of, I think, 19 months, and so that takes time. But I'm encouraged by the usage and the consumption metrics that we've seen to date.

Josh Baer

That's helpful. Just wondering, do you view the potential for interest rates to move lower as a tailwind for your business, just given the exposure to mortgages and real estate and financial services? Thanks.

Blake Grayson

Yes. I mean I'll give you my opinion. I think a lot of people on this call probably are better at kind of forecasting interest rate kind of impacts on companies and such like that than me. But yes, I would say that especially specifically to the mortgage environment and the real estate environment you talked about, I think anything that drives higher demand for a customer is good for us. If lower interest rates drive more people to either refinance or buy homes and such, I think it's a potential helpful.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

On the flip side though, too, for us real estate, while envelopes sent, that vertical is growing slower than average, it's still growing for us year-over-year. So, cautiously optimistic. We still think there's opportunities in our verticals for improvement, if the macro environment improves for those verticals.

Allan Thygesen

I would just add that a lot of people know us from real estate transactions, but it has declined as a percentage of our overall business. At this point, we're extremely diversified across industries. So, while we would benefit, it might not be as large a benefit as one might have imagined four or five years ago when real estate was really the killer. I think at this point, we've got such a broad portfolio that it would be nice. I'm not saying we wouldn't—we would be very happy to take (inaudible) for a variety of reasons, including that, but it's maybe not as sensitive to that as it was, given our diversification.

Josh Baer

Helpful. Thank you.

Operator

Our next question comes from the line of Michael Turrin with Wells Fargo. Please proceed with your question.

Rich Poland

This is Rich Poland on for Michael Turrin. Thanks for taking my question. First one, I was wondering if you could tease out some of how meaningful those co-selling or agents with large ISVs could be, and just kind of how important that is to the partner motion, especially as you scale the IAM business.

Allan Thygesen

Yes. I think in terms of the co-selling with the large ISVs, the Microsofts, SAPs of the world, I think it's a very meaningful lever. Particularly in the large enterprises, if you go in with Microsoft and they have an existing Azure commitment that can be very helpful. And of course, we're one of the most horizontal ISVs and so map well to them, as an example. I think the partnership with SAP holds great potential and the supply chain optimization piece is something that's really important to enterprises right now. They are very keen to improve the workflows. Things like new vendor onboarding and so on are historically very cumbersome and so I think we have a big opportunity there.

But I do want to expand the window on partners. So look, those three—Salesforce, SAP and Microsoft—get a lot of focus here. We're looking at some of the next tier of folks, You can imagine the names there that also get some decent attention, but I think the bigger unlock for us to complement our own sales efforts is really the reseller and system integrators.

Resellers in the markets where we can't reach customers through our direct sales team, obviously, in geos where we can't or we can't realistically do that., but even in markets like the U.S., Germany or Japan, where a lot of customers prefer to buy from a reseller. That's a very important channel.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

The SIs? Look, I'm very proud of how simple we've made a very complex problem of improving agreement workflows. But when you undertake something of that scale and scope I think there's going to naturally be more opportunities for their size, and they all see that. So we've had a tremendous amount of inbound interest. Historically, most of our SI work has been focused on CLM, which is a small part of our business, but now with IAM really being the whole company, if you will, it's much more strategic, much larger in scope. We have, I think, a huge opportunity to partner better with the Deloittes, the E&Ys, the Capgeminis of the world. There's a lot of that already happening and I think much more to come. That's a big enabler for us.

Richard Poland

Thank you. That's very helpful. Just as a follow-up, in some of these early IAM deals that you're seeing, I know you talked a little bit about seats and just kind of the potential for that to be a little bit more pervasive across an organization. Are you starting to already see some of those wider seat deployments in an organization, maybe like cross departments? Or are you typically starting with one department inside an organization and then just kind of expanding from there?

Allan Thygesen

Yes. I'll just clarify that was for IAM, right?

The companies we're deploying now are smaller, and so it's the commercial segment, so it does tend to be company-wide in many cases. I think as we start our enterprise deployments, it's more likely to be divisional and departmental just because the scale and scope and risk and all the systems we'd have to put in to fully support that. That's a forecast because we're just about to open the doors to the initial selling to the enterprise segment, but that would be my guess on how that's going to play out initially.

By the way, it's very familiar to us, right, in that that's how eSign rolled out. We went to the heads of sales and said, "Hey, would you like to make your sales process more efficient? " and they said, "Yes, please." Then we integrated with Salesforce and they deployed it in sales, and then purchasing or HR look at that and went, “Hmm, can we do that?” And so we've been able to cross-sell in some companies. I think with IAM, we'll have more opportunity to do that.

Richard Poland

Makes a lot of sense.

Operator

Thank you. Our next question comes from the line of Ian Black with Needham & Company. Please proceed with your question.

Ian Black

Hi. Thanks for the question. You had a good partner check on the Lexion acquisition. How important is that functionality to the new IAM platform, and when do you expect the acquisition to be integrated? Thank you.

Allan Thygesen

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

Yes. Actually, I just want to say how thrilled we are with the Lexion acquisition. We closed the deal at the end of May and it was always our intent for this to be principally a product and team acquisition. We put a lot of focus on integrating their products, and I'm proud to say that this month we will ship two significant features that are directly enabled by the Lexion acquisition. That's four months from when we closed the deal, so huge kudos to the Lexion team and to the Docusign team members that are helping them, and there's more to come. We've got a couple of more things that are I think really exciting. And they are dead center in the vision for IAM. So I think that turned out to be even better than I could have expected and we're thrilled to have the team here. They've got an infusion of entrepreneurial energy and innovation that's always welcome, and I think it's going to help our roadmap on a going-forward basis.

Operator

Thank you. Our last question comes from the line of Kirk Materne with Evercore ISI. Please proceed with your question.

Bill

This is Bill on for Kirk, and thanks for taking my question. Do you feel like NRR rates have stabilized and should start improving from here? Are there customers still trying to rightsize their spend that could create continued pressure on that front, or do you feel like you're now at a level where upsell, cross-sell can outpace envelope pressure on NRR rate?

Blake Grayson

Sure. From a DNR perspective, we've seen it stabilize here for a few quarters in a row and we expect that to continue through the rest of the year. I'm not giving FY '26 kind of DNR forecast or anything like that, but I think what we're showing is that this business has been quite resilient.

Now, that said, we have aspirations to begin growing this business at a faster clip than we are currently and that's why we've talked so much about IAM and things like that, of that nature. I'm encouraged by the stabilization trends we've seen, and that we believe that will hold at least through the end of this year. But obviously, we are focused on how do we accelerate the growth of this company, doing right by our customers, providing them extra value and build a really durable platform in the agreement management space? I think we're executing so far quite well against that going forward, and we'll see how that all plays out.

Allan Thygesen

Yes. I would just add ultimately it is our goal to return to double-digit growth. I'm not making a forecast about when exactly that will happen, but implied in that, given that we already are in 1.6 million companies, we're in close to 85% of the Fortune 500 and comparable numbers in other markets, most of our activity is going to be upsell to existing customers. Assuming we're successful in accelerating growth, the DNR will move up as well. That's our goal.

Bill

Great. Thanks for taking my question.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

Operator

Thank you. Ladies and gentlemen, this concludes our question-and-answer session. I'll now turn the call over to Allan for closing comments.

Allan Thygesen

Thank you, Operator. Thank you all for joining today's call.

In closing, I'm very proud of the progress DocuSign continues to make, and I'm really excited for the value we will create for customers through the Intelligent Agreement Management platform. We appreciate your support as we continue to realize our vision.

Operator

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

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com