DocuSign

Restructuring Suggests Focus on Productivity as Independent Company

Reiterate Rating: NEUTRAL | PO: 60.00 USD | Price: 51.58 USD

06 February 2024

Equity

Key Changes

(US$)	Previous	Current
Price Obj.	68.00	60.00

Brad Sills
Research Analyst
BofAS
brad.sills@bofa.com

Adam Bergere
Research Analyst
BofAS
adam.bergere@bofa.com

6% headcount reduction targets sales and marketing

DocuSign announced this morning a restructuring plan to achieve further efficiencies in its business. In conjunction with this announcement, the company also expects to meet or exceed its Q4 and FY24 guidance (for +6% revenue /+3% billings and +9%/+7%, respectively). The restructuring plan will reduce the current workforce by roughly 6%, or approximately 420 employees (of 6,945 as of F3Q24), with the majority of positions in the sales & marketing organization. This will result in a $28 million to $32 million in one-time charge, the majority of which will be incurred in F1Q25. The restructuring plan is to be substantially completed by F2Q25. We plan to review our estimates following DocuSign's Q4 earnings announcement in early March.

Plans consistent with move to self-service channel

The restructuring plan mostly targets the sales & marketing function. This is consistent with the company's ongoing imperative to streamline sales operations and shift to a self service go to market (as opposed to direct sales). This represents the third reduction since September 2022, in an effort to right size the organization following the billings deceleration (from +37% y/y in C22 to +7% y/y in C24E), post pandemic fueled demand. The announcement comes on the heels of Reuters and Bloomberg reports suggesting that deal talks between DocuSign and Bain and Hellman & Friedman have stalled.

2.4% uplift to FY25 margin; approaching rule of mid 30s

We divide DocuSign's current headcount of 6,945 into our estimated FY24 operating expense estimate of $1.6 billion to arrive at an operating expense per employee number $225,400 (or $308,000 GAAP). We estimate the layoffs translate to annual operating expense reduction of $94.7 million (or $129.5 million GAAP) for employee-related costs. Assuming that the reductions are completed mostly in Q1FY25, we arrive at $70.9 million impact to FY25 operating income, or 2.4% potential operating margin uplift (from our current estimate of 22.9%). This translates to roughly 27c of positive EPS impact for FY25E.

Ongoing productivity gains are key to achieving rule of 40

The resulting mid 20s margin level is achievable as we approach 8% billings growth (in our model, for FY26), which results in a rule of low/mid 30s (sum of growth and margin). This implies line of sight to the rule of 40 benchmark. The competitive environment in DocuSign's eSignature end market is intensifying. Adobe Sign has been a source of upside in Adobe's Document Cloud for several quarters. We believe that incremental margin expansion (from ongoing productivity gains) is likely to contribute to progress toward rule of 40, as opposed to accelerating growth. We reiterate our Neutral rating and lower our PO to $60 (from $68), representing 13x CY25E FCF (was 15x), or 1.5x adjusted for 9% growth, still a premium to the software GARP group (1.2x 23% growth) to reflect potential operational disruption as they move increasingly towards a self-serve go-to-market motion.

Stock Data

Price	51.58 USD
Price Objective	60.00 USD
Date Established	6-Feb-2024
Investment Opinion	C-2-9
52-Week Range	38.11 USD - 69.45 USD
Mrkt Val (mn) / Shares Out (mn)	10,519 USD / 203.9
Free Float	98.8%
Average Daily Value (mn)	199.21 USD
BofA Ticker / Exchange	DOCU / NAS
Bloomberg / Reuters	DOCU US / DOCU.OQ
ROE (2024E)	47.7%
Net Dbt to Eqty (Jan-2023A)	75.8%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

GARP = growth at reasonable price

Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

Price objective basis & risk

DocuSign (DOCU)
Our PO of $60 is based on an EV/FCF multiple of 13x our CY25 FCF estimate. This multiple represents a discount to mid cap peers at an average of 30x. We view a discount as warranted for DocuSign given a slower revenue and FCF growth profile.

Downside risks to our PO are 1) increased competition from Adobe, 2) slower-than-expected adoption of eSignature in key end markets, 3) declines in sales productivity ratio as measured by S&M spend divided by incremental subscription revenue.

Analyst Certification

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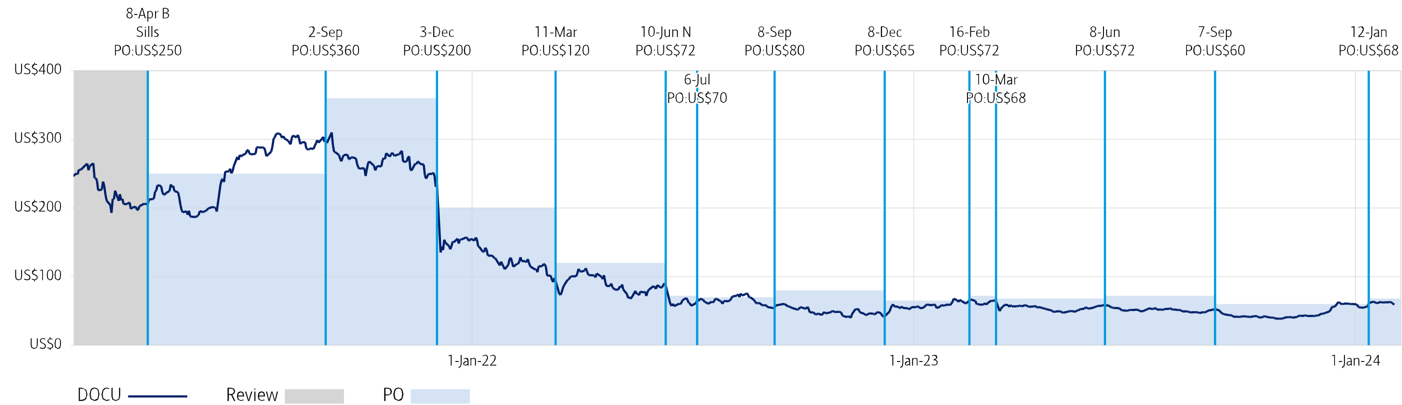
DocuSign (DOCU) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

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Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
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Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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