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Docusign, Inc.

Third Quarter Fiscal Year 2025 Earnings Call

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CORPORATE PARTICIPANTS

Heather Harwood, *Head of Investor Relations*

Allan Thygesen, *Chief Executive Officer*

Blake Grayson, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Jake Roberge, *William Blair*

Tyler Radke, *Citi*

Brent Thill, *Jefferies*

Austin Cole, *JMP Securities*

Josh Baer, *Morgan Stanley*

Sonak Kolar, *JPMorgan*

Michael Berg, *Wells Fargo Securities*

Arsenije Matovic, *Wolfe Research*

Ian Black, *Needham & Company*

PRESENTATION

Operator

Greetings and welcome to the Docusign Q3 Fiscal 2025 Earnings Call.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If you require operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce you to your host, Heather Harwood, Head of Investor Relations. Thank you, Heather. You may begin.

Heather Harwood

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Thank you, Operator.

Good afternoon and welcome to Docusign's Q3 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 third quarter fiscal 2025 results was issued earlier today and is posted on our Investor Relations website, along with 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 Thygesen

Thank you, Heather, and good afternoon everyone.

In Q3, we delivered powerful new innovation for customers, highlighted by new capabilities for the Docusign Intelligent Agreement Management or IAM platform. We also continued to drive improved performance and maintained greater efficiency in our core business.

Q3 revenue was $755 million, up 8% year-over-year. Fundamentals across the core business improved, continuing the recent trends. Dollar net retention increased to 100% in Q3, up from its low of 98% in Q4 fiscal 24. Increases in customer usage and utilization combined with our ongoing focus on gross retention drove dollar net retention improvement. We also saw sustained momentum in new customer growth at 11% year-over-year to 1.6 million customers. In addition, we produced strong profitability with 29.6% non-GAAP operating margins, up from 26.8% in Q3 fiscal 2024, evidence of our commitment to improving efficiency while making the needed investments to reaccelerate growth.

As we move forward, we've set our sights on delivering transformational value for our customers with the Docusign IAM platform. We recognize that it is early days in the multiyear IAM journey, but we believe we have taken strong initial steps on the path towards our aspiration to achieve sustainable long-term double-

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digit growth. Our Q3 results demonstrate continued progress across our three strategic pillars: accelerating product innovation, strengthening our omnichannel go-to-market capabilities, and increasing operating efficiency.

Starting with innovation, we enhanced the IAM platform across three fronts: launching several new capabilities, expanding availability to more regions, and enabling department-level deployments for enterprise customers. These releases help customers of all sizes cut into the staggering $2 trillion in global economic value lost each year to inefficient agreement management.

Within just a few months of closing the Lexion acquisition, we've built Lexion's AI capabilities into the IAM platform, including the ability to surface insights from a more extensive array of agreement types in Docusign Navigator. Navigator is a core capability of the IAM platform, acting as a system of record where customers can import, store, manage, search, and use AI to analyze agreements from multiple sources. In Q3, we further enhanced Navigator by adding third-party document imports from partners, including Box, Dropbox, Google Drive, and Microsoft OneDrive and SharePoint. In addition, we launched an upgraded search experience that includes predictive typeahead functionality, more filters, and the ability to export results.

We also expanded the availability of IAM to more geographies. In early October, IAM with Docusign Maestro, our automated agreement workflow builder, shipped to all regions where Docusign operates, including North America, Latin America, EMEA, and most countries in APAC. Also, just this week, we released new AI features in Navigator across five major markets: Australia, Canada, France, Germany, and the UK. In these countries, we've created AI models that meet local regulatory and compliance requirements.

In November, we began making IAM available for department-level use cases for enterprise customers. This begins the multiyear journey toward delivering enterprise-wide IAM deployments, which will eventually include more sophisticated access controls and compliance management, more complex agreement workflows, and even greater breadth and depth of third-party integrations. This measured rollout allows us to fine-tune our product development and go-to-market execution based on customer feedback.

Part of our evolution into a platform company is supporting a dynamic community of developers, builders, and partners to create new solutions that extend the capabilities of our IAM platform. Just two weeks ago, at Docusign Discover, we showcased IAM integrations with Microsoft, SAP, and Workday and introduced a suite of developer tools, Docusign for Developers, that our partners will use to build apps powered by the IAM platform. Partners can share their apps in the Docusign App Center.

With Docusign CLM, we continue to invest in innovation for customers with complex agreement management needs. In Q3, we incorporated Lexion's AI-assisted contract review and launched document markup in Microsoft Word documents into CLM, allowing customers to quickly review and edit contracts. We also released a powerful new Docusign Connector for SAP Ariba which speeds up the source-to-pay agreement process for procurement and expands on our SAP partnership.

For the fifth consecutive year, Docusign CLM has been named a leader in Gartner's Magic Quadrant for CLM. Gartner says Docusign is, 'in a strong position for both influencing the market and securing a place for consideration on prospective customers' evaluation shortlists.' CLM is a powerful application for customers with sophisticated workflows and remains a fast-growing part of our business.

In short, we have reignited Docusign's culture of innovation with a robust product roadmap, faster product releases, and a commitment to supporting a thriving developer ecosystem.

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

In Q3, we accelerated the rollout of Docusign IAM and gained traction with small and mid-sized customers in the United States, Canada, and Australia. Early sales momentum has outpaced our expectations. In Q3, we closed more than 10 times as many IAM deals as we did in Q2, with deal volume increasing every month in the quarter. Eighty percent of our reps eligible to sell IAM in the initial launch markets have closed three or more deals, and nearly 60% have sold six or more.

Equally encouraging is the strong customer engagement with the IAM platform. Time-to-live is remarkably quick; it's slightly faster than eSignature. We also see customers increasing their usage of IAM applications, particularly Navigator, each month they are live on the platform. The speed and ease of adoption strengthen our ability to market IAM to hundreds of thousands of customers through our direct sales force. Our customers can seamlessly upgrade to IAM when they renew their contracts, and quickly begin to transform how they manage their agreements.

As an example of customer success, KPC Private Funds, which connects wealth management firms with alternative investment opportunities, has slashed its client onboarding time by 70% using Maestro, and anticipates reducing onboarding time by 90%. Royal Neighbors of America, a life insurance company, will use Maestro to accelerate new member application processing and customer service workflows across multiple parts of its business, replacing a manual code-based process with a flexible self-service workflow. Employee engagement platform Catchafire is using Docusign IAM for Sales and its Salesforce integration to streamline contract creation and create an agreement repository.

Another top priority has been evolving our self-serve capability. Self-serve investments led to a year-over-year acceleration in digital revenue growth in Q3 versus Q2. During the quarter, we improved our upsell capabilities, making it easier for digital customers to upgrade their plans, leading to larger-than-anticipated revenue expansion. We also made additional add-on products available online, like multichannel delivery including SMS and WhatsApp, as well as ID verification. We will continue to improve how customers discover, try, use, and buy our products digitally, enabling greater scale and efficiency across our business.

Also, as we begin to deploy IAM at the department level with enterprises, we'll build on the existing use case breadth already deployed by larger customers through our direct and partner channels. Cox Automotive, the parent company of Autotrader and Kelley Blue Book, is executing 55% more contracts per month by deploying Docusign CLM to streamline workflows, simplify negotiations, and automate reviews of standard contract clauses. CLM enables Cox to execute agreements 31% faster, radically accelerating its time to revenue. IKEA Portugal has reduced new employee onboarding time by managing employee-related contracts digitally instead of on paper. In addition to eSignature, IKEA Portugal has adopted both Docusign ID Verification for EU Qualified and its Identity Wallet, enabling them to easily and efficiently use the EU's most secure form of digital signature, the Qualified Electronic Signature. United Airlines has accelerated the onboarding process for new hires from weeks to days by using our integration with ServiceNow in its HR organization.

In closing, we're pleased with our strong execution as we rapidly innovate the IAM platform. I am excited about the significant opportunity to deliver value for our customers by transforming how the world manages agreements, and I'm proud of the way we're strategically investing in the future while maintaining the improvements we've made to overall profitability.

When I joined Docusign, we had a vision that our position as the world's leading and most trusted electronic signature company created a unique opportunity to help customers address the entire end-to-end agreement process. I want to thank the entire Docusign team for embracing this challenge and bringing so

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much energy, enthusiasm and customer focus to this mission. Docusign is gaining momentum in our first steps in a multiyear transformation, and we're optimistic about the long-term future ahead.

With that, I'll turn it over to Blake to further discuss our results.

Blake Grayson

Thanks, Allan, and good afternoon everyone.

We delivered another strong quarter in Q3. Our business showed improvements as we executed against our three strategic pillars: accelerating product innovation, strengthening our omnichannel go-to-market capabilities, and increasing operating efficiency. In addition to demonstrating an improving core business, during our first full quarter since the late Q2 IAM platform launch we saw encouraging signs of early traction with growing IAM deal volumes and customer engagement.

Q3 total revenue was $755 million and subscription revenue was $735 million, both up 8% year-over-year. Billings were $752 million, up 9% year-over-year. Early renewals drove approximately one-third of the billings outperformance, with the remainder coming from better retention performance, digital growth, and early IAM contributions. As a reminder, quarter-to-quarter billings can fluctuate due to the timing of deals.

The dollar net retention rate improved to 100% in Q3, up from 99% in Q2 and up 2 points from the historical low of 98% in Q4 fiscal 2024. This represents substantial progress in our focus on stabilizing the core business and I'm proud of our team's work to improve customer retention. We believe we have a large remaining opportunity to improve retention as we better align our product and go-to-market motions with customer needs. As we look into Q4, we expect dollar net retention to be flat to up slightly.

Continued year-over-year improvements in usage, utilization, and customer growth further supported positive business trends in Q3. Usage trends, once again, showed modest improvements. The volume of envelopes sent increased year-over-year for the fourth consecutive quarter. Also, consumption, a measure of utilization, continued to improve year-over-year, particularly in verticals like insurance, technology and healthcare.

We continued to see consistent growth in new customer acquisition. In Q3, total customers grew 11% year-over-year to 1.6 million. This continued momentum in customer growth underscores the importance of investing in multiple routes to market across segments and geographies. Moreover, our customer base's unique breadth and scale create a solid foundation for future adoption of the IAM platform.

The number of large customers spending over $300,000 annually increased both year-over-year and quarter-over-quarter to 1,075 in Q3. In addition, investments in our self-service motion continue to deliver results, and in Q3, digital revenue growth accelerated from Q2. We continue to invest in PLG programs to improve self-service experiences, such as self-service plan upgrades, which helped drive results during the quarter.

International revenue represented 28% of total revenue and grew 14% year-over-year. 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, especially as the IAM platform becomes available outside of North America.

As Allan mentioned, we are seeing early signs that customers appreciate the value and opportunity that the IAM platform presents for their businesses. Many companies struggle to untap the full value of their

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extensive agreement inventory, and IAM provides the tools and intelligence to unlock the insights and opportunities in those agreements.

IAM deal volume grew rapidly from Q2 into Q3 as our Go-To-Market teams have embraced the opportunity, with 80% of eligible reps closing at least three IAM deals in Q3. Beginning in November, we launched IAM in some international small and mid-sized customer segments, and are just beginning to embrace departmental opportunities in our enterprise segments as well. It will take time to continue ramping IAM throughout fiscal year 2026 and driving adoption in the years to come, but early signals have been promising, and we are just getting started.

Turning to the financials, our focus on operating efficiency yielded strong results this quarter. Non-GAAP gross margin for Q3 was 82.5%, slightly lower than the prior year's 83.0% due to the impacts of additional cloud migration costs. As previously mentioned, gross margins have been impacted this year due to the ongoing cloud infrastructure migration, resulting in some additional expenses associated with this transition. We expect a slightly larger gross margin impact in fiscal year 2026 as we complete the bulk of that migration next year before easing in fiscal year 2027 and beyond.

Non-GAAP operating income for Q3 was $223 million, up 19% year-over-year, resulting in a 29.6% operating margin. Q3 operating margin was up nearly 300 basis points versus last year and significantly improved over the 22.8% operating margin from two years ago. As mentioned during last quarter's earnings call, Q3 operating margins declined versus Q2 fiscal 2025 due to both the approximately 150 basis point margin benefit from one-time items highlighted last quarter, and slightly from our investments to support the IAM launch and rollout.

We are pleased with the overall improvement in profitability versus last year, and will continue to balance overall efficiency while making critical investments in areas like R&D.

We ended Q3 with 6,705 employees versus 6,945 last year, down approximately 3%, reflecting our disciplined approach to resource allocation. We continue to take a measured approach to hiring to support our strategic initiatives, including R&D, PLG, and the Lexion acquisition. While headcount has increased since Q1 of fiscal 2025, we are thoughtful about how and where we add talent.

Q3 was another strong quarter for cash flow. We delivered $211 million of free cash flow, a 28% margin. Our free cash flow yield improved from Q2, which was better than expected, driven by increased collections efficiency and higher in-quarter billings. For the full fiscal year, we expect that our free cash flow margin will approximately match our full-year non-GAAP operating margin.

Our balance sheet remains strong, closing the quarter with $1.1 billion in cash, cash equivalents, and investments. We have no debt on the balance sheet. This financial stability, combined with consistent free cash flow generation, enables us to invest in the business while also returning capital to shareholders opportunistically.

In Q3, we repurchased $173 million of stock through share buybacks, effectively redeploying the bulk of our quarterly free cash flow generation back to shareholders. We have $770 million remaining under our current repurchase authorization, and we expect to continue to opportunistically repurchase shares as part of our capital allocation strategy. During the quarter, we also used $51 million in cash to pay taxes due on RSU settlements, reducing the dilutive impact of our equity programs.

Regarding the cost of our equity programs, our Q3 stock compensation expense as a percentage of revenue dropped approximately 250 basis points from the prior year. We expect to continue to reduce our

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stock compensation expense as a percentage of revenue in fiscal year 2026, partly as we shift some roles to predominantly cash compensation versus equity.

Non-GAAP diluted EPS for Q3 was $0.90, an $0.11 per share improvement from $0.79 last year. GAAP diluted EPS was $0.30 versus $0.19 last year.

With that, let me turn to guidance.

For the fourth quarter and fiscal year 2025, we expect total revenue of $758 million to $762 million in Q4 or a 7% year-over-year increase at the midpoint, and $2.959 billion to $2.963 billion for fiscal 2025 or a 7% year-over-year increase at the midpoint. Of this, we expect subscription revenue of $741 million to $745 million in Q4 or a 7% year-over-year increase at the midpoint, and $2.885 billion to $2.889 billion for fiscal 2025 or a 7% year-over-year increase at the midpoint.

For billings, we expect $870 million to $880 million in Q4, or a 5% growth rate year-over-year at the midpoint, and $3.056 billion to $3.066 billion for fiscal 2025 or growth of 5% year-over-year at the midpoint. As a reminder, we had a strong Q4 of fiscal 2024 with 13% year-over-year billings growth partially driven by early renewal strength that creates a hard year-over-year comparison.

We expect non-GAAP gross margin to be 81.0% to 82.0% for Q4 and 81.9% to 82.1% for fiscal 2025.

We expect non-GAAP operating margin to reach 27.5% to 28.5% for Q4 and 29.5% to 29.7% for fiscal 2025.

We expect non-GAAP fully diluted weighted average shares outstanding of 209 million to 214 million for Q4 and 210 million to 212 million for fiscal 2025.

In closing, in Q3 we made continued progress toward strengthening the IAM platform vision and improving the performance of our core business. We also maintained our focus on operating efficiency and produced strong non-GAAP operating profit and free cash flow.

Looking forward from this foundation, we remain energized by our strategic roadmap as we continue to roll out additional capabilities to the IAM platform, scale more effectively across customer segments and geographies, and deepen relationships with our customers and partners. We remain in the early stages of bringing our vision to life and we believe that consistent execution will drive innovation for our customers, empower our employees, and deliver long-term value to our shareholders.

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.

Thank you. Our first question comes from the line of Jake Roberge with William Blair. Please proceed.

Jake Roberge

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Thanks for taking the questions and it's great to see both revenue and billings start to reaccelerate. Can you help us understand how much of that reacceleration is being driven by the stabilization in your core versus the momentum that you're starting to see with IAM? I understand the tough billings comp during the fourth quarter, but how sustainable do you think that type of performance is?

Allan Thygesen

Blake, do you want to take that one?

Blake Grayson

Sure. Thanks for the question. On core versus IAM, the predominant driver is the core, and that's just really because of the evolution of IAM and it's so early. You heard in the prepared remarks, really pleased with the Q3 billings performance early, it was the largest driver. That was about a third of it. The remaining three components that drove—sorry, the remaining two thirds—there were three components to it—better retention in the core business and just making continued improvements there. We also saw accelerating growth in digital, so that's upgrades and usage, and that's also in our core business. Then the third driver, which is the smallest of the three, was the better-than-expected IAM bookings. Now it's the smallest of the three, but that's just a function of the evolution and the timing of IAM. This is the very first full quarter we've had an IAM launched in a single customer segment in North America, and so it's going to take time for that to evolve, but still really excited about the contributions that we see hopefully ahead for IAM.

Jake Roberge

Yes, that's helpful. It was obviously great to hear IAM saw the 10x sequential increase in adoption. Can you talk about what's different about IAM versus what you've previously done with CLM, and just why that product has been able to sell so much faster than what CLM was previously able to?

Allan Thygesen

Yes. I'll take that one. CLM has been developed for and I think serves the needs of large enterprises with complex B2B-centric and negotiated agreement workflows, and it continues to be our lead offering for that particular customer segment. But that leaves a very large universe both of agreement types, so all kinds of business-to-consumer workflows, all kinds of business to individual like employment-related workflows, and even automation of simpler B2B workflows, unaddressed essentially by CLM systems. That system has also historically the province of legal departments and maybe some sales ops or purchasing ops people, but they have not generally been used by a broader set of users, frontline sellers, frontline buyers or recruiters, etc. Our goal with IAM is to make that more widely available.

Then lastly, of course, CLM is targeted at large companies that can sustain the amount of investment necessary to set it up properly, do all the training and integration and so on. With IAM, we can deliver out-of-the-box value to a much broader set of companies as illustrated by the fact that we launched it to the commercial segment, so companies with maybe, let's say, 50 to a thousand or a few thousand employees. Even those companies have, as it turns out, significant agreement pain that really have been unaddressed by everyone in the enterprise software space.

We're seeing very good take up. It's a very productive sales conversation for our sellers, a very quick adoption for the buying organizations, and it kind of grows organically from there inside the companies.

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So it's a very encouraging start. It's still early. We are rolling it out now across other markets outside of North America and Australia, and we just started selling it into enterprises for, as I say, departmental level workflows. I think it's a great complement to CLM, but we will continue selling CLM as our enterprise class tool for complex B2B negotiation-related workflows.

One last thing I would just add is that the CLM system is benefiting from all the IAM-related innovation. As an example, the integration with all of our eSignature related products has been improved dramatically; Navigator, which is our intelligent repository is in beta now to be made available to CLM customers, and a variety of other IAM features you'll hear more about on future calls will be released very shortly after for CLM customers as well. So they benefit from all the investment and innovation that's happening on IAM.

Jake Roberge

Very helpful. Thanks for taking the questions and congrats on the great results.

Operator

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

Tyler Radke

Thanks for taking the question. A question on the go-to-market side. You talked about how Paula Hansen's really hit the ground running since joining in August, but what where do you kind of see the biggest opportunity with some of her focus areas heading into next year? Be it the ELA motion and IAM attach. Just give us a sense for how you're thinking about kind of changes as you're going through the planning process for FY26 here?

Allan Thygesen

Yes. Yes, thanks for that question. Yes, Paula has really hit the ground running. I'm just thrilled with the whole leadership team, with having her on the team and leading our critical sales and partnership organizations.

In terms of our focus, I think if we look just a year out, the bulk of our IAM opportunity comes from the commercial segment, partly because we launched it six months earlier. It's very suitable for that. We have a longer sales cycle in enterprise. There's more integration. We have more work to do from both a product and go-to-market perspective.

With that said, we are determined and believe that ultimately the largest opportunity is in the enterprise. And so we want to begin building that. As I mentioned, we'll have departmental level deployments here starting—we just started selling that here now. I think over the next year, we'll build out the capability to support end-to-end wall-to-wall type deployments in the enterprise. Paula is focused on really the entire go-to-market sales cycle, everything from our enterprise marketing to our presales to our sales and sales enablement to our post-sales support. That's not just internal to Docusign. That's also in partnership with our system integrator partners and distributors and resellers, so it’s really across the board.

It's an evolution, I would say, of our model. We obviously have an existing engagement model with enterprises. We sell to most of the large enterprises in the U.S. and abroad. I think more than 85% to Fortune 500 already use Docusign, so we start in a good place and have an established land and expand motion, but I think we still have some growing and maturing to do to do the big platform, company-wide

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solution sell. That's one of the reasons why we brought Paula onboard to help us grow that capability and I think the entire team is focused on maturing our capabilities to be able to service that opportunity.

Tyler Radke

Great. A follow-up for Blake. Just as we think about the margin opportunity, it sounds like there are some incremental costs here, whether it's the recent hires, investments into IAM and particularly around AI and some of the cash compensation, what are the additional levers that you see for efficiency going forward? How should we think about margins heading into next year?

Blake Grayson

Sure. I'll try to take a stab at this. From a high level, I'm really pleased with the progress we've made in the last one to two years. Our operating margin in the third quarter was up nearly 300 basis points from a year ago. That's up more than double from where we were two years ago. I'm happy that we're raising our operating margin guidance for Q4, and we're maintaining that same year-over-year improvement or actually slightly more in Q4 than we saw in Q3. So I'm really proud of the team for that.

We're always looking for efficiency and productivity gains. But right now, what I'm most excited about as far as long-term operating leverage goes, it's from gains that we can get from accelerating growth. That's where we're really focused on right now. Our costs don't need to scale at the same rate as revenue. if we can focus on supporting that growth opportunity while maintaining the efficiency gains, we made I think we're really happy with that result. To your point, Tyler, we did call out a couple of unique items for FY26 just for folks to keep in mind that creates some temporary pressure for us. We've got those cloud transition costs, and you can see that if you look at our Q4 guide on a year-over-year basis relative to what we see in the full year. So I think that Q4 run rate is probably a good proxy.

Now that should ease for us in fiscal year '27 and beyond. We also had those onetime credits this year. In the last quarter or Q2, you'll recall we highlighted those and the adjustments to our compensation structure for next year. The magnitude of that is it's probably slightly larger than those Q2 onetime credit impacts that I referenced.

But we continue to be really focused on productivity, extracting the efficiencies and we've shown with our actions that when we can drive those without impacting growth or customer experience, we'll do it. But accelerating growth is a great lever for driving long-term operating leverage for us, so I'm really focused highly on that, but also maintaining the efficiencies that we've gained.

Tyler Radke

Thank you.

Operator

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

Brent Thill

Good afternoon. Allan, curious if you could put your macro hat on over the next nine months and just give us your 40,000-foot view of what you see is happening from your CEO approach. It feels like things are

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getting a little bit better, but I don't want to get too ahead of ourselves. How would you characterize what you're seeing and what you're planning as we go into next year?

Allan Thygesen

Yes. I would say, first of all the year that's almost over here, I think we've seen a marginal improvement in the environment for enterprise technology and enterprise software. We're practically a macro index, behind your question, because we're so diversified across both sectors and company sizes, so I think we get a reasonable read and we get engaged in everything from account openings to new hiring and so on. o everything I'm seeing is that the economy is in the major markets that we participate in, and we're obviously overweighted in North America, tends to look reasonably positive. We're not projecting any material change to that. If that were to happen, we would benefit from that, but we're not projecting that or expecting it or operating the company in that manner. That's my overall perch.

We're not seeing market, I'd say, discontinuities. One thing that I thought was interesting, we've in the past, gotten questions around the mortgage market because obviously people identified us with mortgages even though at this point, it's really a relatively small part of our business. We're seeing a number of mortgage-related customers increasing their (inaudible) capacity, so that is a positive indication, at least a sentiment where we're not seeing major volume increases. It's still on par or even a little less than the overall business in terms of envelope volume, but just an interesting commentary on one segment that I know is of interest.

Brent Thill

Does Blake get a little more capital to give to the Go-To-Market team to make a bigger push into early next year, or are you still being very disciplined on that side?

Allan Thygesen

I think Blake and I are 100% aligned. We've had some hard-won battles to get us to be more operationally efficient, and we don't want to give that up. At the same time, as he said, we are focused at this point on accelerating growth and unlocking efficiency from that.

We feel right now that our sales and marketing investment envelope overall is appropriate. We may move resources around from for segments and so on in light of the opportunity, but we think we can self-fund that, if you will, based on where we're sitting now. Obviously, if we start seeing really positive investment from our sales and marketing investments and we feel we have incremental opportunity we won't hesitate to make those investments. But right now, we're holding the line on our envelope and that feels like the right trade-off.

Brent Thill

Great. Thanks.

Operator

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

Austin Cole

Great. Thanks for taking my question. This is Austin Cole on for Pat.

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I think that generative AI and documents is kind of—extracting data from documents is kind of a natural marriage. What are some of the use cases that you're seeing with Navigator so far? What, with regard to the customer engagement with IAM, kind of gives you confidence in attacking larger customers with this product? Thank you.

Allan Thygesen

Yes. Yes, we agree that extraction is a very natural use case for LLMs, and we can deliver value very quickly (inaudible) and it applies across a broad range of industries and functions.

In terms of specific examples, mean 1 obvious example is that we can easily extract things like renewal dates and notice periods and as a result give people alerts or even automated notifications and workflows based on that information. If you imagine, if you're running sales or procurement, it can be on one side or the other, and you want to see everything that's coming up in the next six months and that's within the 90-day notice period, we can literally give you that and adapt for it. That's tremendously powerful, both for frontline sellers or buyers, as well as management. That's an example of a use case that people really like. and that is easy to implement, be done with very high reliability. There's very little data leakage risk, etc. All of those things are very positive for companies, I think, of all sizes.

Austin Cole

Great. Thank you.

Operator

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

Josh Baer

Great. Thank you for the question. I was hoping you could comment on the penetration of eSignature in the U.S. and globally, really focusing on the strength in your customer growth. Wondering how much is greenfield, competitive replacements and where you see the largest opportunities?

Allan Thygesen

Yes. We are continuing to add new customers. I think we've maintained a pretty steady growth rate of net overall customer count in the 10%, 11% range for several quarters now. There is still headroom in the U.S. It's predominantly in the SMB space, as you would expect, as I just said about already having 85% of the Fortune 500 as customers. There's even more opportunity internationally. We see a lot of additions in markets in Europe, in South America and in Asia. We think that, that's still a got long way to run. It’s a wonderful way to grow our installed base and complement our same-store growth, if you will.

With that said, I think the bulk of our focus as a company is on growing our installed base now with this much broader product set, and the fact that we have a much richer, more valuable offering allows us to leverage the fact that we have this massive installed base that's generally very happy with us. to offer more value. I think we've got tremendous headroom to grow based on that.

New customer acquisitions, super important, fuels our growth in the future, ensures that we're with younger, faster-growing companies. But we have tremendous headroom with existing customers of all sizes, and it's a huge competitive advantage for us that we have. I think we're at 1.6 million monthly paying customers.

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That's a highly unusual number from an enterprise software company, so we want to fully leverage that competitive advantage.

Josh Baer

Thanks, Allan.

If I could ask one for Blake, just on the billings guide. Given the early renewals in the year-over-year comp, the tough comp and some of the early renewals that helped Q3, the Q4 guidance for billings looks pretty bullish. Just wondering if you've signed any big deals already, like how the quarter is going? Is there an assumption for IAM ramping? Anything contributing to that, to the billings guide for Q4? Thank you.

Blake Grayson

Sure. I think that obviously part of the guide that we do has to assume some early renewal component, right? It happens for us every quarter. We make an estimate based on that. I would say there's nothing—there's no onetime standout component on that. It's just a reflection of the book that we see in the renewals that were up for this quarter, and so our best expectation or estimate of the rate that we'll be able to book.

Josh Baer

Got it. Thank you.

Operator

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

Sonak Kolar

Hi. This is Sonak Kolar on for Mark Murphy. Thanks for taking the question and congrats on the results. Allan, coming off Docusign Discover in November, I see that there are a bunch of other additional smaller regional events planned for CLM and IAM. I was just wondering if you could provide us with a sense of the recent customer excitement levels and feedback the team is picking up at some of these events, and perhaps any key focus areas or questions that are coming up with potential customers on IAM before they're willing to commit to that widescale rollout?

Allan Thygesen

Yes. Just first, a clarification, we announced or introduced IAM at a series of events Docusign Momentum, which is really our customer-focused events. We did the original launch of it in New York in April, and then we've done events on five continents since then: Sao Paulo, London, Munich, Paris, Singapore, Sydney and Tokyo. I think I've been to all of them except for Sao Paulo.

I think at every event, in every continent, we see this is a tremendously broad horizontal value proposition that is equally appealing to midsized and large companies and pretty universal across industries. I don't really see actually a ton of differentiation even across geos. I think the sooner we can get that capability in the hand of the customers everywhere, the better we will do. I think it's a very horizontal opportunity.

Docusign Discover, that you just mentioned, was our first event focused on developers. Docusign's always had a very powerful API for people to integrate Signature into their applications. It could either be commercia ISVs or even in-house corporate developers. We have a big ecosystem already of people who work with

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us, but it was fairly monolithic, should we say. It wasn't a componentized view of all that we offer. We've now really rearchitected that and of course it gives access to all of our new capabilities. What we announced here was a whole suite of tools and a variety of programs for developers and I think the feedback from that community was really positive.

Look, it's going to take a while for us to become a real platform company. We have a big opportunity to do that, and it would be a huge booster rocket if we can execute that successfully but we're just in the early stages of executing on that opportunity.

Maybe lastly, in terms of what else am I hearing from customers as I travel and I do a lot of customer meetings, I think that the universality of the, "I want to understand what's going on with my agreements" value proposition is even better than I had expected. I think it's easy to explain. People instantly get it. They may not historically have articulated the pain as clearly because they didn't know that it could be solved. If you think about all the inefficiency and unpredictability of agreement processes, they've essentially remained unchanged for the last 50 or 100 years. We've digitized agreements. We send them around via email and maybe we execute them electronically; other than that, nothing has changed. And so our opportunity to really change that is very eye-opening for folks.

I'm not naive. I think when we get to larger companies, it will be a higher bar. There will be more requirements, more systems to integrate with, more parties to convince, which is why we are taking this measured view. We started in the midmarket and we're now going into departmental rollouts. That's a motion that we're very familiar with. And then we'll complement that with more of a top-down solution selling motion to the larger companies. That will be a multiyear journey, but a very exciting one and a very universal one.

I'm feeling very positive about the early signs that we have in terms of the value proposition and can we explain it, can we sell it and most importantly, can we see customers adopt it? All the early signs of that are very positive.

Sonak Kolar

Great. Thank you. That's very helpful.

As a quick follow-up for Blake. I see in the past two years, it doesn't seem like Q4 has been a very active period in terms of Docusign's buyback activity. Is there anything to consider on the capital allocation framework as we approach Q4 this year?

Blake Grayson

No, no change at all from a Q4 perspective. We don't look at it on a quarterly basis. We really just look at it as a function of that we are generating really strong free cash flow. We have an opportunity to be able to deploy that capital to a number of different areas, right? Stock buyback is one of them. M&A is another one. Running the business and investing into it is another one. That's how we take a look at our framework at it. I don't expect any changes to our strategy. I'm really excited by the free cash flow generation that we're producing. It allows us to have the flexibility and the optionality to consider all of those components.

Sonak Kolar

Understood. Thanks again and congrats.

Operator

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

Michael Berg

Hi. This is Michael Berg on for Michael Turrin. Thanks for taking our question. I just wanted to double-click on the improvements in gross retention and what's driving that. Maybe we could get under the hood and explore what you are seeing or what you've done right to drive the improvements there? Is it macro? Is it execution? Is it IAM? Just want to get some more color on that dynamic. Thanks.

Blake Grayson

I'll take a stab and then, Allan, feel free to jump in.

I've been impressed with the team's focus, honestly, internally around the data accumulation and getting in front of those real opportunities. Taking it down to a rep level, deal by deal getting in front of it, having large renewal conversations way in front of the actual contract renewal date. I feel like just our level of operational execution has improved quite a bit, I would say over the last 6 to 12 months. So, super excited about that.

Obviously, as you start to have conversations with folks around IAM and things like that, like our ability to have larger average deal sizes obviously is a small contributor to that, just because of the evolution of the timing of that. But it's been—I mean, just been super happy with the team's continued focus. You see it obviously in our dollar net retention rate going up; we still have room there. I think that while we're really pleased with where we've come from, there's a lot of opportunity still outstanding. We're not resting our laurels at all about this, and continuing to build out and see how we can have deeper customer relationships, build stickier relationships with our customers so we can improve that.

Allan Thygesen

Yes. I agree with everything Blake just said. I would simply add that I think one of the things that we did well here in the last 12 months that I think has contributed to the DNR improvement is just massively improving our coverage and customer success. Sort of implied by what Blake is saying, but I just want to double-click on it a little bit.

Historically, our customer success efforts focused at the very top of the book. That's where you've got some additional support and engagement and use case development and so on. We found that we had a big opportunity to do a more scaled model out of lower-cost hubs in Brazil and now in Egypt. That's showing really nice results for more of the torso of the book, if you will. I think we still have more opportunity there. So on multiple fronts, I think there's been a lot of levers to pull. in product, in sales, in marketing, in customer success to drive retention and, as Blake said, we're definitely not done with that. We think we can do better, and we want to do better.

Michael Berg

Helpful. Thank you. Then just a quick follow-up on it, is there anything notable to point out? Any changes in the competitive dynamics that may be aiding the growth retention dynamics you were just describing?

Allan Thygesen

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I don't actually see the competitive environment changing all that much. It's been fairly stable. It's the same class of competitors. I do think on a go-forward basis the competitive dynamics change. As we've evolved from the Signature business to this broader suite of Intelligent Agreement Management products, the folks that we've historically competed with just in Signature, I think we separate ourselves more there. I think that will help from a retention and competition perspective over time, but it's just too early. We just launched six months ago, so most of those agreements haven't come up for renewal yet. But I think it's aiding our competitive posture and as it becomes available in more segments and more geos that will help us.

Michael Berg

Helpful. Thank you.

Operator

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

Arsenije Matovic

This is Arsenije on for Alex Zukin. How many reps are eligible to sell IAM today, and was that an easy training or prep cycle given reps having CLM experience? And just seeing that early traction in IAM is great, but we don't want to get ahead of our skis on expectations here, given how early it is. Is there any help we can get on guardrails for growth next year? Thanks.

Blake Grayson

Sure. I'll take a stab. We're not disclosing the number of reps that we have in a given segment or market. It's just really a function what IAM, frankly was—I'll say, positively surprised a bit was how quickly we are able to ramp the number of reps engaged with this platform. Because this is a new thing for Docusign and how are we going to address it? And we saw a pretty quick ramp in our North America commercial business that we're really excited about.

Now, the North America commercial business, I think, as everybody knows, is different than in enterprise, like much larger enterprise kind of cycle and so we're going to have to see how that goes. We just started having conversations with the very first few enterprise customers about departmental opportunities just in the last few weeks. So it's still very early days for us. As much as I'd like to be able to provide like real direction about where we think FY26 is going to be, we'll address all that, much more of that at least in our March guidance call when we do full year guidance next year. But again, it's still early and so we're just trying to learn and get as much data as possible and make sure we have the right trend lines before we can start kind of talking about those things.

Arsenije Matovic

Got it. I guess, can you explain what's driving that early renewal tailwinds that we're seeing, that's contributing a bit more to that billings outperformance than we've seen historically? On fiscal 4Q, I think last year you called out early renewals contributing about $30 million tailwind and this guidance for this quarter coming up embedding a little bit of early renewals. Is there anything you can give us in terms of what's embedded in that guide? How to think about it into 4Q on that billings dynamic? Thanks.

Blake Grayson

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Yes, sure. We don't break out the guide components rates (inaudible). I will say that our earlies have been a little bit stronger. One of the things that makes me okay with that is that the health of those early renewals are so good and actually quite strong, and a lot of those earlies come from just that next quarter out, right? So, as we're talking to customers and if their usage is trending up and they want to get in front of those things, that's okay. But it is something for me that we do look at, and as long as the health of those earlies is okay, it's really more of just a timing thing.

Arsenije Matovic

Thank you.

Operator

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

Ian Black

Thank you for taking my question. Where should we think about NRR normalizing at, and how much impact are you still seeing from capacity rationalization? Thank you.

Blake Grayson

Sure. I don't have an idea of where the dollar net retention ends out. This is a company that saw a big decel from that. Outside of COVID, we saw the historical low in Q4 of last year, and we've made a lot of efforts to first stabilize that, and now we've seen a couple of quarters of slight improvement. So really excited about that.

I think from a capacity kind of utilization perspective and such, I don't know maybe if you're referring to like the COVID components or whatever, but the book—I think we shared this data point, I think, maybe in Q3 of last year, because a lot of folks were asking about how many of the contracts that you have on your book were written during the COVID periods and such, and we had been largely through all that. As of today, the number of contracts or kind of dollars that are in our book of business that were in contracts written during calendar years 2020 and 2021—I'm using that as a proxy for the COVID—it's under 1% now. They're gone, effectively, from our business. And so I think we're in a much more stabilized place. I think you can see that in the results that we've shown.

The trends, I think like we said in the prepared remarks and you've heard today is that they're modestly improving. Year-over-year envelopes sent increasing for four consecutive quarters, utilization rates for us on capacity have been improving. Those are all what I would call like leading indicators for us, where we get optimistic about the trends and opportunities we have in front of us.

Allan Thygesen

Yes. We are encouraged by the stabilization of our core and the early signs. It's still very early for IAM, I want to stress that, but it was a really solid quarter overall.

Thank you, Operator. Thank you to all of you who joined today's call. I am really proud of the progress as we deliver powerful innovation to our customers through the IAM platform and continue to improve our core business fundamentals.

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Thanks to the team for their commitment and to our owners for your support as we realize the long-term vision. Talk to you next time.

Operator

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

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