

# DocuSign Stock Shows No Sign of Slowing Down

Covid-19 has sped up the adoption of DocuSign's products

By [Emmanuel Henson](#) Jun 24, 2020, 11:59 am EDT

Ever since **DocuSign** (Nasdaq:[DOCU](#)) reported its dramatic outperformance in the first quarter of 2020 on June 4, its stock has climbed a solid wall of worry to end up over 13%. What will dictate its path forward is its ability to sustain its growth trajectory through successful cross-selling and differentiation.

There appears to be no sign of slowing growth in their business. Based on the comments in the last earnings call, CEO Dan Springer ["sees massive growth"](#) ahead.



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DocuSign experienced a [59% increase in first-quarter billings](#) year-over-year. They also experienced a 39% growth in total revenue YOY.

# Supporting Businesses During Crises

Springer said that the greatest growth in adoption came from those in the healthcare, life science and government sectors. The electronic signature offer was a must-have for consumers, and for this service, they added 600,000 clients in the past quarter.

Covid-19 has been a meaningful driver of engagement in their services. The question will be how long will this trend continue after the pandemic passes.

CFO Mike Sheridan acknowledged that not all of these users will be contributors to growth over the long-term. Nevertheless, in future quarters, the roughly 600,000 e-signature-only clients create an opportunity to cross-sell other services such as Contract Lifecycle Management and Cloud storage.

## Competition Not Far Behind

After the run-up in DocuSign stock, one may wonder about the ability of new entrants to chip away the market share of this lucrative business.

When asked whether DocuSign has a moat around its business, during William Blair's 40th Annual Growth Stock Conference, Springer was clear. He felt their biggest

competition to be the traditional paper business, there being a lot of “green field” for other competitors without having to bump up against each other.

A part of DocuSign’s approach to provide a differentiated offer is to make massive investments in infrastructure and security to improve uptime — which is critical to the operations of their clients.

Having major technology firm partners also has benefited DocuSign. With reseller agreements with or clients like **SAP** (NYSE:[SAP](#)), **Salesforce** (NYSE:[CRM](#)), **Microsoft** (NASDAQ:[MSFT](#)), and **Google** (NASDAQ:[GOOG](#), NASDAQ:[GOOGL](#)), they have friends with deep pockets who have a vested interest in seeing them succeed.

## **DocuSign’s Impact on the Real Estate Market**

I had the opportunity to speak with Mena Badros, a realtor for **eXp Realty** and instructor at the Polley Associates School of Real Estate, which primarily services Eastern Pennsylvania. He expects to teach over 2,000 students this year, and even has a course dedicated to “A digital world of real estate.” He states, “In the real estate industry, we have been using DocuSign and other similar products for some years.”

Badros lamented about some of the same hurdles Springer

mentioned regarding legal hurdles for broader adoption.

"I think the real estate industry and others who still have regulations against it, when it comes to certain scenarios, will begin opening up to it, (hopefully)."

Adoption by end consumer could drive DocuSign's success in the future periods. He states "As people began using more virtual tools during Covid, people are now having less push back, and more acceptance of any virtual business tools or technologies."

There are dozens of players in the document management software industry. I asked others about their opinion on the brand in general.

Badros, stated, "Personally, I have used several electronic signing platforms, so I'm comfortable with it; DocuSign is a well-known brand in that space but isn't the only trusted e-signature provider. "

Greg Lew, a realtor at Advance Realty in Baltimore, shares a slightly nuanced viewpoint. He echoes the sentiment that, "DocuSign was absolutely necessary during the shutdown, and it has proven to become useful post shut down as well, especially with the phased social distancing."

Where he differs is his interpretation of the significance of brands is his assessment, "I use DocuSign, and it's a well-

known name that people trust. Trust is one of the most important factors when working with clients."

## **Priced For Perfection**

Lastly, we have to evaluate whether DocuSign is appropriately priced in comparison to the growth opportunity available.

About a year ago Markets and Markets, an independent research firm, projected the market for electronic documents to reach close to \$5.5 billion in sales by 2023, and [36.7% compounded annual growth](#) rate, before the Covid-19 crisis.

Springer's recent analysis sees the industry having potential of \$25 billion dollar market value. \$1 billion in sales were reached this quarter, creating a consensus that the market is growing.

DocuSign stock is currently valued at a \$30 billion market capitalization. I don't believe its stock to be overpriced nor underpriced in any significant way. Whether it is \$4 billion or \$25 billion in sales, a \$30 billion market cap doesn't provide much room for errors in execution.

Unfortunately, this is a great company with a stock that has run away with fundamentals and priced itself for perfection.

If there was a retreat to a reasonable level, only then would I suggest buying into DocuSign stock.

*As of this writing, Emmanuel Henson did not hold a position in any of the aforementioned securities.*