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DocuSign, Inc.

Third Quarter Fiscal Year 2022 Earnings Conference Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Thank you for joining DocuSign's Third Quarter Fiscal Year '22 Earnings Conference Call.

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 call, please press star, zero on your telephone keypad.

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

Annie Leschin

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Thank you, Operator. Good afternoon everyone. Welcome to DocuSign's Third Quarter Fiscal Year '22 Earnings Conference Call.

On the call today, we have DocuSign's CEO Dan Springer and CFO Cynthia Gaylor.

The press release announcing our third quarter results was issued earlier today and is posted on our Investor Relations website.

Before we get started, I'd like to let everyone know that we plan to participate virtually in a few events in the upcoming weeks: the UBS Tech Conference on December 8, and the Needham Conference on January 10. As other events come up, we'll make additional announcements.

Now, let me remind everyone that some of our statements on today's call are forward-looking. We believe our assumptions and expectations related to these forward-looking statements are reasonable, but they are subject to known and unknown risks and uncertainties that may cause our actual results or performance to be materially different. 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. Non-GAAP financial measures exclude stock-based compensation expenses, amortization of acquired intangible assets, amortization of debt discount and issuance costs from our notes, and as applicable, other special items. 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 or 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 data, the most directly comparable GAAP measures and a quantitative reconciliation of those figures, please refer to today's press release, which can be found, again, on our investor website.

Now, I'd now like to turn the call over to Dan. Dan?

Dan Springer

Thanks, Annie. Good afternoon and welcome to our Third Quarter Earnings Call. First, let me share the financial results.

In Q3 we continue to see solid performance with our revenue and profitability. Revenue grew 42% year-over-year to $545 million, and operating margin reached 22%, exceeding our guidance. International was again a bright spot at 68% year-over-year growth and now 23% of total revenue. However, we fell short of our billings guidance, coming in at 28% year-over-year growth. We expanded our customer base to 1.11 million and we continue to see strong dollar net retention of 121%.

The market dynamics that we saw in the third quarter were markedly different from what we experienced in the first half of this year. With the boost from COVID-19 over the past year and a half, we experienced exceptionally high growth rates at scale as we captured customer demand at an unprecedented pace. As we moved through Q3 and into the second half of the year we saw demand slow and the urgency of customers' buying patterns temper. While we had expected an eventual stepdown from the peak levels of growth achieved during the height of the pandemic, the environment shifted more quickly than we anticipated and these were the primary contributors to our billing results in Q3 and our outlook for Q4.

Despite this, it is clear that we are still in the early days of the $50 billion Agreement Cloud opportunity as digital transformation remains a high priority for organizations worldwide. DocuSign is uniquely positioned

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to lead and capture eSignature and the broader Agreement Cloud market opportunity given our strong brand-leading market position and product differentiation.

Even as the pandemic subsides and people begin to return to the office, they are not returning to paper. eSignature and the broader Agreement Cloud are clearly here to stay and DocuSign's value will persist no matter how the future of work unfolds.

To continue to drive growth at scale, from new company acquisition to existing customer expansion, we need to ensure our teams are firing on all cylinders. We are doubling down on growth to counter recent trends by aggressively investing in two key strategic areas. First, we are increasing investment in global sales capacity, training and field enablement to speed pipeline generation with new business and to drive expansion within our customer base. We're globalizing our marketing investments across direct and channel sales to drive brand awareness and qualified sales leads, both domestically and in our expanding international markets. As part of this effort, we are aligning our worldwide sales, marketing and success operations under Chief Operating Officer Scott Olrich. With this move, Chief Revenue Officer Loren Alhadeff and SVP of Customer Success Lambert Walsh will now report to Scott. In addition, Mike Sheridan, who has served DocuSign for over six years, first as CFO, and most recently leading our international strategy has moved on from the Company as of the end of November. I'd really like to personally thank Mike for all of his many contributions to DocuSign in key roles through critical stages of our development. We all wish Mike well in his retirement.

With the substantial growth of these go-to-market organizations in the last year and a half, we believe these moves will drive a unified motion towards demand generation, demand capture and our overall growth.

The second strategic area we're investing is product innovation, which will continue to be an integral part of our success. I'd like to touch on how we are elevating our innovation efforts across our expanded portfolio of products that make up the DocuSign Agreement Cloud.

Last month we enhanced DocuSign Notary so administrators can manage the availability of first-party notaries. One more reason we believe that DocuSign Notary will become the tool of choice for real estate, insurance and other financial service providers. A number of financial institutions, including Fidelity, added the service in Q3, but M&T Bank is my personal favorite early success story in the space.

M&T Bank has been a customer since 2018, but their DocuSign use cases jumped from about 50 to more than 200, first with the introduction of ID Verification and now with Notary. That's an obvious win for us, but the win for M&T Bank is they can now remotely notarize documents in less than seven minutes. The combination of eSignature, Identity Verification and Notary are game-changers for M&T's 700 retail branches, and we're hearing that it's making a notable impact on their operating costs as well as a huge plus for their customer experience.

Speaking of ID Verification, or IDV for short, last month we also launched an enhancement that lets customers add SMS reauthentication to IDV envelopes. So after signers pass an initial IDV, they enter a passcode delivered via SMS text to access the envelope, adding an extra layer of security that our customers value, along with added convenience to our customers' customers.

We've also made a number of important enhancements to our DocuSign CLM product this quarter, helping organizations automate manual business processes and improve efficiency with every agreement. Just this month we launched a full set of collaboration tools within the product to give users the ability to comment, tag others and assign tasks, all in the CLM UI.

On top of those innovations, we continue to make significant enhancements across the entire Agreement Cloud, including new agreement actions with Google and Microsoft apps to automate the post-signature

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tasks, new delegated signing capabilities for our enterprise customers, and new tech to simplify invoicing using our popular product DocuSign Gen for Salesforce Billing.

There's plenty more ahead to extend our leadership position and guide our customers into the next generation of agreements as our steady drumbeat of innovation continues to set us apart.

We are making significant investments in both product and platform innovation as we believe it drives customer success and positions us well for durable growth going forward.

On the customer front, I mentioned earlier that we added 59,000 new customers in Q3, and I'd like to share two of them that are particularly relevant to our focus areas.

One of our newest global customers, UPS, adopted an enterprise-wide initiative to modernize their entire contracting process with DocuSign CLM. Having previously used an alternative solution, their 9,000-plus person sales organization is now using CLM and eSignature products in conjunction with Salesforce, all integrated into one workflow. The successful deployment had led to a much faster and more efficient process with greater visibility. This is attracting the attention of other business units where we are actively exploring expansion opportunities. I think it illustrates that both eSignature and CLM can be effective onramps into enterprise businesses, and both can open the door for deeper cross-departmental adoption rates.

Solarity Credit Union in Washington State is a business that prides itself on pushing the boundaries of technology to elevate the customer experience. Solarity first looked to DocuSign to better enable their residential mortgage process with DocuSign Rooms for Mortgage. Next, they began using DocuSign Notary as a standalone offering. Then, Solarity became the first DocuSign customer to fully integrate these capabilities, offer a completely digital solution for remote residential mortgage closing. I expect many more stories like Solarity as our customers move to differentiate their own customer experience with seamlessly integrated solutions.

We're also continuing to deepen our relationships and drive innovation across our already thriving partner ecosystem. Building on our collaboration of over a decade, we announced an expansion of our global strategic partnership with Salesforce. Together, we expect to build new joint solutions to automate the contract process, improve the customer experience, drive faster ROI and increase collaboration amongst organizations that use Slack, which is now a part of Salesforce.

This expansion reflects the fact that Salesforce and DocuSign have consistently succeeded together as partners, which in turn has generated opportunities to partner in priority areas, such as Slack for Salesforce, and CLM for DocuSign.

Following our eSignature integration with Microsoft Teams earlier this year, DocuSign is now also an official electronic signature provider in the Microsoft Teams Approvals app, adding to our integration across Microsoft Office 365 and Dynamics 365. This latest enhancements allows users to create, manage and share approvals directly from Teams, enabling them to streamline approval requests while keeping up to date on the status of approvals.

To wrap up, we are proactively addressing the rapid change in demand trends that we are already seeing as we emerge from the pandemic by investing in the areas most critical to our future growth. Though we've adjusted our near-term outlook to reflect the uncertainties of the current environment, we have strong confidence in our vision and strategy. We are convinced that the growth opportunity for DocuSign remains largely untapped. We have products that are loved by our customers, and their customers in turn, and technology that is making a difference in the global speed of business as well as the health of our planet.

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If the last year has shown us anything, it's just how early in the opportunity we really are. In the coming weeks and months you will see us focus our efforts and investments to drive growth at scale. While disappointed with my execution on billings this quarter, I am highly optimistic about our long-term growth and we remain one of the fastest growing enterprise cloud companies in history.

We will continue to innovate across our platform as we lay the foundation for our future expansion across the entire Agreement Cloud.

With that, over to you Cynthia.

Cynthia Gaylor

Thanks, Dan, and good afternoon everyone.

After six quarters of accelerated demand, we saw customers shift their buying patterns in the third quarter. Revenue, profitability and cash flow remained strong while billings and dollar net retention came off their highs, especially in light of the tougher year-over-year comparables.

As Dan mentioned, we had expected this to happen more gradually, and we saw a more notable shift in Q3 than anticipated.

Total revenue increased 42% year-over-year to $545 million, while subscription revenue grew 44% year-over-year to $529 million.

Our international business expanded at a healthy rate, especially in our Asia Pacific region this quarter. In total, international revenue grew 68% year-over-year to $128 million, contributing 23% of total revenue.

Billings grew 28% year-over-year to $565 million, as we were impacted by the shift in customer buying behavior, accentuated by a particularly strong first half of the year.

With that said, we brought on 59,000 new customers, bringing our total customer count to 1.11 million customers worldwide, an increase of 35% compared to a year ago. We also added over 11,000 direct customers, bringing the total to nearly 160,000, an increase of 41% year-over-year. Customers with an annual spend greater than $300,000 grew 45% year-over-year to a total of 785 customers.

After an exceptional year and a half of customer growth, we continued to add customers at a solid pace. For the sixth quarter in a row we exceeded the high end of our historical range of dollar net retention, landing at 121% as our existing customers expanded their deployments of our product offerings.

Total non-GAAP gross margin for the third quarter was 82%, compared with 79% a year ago, while subscription gross margin was 86%, compared with 84% a year ago.

In Q3, non-GAAP operating margin reached 22%, or over $122 million, compared with 13% or $49 million in the third quarter of last year. Our Q3 revenue growth continued to outpace our ability to invest at a similar rate in-quarter. In addition, the delayed reopening of our offices led to lower than expected travel and entertainment expenses. As Dan discussed, we are committed to investing for future growth with a focus on optimizing our go-to-market efforts around demand generation, along with customer success and accelerating our product development and innovation engine.

Non-GAAP net income for Q3 was $121 million, compared with $46 million in the third quarter of last year.

We ended the quarter with 7,056 employees, an increase of 32% over last year.

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Operating cash flow came in at $105 million, or 19% margin, due to continued top line outperformance. This compares with $57 million, or 15%, in the same quarter a year ago. Free cash flow reached $90 million or 17% margin in the quarter, compared to $38 million or 10% in the prior year.

We exited Q3 with $908 million in cash, cash equivalents, restricted cash and investments.

Now, let me turn to guidance.

Coming off of the strong growth we experienced in the first half of the year, we have done rigorous analysis to understand the current dynamics. As a result, we are maintaining our Q4 subscription revenue guidance and adjusting billings to take into account the risks and opportunities we see in the business.

For the fourth quarter and full year Fiscal 2022, guidance is as follows: total revenue of $557 million to $563 million in Q4 or growth of 29% to 31% year-over-year, and $2.083 billion to $2.089 billion for Fiscal 2022 or growth of 43% to 44% year-over-year. Of this we expect subscription revenue of $544 million to $550 million in Q4 or growth of 33% to 34% year-over-year, and $2.017 billion to $2.023 billion for Fiscal 2022 or growth of 46% year-over-year.

For billings, we expect $647 million to $659 million in Q4 or growth of 21% to 23% year-over-year, and $2.335 billion to $2.347 billion for Fiscal 2022 or growth of 36% year-over-year.

We expect non-GAAP gross margin to be 81% to 82% for both Q4 and Fiscal 2022. We expect non-GAAP operating margin to be 17% to 19% for Q4 and 19% to 21% for Fiscal 2022.

We expect to see a de minimis amount of interest and other income. We expect a tax provision of approximately $3 million to $4 million for Fiscal 2022.

We expect fully diluted weighted shares outstanding of 205 million to 210 million for both Q4 and Fiscal 2022.

In closing, DocuSign has become a critical component of organizations' digital transformations around the globe. While there may be some short-term fluctuations, we remain confident in our long-term growth strategy and steadfast in our commitment to top line growth as our first priority.

Thank you for joining us today. We will now open up the call for questions. Operator?

Operator

Thank you. We will now be conducting a question-and-answer session.

Thank you. Our first question comes from the line of Sterling Auty with JPMorgan. Please proceed with your question.

Sterling Auty

Yes. Thanks. Hi guys. I am wondering at this point what's the sense of visibility that you've got in the business as you exit this year moving into next year? Because the billings guidance at 21% to 23% would kind of imply a growth rate that was actually slower than what it was pre pandemic. So, just wondering if this is just kind of like a whiplash effect coming post pandemic. Any sense of what visibility you might have for growth as we exit the year would look like?

Dan Springer

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I don't think we're going to be providing guidance for next year, as you would probably expect, Sterling, but let me talk a little bit about sort of the sources of the change and hopefully that will be able to give you some perspective on how we think about it.

As we talked about in the comments up front first half of this year, we actually expected to see more of that impact coming out of the kind of the COVID extra demand we had experienced and we didn't, right? So we ended up outperforming in the first half by probably more than we expected. But in the second half we saw this now come in much more dramatically in terms of that impact of the removal of that tailwind, if you will. I think there's sort of two components to it.

One, that there is just sort of a change in the buying urgency we've seen from customers and throughout the COVID era we had a lot of folks who really needed to get things in place, particularly if they had a large part of their employee base working from home and needed to leverage the benefits of the work from anywhere solutions that we have at DocuSign.

Then I think the second component to that is there was sort of a change in the nature of some of that buying and we had realized that as we were an organization that had started to more fulfill the demand from our go-to-market, and we were doing less of what we had typically done, which was really generating more demand and thinking about that land and expand motion we've talked to you for years about. I think that was the piece that executionally we did not forecast for because we would never forecast that we would sort of take our eye off the ball there, and I kind of own that aspect of it where we realized we were not doing all the other motions we had done in the past, and that's as you see part of the reason we're restructuring ourselves a little bit, to make sure we can get back to the mode that we have always been a successful part in driving that growth.

I think you have to look at those as the kind of core components that describe what has changed and that's why, if you look for the second half we will have a slower billings rate than we've had traditionally. And I think it's our expectation that in the future we want to go back to the old mode and really go after creating that demand in working with our customers that we've always done.

Sterling Auty

Got it. Then maybe one follow-up. Can you characterize the magnitude and the timing of the investment that you're going to make in sales so we can think about what the margin profile impact from that, as well as sales for you guys usually ramps a little bit faster than traditional enterprise software, but trying to gauge when those new sales resources might actually contribute to an improvement in that top of funnel lead generation.

Dan Springer

My view is—and again, Cynthia can give you some more details on the P&L aspect of it—it's not so much a dramatic shift in the way we're thinking about our investment in sales. I think this is more about the quality of the execution and the coordination as opposed to a dramatic dollar impact. We're going to continue to invest in the—achieve that apex of the growth opportunity, but I feel like we've been doing that historically as well and we have become much more efficient with that scale; there's a lot in our model that's super attractive, and if anything, as you heard Cynthia describe in the comment, we're more profitability in this last quarter even than maybe we would have liked, if that's not an oxymoron to describe. We do want to put more money to work and driving the growth, but I wouldn't think of it as some sort of step function that should dramatically change your view of our P&L over time.

Cynthia Gaylor

Yes, and I would just add to that, echo Dan's comments about investment for growth. We've been talking about the past few quarters that we wouldn't expect to maintain these type of operating margin levels.

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We're kind of at our long-term target margin a lot sooner than we were expecting to be, mainly because of the top line outperformance. So we'll continue to invest for growth and we would expect that margin to continue to come down as we do that.

The other piece that I would just mention, as Dan said, the investments that we're making are not a step function on the sales and marketing side, but one area that we are very focused on is enablement. Right? If you think about the number of people and field folks that we have hired over the course of 18 months, they've really only seen kind of one type of customer demand and that's kind of urgent demand. So one thing that we will be investing in is making sure we're enabling folks to generate demand in addition to capture the demand that we have.

Sterling Auty

Understood. Thank you.

Operator

Our next question comes from the line of Bhavan Suri with William Blair. Please proceed with your question.

Bhavan Suri

Great. Thanks for taking my questions.

Dan, I guess just one more to follow-up on Sterling's first question about the billings. I guess maybe it would be great if you can give us some color if there was specific verticals where you might have seen some of this delay or slowdown in purchasing behavior? I guess just trying to understand given which industries are first ones to transition, were those the ones where there might have been a delay or the ones that might have benefited from COVID—financial services, whatever. I'd love to sort of get a little more color on the industries.

Then sort of as you look at those industries, it feels like they should have transitioned to a more proactive 'We need DocuSign' as opposed to having the sales people service them and sort of the government or the newer verticals that need sales people. Just sort of help me to understand that dynamic too in the industries that might have been driving some of the impact on billings.

Dan Springer

Yes. In your question, the sort of proposed answers is prescient, right? I think you nailed the phenomenon. Last year, if you thought about the areas where we had just considerable outperformance from what we've expected pre COVID, it was in industries that had actually been traditional strongholds for DocuSign but they just accelerated. We saw that in financial services. We saw that in healthcare life sciences. We saw that in some of our technology, telecom technology areas. That was by far the biggest drivers last year, and that is where in Q3 when we started to see that change in demand where we saw the most notable impact in the other direction. Not surprising given that if you understand how we explained the phenomenon of that sort of acceleration of demand that occurred over a number of quarters that that would be the place where there would be the biggest reaction in the other direction.

Bhavan Suri

Obviously that makes sense. I guess the second part of my question, as you think about these sales investments, there's a number of industries where—real estate, let's pick on that one—where pretty much everyone gets the value and it's generally a DocuSign request that comes through with mortgages or refis or whatever. But I guess when you think about sales investments specific industries where you guys are

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targeting where you think the penetration rates are low or there's low-hanging fruit, or are you investing across all of these industries because there's still demand in, say, real estate or financial services or account opening or whatever?

Dan Springer

We are still underpenetrated in every geography and every vertical. When we look at kind of the construct that we're doing about $2 billion of revenue this year, and the bulk of that is still signature-centric, and we think about the TAM as being $25 billion, it's just lightly penetrated. I don't think there's any sort of sense of in financial services or healthcare life sciences we'd be slowing the push there. I think what we need to do is execute effectively, as I described earlier, in those verticals where we already have good footprints, cross-sell opportunities into additional parts of that vertical, like other departments where we haven't yet penetrated them in certain accounts.

So, I don't think you should think that we're only going to be aggressively investing in verticals that hadn't been our traditional strongholds; we think there's a lot and a lot of room to grow in the traditional strongholds as well.

Bhavan Suri

Got you, helpful. Thanks for the color.

Dan Springer

Yes.

Operator

Our next question comes from Rishi Jaluria with RBC Capital Markets. Please proceed with your question.

Rich Bowen

Hi. This is Rich Bowen on for Rishi.

I guess just kind of breaking down the slowdown on the regional side, it looks like in 3Q international growth held up pretty well. Is there anything from an international versus U.S. perspective you could call out as we kind of move forward and how we should think about it?

Dan Springer

Yes. I'll talk about the historical first and then we can talk about the future.

On the historical side it's boringly a little bit of the same answer I just gave under vertical, right? Last year we really outperformed our expectations more in the United States than even we did, and there was great growth internationally and international sort of took share, but we expected it to take even more share because we had this extra sort of COVID boost that was more dramatic in the U.S. So, similarly, as we look at Q3 and really into the whole second half of this year, that's the area where we see the hit being the hardest is in North America. I think it's, again, for the same reasons that the vertical explanation made sense, it's the same reason on geography. That's sort of what's happened.

Going forward, again, while we are dramatically more successful and 77% of our revenue this quarter came from our home market, our belief is that we are dramatically underpenetrated still in North America, and so we will continue to be putting a focus on investment and growth in our overall go-to-market in

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North America, for sure. It is true, we believe, international, because we were slower to get there—and if you think about in the past we've always talked about it that it's not that it's developing dramatically differently internationally than it is in North America; it's just that we got there later and that's why it's even at higher growth rates than we see here in North America. Our expectation is we will continue to execute well there and our aspiration is to continue to see our international markets take share in our overall revenue as they did ticking up to 23% this quarter.

Rich Bowen

Okay, great. That's super helpful.

Then I guess just kind of it looks like there's going to be some gross margin improvement factored into the guidance there, and just kind of wanted to maybe dive a little bit deeper on the gross margin side, if there's anything underlying from a product mix standpoint or anything to call out there.

Cynthia Gaylor

I think there's nothing material. I think the gross margin guide is in line with where we've been performing the last few quarters and so we would expect that continue.

Rich Bowen

Okay, great. Thanks.

Operator

Our next question comes from the line of Stan Zlotsky with Morgan Stanley. Please proceed with your question.

Stan Zlotsky

Hey guys, good afternoon and thank you so much for taking our question.

Maybe just help me parse out the commentary around demand slowdown versus some of the investments that you're going to be making into the sales organization. You mentioned sales enablement. I guess what I'm trying to understand is how much confidence do you have that the—if there's this demand deceleration or slowdown that it's something that you'll be able to truly fix by really doubling down on things like sales enablement and just the overall sales organization?

Dan Springer

I think they're sort of two different things. If you want to think about the three different factors, Stan, that we talked about in terms of the change from first half to second half, we always expected there to be a reduction of that really heightened COVID buying which drove our growth rates dramatically higher than they had ever been, even as we got bigger. We expected that.

I think the piece that we didn't expect are really the other two factors. The one is while we would expect people to sort of return to sort of normalcy in purchasing, we didn't realize that they had been sort of well stocked with DocuSign, if you will, and we saw some of that purchasing behavior where people were, as you said, in that heightened demand model, probably purchasing more aggressively than we would have seen in the past, and I don't think that was one—it was very difficult to sort of understand and calibrate that, and we've seen that in the behavior now.

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Then the second piece that gets to the investments you were describing is really around our execution there. The reason I have a high degree of confidence in our ability to be successful now in a sort of post COVID or normalized environment, it's because that's the success we had before COVID. Right? I think as I've talked about before, I think the gap as I think about leading the organization there, as it got easier to sort of meet that demand versus generate that demand with that good work we do where we work with our customers and we understand the use cases where we can expand with them, we help them see those opportunities, and then we help fulfill against those opportunities. We stopped doing that as people just used more and more volume for their existing use cases, right? I think that's the gap in our execution and as Cynthia described, a huge portion of our field has joined since the pandemic began because we've been growing at such a rate, and we haven't done the job we need to do at enabling them at the traditional DocuSign sort of land and expand processes.

So, it is sort of a back to the future mindset for us and we have to get back to that discipline that we've always had in the past and that's why I, again, have that high degree of confidence. It's not a new territory for us; it's one we're very familiar with.

Stan Zlotsky

Got it. Then just the weakness that I think that we were all referring to now is mainly seen around eSignature because that was the big beneficiary last year, but what are you seeing around just the broader Agreement Cloud and the momentum with the CLM space—SpringCM and Seal acquisitions that you made? When could those components start to really come online in a more minimal or meaningful size to try to maybe offset some of the challenges we're seeing now on the eSignature side?

Dan Springer

Yes. Two things. One, it's a little bit of a complexity as you think about those. Remember what we talked about last year that when the focus of our customer base was you just have to help us get these eSignature use cases up quickly, we became very much a fulfill/demand oriented company and we took some focus away from some of the broader Agreement Cloud other offerings because our customers were pulling us. I think that was the right course. We are a customer success oriented company and we needed to focus on that.

So I think now we see ourself having come out of sort of the COVID period and coming out of the first half where we see that demand changing, you will see us I would say reaccelerate and re-emphasize our focus on the other Agreement Cloud products. I think that we're putting a lot of focus on not just the product development but also the go-to-market there, and I think you're going to continue to see growth and acceleration. We believe the Agreement Cloud products will take share from Signature, and I think at this point because of the scale of the eSignature business relative—and I don't just mean our piece where it's rarely dramatic, but even in the marketplace, things like CLM are just much smaller developed opportunities today. So the ability to sort of becoming meaningful to our financials is going to take a while. But that's how I think about our focus and why that's so strategically important to us to build out the overall Agreement Cloud.

Cynthia Gaylor

The one thing I would add to that, as Dan said, eSignature does comprise the vast majority of our revenue, but we also have a really big install base, and so one thing that we're really encouraged by is some of the traction we are seeing with CLM and some of the Agreement Cloud products and customers that have had success with eSignature moving to kind of a more strategic dialogue around the broader Agreement Cloud, so we continue to see positive traction in that area even though it won't show up in the numbers for a while.

Stan Zlotsky

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Got it, helpful. Thank you, guys.

Operator

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

Kirk Materne

Thanks very much. Dan, could you just talk about maybe why this quarter. Is there anything specific about 3Q? I know you had a tougher comp, but is there anything seasonal? Are people taking more vacations? I'm just trying to get a sense of why was it this quarter that sort of execution wasn't where we you wanted it to be? Was it just sort of pipelines got pulled down in the first half and you weren't able to reload them? Do you think there was a certain environmental factor that maybe added to some things you might have been able to do a little bit better?

Dan Springer

You know, Kirk, at a personal level, believe me, I've spent some time trying to figure out how the external factors have caused this more than my performance. Unfortunately, as we've looked at it, I think the core answer to the timing of why now comes back to some of the reasons we talked about the earlier—the reasons we talked about earlier. There was definitely some expectation we would have seen more of this in the first half, and it just didn't happen. I just think it was momentum coming out of that sort of pandemic driven demand that lasted a little bit longer than we thought. If you think about some of the guidance Cynthia gave earlier in the year, we actually outperformed it by more than we did think, and why it exactly hit more aggressively in Q3, I don't think we have some sort of precise answer for that. We looked at all the things like one-time use cases, and as we've told you before we saw that there were some, like PPE loans, there were some of those, but that's not a significant driver of that kind of shift in demand, and we really do believe it's this core phenomenon of the demand was aggressive and we got focused on meeting that demand and so when that demand kind of started to come back to normalized we weren't ready, we weren't executing. We hadn't taken all those new folks that had only joined in the time of that meet demand sort of mode and we didn't shift fast enough back to a mode of our normal generating demand.

Even with a very large TAM, you still need to sell, right? You still need to go out, meet customer demand, figure out how our use cases will drive their great ROI, and then execute against that. That really is the underpinning. So I wish I could think of some external things that made Q3 happen. We did have 63% billing growth Q3 last year, so I would love to sort of try to point to that and say tough compare, but the real—the underlying story here is that we did not execute in our field the way you should expect us to execute, and we've got to own that and we've got to fix that, and that's why we're putting the focus as we talked about at the beginning of the call on that execution.

Kirk Materne

I appreciate the candor.

Cynthia, maybe just one for you. As you're going through some of these changes, does anything change in terms of I know you're going to continue to invest for the long term, but do you slow that down perhaps a little bit as some of these sales changes kind of harmonize? I guess does anything change from a sort of investment perspective in the near term, knowing that longer term that you're still in the early innings of the opportunity? Thanks.

Cynthia Gaylor

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Yes, for sure. We're still investing for long-term growth and we feel really good about our long term opportunity just given how big the market is, our position and brand in the market, and we feel like we're in the early innings. We'll still continue to invest for growth.

I would point out, though, our margin has been outperforming because the top line outperformance, but also it's really hard to invest in-quarter when you're seeing that, so we have some catch-up to do that you'll continue to see us do as we move forward.

The other thing I might just mention is that this shift did happen more quickly than we were anticipating, right? We had been expecting kind of a more gradual step-down, and I think given some of the things that Dan was talking about did happen more quickly than we were thinking it would.

Kirk Materne

Thanks.

Operator

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

Alex Zukin

Hey guys. I'll probably stick to the theme of the call and maybe just try to get at the slowdown from a more geographical perspective first. Were there any regions or geographies or even domestically any areas that may have been impacted more than others?

Then the other question is, given this happened faster than you anticipated and it sounds like it will take at least a few quarters to kind of fully right the ship, A, are you contemplating any meaningful adjustments to sales leadership or organizational structure, and just territory alignment? Because it does feel like given the sales cycles for these larger contracts are at least six to nine months, this could be something that impacts you at least until you anniversary Q3 of next year. Just get a better understanding of how long, those elements, I guess.

Dan Springer

I'll hit each of those two buckets in terms of structure as well as the verticals and geographies.

Yes, similar to some of the other commentary, I think the right way to think about it is, again, the things that were toughest for H2 of this year are going to be the areas that were dramatically strong all last year and H1 of this year. And from a geography standpoint, that's basically the U.S. From a verticals standpoint that's going to be healthcare life sciences, that's going to be financial services, banks, insurance companies, etc., and a little bit on the technology telecom side. We just clearly see that in the data.

In terms of our structuring and our team, I think we have the right people at DocuSign to build this business. I don't think we executed well in coming off the pandemic. I don't want to try to at all use this as an excuse but we've never had anything like this pandemic in my professional career. I don't think we knew exactly how to think about it and how to forecast it; we clearly didn't forecast it as well as we could or should have. But it was not, again, something that I would say to our team, 'How the heck didn't you see this coming? How the heck didn't you see this coming in this way, in this timing?' because we just never had anything comparable to it.

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That said, I have a lot of confidence in the team we have because for the last five years we have built an incredible franchise and pre pandemic we were growing at very strong rates and taking that leadership position that we have and furthering it. I am highly confident we will go back to that level of execution and that quality of execution with the team.

We did talk about the structuring question around getting our overall go-to-market aligned more aggressively and asking Scott to take on that role, which I think is important. We see that we want to put urgency, particularly to your point at the enterprise you'll see those longer cycles. You don't see that in our SMB or obviously in our web business, so that is something I think we can see faster impact. But I do think we have the right people and the right mode. We know how to run this business effectively and we have to think about this. We had a blip and we have to get back to the strong DocuSign way of executing.

Alex Zukin

Perfect. Then maybe just a separate topic, retention, attrition and renewal rates. Can we talk about what did you see there? Was there any companies that maybe to the point that you were making they prebought a lot of capacity that they maybe no longer need as they return to work, or any dynamics there that we should kind of take into account from a comparable perspective as we think about the next few quarters?

Dan Springer

Yes. Customer health is very strong and to be clear we didn't have customers leaving DocuSign or anything close to that. We have had continued very strong customer success orientation, and therefore very strong customer success performance which leads to stay and want to buy more. However, what we weren't as successful at as getting as much of the cross-sell and upsell opportunity and so from a churn standpoint we don't sort of publish churn numbers, per se, like that, but we have actually seen our performance against the churn be very attractive for the goals, and our goal is actually over time even at scale to lower the churn. I would focus you looking at the net retention, the 121% number. Our historical range is 114% to 119%. That obviously elevated with the pandemic, but it's still performing at above that historic range, and I think we think we'll be at or near the top of that range for the foreseeable future.

I think the customer health is still very, very strong.

Cynthia Gaylor

Yes, and I would clarify our historic range is 112% to 119%, but Dan is spot on. There were customers kind of digesting what they had purchased and that certainly played a factor given the strength we've been seeing in the first half of the year, but the health of the business and the health of the customers is strong.

Alex Zukin

Perfect. Thank you, guys.

Operator

Our next question comes from the line of Karl Keirstead with UBS. Please proceed with your question.

Karl Keirstead

Thanks. Hey Dan, I think everybody on the call appreciates the contributions that Mike Sheridan made first as CFO and then heading up international. Do you mind just taking a minute? What were the circumstances under which Mike left DocuSign? Thank you.

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Dan Springer

Yes, for sure. I wish Mike were here, we'd do it together.

Mike had a fantastic role as our CFO and I sometimes jokingly have said to folks when we were a private company and said, "Gee Dan, you showed up and you really turned around the profitability of this business," and I would sort of jokingly say, "Yeah, Mike Sheridan did that because he got here a year before I did and by the time I got here I just got to enjoy the results of what the Finance team had done." Mike had been absolutely pivotal to the success of the company in that role.

When we made the decision a year and a half or so ago that it was an opportunity for us to think about the future and think about the new leadership we wanted to have for our Finance organization and obviously we brought Cynthia in at that time, we felt that Mike still had a lot of value because his knowledge of our business and his strength as a business executive, and we had an opportunity where we thought we could do better at sort of driving the strategy of our international growth, and Mike played an important role in helping us think about that.

The international teams didn't report in directly to Mike; Mike led the international strategy and brought fantastic insight to how we could continue to enhance that growth, and I feel good about that contribution he played to some of those numbers we've been talking for growth.

But we always knew this wasn't a full-time sort of operating role but it would be a transition where we would have him here for a period of time. We didn't have an exact timing. We just sort of figured once we felt good that we had the right teams in place—we've really strengthened our leadership in both EMEA as well as APAC and brought in the folks that we think as part of our operating teams will lead us to where we want to go.

That was how we sort of came to the timing, and I think Mike and I have been something we've talked about really over a year now, but in the last several months came to the conclusion that now was the time and we were ready, and as we got ready for the new year, going through the planning cycle, we wanted to have those operating people take full responsibility.

Karl Keirstead

Got it. Okay. Thank you, Dan.

Operator

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

Scott Berg

Hi Dan and Cynthia, thanks for taking my questions here.

Dan, I wanted to pivot a little bit on the sales side from all the questions, but more towards the channel. I know you had mentioned a couple of different times about taking ownership of some of the execution and I get a sense that's more from some of your direct sales, but can you talk about what channel contribution was like in the quarter? There have been similar changes there as to your own direct sales force.

Dan Springer

Yes, the channel side it's always tricky because as you know there's sort of the challenge on exactly attributing what portion of each sale occurs to a partner motion in some situations versus direct, and most

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of ours end up being sort of a hybrid model. We don't have a channel business per se where we're not involved and we just sort of license the product and someone else goes and runs that business; we tend to collaborate broadly with most of the great SaaS companies out there. So from that standpoint it's a little bit more of an indirect model that way.

We talked about some of the partner successes on the call. We are very motivated by the success we see in our Salesforce partnership. They're one of our strongest partners historically, and we see a ton of opportunity in co-investment there. If you happened to go to Dreamforce you would see there was just a few companies that they positioned as key partners and DocuSign was one of them, and we appreciated that support that they give back to us.

Microsoft is an area where I think we're making good progress. We're getting some of the technical pieces right, as I talked about, particularly around Teams, but Satya and I would both I think say we're disappointed that we haven't done better in building our joint partnership. It's something we both spent time on and the fact that we've got Satya leaning in at all is a testament to the opportunity, and now on both sides we have to do a better job executing there.

SAP is another model where we've had great success and continue to see impact on serving our joint customers well together.

Those are probably ones I would sort of maybe hit as some of the highlights, but there are other SaaS companies, the Workdays of the world, the ServiceNows that we see the same kinds of opportunity to build those really strong integrations and those strong go-to-market partnerships.

Scott Berg

Great. That's all I have. Thanks for taking my question.

Dan Springer

Sure.

Operator

Our next question comes from the line of Pat Walravens with JMP Securities. Please proceed with your question.

Pat Walravens

Oh great, thanks.

Dan, can I ask sort of two specific ones? The first one is when you're talking about customers digesting what they had purchased, that just makes me wonder did usage actually go down? Do you guys—you must track that.

Dan Springer

Usage is up. We don't have any reductions in usage on the platform.

Pat Walravens

Okay. Then my sort of specific second question, I'm just reading some of the Glassdoor reviews here which I know you take really seriously. It seems like Q3 was tough on your salesforce. Do you need to adjust quotas or compensation plans given what you guys saw happen in Q3?

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Dan Springer

I don't know. At a macro level I'd say I don't think so. I really believe the core of the sales execution was us not doing the enablement that Cynthia referred to earlier so that the new folks in our sales organization understand the traditional DocuSign way of selling where we're out with our customers and we're looking for those cross-sell opportunities, we're identifying the new use cases, and that has created the opportunities for people to be very successful, and we've had very high retention relative to other SaaS sales organizations.

In this year, I do think that we saw the phenomenon where people got more in the mode of meeting that demand because of the heightened demand, and without finding new sources of value for the customer we were able to see that growth. So I think we probably are going to have some people in our sales organization that are going to say, "Maybe I'm not able or not interested in learning the new mode," but I think the vast majority of them will say, "I joined DocuSign because it's a great company," and to your Glassdoor point we have incredibly high Glassdoor ratings, and I think that they're going to say, "I want to be part of this organization. I want to learn and grow to be a more enabled and stronger sales professional." And we think we provide an opportunity for people here to really become fantastic in doing the work of their lives.

I don't think the answer is that quotas were not structured correctly. I think we've pretty much had very strong consistency in our quotas, really over the last several years. They got a lot easier last year and they went back to normal this year. But if we do our right job on execution, around enablement, I think we'll get back to a very high set of our field sales being successful.

Pat Walravens

All right. Great, thank you.

Operator

Our next question comes from the line of Brad Sills with Bank of America. Please proceed with your question.

Brad Sills

Great. Thanks guys for taking my question. I wanted to ask just one on Notary and Analyzer. I know the broader Agreement Cloud seems the further out, but these solutions seem like they could really help you as you repivot back towards that customer success to drive more expansion. Do you feel like you have more in your arsenal of kind of upsell to the customer in the way of product with those two in particular? That could perhaps get you back on track with that expand motion.

Dan Springer

Yes, I actually think Notary in particular I think is a very significant opportunity to do what you said. I don't want to lose the point that Cynthia made that, again, the amount of Notary it would take to significantly change, to your point, sort of get back on track with the overall level of growth. That would be a tall ask, right, because it's starting—that's a business if you think about remote online notary. It was virtually nonexistent as a space really until about a year or so ago, so I think that this is a huge growth opportunity for us. And I think that the activity that we're seeing in this fourth quarter around Notary is very high. There's a lot of interest and I think particularly if you go back to the last questions, the last couple of questions around the sales organization, I think we have a sales team now that says, "Ooh, this is exciting. I have new things I need to sell," but it's also, "I need to change my motion," and it's not just about getting an eSignature upsell, but it's about getting an eSignature upsell, an eSignature cross-sell

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and a cross-sell opportunity into some of the exciting new products in the Agreement Cloud. I do think you'll see significant success there.

Brad Sills

Great. Thanks for that, and one more if I may. Just it looks like customer count held in real nicely here, so it didn't seem like you had really any impact there. What are you seeing with that cohort of new customers that are coming on? Is there any change in kind of where they're landing and potential for more upsell down the road with some of these newer customers that you signed this quarter?

Dan Springer

It's early to think about cross-sell to the ones that joined this quarter; we're just getting them onboarded. But a couple of thoughts for you on how to think about that aspect of the business. I think new customer adds were strong and I think we feel that the core motion of signing up new customers is going to continue to be a strength for us. I think that if you think about the gap I described where we weren't executing as well as we could on the sort of cross-sell type behavior, if you think about the customers that have come in recently, they have also not been effectively cross-sold, right? I think if you think about the different cohorts we have an opportunity to significantly enhance our performance by going back to those that have joined in the last year, and usually it does take a few quarters for them to sort of digest getting onboarded and the first use cases they bring onboard. But then usually when you start getting three, four quarters out, it's an ideal time for us to go back and say, "Hey, let's look at the opportunities to expand."

So, I'm really excited that for both these customers coming on in Q3 but more importantly the ones that have come on in the last few quarters, we have a significant opportunity there.

Brad Sills

Great to hear. Thanks, Dan.

Operator

Ladies and gentlemen, unfortunately we have run out of time for the question-and-answer session. I will now turn the call back over to Dan Springer for closing remarks.

Dan Springer

Thank you.

Hey, as we saw in Q3, there will be fluctuations from time to time in our business. We haven't had one in our almost four years as a public company that's been in any way notable. But with the leadership position we have, having over a $50 billion TAM that we feel is very addressable, I have never been more confident about DocuSign and optimistic about the big growth opportunity we have ahead. I look forward to the opportunity to chat with you all in the coming months, and thank you very much for your support.

Operator

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

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