Docusign Inc.

First Quarter Fiscal Year 2027 Earnings Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Thank you for joining Docusign's First Quarter of Fiscal Year '27 Earnings Conference Call.

At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. 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 Matthew Sonefeldt, Head of Investor Relations. Please go ahead.

Matthew Sonefeldt

Thank you, Operator.

Good afternoon and welcome to Docusign's Q1 of fiscal '27 earnings call. Joining me on today's call are Docusign's CEO Allan Thygesen, and CFO Blake Grayson.

The press release announcing our first quarter of fiscal 2027 results was issued earlier today and is posted on our Investor Relations website, along with a published version of our prepared remarks.

Before we begin, let me remind everyone that some of the statements on today's call are forward-looking, 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 flow and billings and ARR. 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.

We began fiscal 2027 with continued strong demand for Docusign's AI-native Intelligent Agreement Management, or IAM platform. We have 40,000 companies invested in IAM and they generated 12.6% of Total Company ARR. Our AI innovation is establishing IAM as the definitive agreement platform, and we are rapidly launching new capabilities that deliver increased value to customers and significantly widen our competitive advantage.

Q1 '27 results demonstrated the business's durability. In Q1, revenue was $830 million, up 9% year-over-year. This consistency drives our conviction in the ARR acceleration as part of our fiscal '27 outlook. On the bottom line, operating margins were 32%, and a strong 35% free cash flow margin supported $318 million in buybacks, the largest quarterly repurchase in our history.

At our Momentum customer event, we continued the consistent drumbeat of innovation with a lineup of new products and partnerships that make IAM the center of gravity for agreements across the enterprise. Our overarching goal with IAM is to provide customers with a unified platform for everyone who touches contracts across an organization, to unlock top line growth while eliminating friction and increasing efficiency on the bottom line.

In fiscal 2027, we have two clear priorities: first, delivering powerful end-to-end agreement workflows for customers, and second, expanding our AI data and orchestration advantage.

We have reached an inflection point in agreement management. Customers now recognize how a unified AI agreement platform spanning the organization can solve problems that isolated department-level point products cannot. IAM's end-to-end architecture eliminates the fragmented handoffs that create delays, introduce mistakes, and destroy value. A new Deloitte study quantifies this, finding that while AI point products yield a modest 3% increase in ROI, customers deploying an end-to-end AI platform like IAM realize a nearly 30% increase, or a 10x difference in value delivered.

IAM's value to customers is increasing in two ways: first, with new line-of-business applications tailored to the unique business processes of different functional teams, and second, with a growing number of integrations with key third-party apps. For example, we made IAM more useful for in-house legal professionals by introducing a legal-specific contract assistant and agents. These agents autonomously triage, review, and progress documents to closing, drawing on knowledge of a company's past negotiations and internal policies.

We also deepened our partnership with Anthropic by integrating IAM with Claude's new legal tools, so legal professionals can access IAM contracts and connect to IAM workflows from inside Claude, and we announced similar integrations with legal tech specialists Harvey, Legora, and Co-counsel Legal by Thomson Reuters.

In Procurement, we've partnered with spend management leader Coupa so procurement teams can build cross-functional workflows from inside the Coupa app. Within Human Resources, our new IAM for HR product connects Workday and Greenhouse to the IAM platform. And in partnership with Salesforce, we announced a deep Slack integration, so users can generate, review, and synchronize agreements in IAM directly via Slackbot. Payments are also integrated into IAM through our partnership with Stripe.

These enterprise-grade workflows and integrations help accelerate IAM adoption among large customers. Experian, a global data and technology company, partnered with Docusign to improve seller productivity and drive velocity in client contract cycle times. HSBC, one of the world's largest banking and financial services organizations, introduced IAM to digitize and simplify its credit lending process. To further support enterprise engagement, in Q1 we launched the IAM Platform Plan, a credit-based subscription pricing model that ties pricing to business outcomes.

At this year's Momentum, we recognized customers who are setting the benchmark for what can be achieved on the IAM platform. Crete United, a national network of mechanical, electrical, plumbing, and building automation specialists, reduced contract negotiation times by 80% and improved deal execution speed by 90% by deploying AI-Assisted Review. Milky Moo, a milkshake franchiser with more than 800 stores in Brazil, uses our AI to track renewals, saving more than 1,000 hours of manual work last year.

Docusign's significant advantage in agreement AI enables IAM to deliver superior performance. Our AI engine, Iris, harnesses frontier LLM intelligence and combines those capabilities with Docusign's orchestration, deep domain expertise, and unmatched body of agreement data. Hundreds of millions of consented, private agreements have been ingested into IAM, with millions more flowing in every week. We continue to believe we can achieve up to a 15 percentage point improvement in precision and recall compared to our models trained on public contract data, while operating at incredible cost efficiency. We've optimized AI processing costs by more than 50x compared to running direct prompts on LLMs.

Our other advantages include enterprise-grade security, an expansive ecosystem of over 1,100 third-party integrations, and long-established global distribution relationships. Our deep understanding of customer workflows and context creates a significant advantage as we integrate agents that can autonomously perform tasks for customers – safely, at their direction, under their control, with Docusign providing compliance guardrails.

At Momentum we introduced agentic offerings that advance IAM's transformation into a system of action First, pre-built agents in Iris review agreements, suggest edits, and automatically request the right approvals in minutes. Second, custom agents in Docusign Agent Studio enable customers to build their own agents tailored to unique business needs. And third, third-party agents through our MCP server connect IAM to Anthropic Claude, Gemini, and OpenAI ChatGPT so teams can create, query, and manage IAM agreements within the chat apps they already use. IAM also connects with additional agentic platforms like GitHub Copilot, Microsoft Copilot Studio, and Salesforce Agentforce.

In addition, at Momentum we expanded our Federated Trust Model, which lets customers choose from 76 identity providers. And we introduced AI-Assisted Web Forms, a no-code solution that instantly transforms static PDFs into guided, mobile-friendly digital experiences.

Within our internal operations, we continue to apply AI to gain efficiencies and boost productivity in both engineering and customer-facing teams. Approximately 75% of all new code shipped is AI-assisted, up from 60% just last quarter.

In closing, the IAM platform's value and opportunity spring directly from our AI innovation, and we continue to build new features at the fastest pace in Docusign's history. That innovation, coupled with our enormous user base and our enduring position as one of the world's most trusted software companies, positions Docusign to become an essential foundation for the AI-driven enterprise.

We're proud that people are taking notice. In Q1, Fast Company included Docusign in its list of Most Innovative Companies for 2026. Also, we were honored as a top-tier employer in the Where You Work Matters list. And for the third consecutive year, Newsweek named Docusign one of the most trusted software and telecom companies in America.

I also want to welcome our new Chief Product Officer Graham Sheldon. Graham joins us after working most recently as Chief Product Officer at UiPath, the industry's first enterprise-grade agentic automation platform. Before that, Graham spent more than 20 years at Microsoft where he took Microsoft Teams from inception to 300 million users as Corporate Vice President of Product. We're excited for his leadership as we realize our vision for agreement management. I also want to thank outgoing Chief Product Officer Dmitri Krakovsky for his contribution to building IAM's foundation.

Lastly, I want to thank the entire Docusign team for their relentless commitment to helping our customers unlock the true power of their agreements in this era of rapid change.

With that, let me turn it over to Blake.

Blake Grayson

Thanks, Allan, and good afternoon everyone.

Our primary focus this year continues to be on transforming our business with IAM, strengthening our position as the world's default agreement management platform, and ultimately accelerating our revenue growth. Docusign continues to build on its position of trust and AI innovation through our recent product announcements, all focused on becoming the definitive end-to-end agreement platform for customers.

In Q1, we continued to make progress against these priorities while demonstrating the durability of our business. Growth remains resilient as we evolve into an AI-first platform through IAM. We also continued to drive efficiency, as we produced strong profitability and free cash flow, and deployed the largest quarterly capital allocation to stock buybacks in our history.

Q1 revenue was $830 million, up 9% year-over-year. As expected, we had an approximately 1.6% benefit from foreign exchange rates. The international revenue mix is now 31% of revenue. We remain excited about the opportunity to accelerate our total annual recurring revenue, or ARR, growth in fiscal 2027 as we become a more valuable partner to our customers.

IAM slightly outperformed our expectations during Q1 and continues to represent a growing share of our overall business. Although it is still early days for us as we introduce IAM to our enterprise customers, in Q1, IAM bookings grew faster year-over-year for North America enterprise than in any other segment. In Q1, IAM represented 12.6% of total ARR, up from 10.8% last quarter. We remain on track for IAM to represent approximately 18% of total ARR at fiscal year end.

Underlying business fundamentals showed consistent and healthy performance in Q1. Dollar net retention, or DNR, with our direct customers was over 102%, a greater-than-1 percentage point improvement versus Q1 of fiscal 2026. We continue to make steady progress in improving retention rates across customer segments and believe there is remaining opportunity to improve as we optimize the customer experience and drive IAM adoption into the installed base. Stability and improvement in DNR, which has been sequentially up over the last seven quarters, underpins the trajectory of our business.

Total customer growth remained healthy at 9% year-over-year as we approach nearly 1.9 million total customers. Envelopes sent continued to show steady year-over-year growth, while consumption, our contract utilization measure, rose to multi-year highs in Q1 across the majority of customer segments and verticals we track.

We also saw the number of customers spending over $300,000 in ACV grow to 1,258, accelerating to 12% year-over-year growth, the first time in three years that we have seen double-digit growth in this metric. Encouragingly, we are starting to see early positive IAM adoption trends within the $300,000-plus ACV customer cohort as we continue to share the benefits of IAM with our larger customers.

Turning to profitability, in fiscal 2027 we remain focused on balancing disciplined expense management while investing in IAM and AI innovation to accelerate growth.

In Q1, non-GAAP gross margin ended ahead of our expectations at 81.5%, down year-over-year, as expected, compared to Q1 fiscal 2026. As a reminder, we expect full-year gross margins to decline slightly year-over-year in fiscal 2027 as we continue and ultimately complete the bulk of our cloud migration investment. We are on track with these plans and have completed the majority of our on-prem to cloud data center site migrations.

Non-GAAP operating income was $266 million, up 18% year-over-year. Operating margin was 32.0%, a 2.5 percentage point improvement from 29.5% in Q1 of fiscal 2026 and 2.75 percentage points higher than the guidance midpoint for the quarter. The outperformance vs our forecast was driven by four different components, each with generally similar impacts. Those included higher revenue that flowed through to operating profit; higher capitalized wages as a larger share of our R&D spend shifted to innovation and development projects that are capitalized; an insurance legal reimbursement related to legal fees incurred in prior periods; and continued operational expense discipline during the quarter, including our rate of hiring.

We ended Q1 with 6,991 employees, down sequentially from Q4. We continue to make trade-offs across our team structure to invest in our growth initiatives. While we continue to hire across all of our global offices, the vast majority of our net new headcount growth has come from, and will likely continue to be, in lower-cost locations.

In Q1, free cash flow of $289 million yielded a 35% margin, up from 30% last year and one of the highest free cash flow yields outside of Q4 that we have seen. Strength in Q1 compared to the prior year was driven primarily by improved expense results and collections efficiency. As a reminder, free cash flow results can vary quarter-to-quarter based on the timing of payments and cash collections.

Our balance sheet remains strong. We ended the quarter with approximately $1 billion of cash, cash equivalents and investments. We have no debt on the balance sheet.

In Q1, we again increased our buyback activity, repurchasing $318 million in shares. This was our highest quarterly buyback on record, as we took advantage of our lower stock price during the quarter. As of the end of Q1, we had $2.4 billion remaining authorization for future share repurchases.

Our focus continues to be on improving free cash flow generation and redeploying excess capital opportunistically to shareholders. In Q1, the buyback program continued to help reduce our share count. Diluted weighted average shares outstanding for Q1 were 196.5 million, an 8% year-over-year decrease from 212.8 million in the prior year. Also, stock compensation expense declined slightly on an absolute basis year-over-year to 17% of revenue in Q1, down from 19% last year. We have made progress in reducing the impact of stock compensation, and we continue to focus on improving our efficiency here.

The reduction in stock compensation and diluted shares contributed to growth in EPS. Non-GAAP diluted EPS for Q1 was $1.09 versus $0.90 last year, a 21% year-over-year improvement. GAAP diluted EPS in Q1 was $0.40, an 18% year-over-year per share improvement from $0.34 last year.

With that, let me turn to guidance.

For ARR, we continue to expect accelerating growth in fiscal 2027 compared to the prior year as our efforts to transform Docusign deliver meaningful results. We continue to expect that our year-over-year growth rate range will be 8.25% to 8.75%, or an 8.5% year-over-year increase to over $3.5 billion at the midpoint at the end of Q4 of fiscal 2027. We expect growth to be driven by gross new bookings, primarily from both new and expanding IAM customers, as well as by gross retention improvements versus fiscal 2026. Related to this, we expect another year of modest improvement in DNR.

We continue to expect IAM to represent approximately 18% of our total ARR at the end of Q4 of fiscal 2027, driving IAM to over $600 million in ARR by the end of this year.

For revenue, we expect $865 million to $869 million in Q2 or an 8% year-over-year increase at the midpoint, and $3.490 billion to $3.502 billion for fiscal 2027 or a 9% year-over-year increase at the midpoint. After adjusting for FX impacts and the moderate headwind comparison from digital add-ons in fiscal 2026, revenue growth remains in line with the prior year.

With regard to Q2 specifically, you'll recall that last year our Q2 revenue growth was the highest quarterly growth we delivered in all of fiscal 2026, creating a harder comparison for that quarter, driven mostly by higher digital usage.

For profitability, we expect non-GAAP gross margin to be between 81.5% to 81.7% for Q2, and continue to expect a range between 81.5% to 82.0% for fiscal 2027.

We expect non-GAAP operating margin to reach 29.7% to 30.2% for Q2 and 30.5% to 31.0% for fiscal 2027, an increase of 0.5% at the midpoint versus prior guidance. Our fiscal 2027 operating margin guidance reflects a greater level of margin expansion than we saw in fiscal 2026.

We expect non-GAAP fully diluted weighted average shares outstanding of 191 million to 196 million for Q2 and 190 million to 195 million for fiscal 2027, a meaningful reduction from the prior year, as we expect that our buyback activity will be an important driver to more than offsetting dilution.

For detailed commentary on top and bottom line factors to guidance, please see the Modeling Considerations appendix in our prepared remarks.

In closing, we are off to a strong start in fiscal 2027 with Q1 demonstrating consistent improvement in our business with durable operating results on the top and bottom line, and significant new innovation released in our IAM platform. We remain focused on driving accelerated ARR growth in fiscal 2027 while improving efficiency gains and free cash flow. We remain focused on transforming Docusign to realize long-term success for our customers, shareholders, and employees.

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 participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

Thank you. Our first question comes from the line of Rob Owens with Piper Sandler. Please proceed.

Robbie Owens

Great. Good afternoon and thank you for taking my question.

Could you speak in more detail around the difference you're seeing in consumption from customers who are on IAM versus those who are not? I realize it's still early IAM penetrates more of the low end. But as you're moving into enterprise customers, maybe help us understand those differences in consumption, both those on IAM versus those that aren't, and how this changes over time with those that have been using IAM.

Allan Thygesen

Yes. I'll start, and Blake, feel free to jump in afterwards. Yes, so we are seeing a lift in eSign consumption, which I assume is what you're referring to—from customers who adopted IAM relative to their prior trend line. It's significant, and we're not disclosing the exact percentage, but it's meaningful. It just reinforces the macro point that eSign is a core component of the overall IAM platform and is an enabler ,and in turn is also enabled by many of the workflow components in IAM. So for example, if you make it easier to create a new agreement workflow that culminates in a signature, then you can generate more signatures.

Look, I think we're pretty bullish on that effect and self-reinforcing effect. I'm not sure if there was something more to the question there. Maybe a follow-up, Rob, anything?

Robbie Owens

Yes, without quantification on your end, I don't think there's anything more other than what—you said meaningful. Is there any metric or anything you can put with that?

Allan Thygesen

No, I don't think we're going to start up with that. But I mean I think as we've shared with you in the past, overall, IAM is very significantly accretive relative to the baseline trend for those customers. Then as part of that, it's amplifying the consumption of signing.

Now there are many ways in which IAM delivers value. It makes it easier to design more workflows that can trigger more signs. It may add more features that facilitate more conversions. And then, of course, there's all the value from the repository and the new workflows that are part of the IAM suite.

So it's not limited at all to consumption of Sign, but that's one of the ways in which customers find incremental value.

Robbie Owens

Perfect. Then, I guess, secondarily, thinking about the macro and the shape of the quarter. While you never want to read too much into a first quarter, the beat probably wasn't as big as you've seen historically and without a discrete subscription revenue number given, just curious relative to your expectations, maybe the shape of the quarter, what it looked like from a booking standpoint. I understand billings is not a metric that we're focused on anymore and you've incentivized your salespeople differently. But as you kind of peel back the quarter a little bit, the shape of Q1 relative to your expectations and anything from a leading perspective relative to the guide that you gave for the remainder of the year. Thank you.

Blake Grayson

Sure. I'll take a stab at this one. Yes, I would say I'm really pleased with the quarter, really solid. It's great to see just consistent execution again across the business for yet another quarter beating the top end of the range on the top line and across all of the profitability metrics that we guide to.

IAM, again, came in just slightly better than we expected, so really excited to see that 12.6% as we continue to progress towards ARR full year guide of approximately 18%.

With regards to like, I think, Rob, the size of the beat or whatnot, I would just say I have no concerns at all with where we landed for the quarter. I will say that we do continue to get better and more precise with our forecasting about how that as we improve our kind of operational maturity in the business. So it doesn't surprise me at all relative to like the size of the beat, if you will. But again, just really pleased with the solid quarter of execution by the team.

Robbie Owens

Thanks.

Operator

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

Michael Turrin

Great. Thanks very much. Appreciate you taking the questions. One on agreement management. Maybe speak to what you're building with some of the partnerships with Anthropic and others. How should we think about Docusign's position relative to what some of the LLMs are working on? What are the advantages and that give you comfort in continuing to expand that ecosystem and your position there?

Allan Thygesen

Yes. Maybe just let me give some overall framing and I'll comment specifically.

We saw the opportunity for AI to transform agreement management three years ago. That's what led us to IAM and I think it's really playing out as we forecasted and the market is really now starting to understand the full potential of using AI to help process agreements.

We have a number of huge advantages, I think, as that starts to really play out. The data advantage that we are—we have access to customer agreements. They have historically trusted us with those agreements. We now have getting additional consents to process them with AI. We're well over 200 million private consented agreements that are being processed with AI and that gives additional accuracy and texture and we've cited some of the increased accuracy potential that, that data provides. Then you've got all the workflows to touch agreements across every function. So this isn't just about making legal more efficient—that's super important—but everybody who touches agreement, sales, procurement, HR, finance, others that do that. I think Docusign stands alone in terms of the breadth of its portfolio there.

And then lastly, there's the trust piece. People have trusted us with agreements. Historically, we have all kinds of regulatory and compliance strengths relative to other providers and that's why people choose to host their agreements on IAM and process them that way.

In terms of the partnerships with the LLMs, we're thrilled to be partnered with Anthropic. We just announced this week a partnership with OpenAI, and we really want to make our data and workflows available wherever people want to do their work. This has always been core to Docusign's strategy. Already with Sign, more than half of our total signed volume was consumed via API through integrations with other products. We've had a 20-year partnership with Salesforce, long partnerships with the Microsofts, SAPs, Workdays and others of the world and this is really an extension of that. Now as these chat surfaces become popular, people want to consume agreement data and agreement workflows that way and trigger them there; we want to partner with where people want to be and want to do their work. And I think what you'll see is you'll see some use cases that are general purpose chat engines, like an Anthropic or an OpenAI or Google Gemini. Some that are, should we say, function-specific – Slack is a great example used in a number of companies. And then some that are specifically tailored around invoking agreement workflows and orchestrating, and I think Docusign will be a natural place for that.

But we want to be where customers want to do their work and enable the most powerful agreement suite on the market and that's why we're partnering with them. And by the way, that's why they partner with us because they come to us to get access to those agreement documents there, the agreement workflows and the trust and unique position that Docusign occupies. So in many cases, those are the result of inbound inquiries to Docusign.

Michael Turrin

Thank you.

Operator

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

Rishi Jaluria

Wonderful. Thanks so much for taking my questions.

Maybe just a quick two-parter. Number one, as you think about the evolution your pricing model, etc., with IAM, I know the good news is you're no stranger to this idea of (inaudible) plus consumption, as we saw with (inaudible) and the like of the (inaudible) products. Maybe can you walk us through how you see the IAM product evolving, especially as you engage in more customer conversations, you have more production workloads and you start to get maybe a little bit more enterprise traction. And maybe tying into that, like there's a lot of conversations around outcome-based pricing.

Then the kind of quick follow-up to that is there's a lot of appetite from mid-market and especially enterprises do a lot more customization, not necessarily let go or replace systems of record, systems of engagement, but more or less leverage AI to get things hypercustomized to our business needs to take advantage of all the data we have. How do you think about the opportunity that you have to help customers not only deploy IAM on top of the eSignature, but then also help them with that level of customization that they might be meeting and demanding from here? Thanks so much.

Allan Thygesen

Sure. First on the pricing model, and as you noted, Docusign has a long history of providing shall we say value-based pricing because our historical Sign product has been sold on an envelope basis where you basically pre-buy capacity and so as a good proxy for value delivery. We've now generalized that with a much richer set of value parameters, so you're buying a bundle of credits, and it could be a Sign, it could be a document extraction, it could be a workflow trigger – any of those are rated as a certain number of credits. We launched that in beta, I'd say probably Q3 of last year. Saw really good uptake and feedback close to a number of deals on that basis which gave us confidence to in April launch it for general availability to all enterprise customers.

And I think you'll see us experiment with ways can we move that model down market. The reason we haven't done that yet in the commercial space is because the most important thing in an SMB commercial environment is simplicity and reducing friction. Seat-based models and envelope models are familiar there and that's why we've maintained that. I think over time as the market gets more comfortable with these kinds of credit models you'll see us continue to adapt to that.

But we're very pleased with the enterprise customer receptivity to the platform pricing model and to this credit idea, and we think that's the future.

In terms of the customization point that you raised, we totally agree. This is why we designed Docusign IAM to be not just a modular component type suite, but pretty much all the components of Docusign IAM available as a service, so they can be embedded into other applications, – Salesforce, Workday, Anthropic, OpenAI – as well as any custom design applications that enterprises want to build. And so we want to give ultimate flexibility to our customers to tailor to their workflows. We have over 1,100 different integrations with different ISVs, so I think we provide unmatched flexibility and that's, frankly, an important part of our value proposition. And I agree with you. I think there'll be more of that as that gets easier to do and as people want to experiment with new interfaces.

Operator

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

Patrick Walravens

Oh great, thank you. Allan, it's been, what? A little over four years since you took this role, right?

Allan Thygesen

Three and a half, but who's counting?

Patrick Walravens

Three and a half, okay. But who's counting. Three, three and a half.

I would love to have seen you guys in double digits by now. IAM is clearly working. But I think on an FX adjusted basis, maybe actually decelerated a little bit quarter-to-quarter. What has been harder than you expected? IAM is clearly working, but what's been harder?

Allan Thygesen

I don't know that we ever set a timeline. I'm not disappointed with our progress. I'm actually really pleased. I think we have a—it's an incredible transformation moment for agreements. I think we leaned into that, articulated a compelling new vision and I think we've been right about that.

When I joined, I don't think it was quite clear exactly what shape that opportunity was going to have and what technology was going to enable us to do, but it's I think become more clearer and clearer into focus that there's a very substantial opportunity there.

We are forecasting acceleration this year and I think in years to come. And so I think everyone on the management team, not just me, is feeling very bullish about that. We have an opportunity to compound growth salvation for a while here and so we're leaning into that.

Blake Grayson

I'll just add one more thing. On the comment on the decel excluding FX, one of the things you have to look at when you compare us on a year-over-year basis is we not only obviously have FX, but we had some pretty high digital kind of, we'll call it, add-on usage last year. And so we highlighted that as part of kind of a normalized growth rate. If you normalize for those peak numbers that we had last year, I think you'll see the word—it's not actually decelerating. It's pretty similar in line. And like Allan said, that guidance into an accelerating growth rate this year on the back, one of the very large components as IAM, along with retention gains, which we continue to make, I think it's pretty exciting and it kind of a lens to the future opportunity that we have here at Docusign.

Patrick Walravens

Thank you, guys, for the perspective.

Operator

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

Tyler Radke

Yes. Thank you very much. Can you touch on the 300,000 customer plus strength? I think that accelerated a bit in the quarter and stronger than we've seen typically. Maybe just put that in context of kind of the billings and shape of subscription revenue that looked a little bit lighter than normal? Just walk us through the puts and takes there.

Allan Thygesen

Yes. Let me just comment on the ACV metric, and then Blake you can jump in as well.

Look, I think Docusign has a expanding opportunity to go deeper with customers because of IAM. And I think that the fact that we're growing the number of 300,000 customers is just I think a nice numerical indicator of that opportunity. I think there should be more to come as we go forward.

Blake Grayson

Yes, sure. And it's early days for us there, but I'm super excited to see that number, that metric getting to double digits for the first time in years for us. And frankly, IAM is a part of that and so I'm really excited.

To the question regarding on billings, we didn't guide to billings. I just want to remind folks billings can be quite volatile on a quarter-to-quarter basis just due to timing. I'll just kind of comment that billings came in just as we had expected for the quarter without talking about a guide or anything like that.

I would point you to last year at this time, last year in Q1 I think our billings grew 4% year-over-year in Q1 last year and the full year grew 9.5%. So there can be a lot of timing fluctuations between that. And then what I would point to do is in the full year ARR guide of 8.5%, that's really an outlook for us about where we think this business is going and why we're excited about it.

Tyler Radke

Great. And just a follow-up. I know you're not updating the ARR guidance, but I guess safe to say you feel incrementally more confident in that 8.5% versus 90 days ago?

Then just the IAM as a percentage, should we kind of expect kind of a linear progression on that in terms of that mix to the full year target? Anything you'd call out just in terms of seasonality because obviously there's more seasonality as you're pushing up market.

Allan Thygesen

Sure. I would say relative to the question on the ARR guide, it all comes down to, because as you all know, a full-year ARR guide really is a Q4 ARR guide. So it all goes down to what's our visibility level as we progress through the year and how do we feel about it? We're one quarter through the four quarters in our first year of guiding to ARR. We're optimistic again about that acceleration that we're guiding to on a full-year basis and I would just say we're excited, and we'll see the performance there and we'll update as we go.

With regards to the question on the IAM progression, you do see in the historical numbers that we provided a bit of that linear progression. I don't want to act like that is something we're solving for or something we are driving, but I think it's probably a relatively safe assumption. But that said, we'll have to see how IAM does, right? And as we get into larger and larger customers we'll see how we do, but I'm excited about it.

Operator

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

Jason Zhang

Thank you for taking the question. This is Jason on for Alex Zukin. Impressive progress on the IAM adoption. I guess just a quick one on the IAM uplift. If we take exit FY26 IAM ARR over the estimated IAM customer count exiting FY26, we get to roughly let's say 11,000 IAM (inaudible) versus on the enterprise side, it is 10,200 exiting FY26, so that's roughly high single-digit uplift. Is that the right way to actually frame it, or are there any more mix or timing dynamics mixed with that?

Blake Grayson

Yes. I think that it's a little tricky when you think about IAM and non-IAM is two different products. A big part of that is because IAM is not just a new product, it's a platform for us and a big part of our penetration comes from an installed base of customers. So I don't know from the modeling versus thinking about like the average customer size and that perspective is the right way to think about it. I understand why you're trying to do what you're doing, but we're looking at this as an opportunity to provide customers more value and get them to IAM. In general, customers are paying us more for that because they see value in the extra features and services that we bring to the table on top of a very solid foundational eSignature offer. I hope that commentary helps a bit.

Operator

Thank you. Our next question comes from the line of Patrick McIlwee with William Blair. Please proceed.

Patrick McIlwee

Great. Thank you for taking my questions.

As we think about the growing significance of IAM to your overall business, understanding that it's a highly complementary offering to your core eSignature products, and you also have a massive distribution advantage, you are pushing into a space that's relatively competitive, notably with a lot of CLM vendors in the space. Can you just talk about how you feel you're positioned relative to some of those other vendors and broader workflow platforms in the market and what your customer conversations look like when you're in some more competitive discussions?

Allan Thygesen

Yes. We do encounter other vendors in the CLM space. As you know, there's a number of vendors in the space. I think we're clearly one of the largest and best regarded ones, but there are several. I think the CLM opportunity is significantly narrower than the broader IAM opportunity, right? CLM has historically been focused on, I would say, enterprise contract-intensive use cases, B2B negotiated contracts. And you look at what we're doing and coming at it from a different angle, what some of the new legal tech players are doing, it's a very different take on what's possible with agreements. So I think the competitive set—the market opportunity is much larger than CLM has historically been and the competitive set is evolving.

In terms of how we go to market, I think Docusign is uniquely positioned in having this very broad platform for intelligent ingredient management that cuts across all functions, and then we partner with functional specialists. And so you probably saw that we entered in partnerships with Harvey, Legora and Co-Counsel by Thomson Reuters as examples of specialized legal tech players. So that you can use our general purpose legal functionality and if you want to go deeper, let's say with legal research tools or other things like that, you can use those products. That's the same philosophy that we've had in interfacing with CRM products or HRM products or ERP products in the past.

I think we are in a very good position to be the nerve center, if you will, for agreements and then call on and connect to other tools as necessary. I think the CLM market, there's still a number of customers who specifically look for CLM solutions and we want to be very competitive for that, but we also want to open their eyes to the broader opportunity with agreements across the enterprise in every function, including things that they might not historically have thought of.

I think we're in an increasingly strong position in agreement management and coexisting with new players who come at, let's say the legal space from different angles.

Patrick McIlwee

Okay. Very clear. Thank you for the color there.

Just further on IAM, can you help us frame where you are in the adoption curve today? I understand a lot of the initial growth is has been coming from existing customers transitioning to that platform, but can you just provide a quick update on what the traction has looked like when you've been going out and winning net new customers with those kind of incremental capabilities?

Allan Thygesen

I think that you get some idea from the customer count that we just shared, that that's obviously predominantly commercial customers, but we announced across over 40,000 customers for IAM and we have, let's say, 250,000 direct customers, maybe a little less if you roll up entities that are legally related. So we're starting to—it's still early. There's still a lot of headroom just in the commercial segment and in the enterprise, we're still even earlier. I think those customers represent an even larger opportunity. We can get the kind of lift that we are seeing in commercial and enterprise in the initial deal and then there's the market expansion opportunity as we go across functions into additional divisions because you typically don't go from 0 to 100% in a large company.

So we're quite bullish on the expansion opportunity that IAM offers. We've got a lot of headroom in our commercial business and even more in the enterprise side.

Blake Grayson

I might just add on top, as far as our new customer growth goes, IAM is driving a material portion of that and so that's super exciting. It's just that when you have an installed base the size of what Docusign has with a million, almost 1.9 million customers and over 95% of the Fortune 500, that's a big area of ground for us to cover with folks that we already have relationships with.

So I would say, excited about the new company opportunity, but it's just with the size of the installed base that we have, that's a huge opportunity as well.

Patrick McIlwee

Great. Thank you both. Appreciate the thoughts.

Operator

Thank you. Our next question comes from the line of Scott Berg with Needham. Please proceed.

Scott Berg

Hi. One really nice quarter here. Just one question for me in the essence of time, because I know we'll get towards the end here, is on the expanded verticalization story, I was at the conference a couple of weeks ago, and verticalization was certainly a key component I took away from the conference there. But as you think about this expanding verticalization story within some of your customers, is this strategy really about trying to bring new landing points with some of these customers. I guess as you're starting to see use cases in these different departments and just streamline how they're launching them, but I think we're all probably trying to help size up what the expanded opportunity looks like as you do verticalize IAM kind of going forward. Any help there would be helpful. Thank you.

Allan Thygesen

Yes. If we look at the IAM journey, what we started with was horizontal platform capabilities. What we have done over the last, let's say 18 months, is really lean into honing the functional use cases, so being able to optimize an end-to-end workflow for Sales or for Procurement or for HR, and you can see that in some of the customer examples. That's what Experian is doing. Experian is using IAM for thousands of

B2B sellers across many highly complex product portfolio to improve both their internal efficiency and their cycle time. That's one example of a functional workflow. Obviously, they cut across multiple businesses.

Another example would be HSBC. They're using us to power their lending program. So you have companies doing customer-facing activities, procurement-facing activities, HR-facing activities.

The next step is verticalization. We have some degree of verticalization. Historically, Docusign has been a fairly horizontal platform that customers could then tailor. But we do go a little deeper in financial services, in healthcare and in government. Beyond that, I don't have any announcements to make at this time, but we're leaning on customers and partners to take the general purpose agreement platform that we have and further tailor it, and we've designed it intentionally to make it very powerful and flexible to be able to do that.
But I don't think you'll see Docusign have 20 different flavors of IAM anytime soon. That's not the goal. The goal is to provide a platform that people can easily tailor and customize. And I think you're right, that is exactly what people will be doing with some of these new tools.

Scott Berg

Excellent. Thank you for taking my question.

Operator

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

Brent Thill

Thanks. Allan, the international business is on a steady acceleration, gone from 10% growth to 17% I believe this quarter. I'm just curious what you're seeing. Growth rates are obviously above company average. What's left? What's exciting for you and what you're seeing in terms of where the growth is coming from?

Allan Thygesen

Yes. I mean we have an even bigger opportunity outside North America than our North American business, which still has a lot of headroom, but it's just earlier in terms of the adoption of Sign, let alone new agreement technology.

We are seeing really nice results. I want to particularly call out our EMEA region. I know in some past earnings calls that expressed some concern expressing maybe we're a little behind where we'd like to be. We hired a new leader a year ago. I just want to commend him and the team there. We're seeing our EMEA business perform more strongly now and obviously that's the biggest component of our international business, so very nice to see that.

We're very bullish on the international opportunity. We can deploy our products globally now faster and with a richer set of features, more localization and that just puts us in a stronger position.

I personally travel quite a bit to all of our international regions, and I'll be there, I'll be in Europe here later this month. There's a lot of interest in what we're offering, so it's really positive to see and bodes well for the future.

Blake Grayson

And then, Brent, just to add on to that, too, totally agree with everything Allan said. FX also plays a role a bit. in that year-over-year acceleration. Now even excluding FX, the international business is growing in the double digits and we're really excited about everything Allan said, but FX does also play a role in that kind of market acceleration year-over-year.

Brent Thill

And Blake, on the headcount comment where headcount is down, are you anticipating for the full year headcount to be down as well?

Blake Grayson

We don't guide the headcount, Brent, so I want to be careful about it. What I would say is we are hiring, right, in our business, and it's being very thoughtful about where we're investing in predominantly IAM – that probably doesn't come as a surprise. But we are also being very thoughtful about how we do that and where we do that.

I would be totally fine seeing headcount growth sort of going up slightly for us. But again, what I tend to look at mostly is what is that operating expense growth relative to the revenue? And then particularly as you start to exit the year, I like to see the operating leverage gains that we're making.

So feeling really good about it. I really want to congratulate the team about being very mindful about our resource investment and using AI tools to be more productive as well. So with that, I feel really good about where we are.

Brent Thill

Thank you.

Operator

Thank you. Our next question comes from the line of Vinod Srinivasaraghavan with Evercore ISI. Please proceed.

Vinod Srinivasaraghavan

This is Vinod on for Kirk. Thanks for squeezing me in.

For IAM, I just wanted to get an update on what does the web enablement and quota structure look like? Have you guys made any changes to drive this over the last year? Do you think there's anything more you can do to this going forward as well?

Allan Thygesen

Yes. I want to make sure I understand the question correctly, but I think what you said web enablement. Rep enablement, oh, okay.

Vinod Srinivasaraghavan

No, rep enablement.

Allan Thygesen

Rep enablement. All right. Our pace of product innovation and product release is relentless right now. It's probably an all-time high here last quarter. very proud of that and so getting reps fully ramped on everything is a challenge, but I think we've invested very heavily. We had a fantastic sales kickoff with a lot of different enablement activities. We did a significant amount of training prior to Momentum and we have an embarrassment of riches, frankly, at this point from a product perspective. I think the reps are very, very excited about the breadth of product and the competitiveness and the Docusign portfolio and the scope of the opportunity that they have.

I think, rep enablement at a time like is challenging in every company just because the market is moving so fast and there's so many new capabilities every quarter, but I'm feeling very good about how our Enablement team is responding. They've done a fantastic job at how receptive the reps are to the new products and how quickly they are leaning into and understanding them and translating them for customers.

So, very, very positive. But yes, it's a crazy time right now and just incredible pace.

Vinod Srinivasaraghavan

Thank you.

Operator

Thank you. Our next question comes from the line of Jacob Gideon with Bank of America. Please proceed.

Jacob Gideon

Hi. Thanks for taking the question.

As you expand the partner ecosystem—I think you mentioned it earlier. How should we think about the mix of IAM bookings that are sourced through kind of these channel partners over time? What changes are going to be needed for the partners to effectively kind of sell some of these more complex IAM solutions, whether they're vertical solutions or horizontal?

Allan Thygesen

Yes. Partners I think are a key strategic lever for us, particularly as we've expanded our ambitions with IAM and the partner-contributed revenue is growing significantly faster than our overall revenue, so that's nice to see. And yet, I think we're still just in the very early stages of fully leveraging our partner channel.

To the question that was just asked, that enablement challenge is not just for your own sales team, but for the partners as well, so we're really leaning into educating them and helping them both on the sales and post-sale implementation side.

It's a key strategic lever for us. We have, I think, a much better team across the board from sales and partner management to the product organization, much deeper investment there and tremendous amount of interest from the partner channel. Whether it's the large SIs who are seeing the desire to transform enterprise workflows and agreement workflows, we have a number of the very largest SIs that are really deeply engaged with us, as well as the reseller community for incremental distribution in a number of markets. I think I've mentioned before that in some markets, we're going to resell first because we're not going to build up our own sales team and that makes total sense. We're seeing some nice results in some of our secondary markets from that as well.

Jacob Gideon

All right, thank you.

Operator

Thank you. Our last question comes from the line of Allan Verkhovski with BTIG. Please proceed with your question.

Allan Verkhovski

Awesome. Thank you guys for squeezing me in here.

Allan, how common it is now to have an MCP? What have been your greatest learnings from how customers engage with it since introducing your MCP connector in beta last quarter? How is it reinforcing and potentially even changing how you see Docusign's positioning with respect to AI going forward? And then I've got a quick follow-up for Blake.

Allan Thygesen

Sure. The amount of inbound interest on that MCP connector announcement (inaudible) thousands of people signing up for beta. It's really an unprecedented level of engagement. Look, I think there's tremendous excitement about that.

It ties to a broader theme. Docusign fits with such important data and workflows that there are so many to smaller developers, in-house developers. Contract data and contract workflows are just critical to so many business processes and so it's a very powerful position. It's a center of gravity really for progress with AI.

I think we're very fortunate to be in that position and our philosophy is that we want to enable the ecosystem to take full advantage of all that we've built in a very open way and I think that's being very well received.

There was a follow-up question for Blake, I think?

Allan Verkhovski

Awesome. That's great to hear. Then, yes, for Blake, just a follow-up on FX. Was NRR in the quarter directionally higher or lower than last quarter when looking at it on a constant-currency basis?

Blake Grayson

Did you say DNR?

Allan Verkhovski

NRR.

Blake Grayson

Sorry, just making sure we got the numbers correct. Yes. So I don't think from an FX perspective—like for us—again, just as a reminder, dollar net retention for us is customers that have been with us, direct customers that have been with us for at least a year. FX is not a major mover for us in that metric. So I would just continue to reiterate our dollar net retention has improved here sequentially the past, I think it's seven quarters. You'll see this in our investor slide, so you'll be able to tell. But on a rounded basis, it's been flat for the past few.

We're going to improve that metric from both IAM as we gain expansion on it, but also from gross retention gains. Just to reiterate what Allan said earlier, across our team—and the questions about reps and things like that for IAM. We are as focused on improving gross retention at this company as we are on driving through IAM. We are very well aware that improvements in gross retention in the size of the book that we have can pay off huge dividends for us as a company and so we're really focused on it. And frankly, it's something with the whole company can really go after.

We've got a customer-first initiative here that we spent a lot of time on, talking about how to improve that relationship with customers or improve that customer service. It's beginning to pay dividends, as you can tell, and we've seen improvements in gross retention. So I'm pretty excited about the opportunity to head there.

Allan Verkhovski

Perfect. Thank you, guys.

Operator

Thank you. That concludes our question-and-answer session. I'd like to pass the call back over to Allan for closing remarks.

Allan Thygesen

Thank you, Operator. Thanks to all that joined today's call.

In closing, we are excited about the drumbeat of innovation we're delivering to customers through IAM. I think we're at an inflection point in agreement management and IAM has emerged as the center of gravity, as I alluded to earlier, for enterprise AI contracting.

Thanks for your support. Look forward to talking to you next quarter.

Operator

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