Q2 FY26 Investor Prepared Remarks

September 4, 2025

Allan Thygesen, CEO

Blake Grayson, CFO

These prepared remarks should only be viewed together with this quarter's earnings webcast and press release. The webcast includes these prepared remarks and a question and answer session. To access the webcast of the executive comments and Q&A session, please visit the IR section of our website at investor.docusign.com. A reconciliation of GAAP to non-GAAP financial measures is provided in the tables at the end of this document.

Disclosures

Safe Harbor

This document contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on our management's beliefs and assumptions and on information currently available to management, and which statements involve substantial risk and uncertainties. All statements contained in this document other than statements of historical fact, including statements regarding our future operating results and financial position, our business strategy and plans, market growth and trends, objectives for future operations, and the impact of such assumptions on our financial condition and results of operations are forward-looking statements. Forward-looking statements in this document also include, among other things, statements on pages titled "Guidance" and "Modeling Considerations" and any other statements about expected financial metrics, such as revenue, billings, free cash flow, non-GAAP gross margin, non-GAAP operating margin, non-GAAP operating expenses, and non-financial metrics, as well as statements related to our expectations regarding: the impact of foreign exchange rates; the timing and extent of customer renewals; the effectiveness of changes to our sales force and go-to-market strategy; the effects of seasonality; the timing and impact of our cloud migration transition; the benefits, the timing or rollout of future products and capabilities; customer demand and adoption of the Docusign Intelligent Agreement Management ("IAM") platform; and our utilization of our stock repurchase program, including the expected timing, duration, volume and nature of share repurchase under such program. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential," or "continue" or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions.

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

Additional risks and uncertainties that could affect our financial results are included in the sections titled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report on Form 10-K for the fiscal year ended January 31, 2025, filed on March 18, 2025, our quarterly report on Form 10-Q for the quarter ended July 31, 2025, which we expect to file on September 5, 2025 with the Securities and Exchange Commission (the "SEC"), and other filings that we make from time to time with the SEC. The forward-looking statements made in this document relate only to events as of the date on which such statements are made. We undertake no obligation to update any forward-looking statements after the date of this document or to conform such statements to actual results or revised expectations, except as required by law.

Non-GAAP financial measures and other key metrics

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

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

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

When evaluating the performance of our business and making operating plans, we do not consider these items (for example, when considering the impact of equity award grants, we place a greater emphasis on overall stockholder dilution rather than the accounting charges associated with such grants). We believe it is useful to exclude these expenses in order to better understand the long-term performance of our core business and to facilitate comparison of our results to those of peer companies and over multiple periods. In addition to these exclusions, we subtract an assumed provision for income taxes to calculate non-GAAP net income. We utilize a fixed long-term projected tax rate in our computation of the non-GAAP income tax provision to provide better consistency across the reporting periods. We have determined the projected non-GAAP tax rate to be 20% for fiscal 2025 and 21% for fiscal 2026 due to the impact of the One Big Beautiful Bill Act.

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

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

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

Allan Thygesen
CEO

Introduction

Q2 was an outstanding quarter. Platform innovation launches and the long-term focused go-to-market changes introduced in Q1 drove strong performance in commercial and enterprise customer segments across eSignature, CLM, and our AI-native Docusign Intelligent Agreement Management (IAM) platform.

Q2 business results outperformed our expectations. Revenue was $801 million, up 9% year-over-year, and billings were $818 million, up 13% year-over-year. Q2 topline performance accelerated and represented one of our strongest growth quarters over the past two years, with improved fundamentals across eSignature and CLM customers, and growing contribution from IAM demand. Beyond an individual quarter, we are excited to see billings begin to accelerate on a full-year basis, and more so when we adjust for early renewals.

Profitability benefited from topline strength combined with our ongoing commitment to driving efficiency. Non-GAAP operating margins were 30%, as we continue to maintain strong profitability. Free cash flow margins improved modestly year-over-year to 27%, which supported significant share repurchases, with $200 million in buybacks this quarter.

As we make progress toward our goal to realize long-term, profitable, double-digit growth, we continue to execute effectively on our three strategic pillars: strengthening our routes to market, accelerating innovation, and improving operational efficiency.

Omnichannel Go-to-Market

Let's start with our omnichannel go-to-market this quarter. At the beginning of the year, we made meaningful changes to the direct sales organization, which included introducing new sales segments, territories, and performance-based compensation, all focused on maximizing Docusign's long-term opportunity and multi-year growth acceleration. In Q2, we saw initial success from those changes, resulting in strong direct sales performance and growth in gross new bookings.

Dollar net retention also reflected that strength, increasing to 102% on the back of higher gross retention rates. Continued steady growth in envelopes sent and year-over-year improvement in contract utilization rates reflect strong execution and eSignature demand. International growth continued to outpace domestic, and digital revenue continued to grow faster than the overall business.

In Q1, we relaunched our partner program to align partners with our IAM strategy and build solutions with IAM that deliver value to customers. Our largest deal in Q2 was transacted through the Microsoft Azure marketplace. Also, a new partnership with the U.S. Federal Government's General Services Administration (GSA) creates an opportunity to expand our existing eSignature sales to federal agencies, with IAM to follow.

Specific to IAM, the go-to-market changes are focused on realizing the massive multi-year opportunity ahead. In Q2, customers moving to the IAM platform represented a greater share of direct deal volume and total gross bookings than in Q1. We're also finding that when customers move to IAM, they increase their eSignature usage. Commercial SMB customers continued their strong pace of investment into IAM, with companies like Kindsight, Cimplifi, and Justpoint, a VC-backed legal AI company, using IAM to speed up sales cycles and gain a deeper understanding of their agreements. We remain on track for IAM customers to represent a low double-digit percentage of our book at year-end.

Justpoint

"Justpoint is an AI-native law firm, so we constantly integrate AI into our workflows and processes. When we are best positioned to build an AI model ourselves, we do so; but when a vendor can do a better job than we can with a given AI tool, we buy it. That was the case with Docusign's IAM."

Victor Bornstein
CEO

In Q2, we also saw encouraging demand for IAM from enterprise customers. While still early days, more than 50% of our enterprise account reps closed at least one IAM deal during the quarter. Notably, average overall deal size also increased in Q2, with IAM making inroads with large organizations like Sensata Technologies, a global sensor manufacturing leader, which has accelerated its workflows and is beginning to use the Docusign Iris AI engine to surface insights from agreements.

Docusign CLM saw improved momentum in Q2, delivering one of the strongest quarters in year-over-year quarterly bookings growth in the last several years. CLM continues to be a top choice for enterprise customers with sophisticated enterprise workflows, like T-Mobile, which has cut agreement processing time by 44%. Also, Docusign was recognized as a leader in the 2025 IDC MarketScape AI-Enabled Buy-Side CLM report, which acknowledged that "IAM is core to the Docusign strategy of replacing legacy and fragmented systems."

T Mobile

"T-Mobile is a customer-obsessed company – and we saw that same focus in Docusign. From implementation to delivery, their team was incredible."

Janet Sutherland
Senior Manager of Sales Enablement

Product Innovation

On the product side, our rapid pace of innovation demonstrates consistent progress against our ambitious public roadmap and a steady increase in the value that IAM creates for customers. The IAM platform delivers end-to-end agreement management, empowering organizations to create, commit to, and manage their agreements at unprecedented scale and efficiency.

IAM is an AI-native platform that combines proprietary AI models with best-in-breed LLMs, drawing on Docusign's vast agreement library, unmatched domain and workflow expertise, and seamless integration with important third-party systems. Over the past two quarters, the number of documents ingested and available in Docusign Navigator, our intelligent repository, has increased by over 150%, and customers are processing tens of millions of agreements per month.

Customers tell us IAM is delivering significant value by performing tasks in minutes that used to take hours or even days. Docusign covers a far broader range of agreement workflows than any other vendor, and the deep integration of cutting-edge AI lets customers leverage years of agreement data with the leading ease of use, security, trust, and scalability they've come to expect from Docusign. In the coming months, we will launch AI agents within IAM, enabling new customer use cases and expanding our addressable market opportunity.

In Q2, we launched several new AI-powered IAM capabilities to help customers unlock value across the entire agreement management lifecycle. These include Custom Extractions, which let customers identify and capture organization-specific agreement information or client-specific terms without manually reviewing hundreds or thousands of contracts.

We've also recently launched Agreement Preparation, which enables IAM to detect the type of agreement you're creating, build a template, and automatically suggest and position relevant fields. And to address the enterprise need for efficient, secure, and scalable user management, SCIM for Docusign allows customers to automatically provision users through their existing identity providers.

Sensata Technologies

"One of the features I'm excited about is Docusign Iris. If you're coming from a manual process, I describe it as taking a leap a thousand years into the future."

Harry Hall
Associate General Counsel, North American Vehicle and Aftermarket Divisions

In closing, we're proud of our strong execution and performance in Q2, and encouraged by the positive feedback we're receiving from IAM customers in the commercial and enterprise segments around the world. We believe IAM and the Docusign Iris AI engine are uniquely positioned to transform how organizations operate their businesses with deeper insight and actionability from their agreements. As we deliver greater value to customers, we are doing it more efficiently, at nearly the highest levels of profitability and capital returned to shareholders in our history.

I want to thank the entire Docusign team for their hard work, passion, and customer focus. I also want to acknowledge the announced changes to our Board of Directors and thank Maggie Wilderotter for her leadership during a time of transformative change in our company, congratulate James Beer for becoming our Board Chair, and welcome Mike Rosenbaum to the Docusign family.

Docusign is the leading provider of AI-driven agreement management solutions, and we're incredibly excited about the enormous opportunity that lies ahead.

Blake Grayson
CFO

Introduction

Our performance was strong across the business in Q2, a testament to our continued execution against our three strategic pillars: accelerating product innovation, strengthening our go-to-market channels, and improving our operating efficiency.

Q2 FY26 Business Performance

In Q2, total revenue was $801 million and subscription revenue was $784 million, both up 9% year-over-year. There was no material impact on revenue growth related to foreign currency. Revenue outperformance this quarter was driven primarily by our direct sales channel, particularly within our eSignature business.

Q2 billings were $818 million, up 13% year-over-year. This included a foreign currency growth tailwind of approximately 1% year-over-year, just slightly ahead of our expectations. Billings outperformance this quarter was driven primarily by three different factors, with each having a relatively similar level of impact.

- The first factor was strength in direct customer demand and improved gross retention in our eSignature portfolio. Although it represents a much smaller share of our business, CLM also had a strong quarter, as the CLM business grew well into the double-digits year-over-year in Q2.
- The second factor was due to early renewal strength and the favorable timing of deals booked in Q2. While we saw higher early renewals than forecasted, the health of those renewals continued to improve year-over-year as the percentage of early renewals with expansion grew and the share of those that were flat or included partial churn declined. This dynamic is consistent with the trend we saw in Q1 where a byproduct of sales incentive adjustments resulted in healthier early renewals. We are encouraged by the consistency from Q1 to Q2, still recognizing that the timing of renewals can impact quarterly billings.
- The third factor of outperformance was driven by a slightly higher payment frequency shift to annual billing contracts. While the vast majority of our direct customers are billed on an annual basis, the share was slightly higher than forecasted.

When removing the impact from timing relative to our forecast, billings growth during the quarter was approximately 10% year-over-year. As a reminder, quarter-to-quarter billings can meaningfully fluctuate due to the timing of customers signing contracts. As a result, we are actively evaluating potential updates to our future topline reporting, including replacing billings with an alternative measure. We plan to provide more details during our third-quarter earnings call in December.

The dollar net retention rate rose to 102% in Q2, from 101% in Q1, and increased year-over-year from 99% in Q2 of Fiscal 2025. We are pleased to see the modest improvement in DNR, which continues to be mostly driven by better gross retention. Usage trends also continue to show improvement. Consumption, a measure of envelope utilization, improved across all customer segments and nearly every major vertical in Q2, and the volume of envelopes sent in Q2 increased year-over-year at a rate consistent with prior quarters.

IAM sales maintained strong momentum this quarter, which slightly outpaced our expectations as we continue to scale the platform. In Q2, we saw an increase in average IAM customer deal size, an encouraging sign, as we took the first steps up-market with the IAM enterprise ramp. We remain on track for IAM customers to contribute a low-double-digit percentage share of the subscription book of business exiting Q4.

Kindsight

> "If it's the last two days of the month or quarter, and you need a non-disclosure or sales agreement, Docusign IAM is the difference between closing the deal then or moving it to the next sales period."

Kris O'Brien
Director of Information Technology

International revenue represented 29% of total revenue and grew 13% year-over-year. We're encouraged that the Asia Pacific Region was our fastest-growing international region this quarter. Allan, Paula, and the team just held Momentum events in that region in August, and we're pleased to see the growth there. Digital revenue continued to deliver results with growth outpacing the overall business. In Q2, total customers grew 9% year-over-year, ending the quarter above 1.7 million. Large customers spending over $300k annually increased by 7% year-over-year to 1,137 in Q2.

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

Non-GAAP gross margin for Q2 was 82.0%, relatively in line with the prior year, as higher revenue mostly offset the impact of cloud migration costs.

We delivered record-high non-GAAP operating income in Q2 at $239 million, with outperformance vs. our expectations attributable mostly to topline strength. Operating margin was 29.8%, down 240 basis points versus last year. As a reminder, we expected Q2 to have the most challenging year-over-year operating margin comparison of any quarter in Fiscal 2026 due to several factors, including the timing and impact of our compensation programs, specifically the shift to cash from equity for some employees.

As you may also recall, Q2 Fiscal 2025 also had a one-time operating margin benefit of approximately 150 basis points associated with insurance reimbursements and the release of a litigation reserve. Our cloud computing migration also continues to provide a year-over-year headwind to margins.

We ended Q2 with 6,907 employees up slightly vs. 6,838 at Fiscal 2025 year-end. This reflects our measured approach to hiring in Fiscal 2026 to support our strategic initiatives while maintaining efficiency.

In Q2, we delivered $218 million of free cash flow, a 27% margin, which was a slight increase vs. Q2 of last year as our collections efficiency remains strong, combined with in-quarter billings strength. We do expect to see a lower free cash flow yield in Q3 vs. Q2, primarily from the timing of billings.

Our balance sheet is healthy, ending the quarter with approximately $1.1 billion of cash, cash equivalents, and investments. We have no debt on the balance sheet. In Q2, we slightly increased the pace of our buyback activity and repurchased $200 million in share value, effectively redeploying the bulk of our quarterly free cash flow generation back to shareholders.

We will continue to opportunistically repurchase shares, and while the pace of this activity may fluctuate quarter-to-quarter, share repurchases underscore our commitment to returning excess capital to shareholders.

Non-GAAP diluted EPS for Q2 was $0.92, compared to $0.97 last year. GAAP diluted EPS was $0.30 vs. $4.26 last year. As a reminder, in Q2 of Fiscal 2025, related to our GAAP financials, we released a valuation allowance on certain existing deferred tax assets, decreasing our non-cash tax expense by approximately $838 million. Diluted weighted average shares increased slightly year-over-year to 211 million shares, whereas basic weighted average shares decreased slightly year-over-year to 203 million due to the impact of the repurchase program.

cimplifi™

"Docusign Iris saved me thousands of dollars and hours of work, and I got the answer I needed to take the right business action. The team is thrilled."

Marla Crawford
General Counsel

Guidance

We expect total revenue between $804 to $808 million in Q3, or a 7% year-over-year increase at the midpoint. For Fiscal 2026, we expect revenue between $3.189 to $3.201 billion, or a 7% year-over-year increase at the midpoint. Of this, we expect subscription revenue of $786 to $790 million in Q3, or a 7% year-over-year increase at the midpoint, and $3.121 to $3.133 billion for Fiscal 2026, or a 8% year-over-year increase at the midpoint.

For billings, we expect $785 to $795 million in Q3, or a 5% year-over-year growth rate at the midpoint, and $3.325 to $3.355 billion for Fiscal 2026, or a 7% year-over-year growth rate at the midpoint.

- Q3 billings guidance reflects a renewal timing headwind that is similar in magnitude to the Q2 early renewal timing benefit as discussed earlier. 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. Also, our outlook for Q3 & Q4 factors in a more challenging year-over-year comparison vs. billings strength in the second half of Fiscal 2025.

Our updated full-year topline guidance reflects the following dynamics present in our business and the external environment:

- For full-year revenue, the annual guidance midpoint is increasing by $38 million from last quarter's full year guidance. The increase is driven primarily by Q2 business strength and the expectation that a portion of these trends will continue into the second half of the year.
- For full-year billings, the annual guidance midpoint is increasing by $28 million from last quarter's full year guidance. This increase reflects a positive impact from Q2 business strength but does not include the timing benefit from early renewals that we saw in Q2 as that will largely be offset in the remainder of the year. As a reminder, we have a hard comparison against last year's higher volume of early renewals, particularly in the second half of the year. Adjusting for early renewals compared to last year, we continue to expect full year billings growth would be approximately 1% point higher year-over-year, leading to modest acceleration over last year.

For profitability, we expect non-GAAP gross margin to be 80.3% to 81.3% for Q3, and between 81.0% to 82.0% for Fiscal 2026.

We expect non-GAAP operating margin of 28.0% to 29.0% for Q3, and 28.6% to 29.6% for Fiscal 2026.

For the full year, we included the following two considerations in our non-GAAP profitability guidance:

- For gross margins:
  - We continue to expect approximately 1% point of headwind year-over-year from our ongoing cloud data center migration efforts. This headwind was slightly lower than anticipated in both Q1 and Q2 due to a shift in migration timing out to the remainder of Fiscal 2026. We continue to expect a gradual easing in migration cost impacts in Fiscal 2027 and beyond.
- For operating margins:
  - We continue to expect an approximate 1.5% point operating margin headwind due to the combined impact of cloud migration, the shift of some roles to cash compensation from equity, and the comp against one-time professional fee savings last year in Q2 2025.

We expect non-GAAP fully diluted weighted average shares outstanding of 207 million to 212 million for both Q3 and Fiscal 2026. Please see the "Modeling considerations" slides in our Q2 earnings deck for a full summary of guidance context.

In closing, Q2 represented another quarter of Docusign's commitment to product innovation, enhanced go-to-market motions, and improved operational efficiencies. As we look ahead, our focus remains on sustaining this momentum while continuing to generate significant cash flow and returning capital to shareholders through strategic buybacks.

Appendix

Modeling Considerations

Please refer to the guidance section in the CFO Prepared Remarks for context on topline and profitability guidance for Fiscal 2026 and Q3 2026. In addition, please note the following modeling considerations.

Topline:

- **Foreign Exchange Rates (F/X) Growth Impact:**
  - Revenue: For both Q3 and Fiscal 2026, we expect a neutral year-over-year impact, unchanged from our prior revenue impact guidance issued on June 5, 2025.
  - Billings: For Q3, we expect a positive billings impact of approximately 0.2% year-over-year. For Fiscal 2026, we expect a positive billings impact of approximately 0.8% year-over-year. This compares to the prior expected positive tailwind of approximately 0.7% year-over-year for billings in our prior Fiscal 2026 guidance issued on June 5, 2025.
- **IAM:** We continue to expect that IAM will represent a low double-digit percentage of the subscription book of business exiting Q4 of Fiscal 2026.
- **Early Renewal Impact on FY26 Billings Growth:** As a reminder, we have a hard comparison against last year's higher volume of early renewals, particularly in the second half of the year. Adjusting for early renewals compared to last year, we continue to expect full year billings growth would be approximately 1% point higher year-over-year leading to modest acceleration over last year.

Profitability:

- **Non-GAAP Gross Margin:** We continue to expect an approximate 1% point headwind due to the ongoing cloud migration for the full year Fiscal 2026. In both Q1 and Q2, this headwind was slightly lower than anticipated due to a shift in migration timing out to the remainder of Fiscal 2026. We continue to expect a gradual easing in migration cost impacts in Fiscal 2027 and beyond.
- **Non-GAAP Operating Margin:** For the full year, we continue to expect an approximate 1.5% point operating margin headwind due to the combined impact of cloud migration, the shift of some roles to cash compensation from equity, and the comparison against one-time professional fee savings last year in Q2 2025.
- **Free Cash Flow (FCF) Margin:** We expect FCF margins in Q3 to be lower vs. Q2, primarily due to timing of billings. We expect FCF margins to rebound in Q4.
- **Non-GAAP Tax Rate:** We expect non-GAAP tax rate to be 21% for Fiscal 2026 due to the impact of the One Big Beautiful Bill Act ("OBBBA"). This rate is 1% point higher than in Fiscal 2025.
- **Non-GAAP Fully Diluted Weighted Average S/O:** We expect non-GAAP fully diluted weighted average shares outstanding of 207 million to 212 million for both Q3 and Fiscal 2026. This range is lower vs. our prior guidance of 210 million to 215 million issued on June 5, 2025.

Reconciliation of GAAP to Non-GAAP Financial Measures

GAAP to Non-GAAP gross profit reconciliation

	Three Months Ended July 31,		Six Months Ended July 31,	
Gross Profit ($ in thousands)	2025	2024	2025	2024
GAAP gross profit	635,173	580,562	1,241,558	1,140,756
Add: Stock-based compensation	18,592	20,591	35,496	39,474
Add: Employer payroll tax on employee stock transactions	1,575	816	3,448	1,839
Add: Amortization of acquisition-related intangibles	1,562	3,067	5,127	5,137
Non-GAAP gross profit	656,902	605,036	1,285,629	1,187,206
GAAP gross margin	79.3%	78.9%	79.4%	78.9%
Non-GAAP gross margin	82.0%	82.2%	82.2%	82.0%

	Three Months Ended July 31,		Six Months Ended July 31,	
Subscription Gross Profit ($ in thousands)	2025	2024	2025	2024
GAAP subscription revenue	784,388	717,366	1,530,590	1,408,849
Less: GAAP subscription cost of revenue	144,097	132,372	281,440	258,974
GAAP subscription gross profit	640,291	584,994	1,249,150	1,149,875
Add: Stock-based compensation	14,425	15,593	27,421	29,774
Add: Employer payroll tax on employee stock transactions	1,220	595	2,665	1,387
Add: Amortization of acquisition-related intangibles	1,562	3,067	5,127	5,137
Non-GAAP subscription gross profit	657,498	604,249	1,284,363	1,186,173
GAAP subscription gross margin	81.6%	81.5%	81.6%	81.6%
Non-GAAP subscription gross margin	83.8%	84.2%	83.9%	84.2%

GAAP to Non-GAAP operating income and free cash flow reconciliation

	Three Months Ended July 31,		Six Months Ended July 31,	
Operating Income ($ in thousands)	2025	2024	2025	2024
GAAP income from operations	65,227	57,801	125,482	80,429
Add: Stock-based compensation	160,538	164,448	306,134	302,324
Add: Employer payroll tax on employee stock transactions	8,048	4,772	20,307	11,176
Add: Amortization of acquisition-related intangibles	4,916	6,180	11,835	10,879
Add: Acquisition-related expenses	—	3,358	—	4,716
Add: Restructuring and other related charges	—	597	—	29,721
Non-GAAP income from operations	238,729	237,156	463,758	439,245
GAAP operating margin	8.1%	7.9%	8.0%	5.6%
Non-GAAP operating margin	29.8%	32.2%	29.6%	30.4%

	Three Months Ended July 31,		Six Months Ended July 31,	
Free Cash Flow ($ in thousands)	2025	2024	2025	2024
Net cash provided by operating activities	246,073	220,208	497,512	475,034
Less: Purchases of property and equipment	(28,425)	(22,280)	(52,049)	(45,033)
Non-GAAP free cash flow	217,648	197,928	445,463	430,001
Free cash flow margin	27%	27%	28%	30%
Net cash used in investing activities	(30,452)	(176,110)	(55,377)	(236,887)
Net cash used in financing activities	(273,340)	(239,068)	(496,855)	(408,942)

GAAP to Non-GAAP operating expenses reconciliation

	Three Months Ended July 31,		Six Months Ended July 31,	
Sales & Marketing **($ in thousands)**	2025	2024	2025	2024
GAAP sales and marketing	305,450	287,464	601,863	569,108
Less: Stock-based compensation	(49,081)	(58,778)	(95,166)	(105,049)
Less: Employer payroll tax on employee stock transactions	(2,962)	(1,595)	(6,902)	(3,733)
Less: Amortization of acquisition-related intangibles	(3,354)	(3,113)	(6,708)	(5,742)
Non-GAAP sales and marketing	250,053	223,978	493,087	454,584
GAAP sales and marketing as a percentage of revenue	38.2%	39.1%	38.5%	39.4%
Non-GAAP sales and marketing as a percentage of revenue	31.2%	30.4%	31.6%	31.4%
Research & Development **($ in thousands)**	2025	2024	2025	2024
GAAP research and development	169,630	147,571	329,077	281,891
Less: Stock-based compensation	(61,865)	(53,430)	(116,296)	(97,632)
Less: Employer payroll tax on employee stock transactions	(2,600)	(1,754)	(7,681)	(4,319)
Non-GAAP research and development	105,165	92,387	205,100	179,940
GAAP research and development as a percentage of revenue	21.2%	20.0%	21.1%	19.5%
Non-GAAP research and development as a percentage of revenue	13.1%	12.6%	13.1%	12.4%
General & Administrative **($ in thousands)**	2025	2024	2025	2024
GAAP general and administrative	94,866	87,129	185,136	179,607
Less: Stock-based compensation	(31,000)	(31,649)	(59,176)	(60,169)
Less: Employer payroll tax on employee stock transactions	(911)	(607)	(2,276)	(1,285)
Less: Acquisition-related expenses	—	(3,358)	—	(4,716)
Non-GAAP general and administrative	62,955	51,515	123,684	113,437
GAAP general and administrative as a percentage of revenue	11.8%	11.8%	11.8%	12.4%
Non-GAAP general and administrative as a percentage of revenue	7.9%	7.0%	7.9%	7.8%

Computation of billings

	Three Months Ended July 31,		Six Months Ended July 31,	
Computation of Billings **($ in thousands)**	2025	2024	2025	2024
Revenue	800,636	736,027	1,564,290	1,445,667
Add: Contract liabilities and refund liability, end of period	1,468,618	1,334,461	1,468,618	1,334,461
Less: Contract liabilities and refund liability, beginning of period	(1,450,718)	(1,340,680)	(1,479,266)	(1,343,792)
Add: Contract assets and unbilled accounts receivable, beginning of period	13,319	17,179	17,825	20,189
Less: Contract assets and unbilled accounts receivable, end of period	(13,824)	(17,461)	(13,824)	(17,461)
Add: Contract assets and unbilled accounts receivable by acquisitions	—	53	—	53
Less: Contract liabilities and refund liability contributed by acquisitions	—	(5,071)	—	(5,071)
Non-GAAP billings	818,031	724,508	1,557,643	1,434,046