

Buy DocuSign

Karl Thiel | July 26, 2018 | [Buy Recommendation](#)

CURRENT PRICE: [DOCU](#) \$ 168.40 \$ 4.49 (2.7%) CväG! Ýr B~ÅÖG "ÅññAðAñ vIN ï

Invest Foolishly! We recommend owning 15 or more stocks for at least three to five years. Begin with three [Starter Stocks](#). Once you're under way, then consider our monthly new ideas to help build out your Rule Breakers portfolio.

I don't know about you, but I don't get much handwriting practice these days. I do so much of my work on keyboards that a pen feels awkward in my grasp. The exception to that is my signature — I sign things all the time. Checks; safety waivers and permission slips for my daughters; any number of agreements and forms. And that's just in my private life.

Printing, signing, scanning, and then emailing or faxing — it's a major hassle, and a real roadblock to getting things done quickly. But it doesn't have to be that way. My recommendation this month, **DocuSign** ([NASDAQ: DOCU](#)), is the world's leading e-signature company. But more than that, it's a leader in digital transaction management — a field dedicated to making paper processes 100% digital. And it has a long, long way to go in fulfilling a massive market opportunity.

There's a good chance that many of you are already familiar with DocuSign — if you've bought a house in the past five years or so, or entered into other contracts, you've probably seen the company's virtual yellow "sticky" tag and the "click here to sign" box. And that's part of my point. DocuSign isn't the world's only e-signature company, but it is increasingly synonymous with what it does. Its name gets used as a verb these days. And that's helping it to leverage a robust business in managing documents, cutting costs, and making business run better.

Hug a Tree, Make a Profit

People have been promising the paperless office for decades, but it's still a long way from reality. Think about the flow of paper in even high-tech offices. It's not just signed contracts and legal documents, but everything from purchase orders to expense reports

DOCUSIGN IN 1 MINUTE

WHAT IT DOES

DocuSign offers e-signature and other cloud-based transaction products and services to companies ranging from sole proprietorships to large enterprises.

WHY BUY

- DocuSign is the world's leading e-signature company, serving over 400,000 customers in more than 180 countries.
- The company is a leader in digital transaction management — turning paper processes digital — and has a large enterprise opportunity and a strong value proposition.
- Corporate pursuit of efficiency, cost savings, and better security will support the move to digital transaction management, and DocuSign is investing in remaining the leader.

BUYERS GUIDE

- **Industry:** Software
- **Size:** Mid Cap
- **Region:** U.S.
- **Recent Price:** \$53.79

to memos, invoices, requests for proposals, resumes, purchase orders, receipts, and so on. Aragon Research estimates that paper processes represent 1% to 2% of global enterprise revenue.

Put another way, this market research firm believes digital transaction management, or DTM, represents a \$30 billion global market by 2020 (other estimates run even higher). DocuSign's revenue — \$561 million over the past 12 months — is hardly scratching the surface.

Consider a simple use case where DocuSign secures the contract signatures necessary to purchase a car.

That information can securely flow to a collection of insurers, which can offer a new policy on the spot, with nothing further to fill out. Or in an enterprise, the HR department might integrate all the internal documents used to evaluate, interview, place, and compensate a candidate with the external documents used to make an offer, and finally create an employment contract. (And don't even get me started on the wasteful paper processes used in the health-care industry.)

The appeal isn't limited just to improving cost and efficiency. Security is another big factor. DocuSigned documents are court-admissible and tamper-evident, and they contain an audit trail including IP address, location, chain of custody, timestamps, and more.

This points to an evolution toward more complex use cases that paper and "wet" signatures could never accommodate. DocuSign is using blockchain — the same technology behind cryptocurrencies like Bitcoin — to guarantee authenticity and enforcement of contracts through a distributed ledger. It's establishing standards that will allow easier document flow between independent parties in various industry verticals. And it's aggressively working to ease international transactions. The goal, as one company vice president put it, is to be a little like a Visa card: "When you go traveling, you just carry your Visa credit card. You don't worry about the banking system wherever you are in the world, you don't worry about the regulations, you just trust Visa to be able to transact for you." That's the kind of ease the company is providing.

A Foot in the Door

DocuSign is used by over 400,000 customers worldwide. Admittedly, the vast majority of these are using DocuSign as a simple e-signature service — but that itself reflects one of the company's competitive advantages. For one thing, the business is completely scalable to any size of organization, whether it's a sole proprietor looking to spend \$120 a year to be able to send and receive a modest volume of e-signed documents, or a large enterprise looking to automate document flow across multiple parts of its organization.

More importantly, this huge client base represents a massive foot in the door. As a fixture for electronic signatures, the company has a great opportunity to cross-sell comprehensive DTM solutions. And the

- **Allocation:** Many Fools start new positions with a small amount — 2% of their portfolio's overall value, for instance. You can always buy more later!

KEY DATA

- **Headquarters:** San Francisco, Calif.
 - **Website:** [DocuSign investor relations](#)
 - **Sign of a Breaker:** Top Dog
 - **Market Cap:** \$8.4 billion
 - **Cash/Debt:** \$269 million / \$0
 - **Revenue**
(2016/'17/TTM): \$382 million / \$519 million / \$561 million
 - **Earnings (2016/'17/TTM):**
(\$115 million) / (\$52 million) / (\$304 million)

Save DOCU for Later

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GET MORE INFO

Talk About DOG!™

Talk about how DOCU fits
into *RR* here

- See why DocuSign scores a Risk Rating of 12 out of 25.
 - See how you can tell if this investment is going right — or wrong.

selling points are compelling. Proponents argue that customers can realize a positive return on investment in days or weeks, rather than months or years. Aragon Research CEO Jim Lundy estimates that savings can run from \$5 to \$100 per document, meaning return on investment from DTM "will reach tens of millions of dollars annually for the largest organizations, depending on the company's current processes and use cases addressed."

That's already translated into revenue growth of 36% last year for DocuSign (on top of 52% the prior year). While not yet profitable, the company has also been free-cash-flow-positive for the past year, generating \$52.4 million over the past 12 months.

That certainly makes the company's \$8.4 billion market cap look pretty darn expensive. But DocuSign has a lot of white space into which it can move, and a lot of opportunity to boost profitability. Right now, it is sinking much of its revenue into sales and marketing, as well as R&D — which is exactly what we want to see at this stage. Between landing new clients — particularly outside the U.S., as 83% of revenue last year was domestic — upselling existing clients, and adding new services, we expect DocuSign to grow at a strong double-digit pace for the foreseeable future.

Risks And When We'd Sell

DocuSign only recently went public — its IPO was at the end of April — so we don't have a long track record of performance to look to. But the company's stock has appreciated rapidly in just a few months. Although that means we've missed out on some early gains, we're certainly not disappointed that the market has recognized this company's potential. At the same time, expectations are running high. If the company falls short, particularly in its first couple of quarters as a public company, sentiment could turn quickly.

Longer-term, we're looking for DocuSign to increasingly move beyond e-signatures and further into DTM. But other companies are also looking at ways technology can make transactions easier, cheaper, and more secure. That includes not only smaller private companies like HelloSign, but also larger players like **Adobe Systems** ([NASDAQ: ADBE](#)), which has some broad document solutions in its Document Cloud. Since we're counting on DocuSign to keep growing for a long while, any indication that it's losing ground to competitors may cause us to tear up our contract.

The Foolish Bottom Line

The "technology stack" at modern enterprises is getting pretty thick — there are a lot of software vendors looking to sell a new product or service. But few can offer the quick return on investment that DocuSign offers. Paper may not be going away anytime soon, but DocuSign's technology offers a way to save time and money and get rid of a whole lot of hassle. And with a growing focus on security, the value of digital transaction management is likely to increase over time. Even if you're not yet ready to sign on the dotted line, take a close look at what this company has to offer.

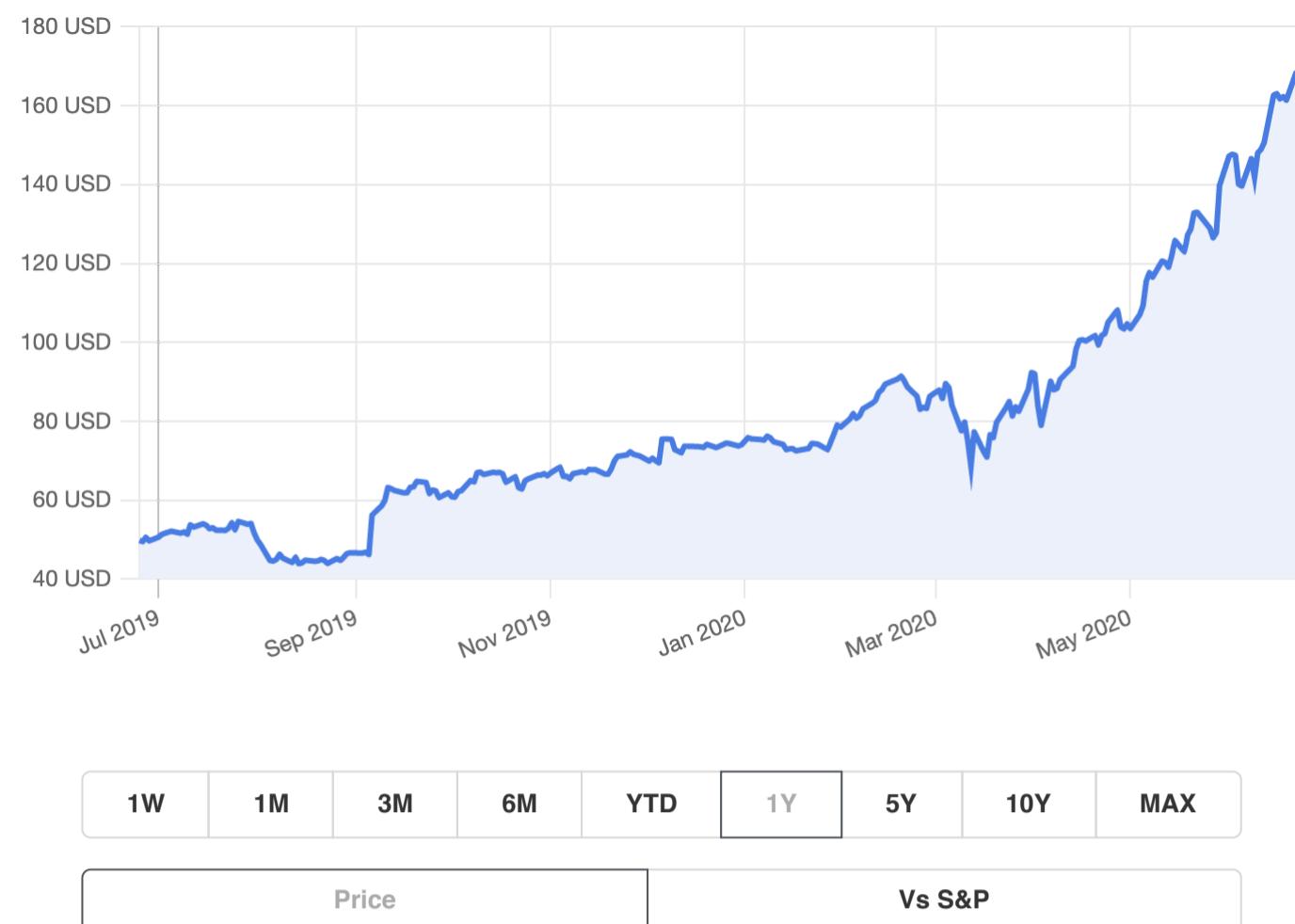
Choose What You Want to Do With This Stock

By adding DOCU to your Favorites, you will be notified whenever our team recommends buying *or selling* DOCU.

The Motley Fool owns shares of Adobe Systems and Visa. The Motley Fool has a [disclosure policy](#).

See the Trends

The Motley Fool thinks buying and holding for at least 3-5 years sets you up for success.



From the Company Page

Last updated June 25, 4:30 p.m.

Current Price	\$168.40	Today's Change	\$4.49 (2.7%)
Exchange / Symbol	NASDAQ: DOCU	Market Cap	\$30B
Beta	0.819007	Earnings Per Share (Trailing 12 Months)	-\$1.17



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Market data provided by FactSet and Web Financial Group.