Buy DocuSign

David Gardner | April 9, 2020 | Buy Recommendation

CURRENT PRICE: DOCU $ 168.40 ↑ $ 4.49 (2.7%) [illegible]

We're all getting used to a new way of living. Essential workers continue to shoulder risk in order to protect, serve, and assist our fellow citizens. Millions have joined the ranks of the unemployed. And many of the rest of us are working from home. Just how hard this sudden shift will hit the economy remains to be seen. But it is safe to say that the impact would have been much worse in the past. Go back 20 years — or even 10 or 5 — and many business functions would simply have ground to a halt or put even further burden on at-risk workers. The fact that the economy is struggling forward as well as it is comes down to our ability to do many things virtually.

This month, I'm rerecommending **DocuSign** (NASDAQ: DOCU), a company that potentially touches any business that makes agreements or handles documents...which is to say most businesses. It is virtually synonymous with its core product, the eponymous e-signature that replaces "wet" signatures and everything that goes with them, including face-to-face meetings.

If there's any silver lining to be found in this horrible pandemic, it may be that it accelerates many businesses' shift to more flexible and efficient processes. DocuSign is already thriving, and we don't think our present economic troubles will do anything to slow its trajectory — if anything, they will accelerate this *Rule Breaker*'s rise.

Unfazed by COVID-19

DocuSign is in a strong position as we move further into the unknowns of 2020. After growing revenue 39% in fiscal 2020 (ended Jan. 31), management is projecting 31% top-line growth in fiscal 2021. That was a forecast made by management on its March 12 investor call, in full knowledge of the COVID-19 pandemic. While everything is subject to change,

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 dominant in its core e-signature business and has barely tapped a $25 billion revenue opportunity.
- It has been named a leader in contract lifecycle management (CLM) by Gartner, an emerging business that doubles the company's addressable market.
- Management believes that the economic turmoil resulting from the coronavirus pandemic will have little impact on growth and is looking toward long-term opportunities.

BUYER'S GUIDE

- **Industry:** Software
- **Size:** Large cap
- **Region:** Primarily U.S.
- **April 8 Price:** $88.37
- **Allocation:** Many Fools choose to fill out their positions incrementally, starting with a small amount — 2% of their portfolio's overall value, for

DocuSign has carefully considered the impact of the coronavirus on its business and believes it will be muted.

Explained CFO Michael Sheridan on the earnings call:

> *We do look at our pipeline. We do look at our ability to generate opportunities. We look at our close rates. We look at all of that information. And, to date, we have not yet seen any material changes in our trends. Of course, we have more visibility in the near-term than we have as the year unfolds and I think we're all going to be learning that together. But we're comfortable that with all the information that we've had, we've incorporated it into the guidance that I just summarized.*

That suggests that even with an economic recession looking inevitable (but hopefully short-lived), DocuSign can continue moving full speed ahead toward its goals. And those goals are ambitious: The company is unchanged in its belief that its core e-signature business represents a $25 billion revenue opportunity. Include Agreement Cloud, its broader suite of contract life cycle management tools, and its addressable market goes to $50 billion. The company is on track to cross $1 billion in revenue for the first time this year, so it is only at the start of its journey.

instance — and adding a little at a time.

KEY DATA

- **Headquarters:** San Francisco, Calif.
- **Website:** DocuSign investor relations
- **Market Cap:** $16.4 billion
- **Cash/Debt:** $656.1 million / $648.5 million
- **Revenue (2017/'18/'19):** $518.5 million / $701.0 million / $974.0 million
- **Earnings (2017/'18/'19):** ($52.3 million) / ($426.5 million) / ($208.4 million)

Add DOCU to Your Favorites

A total addressable market (TAM) is not the same as a revenue prediction; it is an estimate of the total market demand for a product or service. But DocuSign is poised to keep its top position. Here's why we think it can capture the lion's share of the digital transaction management business.

How DocuSign Will Stay Ahead

First, it is larger, has far more resources, and has much deeper technology than small competitors like HelloSign. Its chief competitor in e-signature is **Adobe** (NASDAQ: ADBE), which has only about 20% market share. But although Adobe is a $154 billion company with almost $12 billion in revenue last year, it can't put the focus on this market that DocuSign does. "This is like 1% of their revenue, if that," said CEO Dan Springer recently. "We spend, I think, more in R&D in a year than they get in total revenue from the business."

Meanwhile, the Agreement Cloud is a wide-open space, in large part because it is far more valuable to customers when integrated with e-signature — something only DocuSign has done to any meaningful extent.

GET MORE INFO

Talk About DOCU

Talk about how DOCU fits into *RB* here

See why DocuSign scores a 14 on our unique 25-point Risk Rating.

See how you can tell if this investment is going right — or wrong.

DocuSign was named a leader in contract life cycle management (CLM) by **Gartner** (NYSE: IT) at the end of February — the only public company to make the top quadrant. (The two private companies also in the leader's quadrant, Agiloft and Icertis, are far smaller and might represent acquisition opportunities as much as threats.) In fact, with the exception of the Ariba subsidiary of **SAP** (NYSE: SAP) and **Coupa**

Software's (NASDAQ: COUP) Exari division, DocuSign is the only public company represented in Gartner's CLM report anywhere. It is pioneering the category, which focuses on the ability to generate contracts and other documents; allow for collaboration and negotiation among multiple parties; store, organize, and analyze; and integrate with other systems, all while providing high security, tracking, and accountability of who did what when.

The reason DocuSign is leading in this emerging area is that it makes more sense when documents are originated digitally. "CLM is not that interesting if you've got a bunch of paper documents because that means you have to scan everything and load them," Springer said at a recent conference. "Once you start doing your agreements electronically, it becomes a natural follow-on just managing your business that way."

Another part of the company's ability to lead comes from the fact that, unlike most SaaS cloud companies, it is cash flow positive and has been since its IPO. That has put it in a position to invest in growth and expansion — including plowing 19% of revenue into R&D last year and making some key acquisitions.

One of those is Seal Software, a company DocuSign acquired in February after having partnered with it for the past couple years. Seal uses AI to analyze contracts, searching large volumes of text by legal concept (rather than keyword), extracting and comparing critical clauses, and using its own language library to make sure agreements are standardized — cutting down on professional legal review.

Risks and When We'd Sell

We think that e-signature combined with CLM is greater than the sum of its parts, giving DocuSign a unique competitive advantage. But CLM is still a small part of DocuSign's business and is as yet unproven. In 2018, when DocuSign acquired SpringCM — the foundation of DocuSign CLM — it only had about a $17 million revenue run rate. While the company is reporting a lot of interest and sales that are exceeding internal expectations, CLM is still a "relatively small portion" of the overall business. If the company is competing on e-signature alone, it is much more vulnerable to deep-pocketed rivals like Adobe, which could get more aggressive about this business.

Meanwhile, while the company is cash flow positive and should move into profitability this year — fast progress for a cloud software company — the stock is priced for strong, ongoing growth. Any failure to deliver could hit the stock hard. That could mean short-term volatility in a time of economic uncertainty. Even more concerning would be any sign that our longer-term expectations are aimed too high.

The Foolish Bottom Line

These are challenging times, and companies need to adapt to a world in which business is anything but usual. More than 585,000 customers have already found their way to DocuSign, but basic e-signature is just a gateway to a more efficient world of digital document management. The promise of DocuSign's emerging CLM business is starting to show up in the amount existing customers are spending — net dollar retention rate was 117% last year. But with huge cost savings and great returns on investment, DocuSign will be signing new customers long after we're all back in the office.

Karl Thiel contributed to this report.

DAVID CALLED IT: Do you agree that DocuSign will beat the market over the next 3-5 years? (After voting, buy shares to invest right away or add DOCU to your Favorites for alerts later.)

Yes

No

Not Sure

The Motley Fool owns shares of Coupa Software and DocuSign. 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.

1W | 1M | 3M | 6M | YTD | 1Y | 5Y | 10Y | MAX

Price | Vs S&P

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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