Docusign

Third Quarter Fiscal Year 2026 Earnings Conference Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Thank you for joining Docusign's Third Quarter Fiscal Year 2026 Earnings Conference Call.

At this time, all participants are in a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. As a reminder, this call is being recorded and will be available for replay from the Investor Relations section of the website following the call.

If anyone should require operator assistance during the conference, please press star, zero on your telephone keypad.

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

Matthew Sonefeldt

Thank you, Operator.

Good afternoon, and welcome to Docusign’s Q3 fiscal 2026 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 2026 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 our statements on today’s call are forward-looking, including any statements regarding future performance. 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 factors affecting customer demand and adoption 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, Matt, and good afternoon, everyone.

Q3 was a standout quarter for Docusign. We delivered one of the higher growth quarters over the past two years, driven by continued customer investment in core products and the Intelligent Agreement Management, or IAM, platform. Revenue was $818 million, up 8% year-over-year, and billings were $829 million, up 10% year-over-year.

Our ongoing commitment to operational efficiency once again delivered strong profitability, with a non-GAAP operating margin of 31%. Free cash flow grew 25% year-over-year to $263 million and a 32% margin, supporting $215 million in share repurchases, our largest quarterly buyback to date.

We're executing effectively across our three strategic pillars: meeting growing demand for Docusign IAM and eSignature with an improving go-to-market motion, maintaining the rapid pace of platform evolution and AI innovation, and driving greater operational efficiency. We remain focused on our long-term goal to deliver sustainable, profitable double-digit growth.

Let's start with our go-to-market motion, which has been instrumental in driving IAM's growth across commercial and enterprise customer segments.

By the end of Q3, more than 25,000 paying direct and digital customers had adopted IAM, up from more than 10,000 in April. We remain on pace for IAM to represent a low-double-digit percentage of recurring revenue at year-end. We're also encouraged by the early strong retention rates in our first IAM renewal cohorts, as well as the continued trend of IAM customers increasing their eSignature usage after moving to the IAM platform.

IAM is a system of record that enables customers of all sizes to ingest a vast, complex body of agreements into a single repository, build agreement workflows that operate at scale, and take action on high-accuracy insights from agreement data. IAM builds on a track record of enterprise customers working with Docusign to realize a 75% faster contracting cycle, and an 81% improvement in document turnaround time.

That value resonates with customers across all segments. One of Docusign's top 10 customers became our second largest this quarter through a multi-million-dollar commitment to IAM. In the commercial space, Perceptyx, which provides an AI-powered employee experience platform, generates new documents in 99% less time, while the administrative offices in San Miguel County, in Colorado, have cut agreement finalization time by 96%.

The broader eSignature business also performed well in Q3. Dollar net retention improved by 2 percentage points year-over-year to 102%, continuing to benefit from steady demand and sales-driven execution. eSignature customers continued to increase overall usage, with utilization rates at multi-year highs, and consistent, positive growth in envelopes sent. New York Life, the largest mutual life insurance company in the U.S., streamlined critical end-to-end workflows for agents and millions of policyholders by integrating eSignature with Salesforce, and now has 65% of all customer agreements signed within just a few hours.

Docusign CLM remains a top choice for enterprise customers with sophisticated workflows, and it will become even more valuable as we integrate CLM with Docusign Navigator, our intelligent repository, and other IAM features. In Q3, Docusign was also named a leader in the Gartner Magic Quadrant for CLM for the sixth year in a row.

Also, international revenue showed sustained growth and is now approximately 30% of our overall business for the first time. Our sales efforts continued to support international expansion, and in Q3, we hosted Momentum events for customers and partners in Sydney, Singapore, and Tokyo. This year's Momentum series drew three times as many total attendees in 2024, reflecting growing interest in IAM.

Across all segments and geographies, we're deepening our solution-selling motion. Greater engagement and stronger customer relationships helped deliver the business resilience and consistency we've seen over the last two quarters.

Turning to product innovation, we are rapidly adding new features to IAM, as Docusign matures from a single product company into the category-leading platform in agreement management. Earlier this week we launched Agreement Desk, an internal central workspace that keeps teams aligned so agreements are processed faster, and our first AI contract agents, now in beta.

Agreement management is a $2 trillion global market problem, and over the past 18 months, we've helped tens of thousands of customers begin to solve it. From the beginning, a key part of our IAM platform vision has involved combining a decade of in-house AI experience with leading third-party innovation. We believe IAM excels in several key areas:

First, unmatched proprietary data.

Models trained on the best data deliver the best, most accurate results to customers. One of Docusign's biggest differentiators is our enormous library of consented, private agreements, covering a wide variety of contract types, clauses, customer segments, languages, and verticals. We estimate that by training IAM on this rich body of private data, we can achieve a 15-percentage point improvement in precision and recall compared to our models trained on public contract data. On a 100-point scale, a 15-point jump in accuracy is a game-changer, especially when managing business-critical workflows and legal contracts.

When customers adopt IAM, their eSignature documents are automatically available in Navigator, and they can include virtually any other agreements as well. To date, we have approximately 150 million opted-in customer agreements ingested into Navigator, including 20 million in October alone, up approximately 140% over the past two quarters. Our average new IAM customer has over 5,000 active contracts.

Second, an unrivaled ecosystem.

Docusign has more than a thousand third-party integrations and enterprise-ready APIs that connect the agreement process directly into the core business systems that customers already use. In Q3 we expanded our ecosystem by adding new AI tools and platforms. At our annual Docusign Discover developer conference in October, we announced that IAM will be available in ChatGPT, and can also connect to Anthropic Claude, Gemini Enterprise, GitHub Copilot, Copilot Studio, and Agentforce. All using the Model Context Protocol, or MCP, server that's currently in beta. At Discover, we also launched APIs that enable customers to connect Navigator and Maestro to third-party systems and proprietary internal apps.

In October, at Dreamforce, we received a Salesforce Partner Innovation Award in the tech category for our Docusign for Agentforce solution, which accelerates deal velocity by surfacing agentic action and AI-powered agreement insights inside Agentforce. The expansion of our ecosystem partnerships and native integrations reinforces our position as the essential agreement layer across the enterprise.

And third, trustworthy AI at an enterprise scale.

Our largest customers have millions of agreements in Navigator, and our AI models are designed to handle hundreds of millions of agreements efficiently. In addition to scalability, customers tell us that trust is paramount when deploying AI to manage sensitive agreement information. In a recent Docusign survey, 70% of professionals said they trust a dedicated enterprise contract AI solution over a general-purpose model for handling agreements.

IAM draws on Docusign's years-long track record of delivering highly secure solutions for some of the world's most security-conscious companies, and meeting stringent standards of compliance, data security, and privacy protection. In Q3, IAM achieved FedRAMP Moderate and GovRAMP authorization, and we expanded our identity portfolio by launching CLEAR and Risk-Based Verification. For two years in a row, Newsweek has named Docusign the most trustworthy software company in the U.S.

In closing, our innovation is turning into outcomes for our commercial and enterprise customers, who are realizing IAM's growing value in boosting productivity, saving time and money, and transforming their businesses. We're honored that in Q3, Docusign's AI innovation garnered recognition on the 2025 Fortune Future 50 list, which celebrates companies with the greatest long-term growth prospects, and the Inc. Power Partners Awards for companies that have proven track records supporting entrepreneurs and helping startups grow.

I'd like to thank the entire Docusign team for their commitment to putting our nearly 1.8 million customers first as we drive the evolution of the category-leading intelligent agreement management platform. IAM momentum continues to build, and we are focused on pursuing the vast opportunity ahead.

With that, let me turn it over to Blake.

Blake Grayson

Thanks Allan, and good afternoon, everyone.

Q3 results demonstrated another quarter of resiliency with consistent overall growth and IAM demand momentum. We also continued to generate strong operating profitability and cash flow and translated that performance into our single-largest quarterly dollar buyback in the Company's history.

In Q3, total revenue was $818 million, up 8% year-over-year, and subscription revenue was $801 million, up 9% year-over-year. Revenue outperformance was driven by modest sales-driven strength. Q3 billings were $829 million, up 10% year-over-year. Revenue and billings had small foreign currency benefits of approximately 50 basis points year-over-year.

Billings outperformance was primarily driven by two elements. The first was renewal timing and early renewal strength, which drove slightly more than half of the outperformance in Q3. Similar to Q2, we saw slightly higher early renewals than forecasted. Importantly, the quality of those early renewals continued to improve year-over-year as the percentage of early renewals with expansion grew and the share of early renewals that were flat declined. The second element was a collection of smaller impacts, including a small shift in payment frequency to annual, bookings performance, and slight F/X favorability.

When removing the impact from timing relative to our forecast, billings growth for Q3 was approximately 8% year-over-year. As a reminder, we also saw elevated early renewal activity in the second half of Fiscal 2025, creating a more difficult year-over-year billings comparison in Q3 and Q4 of this year.

A consistent theme in our quarterly billings results has been that renewal timing can create significant variability in billings as a reporting metric. This quarter, we are previewing three future disclosure updates that will take effect in our Q4 2026 earnings call in March. These updates reflect investor feedback, and our primary goals are to provide better transparency in measuring both our long-term growth rate and IAM's role as a growth driver, as well as to focus on the underlying dynamics of growth in our business rather than those affected by timing.

Please see Slide 28 in our Q3 earnings deck for a full summary of the changes.

First, at the end of every fiscal year, starting this Q4 2026, we will disclose annual recurring revenue, or ARR, including historical data for recent years. We will also provide full-year ARR growth guidance for Fiscal 2027, which we will update quarterly during our first, second, and third quarters.

Second, we will also introduce IAM as a percentage of ARR as a quarterly reporting metric beginning in Q4 2026. Consistent with the approach in Fiscal 2026, we will also provide guidance in Fiscal 2027 for the approximate year-end IAM percentage of ARR to create greater transparency into IAM's anticipated contribution to total growth.

Finally, as previously discussed, we will no longer report billings in Fiscal 2027. This quarter will be the last quarter we provide billings guidance, and Q4 of 2026 will be the last quarter we report non-GAAP billings and reconciliations in earnings materials and SEC filings. We believe replacing billings as a reporting metric with ARR metrics will improve investor understanding of how Docusign is managing its long-term growth trajectory and minimize quarter-to-quarter timing volatility in our reporting.

One question we anticipate is why not report ARR on a quarterly basis? The reason is that our quarterly net new ARR, as it is relatively small compared to our book of business, is subject to timing volatility similar or even more pronounced than quarterly billings and can be highly volatile on a year-over-year basis. For example, in Fiscal 2026 we are forecasting to add approximately $240 million in net new subscription revenue, or around $60 million on average per quarter.

With that small of an absolute figure, slight timing fluctuations on deals can have large growth rate impacts. Similar to billings, these timing fluctuations can detract from the insight that ARR provides along with our aspiration to focus on accelerating our long-term growth. Our goal through providing annual ARR guidance, updated each quarter, along with quarterly IAM disclosures, is to provide a full, transparent picture of that growth.

In Q3, we continued to see a strong and resilient business. The dollar net retention rate, or DNR, was 102%, up from 100% in the prior year and consistent with 102% in Q2 of Fiscal 2026. DNR stability is supported by improving consumption, a measure of envelope utilization, which is amongst the highest levels we have seen since early fiscal 2022. Also, the volume of envelopes sent in Q3 continue to increase at a consistent year-over-year rate as compared to prior quarters. The fundamentals in our business remain solid.

For IAM, in Q3, we surpassed 25,000 direct and digital customers on our IAM platform, up from 10,000, which we shared in April. We continue to be encouraged by IAM customers' financial profile, with the first early renewal cohorts showing a gross retention rate several percentage points higher than our corporate average. We remain on track for IAM to contribute a low-double-digit percentage share of the subscription book of business exiting Q4.

For the first time, international revenue reached approximately 30% of total revenue and grew 14% year-over-year, accelerating slightly from the prior quarter. In Q3, total customers grew 9% year over year, ending the quarter at nearly 1.8 million. Growth in customers spending over $300,000 annually accelerated to 8% year-over-year to 1,165 in Q3. This is the highest quarterly growth in over two years for this metric as the solution-selling motion with larger customers continues to improve following Q1's go-to-market changes.

Turning to our financials, our focus on operating efficiency continued to yield strong results this quarter. Non-GAAP gross margin for Q3 was 81.8%, down 70 basis points versus the prior year, due primarily to the cloud migration transition cost we've discussed throughout the year. We delivered non-GAAP operating income in Q3 of $257 million. Operating margin was 31.4%, up nearly two percentage points versus last year, mostly attributable to higher revenue, continued cost discipline, and some savings from one-time expense items. We had approximately 1.5 percentage points of margin benefit from one-time and timing-related savings in Q3, without which our operating margin would have been approximately 30%.

We ended Q3 with 6,940 employees, up modestly versus 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 Q3, we generated $263 million of free cash flow, a 32% margin, up over four percentage points versus the prior year. This strength was better than we expected, driven primarily by higher-than-expected collections efficiency, higher in-quarter billings and lower expenses.

Our balance sheet is strong. We ended the quarter with approximately $1 billion of cash, cash equivalents, and investments. We have no debt on the balance sheet. In Q3, we increased the pace of our buyback activity and repurchased $215 million in shares. This was our single-largest quarterly dollar buyback in the Company's history as we redeployed the majority of our quarterly free cash flow to shareholders. We will continue to opportunistically repurchase shares with over $1 billion in remaining buyback authorization. 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 Q3 was $1.01, up from $0.90 last year. GAAP diluted EPS was $0.40 vs. $0.30 last year.

With that let me turn to guidance. For the fourth quarter and fiscal year 2026 we expect total revenue of $825 million to $829 million in Q4 or a 7% year-over-year increase at the midpoint, and $3.208 billion to $3.212 billion for fiscal 2026, or a 8% year-over-year increase at the midpoint. Of this, we expect subscription revenue of $808 million to $812 million in Q4, or a 7% year-over-year increase at the midpoint, and $3.140 billion to $3.144 billion for fiscal 2026, or a 8% year-over-year increase at the midpoint.

For billings, we expect $992 million to $1.002 billion in Q4, or an 8% growth rate year-over-year at the midpoint, and $3.379 billion to $3.389 billion for fiscal 2026, or growth of 9% year-over-year at the midpoint.

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 $15 million from last quarter's full year guidance. The majority of the increase is driven by Q3 outperformance, and the expectation that some of these trends will continue to the fiscal year end.

For full-year billings, the annual guidance midpoint is increasing by $44 million from last quarter's full year guidance. This increase reflects a portion of the non-timing impact from Q3 business strength.

As a reminder, both full-year revenue and billings have hard year-over-year comparisons against last year's higher volume of early renewals, particularly in the second half of the year. Revenue growth also has a hard year-over-year comparison against strength from last year's PLG initiatives, including high volumes of digital customers adding envelope capacity as a result of improved self-service flows as described a year ago.

For profitability, we expect non-GAAP gross margin to be between 80.8% to 81.2% for Q4, and between 81.7% to 81.8% for fiscal 2026. We expect non-GAAP operating margin to reach 28.3% to 28.7% for Q4 and 29.8% to 29.9% for fiscal 2026.

For the full year, we included the following two considerations in our non-GAAP profitability guidance. For gross margin, we expect approximately one percentage point of headwind year-over-year from our ongoing cloud data center migration efforts in Q4. For full year fiscal 2026, we expect our top line strength and continued cost discipline to partially offset cloud migration costs and expect an approximately 50 basis point year-over-year decline on margins. We continue to expect a gradual easing in migration cost impacts in fiscal 2027 and beyond.

For operating margins, we expect to achieve flat year-over-year operating margins for fiscal 2026, a strong reflection of our continued cost discipline. This strength offsets the margin pressures we've described throughout the year, including the 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 of 2025.

In Q4, we also have a small timing-related headwind from one-time costs pushed to Q4 from Q3. As a reminder, in Q3, we had approximately 1.5 percentage points of margin benefit from one-time and timing-related savings.

We expect non-GAAP fully diluted weighted average shares outstanding of 203 million to 208 million for Q4 and 208 million to 211 million for Fiscal 2026. Please see the Modeling Considerations slides in our Q3 earnings deck for a full summary of guidance context.

In summary, this quarter highlighted Docusign's commitment to our core strategic priorities and operational roadmap: driving product innovation, enhancing our go-to-market motions, and continuously improving efficiencies across the business. Our focus on both consistent growth and financial discipline will remain the guidepost for maximizing customer, employee, and shareholder value.

That concludes our prepared remarks.

With that, Operator, let's open 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 any participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Our first question comes from Jake Roberge with William Blair. You may proceed with your question.

Jake Roberge

Yeah, thanks for taking the question, and nice to see the billing strength and continued expectation for that to accelerate this year. As you start to transition to ARR, should we expect that ARR is seeing a fairly similar re-acceleration that we're seeing with billings on a full-year basis, or would there be any puts or takes that we should be thinking about around that metric moving forward?

Allan Thygesen

Why don't you take that one, Blake?

Blake Grayson

Sure. Yeah, thanks for the question, Jake. So, we're not disclosing ARR yet. We'll do that when we get to the March call. I think that the way to think about it for us is what our trajectory is, as you heard us talk about billings growth excluding from the earliest component as well, and that's a good proxy for trajectory for our business. But I think for us, we're really excited about the opportunity with both the combination of expansion opportunities with IAM, but then also with gross retention improvements in our core business as well, to really drive that ARR number forward for us into FY '27 and into beyond it. But we'll talk more about that when we get to March.

Jake Roberge

(Multiple speakers) Go ahead.

Allan Thygesen

No, I was just going to say that I want to emphasize that we're running the business on ARR now. And so, we wanted to move to a place where we're sharing with you how we run the business. That's the spirit of how we take this. I think it's the right long-term metric for the Company, and we look forward to sharing that with you as we go forward.

Jake Roberge

That's helpful. And then great to see IAM crossing that 25,000-customer mark. Could you talk more about what you're seeing with the early renewal cohorts? Sounds like retention has been strong. But for customers that may have initially started with only a portion of their base on IAM, are you starting to see those customers shift to broader and wider IAM deployments on renewal? Thanks.

Allan Thygesen

Yeah. Overall, I think we're pleased with the early signs. As a reminder, we launched IAM back in June of last year to commercial customers in North America and Australia, and so those are the cohorts that are renewing now. And then we launched internationally in enterprise towards the latter end of the part of last year. The early signs are very promising. They renew at higher rates than our traditional sign business. So, yeah, we obviously will keep a close eye on that.

In terms of the expansion, I don't have anything beyond that to say. But you'll see that baked into our projections going forward on AR. Obviously, we're optimistic that IAM will progress very nicely in companies over time. The smaller companies don't have as much expansion opportunity. When you get to larger companies, you deploy an individual department or division, then those expansion opportunities are larger. But overall, I think we feel really good both about the initial sale and about the adoption and the follow-on.

Operator

Our next question comes from Tyler Radke with Citi. You may proceed with your question.

Tyler Radke

Yes. Hi. Thanks for taking my question. Obviously, great momentum on the IAM side, 25,000 customers. The Navigator product in particular, great to see the volume of agreements there. I guess bigger picture question for you, Allan. How do you think about what the use cases and future monetization opportunity is? Is that volume of agreements continue to grow with the Navigator? How are customers going to be using it a year or two from now, and what are the ways that Docusign can monetize over the long run?

Allan Thygesen

Yes. A couple of points I'd say. First of all, Navigator is a foundational capability for our IAM platform. So many things roll off of having that intelligent repository. As an example, you can run things like obligation management and a variety of extractions on top of that. You can have automated notifications. The agents can run off that. And so, it really is a foundational capability that's embedded in the platform. It's not like we monetize Navigator separately. It's an integral part of IAM.

We're feeling, I think, that is a significant and distinctive proprietary advantage for Docusign. There's a lot of noise in the ecosystem about LLM models. We obviously have benefited tremendously from the enormous CapEx investment and capability enhancement that's happened in the LLM space over the last two and a half years. Very grateful to be leading Docusign through that.

But on top of that, we get to train on proprietary consent to private agreements from companies that are not publicly available. And so, we can achieve higher accuracy rates with that. So, we take that and compound it with our workflow advantage and our trust and reputation advantages. I think it all sets up really nicely for us, and Navigator is foundational to that. But we monetize it as part of the platform, not independently, if that makes sense.

Tyler Radke

Yeah, that's helpful. And a follow-up for Blake, good to see the billings upside this quarter, and I think trailing 12-month billings accelerated. As we look at the subscription revenue guide for Q4, the growth is a little bit below where you guided Q3. I guess just given that you're going to be transitioning to ARR next quarter, how would you sort of characterize the underlying growth of the business? Has it been steady? Is it accelerating? Maybe you're just adding in a bit more prudence in Q4 because of macro go-to-market changes. Just help us understand kind of the puts and takes on that. Thank you.

Blake Grayson

Sure. Yeah, so our revenue, we're obviously guiding to a Q4 revenue growth rate, which is a bit of a decel from Q3. Two primary things that are driving that, and neither of them, I think, are that worrisome, which one is Q3. We did have some extra earlies component hit us in Q3, in a good way, and you get a little bit of a revenue acceleration from that.

Then the other thing to remember is if you go back to Q4 of last year, we grew revenue at a pretty big clip. We grew revenue Q4 of ’25 at 9%. And if you recall, we launched a number of new features, especially on the PLG side and digital, call it shorter-term envelope add-ons and things like that, which we got that boost because from Q3 to Q4 last year, our revenue accelerated by over 100 basis points. I would just encourage you to make sure to look at that hard call that we have on a year-over-year basis because that does explain a bit of it when you think about a decel like that from Q3 to Q4.

Operator

Our next question comes from Mark Murphy with J.P. Morgan. You may proceed with your question.

Mark Murphy

Thank you so much, and congrats on a very nice performance. You had mentioned, I believe, consistent growth in envelope sent, but you called out utilization rates reaching multi-year highs. I'm just wondering if there's any way to help us conceptualize that. For instance, are the envelope sent growing mid-single digits, or are they growing high single digits, or any sense of where the utilization rates stand? And as part of that, should we read into this that customers are basically using more of what they paid for, and so it's going to foreshadow pretty healthy upsell and expansion ARR opportunity in future periods, or is there some other kind of takeaway from that?

Blake Grayson

Sure. Let me take a stab at that one, and Allan can jump in. So, yeah, we don't break out the envelope sent growth by vertical and such like that, but what I would say is it's been very, very consistent for us. And I'll talk about envelopes first, and then we can talk about utilization after that. On the envelope sent, the past five quarters or so, we have seen very consistent growth year-over-year in envelope sent, which is great. It goes to the point that we've seen what makes me so excited about the resiliency of this business.

On the utilization side, so like consumption, it is higher than our prior year, and I think for us it's a factor of timing, right? So, if somebody's using—and I'm making these numbers up—but if they're using 80% of their deal and it rises to 85%, that's always a good sign for us. Now, the timing of the billing opportunity and the new contract for them is subject to their business situation and their needs and all things like that. But I think all in for us as a company, as those utilization rates grow, I think they're only positive signs for us, and so I'm really excited about it. But the timing of it is always subject to each individual customer's situation.

Allan Thygesen

Yeah, and I would just add, historically, that's obviously been a key performance measure for our side business. And we continue to keep a very close eye on it. Our sellers certainly track it. But we now have a much broader portfolio of stuff to follow up on. So, as we build that along with more envelope volume and better product utilization, we don't just go back to them and say, hey, would you like some more envelopes? We go to them and say, would you like to deploy new agreement workflows? Would you like to consider this in other parts of the business? Would you like to learn what's in all your agreements and make that information conveniently available in the apps that you care about? That's just a much broader proposition and opportunity for us than we've historically had.

Mark Murphy

Okay. And then as a quick follow-up, I think you mentioned that the AI contract agents are in beta. Are you able to give any kind of sneak peek of what you're engineering there, what kind of usage scenarios you're imagining? I think we're trying to figure out if you're going to target procurement or sales workloads or take it broader. And then, would they review contracts or generate clauses or is there some other kind of automation they're going to do? And if you're not able to speak to that now, I think we understand that as well, but I thought I'd ask anyway.

Allan Thygesen

Yeah. Well, we're launching several. They tend to be, shall we say, relatively simple workflows, as you would expect. You don't necessarily want to try to automate the most complex, highest variability workflows. They exist across sales and HR and procurement use cases, so much like our IAM platform and signature platform do. I think that's probably as much as I should say at this time.

Look, it's early days. We're just putting it out there, I think, for all the noise. I think we're still in very early days of enterprise evaluations of these things. But we think it's inevitable that a number of contractual workflows will ultimately be automated with agents, and we want to be at the forefront of that. That's why you're seeing us lean in.

In the same vein, that's, of course, also why we are leaning in with a number of the chat platforms that would often be triggers for agentic action, and why they're so keen to partner with us. We announced a partnership with an integration with OpenAI at our developer conference at the end of last month, and basically everybody else that matters in the space since then has reached out to us. Because agreements are an essential data site that touches so many different workflows inside of companies, and Docusign is incredibly well positioned to provide that data to help with the automation agenda that many companies have. So, look, it's early days, but we are very excited about becoming a system of action for agreements.

Mark Murphy

Thank you.

Operator

Our next question comes from Kirk Materne with Evercore ISI. You may proceed with your question.

Peter Burkly

Hi, guys. This is Peter Burkly on for Kirk. Appreciate you taking the question. You know, a strong quarter in the large customer segment, that 300,000 plus ACV customer group, I think was the strongest growth in eight or ten quarters. Just curious if you could discuss how much of that is being driven by IAM adoption at the enterprise level versus just more broadly a stronger go to motion at this point in time versus maybe a year ago. Thanks.

Allan Thygesen

Yeah, it's both. So, we continue to see strength with customers who are just expanding their e-signature usage, and at the same time, we're now starting to see some nice enterprise wins with IAM, and both contribute nicely to the momentum of the 300,000 segment.

Peter Burkly

Helpful. Maybe just a quick follow-up on IAM. You know, net IAM has been in the enterprise market for a few quarters now. Just curious if there's any learnings or any thoughts on the go to market playbook as you head into fiscal '27.

Allan Thygesen

Yeah. Look, it's still early days, and I want to emphasize that. It's a multi-year journey for us or, indeed, any company undertaking this transformation. We've made some really nice early wins, and it's nice to be able to see that continued progression. So, we've got significant work going on the innovation side in terms of scaling our enterprise feature set and access control extensibility. And then I'll go to market side, as you asked.

Key focus areas for next year include sort of complementing our traditional land and expand motion across departments with more of a top-down platform (inaudible), and we do that, but I think we can get better. We want to lean into both our ISV partnerships, where we're already starting to see some nice progress, and perhaps even more importantly, our system integrator partnerships. Historically, with Docusign, that's been predominantly a CLM activity, but now it's literally the whole company is leaned in, and we're seeing a lot of inbound interest from the SI partners in partnering with us because we have such a unique and broad proposition.

Lastly, on the pricing and packaging side, we've gotten questions on past calls. You'll not be surprised to learn that as we move up from a lower friction model in the commercial space where simplicity is key to the enterprise, we are testing a more of a platform pricing model with tokens. It's being very well received. And so, I think you should expect to see us move in that direction more publicly, and that gives us just a lot more flexibility as we continue to layer in new capability and new value into IAM.

Peter Burkly

Very helpful. Thanks, Allan.

Operator

Our next question comes from Brent Thill with Jefferies. You may proceed with your question.

Brent Thill

Allan, I know your long-term aspiration is double-digit growth. You're obviously knocking on the door, but what do you think it needs to take from here for you to continue to sustain or get to double-digit growth from your side? Are there a couple of ingredients that you think still have to trigger before you can hit that mark?

Allan Thygesen

We are making really good progress, and I'm proud of the team. Look, the two big levers are what you would expect. It's retention, and we I think continue to make progress on that. I think there's still more headroom for us there. And it's new expansion bookings, and I think we are making progress there, particularly driven by IAM. I'm pretty confident those two levers will get us there. So, we're working on it.

Brent Thill

Okay. Blake, good to see the record buyback. I guess maybe play devil's advocate. In the age of AI, why not lean a little harder into M&A, and is there anything you need to do to kind of help Allan's vision of that double-digit growth, even if it's inorganic?

Blake Grayson

Yeah, absolutely. It's something we talk about actively at Docusign. It's a subject that on the outside may not sound like, because we don't do acquisition every quarter. But for us, it's something we talk about actively. We're looking for those companies and those assets that can help propel us forward, whether that's through elements of retention or expansion for us. And I think that, again, we're super active about it.

It is one of the reasons why we do keep the optionality on our balance sheet for those opportunities as they present themselves to us. We look at a lot. We have a high bar for those acquisition conversations, but it is something that Allan and I and the team, I would say, actively talk about probably more than people think.

Allan Thygesen

Yeah, maybe just to add to that. First of all, I feel very good about our organic growth trajectory and the innovation, the scale and scope of the innovation that the teams are driving. So, I think there's enough there. With that said, we have the resources. We have the go-to-market model. I think we want to explore strategically places where we think we can be additive.

The Lexion acquisition has been fantastic for Docusign. It augmented our product roadmap both from a workflow and AI perspective. In fact, the Agreement Desk product that we just launched this week was inspired by an earlier Lexion product and was led by the Lexion founders. And so, that's been a fantastic deal in every way, product, technology, team. And we inherited a good number of customers that have also performed very well.

So overall, that was just excellent. If we can find more like that, we will, and we're looking. As you may know, there are things that are a little frothy right now.

Brent Thill

I guess the message is that you just keep leaning in the buyback until you find something you like, and then you can balance, and so you can do both.

Blake Grayson

Yeah, I mean, we take capital allocation here really seriously, which is when we generate excess capital, we have opportunities to redeploy that. For right now, the buyback, we think, is a great opportunity to do that with kind of the forward-looking outcomes that we think we can go after. At the same point in time, if we find those opportunities to deploy that capital to an M&A opportunity that helps do that for us as well, we'll absolutely consider it. So, capital allocation for us is a topic that Allan and I talk about quite often.

Brent Thill

Great. Thanks.

Operator

Our next question comes from Scott Berg with Needham. You may proceed with your question.

Scott Berg

Hi, everyone. Nice quarter. Just one question for me, and I don't know, maybe this is a question for Allan, on the AI contract agents. Super interesting. I think legal contracts is one of the best use cases for these LLM technologies for all the probably inherent reasons we all know here on the call. But as we think about your customers and where they are and, I guess, awareness for agents, and I'm sure it's new to them, and how we think about maybe budget procurement, is this something that you think can have a meaningful impact to some of your momentum in fiscal ’27, or is this more of maybe a fiscal ’28 opportunity as they test and trial next year and probably try to get some budgets after that?

Allan Thygesen

I don't think it's a huge contributor to our financial momentum next year. But enterprise software is a multi-year roadmap endeavor, and people want to know they're with somebody who can deliver for them, not just now but years to come. And so, it's very important to provide visibility to what they can do when they are ready. And no doubt, we'll have a number of trials, but I don't think it will be financially meaningful, but it's certainly strategic.

Scott Berg

Super helpful. Thanks for taking my question.

Operator

Our next question comes from Brad Sills with Bank of America. You may proceed with your question.

Brad Sills

Oh, great. Thanks so much. Maybe a go-to-market question with regards to IAM. Allan, you talked about how you're seeing progress with HR and procurement departments. Is that the primary land in the departmental sale, in those two, legal? I'm just curious if the sales audience and the large enterprise really kind of centers around those three departments. And I'm curious how well prepared you feel the go-to-market is to address those.

Allan Thygesen

Yeah, I would change the statement a little bit. I would say the four main use cases for us: sales, procurement, HR, and customer experience. We should think of that as sort of business-to-consumer type flows, banking, onboarding, that kind of stuff. And we're seeing demand across all of those. I would say from a maturity perspective, we've had a very strong position for a long time in, I would say, sales and customer experience type applications. But there is a lot of interest now in procurement and in HR.

On the procurement side, these tend to be high dollar, low headcount, complex, poorly supported. And I think that they're so eager to find solutions to achieve more efficiency in procurement processes and unlock value that's in agreements they've already negotiated.

And on the HR side, that's, of course, essentially, those are business-to-consumer flows, just on the hiring side as opposed to the selling side. Those are quite poorly integrated categories. And so, a lot of the HR departments are very eager to see those processes streamlined. We have a number of ISV partnerships that we've announced here, even this quarter. We’ve done stuff with Dayforce. We've done stuff with SmartRecruiters. We've done stuff with a lot of folks in the HR space that integrate Docusign in to make the entire, let's say, Canada onboarding process, for example, more efficient.

Those are the four big ones that you will see us talking about, and you will see us highlight at our conference in the spring.

So, one way maybe to take a step back and think about the ongoing maturing of IAM, when we first launched, we launched with a set of horizontal platform capabilities, Navigator being the most obvious example as the intelligent repository. This year, we sort of completed that suite of agreement-related workflows with things like Agreement Desk. And next year, where we're going is fully integrated end-to-end functional workflow suites that are polished and integrated with all the pieces. It will be those four. And so you can look forward to that. We're obviously already packaging that to some extent, but that will get tighter and better. I think those are the use cases and the department's use cases that will empower the IAM growth.

Brad Sills

That's great. That's great. Thanks, Allan. And maybe, Blake, one for you, if I could, please. Any observations on the macro? Any changes to the backdrop, whether it's regards to envelope volumes or signings? There's some moving parts in the SMB right now, so just curious if you've seen any difference there between SMB commercial and enterprise, your envelope and signing activity. Thank you.

Blake Grayson

Sure. I would say there's nothing material that we've seen in the business in Q3, and that's been pretty consistent for us over the past, gosh, four or five quarters, I would say. I mean, consumption uses trends are consistent for us. We're seeing pretty strong year-over-year growth across most verticals. Now, that said, companies are still scrutinizing spend, and people sitting in my position at various companies want to make sure they're getting the most value they can from these. But that's, I think, one of the big benefits of this. The breadth of our customer base that we have, is that just the consistent resiliency that we've seen is something that I've been really excited about, and we'll see how the macro evolves over time. But to date, nothing really of any angst or concern out there that we've seen to date.

Brad Sills

Great. Thank you, Blake.

Operator

Our next question comes from Josh Baer with Morgan Stanley. You may proceed with your question.

Lucas Cerisola

Hey, guys. This is Lucas Cerisola on for Josh Baer. Thanks for the time, and congrats on a great quarter. Could you give us some more color on the 25,000 IAM customers, specifically how many are new to Docusign versus existing eSign customers?

Allan Thygesen

Yeah. Yeah, so it's over 25,000 across our direct to digital business. It's predominantly direct, and the vast majority of them are existing eSign customers that upgrade to IAM. But we do onboard quite a few new customers directly onto IAM as well, but the vast majority is the install base. And, of course, that's the incredible advantage that we have. We have now almost 1.8 million customers that pay us monthly.

If we just look at the direct customer base, I think we're in the 270,000 or so active customers that are serviced by our sales teams. We have so much headroom and yet come in with this huge advantage that we are already an approved vendor, generally well-liked and trusted, often have many of their agreements. And so, the step up to engage with us on IAM is just far less than if we were a new vendor. A lot of headroom left, but definitely driven predominantly by the install base, in part because, frankly, most companies are already our customers.

Lucas Cerisola

Got it. That's super helpful. And one more, could you talk about hiring expectations for the year ahead, what should headcount growth look like, and what areas are you investing in aside from IAM and then within IAM? Thank you.

Allan Thygesen

Yeah (audio interference), and Blake, you should jump in as well. We project quite modest headcount growth. While we are very bullish on our growth opportunity, we also feel like we've got a lot of hard-fought efficiency gains in the Company, and we want to hold on to those. Now, you may see some reallocation within the Company. There are areas, including product and security, where I think we want to continue investing disproportionately. But I don't anticipate our overall headcount to grow significantly. We're just being judicious, investing carefully in the places that we think give us the most leverage over time.

Blake, I don't know if you want to add anything.

Blake Grayson

Yeah, I'd just say we're quite thoughtful about it. I think we've added, over the past year, just over 200 net headcount to Docusign. So, we're hiring across all of our locations. The vast majority of those folks, we've tended to add a little bit more in our lower-cost locations as well. So, like Allan said, we're trying to be very methodical and very thoughtful about our hiring needs to make sure that we can support this business. But also, we made a lot of hard choices to get to the efficiency gains that we've done over the past few years, and we're not just going to give those up either. And so, I think it's that balanced view that I think is the right path for us.

Lucas Cerisola

Thanks, guys.

Operator

Our next question comes from Patrick Walravens with Citizens. You may proceed with your question.

Austin Cole

Great. Appreciate you guys taking the questions here. This is Austin Cole on for Pat. Allan, you called out one of the Docusign's top 10 customers becoming second-largest customer this quarter through IAM. I just wanted to give the opportunity, if there's anything to call out on that expansion. It sounded pretty significant. What do they see in IAM, and is it kind of Navigator where they're getting most of the unlock or anything else there that would be helpful?

Allan Thygesen

Yeah. Yes, it is Navigator, but it's Navigator plus. They are powering a lot of their pre-signature workflows with our (inaudible) agreement type capabilities. And by the way, I think that is a more and more robust part of the offering. I mentioned Agreement Desk. We launched Agreement prep, which is a whole system for creating templates and standard agreements that you can then deploy, which, of course, is a very common use case in, let's say, a B2B sales context, for example, a vendor management context.

I'm feeling very bullish about the opportunity for expansion from our eSign base into—and there's so many paths we can take with IAM. That was just a great win. But there's a number of them. And I think some customers really go wall-to-wall. We mentioned ServiceTitan, I think, on the last call, and they're deploying us across a very broad set of functions. And, of course, we love that. Ultimately, we love to be deployed across every function. I think that's our ultimate destiny as we fulfill our platform strategy.

Operator

Our next question comes from Alex Zukin with Wolfe Research. You may proceed with your question.

Alex Zukin

Hey, guys, thanks for taking my question. Maybe just two quick ones. If we think about the early renewal dynamic that you saw impact billings this quarter, how much of IAM included in those early renewal conversations around the upsell dynamic specifically? And is that now kind of shifting more towards the installed base picking up that skew rather than just new customers? And I have a quick follow-up.

Blake Grayson

Sure. Let me take a stab at this. So, the vast majority of our early renewals is still our core business, our core product. We've got a very large book of business that renews. Now, IAM does play a role in some of those early renewals. And, overall, what I really care about the most is that we're on those early renewals that we're spending the time with the folks that are expanding. Now, expansion can come from IAM, obviously, but also it can come from eSign, and we see that. And so, I'm super excited about just the definition of expansion in general. Now, of course, I think that there's a lot of value that can come from IAM, and I think that customers over time are going to see that value and want to adopt it over time as well.

Then, also, from an IAM perspective, and Allan mentioned this earlier, our installed base is our primary target for this. We're signing up new customers, no doubt, for IAM, but we have relationships with customers. They understand Docusign. They trust Docusign. They have their agreements with Docusign. So, it creates that opportunity for us, I think, that is a huge advantage for us that we can try to take leverage to be able to grow that business.

Alex Zukin

Perfect. And then maybe, I guess, Blake, just for you, a follow-up, and this is a little bit more nuanced on the billings, but if I look at the delta between the implied Q4 billings guide from kind of last quarter to this quarter, it looks like it went up from 7.5% to the new 8%. So, that half a point, how much of that raise is truly operational outperformance versus kind of core FX and maybe other one-time non-core factors? And how should we think about the underlying kind of run rate billings growth, excluding early renewal timing or duration in FX for Q4?

Blake Grayson

Yeah, so relative to the full-year guide, I think we raised the full-year guide on billings by about $44 million. That's about $5 million more than the outperformance we had versus the midpoint in Q3. So, we've taken some of that operational performance and float it through into Q4 and raised it off of what you're calling the implied subtracting fiscal the full year versus Q3 from our last quarter. So, we are seeing improvements in the core side of the business.

I think to your point about trying to manage around, okay, what is that underlying growth rate of billings excluding early renewals and such is one of the reasons we're making these adjustments in FY ’27 that we're talking about. I think one of the ways to think about it is if you look at Q3, like we just said about a 10% growth in billings, more like 8% excluding that early renewal component, outperformance. I think that's the nature of it.

I mean, in billings, early renewals will always be a part of our billings number. They will always represent a percentage of our billings. The question for us or as a team is what we think about and what is the health of the business is are we expanding those early renewals? And there's cases sometimes where you might do a flat one, but you want to make sure that you're spending your time in quarter for us on those. If you're going to do it early, it's like, wow, this customer needs to have more demand. They're seeking that demand. How can we help them? Should we consider them for an IAM upgrade? And we have those discussions. But hopefully that just helps level set it.

But, again, timing of early renewals, it can be very volatile, and we've seen that, and it happens every single quarter. So, to try to get in that impact on a Q4 basis in a guide gets a little trickier. Hopefully that Q3 description gives you some of the directional kind of look that you're looking for.

Alex Zukin

Perfect. Thank you, guys.

Operator

This now concludes our question-and-answer session. I would like to turn the call back over to Allan for closing comments.

Allan Thygesen

Thank you, Operator.

Thank you to all who joined today's call.

In closing, I want to thank the entire Docusign team for their commitment to putting our customers first and delivering on demand for better solutions to the agreement management problem. Docusign's business is both resilient and at the leading edge of AI development. We'll continue to manage the Company to realize our long-term potential.

Thanks for your time, and we look forward to engaging with you next quarter.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's conference. Please disconnect your lines and have a wonderful day.