



Analyst Day

# HubSpot's 2022 Analyst Day

**Chuck MacGlashing**  
Investor Relations



# Safe Harbor Statement

This presentation includes certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding management’s expectations for future financial and operational performance and operating expenditures, expected growth, and business outlook, including our long-term financial framework; our focus on profitable growth; cash flow and margin improvement expectations; our product plans, strategies, and trends; our ability to expand our total addressable market; our position to execute on our growth strategy and related growth drivers; our opportunities in international markets; and our ability to expand our leadership position and market opportunity for our CRM platform. These forward-looking statements include, but are not limited to, plans, objectives, expectations and intentions and other statements contained in this press release that are not historical facts and statements identified by words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates” or words of similar meaning. These forward-looking statements reflect our current views about our plans, intentions, expectations, strategies and prospects, which are based on the information currently available to us and on assumptions we have made. Although we believe that our plans, intentions, expectations, strategies and prospects as reflected in or suggested by those forward-looking statements are reasonable, we can give no assurance that the plans, intentions, expectations or strategies will be attained or achieved. Furthermore, actual results may differ materially from those described in the forward-looking statements and will be affected by a variety of risks and factors that are beyond our control including, without limitation, risks associated with our history of losses; our ability to retain existing customers and add new customers; the continued growth of the market for a CRM platform; our ability to differentiate our platform from competing products and technologies; our ability to manage our growth effectively to maintain our high level of service; our ability to maintain and expand relationships with our solutions partners; our ability to successfully recruit and retain highly-qualified personnel; the price volatility of our common stock; the impact of geopolitical conflicts, inflation, macroeconomic instability, and the COVID-19 pandemic on our business, the broader economy, our workforce and operations, and our ability to forecast our future financial performance; and other risks set forth under the caption “Risk Factors” in our SEC filings. We assume no obligation to update any forward-looking statements contained in this document as a result of new information, future events or otherwise.



# Today's Agenda

Wednesday, Sep 7, 2022

9:45 a.m.

## Safe Harbor

Chuck MacGlashing | Investor Relations

9:50 a.m.

## Fireside Chat | Moderator: Chuck MacGlashing

Brian Halligan | Co-Founder & Executive Chairman

Short Break

10:30 a.m.

## INBOUND Spotlight

Yamini Rangan | Chief Executive Officer

Dharmesh Shah | Co-Founder & Chief Technology Officer

Stephanie Cuthbertson | Chief Product Officer

Lunch Break

12:25 p.m.

## Strategy for Durable, Profitable Growth

Yamini Rangan

12:50 p.m.

## Short-Term Resilient, Long-Term Durable

Kate Bueker | Chief Financial Officer

Short Break

1:20 p.m.

## Executive Q&A | Moderator: Chuck MacGlashing

Yamini Rangan

Brian Halligan

Dharmesh Shah

Kate Bueker



**Thank You**



Analyst Day

# Strategy for Durable, Profitable Growth

**Yamini Rangan**  
Chief Executive Officer



# Our discussion today



1

HubSpot  
Momentum



2

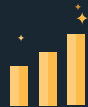
Expanding Market  
Opportunity



3

Strategy for  
Durable Growth

# HubSpot: Clear momentum at scale



**\$1.69B**

revenue

**36%**

YoY growth



**\$200M**

free cash flow

**12%**

margin



**150K+**

customers

**25%**

YoY growth



**7K+**

employees

**41%**

YoY growth

Revenue and free cash flow represent the current midpoint of HubSpot's FY'22 guidance on an as-reported basis. YoY Revenue growth rate based on mid-point of 2022 guidance, adjusted for the impact of foreign currency. Customer and employee count as of the end of Q2'22. Free cash flow is a non-GAAP metric.

# Rule of 40+ at scale



"Rule of 40" defined as 2022e revenue growth based on the mid-point of HubSpot's guidance plus 2022e FCF margin, both provided with Q2 2022 guidance..



# What's behind our results



Solving for the customer



Pace of innovation



Breadth of distribution



Our growth has  
exceeded market  
growth by  
**3X**

**35%**  
Hubs Revenue  
Growth<sup>1</sup>

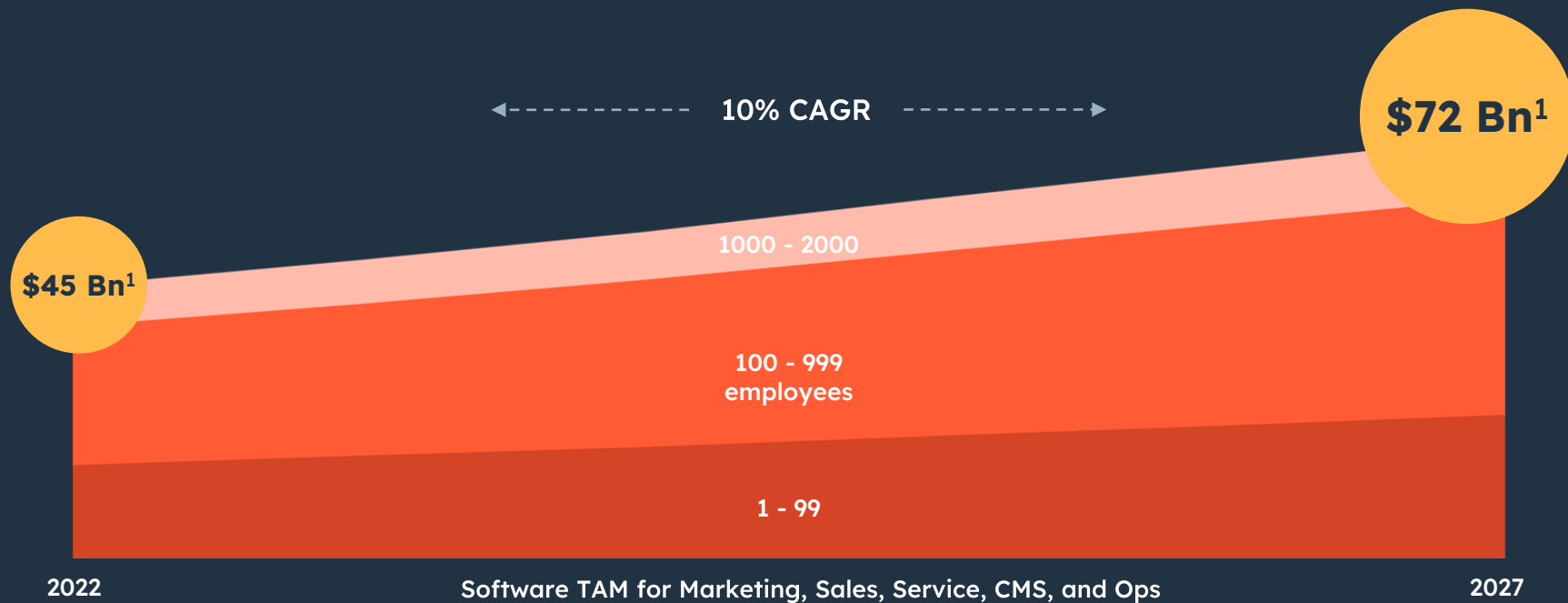


**11%**  
Market Growth



1. Based on HubSpot's expected revenue CAGR of 35% from 2018 through the midpoint of HubSpot's 2022 revenue guidance provided with Q2 2022 earnings. "Market" defined as addressable IDC technology segments for Marketing Hub, Sales Hub, and Service Hub. 11% Market growth is a CAGR from 2018 - 2022 and based on historical IDC Data and IDC estimates for Market Growth in 2022.

# Our TAM is large and expanding



1. Includes Total Addressable Market for software in HubSpot's core product groups including Marketing Hub, Sales Hub, Service Hub, Operations Hub and CMS Hub. Does not include Commerce and Payments TAM. Source: IDC and HubSpot estimates.



**Disconnected point solutions**

## The SMB market is underserved



**Cobbled enterprise solutions**

# The SMB market is underserved



Disconnected point solutions



Cobbled enterprise Solutions

# We help customers scale across all stages of their digital journey



# Our customers are challenged by a crisis of disconnection



Disconnected systems



Disconnected point solutions  
**are not the solution**

Disconnected people

People need more than software to thrive  
**and crave community**

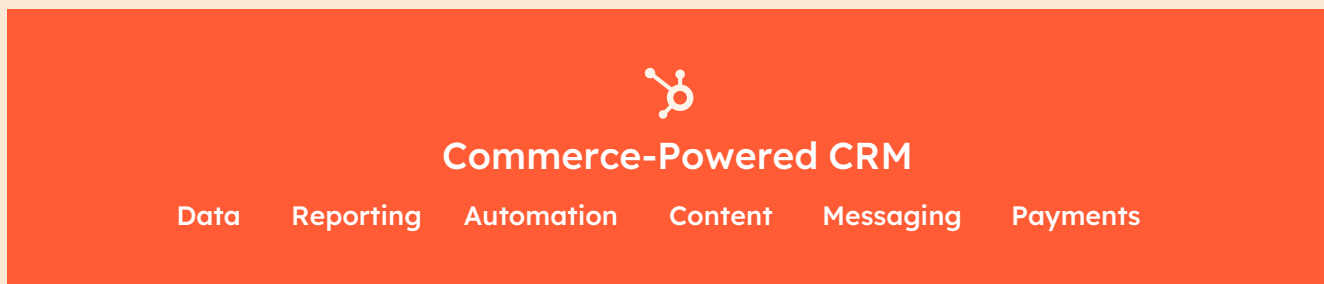
Disconnected customers

Old GTM strategies will  
**NOT work in this new world**

## Connected Applications



## Connected Platform



## Connected Community





**C●nnected**  
Applications

**C●nnected**  
Platform

**C●nnected**  
Community

**#1**

Market share  
leader for scaling  
companies

# Marketing Hub Innovation

## Scale

**48B** emails delivered

**50B** website sessions

**\$8B** ad spend managed

## Focus

Omni-channel

Behavioral analytics

Privacy first

Time period for all metrics is last twelve months. Ad Spend with third party vendors from HubSpot connected accounts.

# Sales Hub Innovation

## Momentum

**\$450M** in IB ARR

**100%** growth > **100** seat customers

**12M** meetings scheduled by customers

## Focus

**Enterprise grade**

**Sales rep effectiveness**

Growth in larger than 100 seat customers is year over year as of 6/30/22. Meetings scheduled metric is over last twelve months. Install Base ARR as of Q2 2022. See definition for ARR in appendix.

# Service Hub Innovation

## Momentum

Crossed **\$100M** in ARR

Over **400M** conversations

Active users up **80% YoY**

## Focus

Modern,  
easy-to-use help desk  
Omni-channel support  
Service rep productivity

Conversations defined as the number of customer conversations over messaging or emails sent out of the HubSpot Conversations inbox over the last 12 months as of 6/30/22. Active users metric is as of 6/30/22. Install Base ARR as of August 2022. See definition for ARR in appendix.

**C●nnected**  
Applications

**C●nnected**  
Platform

**C●nnected**  
Community



**Deliver a world-class  
flexible and extensible  
CRM platform**

# Connected

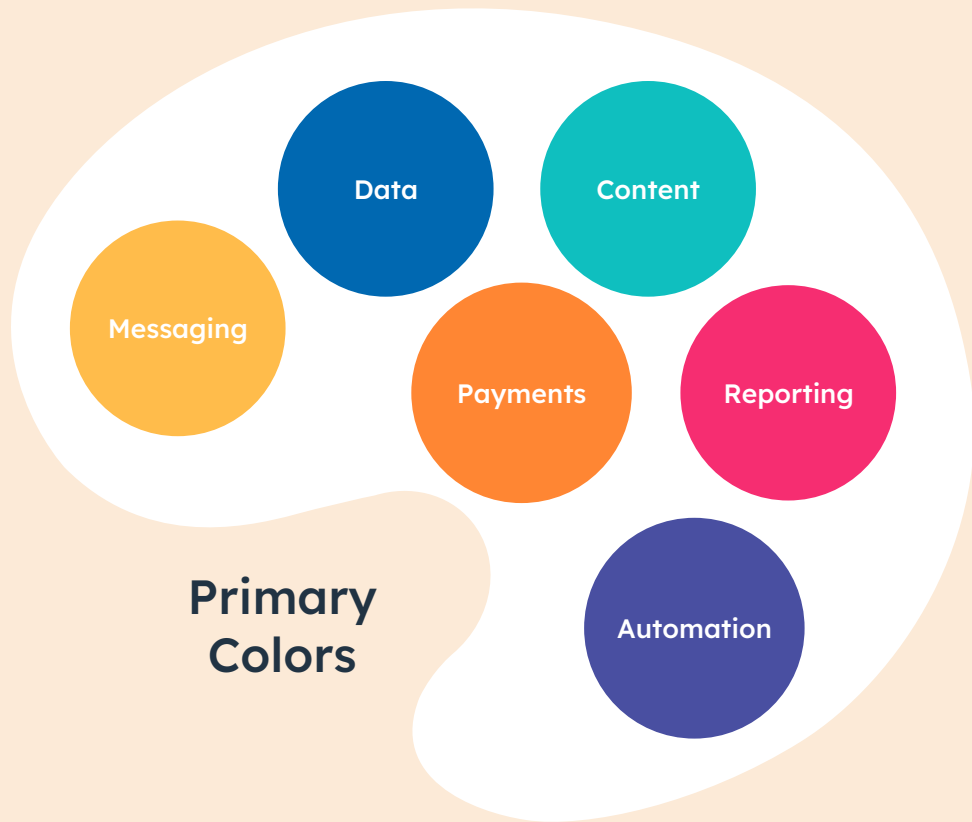
Platform

## For Customers:

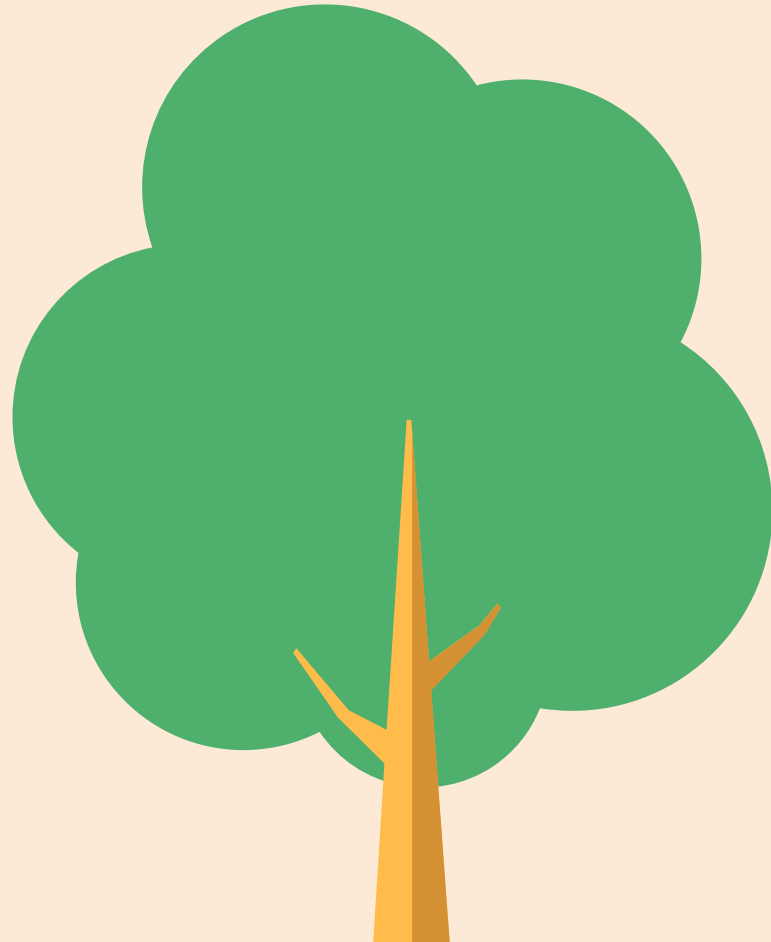
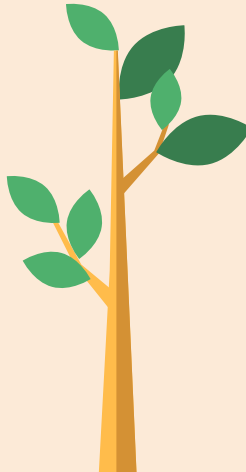
- Continuous improvement
- Consolidated data
- Easy adoption

## For HubSpot:

- Fast pace of innovation



**We're sowing seeds for  
future growth with  
commerce.**



# Commerce momentum since launch

## Q1'22

- Payment links
- Payments on Quotes
- Recurring payments
- Checkout optimizations
- Line-item discounts
- Payment link descriptions

## Q2'22

- Recurring ACH
- Payments CRM object
- QBO integration
- Customizable quantities
- Custom quote templates

## Q3'22

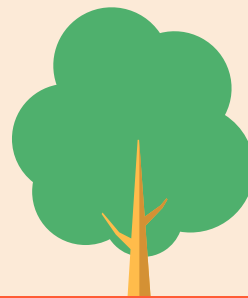
- Embedded payments: forms, meetings, CMS, marketing email
- Payment schedules (beta)
- Open amounts
- Failed payments automation
- Onboarding improvements

## 2023+

- Invoicing
- Payment Scheduling
- Tax Integrations
- Additional CRM Objects
- Consumer-grade onboarding



# Commerce vision



## Simple commerce

**Customer problem:** Want to sell touchlessly online

**Solution:** Payments as a primary color

## Complex commerce

**Customer problem:** Want to streamline quote to cash

**Solution:** Crafted QTC solution in the CRM

## Commerce-powered CRM

**Customer problem:** Want a single source of customer and commerce data

**Solution:** Commerce data embedded in the CRM

**C●nnected**  
Applications

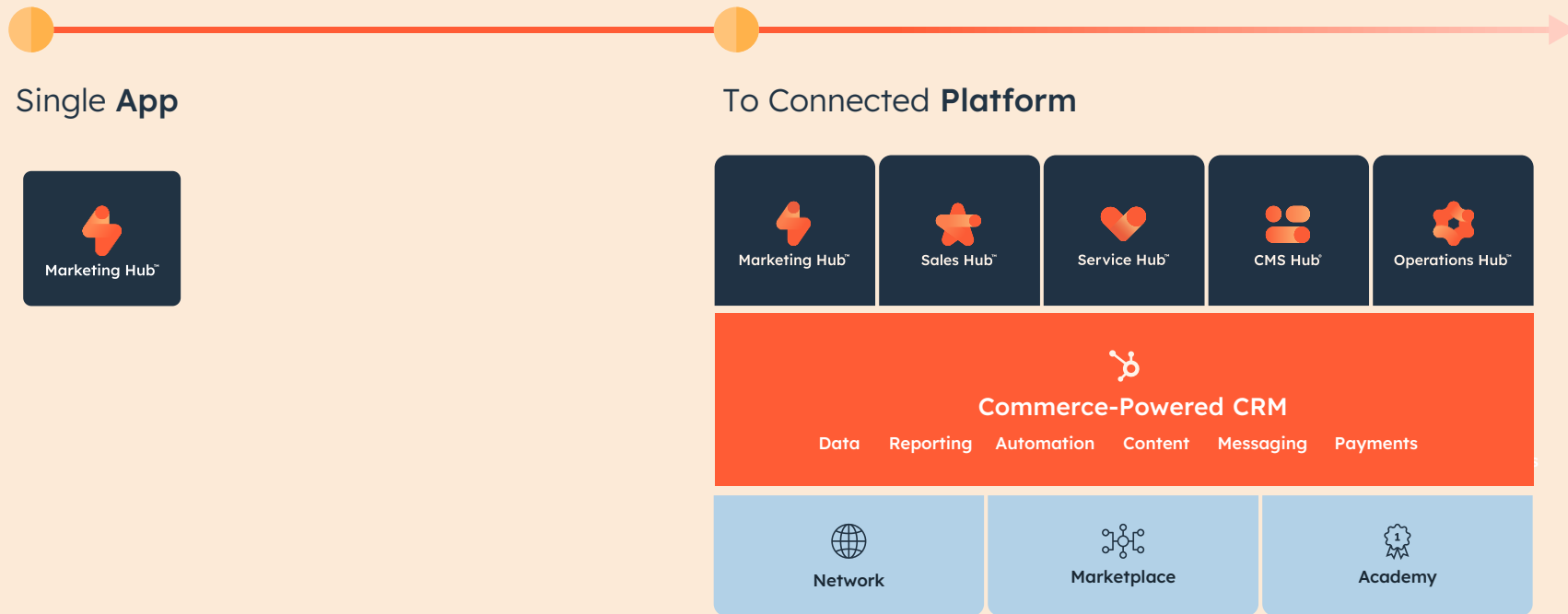
**C●nnected**  
Platform

**C●nnected**  
Community

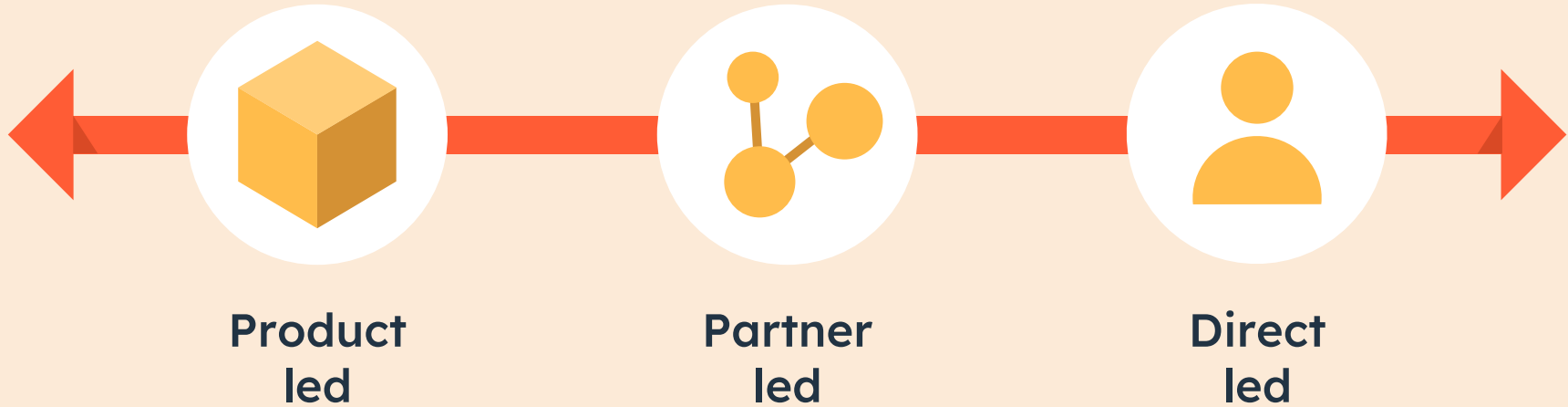


**Become the leading  
community for growth  
professionals to  
connect**

# Transforming to a connected platform



# Breadth of distribution



# Diverse levers for durable growth



**Land**

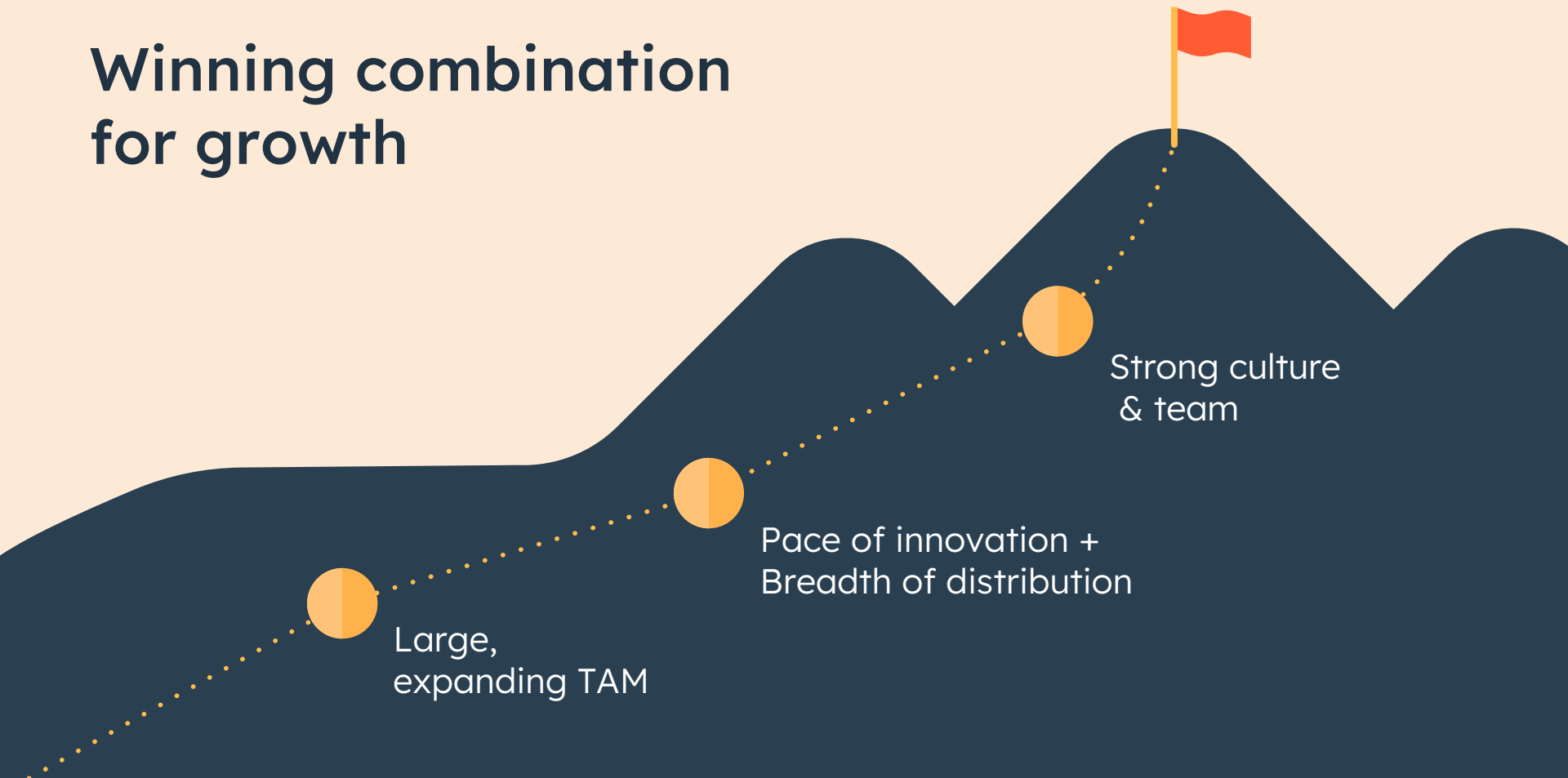


**Expand**



**New Product  
Categories**

# Winning combination for growth





**Thank You**



Analyst Day

# Short-Term Resilient, Long-Term Durable

**Kate Bueker**  
Chief Financial Officer





# Agenda



1

Strong Business  
Performance



2

Diverse Levers for  
Durable Growth



3

Balancing Growth  
and Profitability

# Agenda



1

Strong Business  
Performance



2

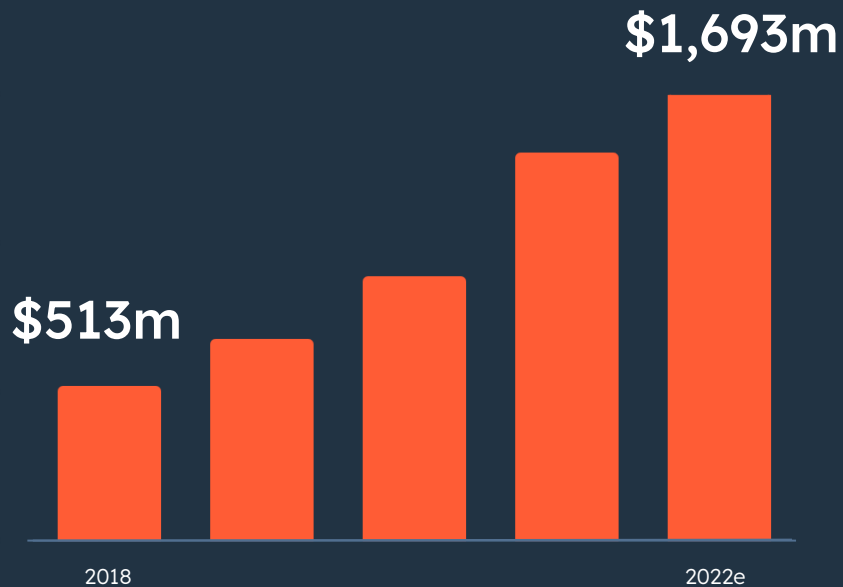
Diverse Levers for  
Durable Growth



3

Balancing Growth  
and Profitability

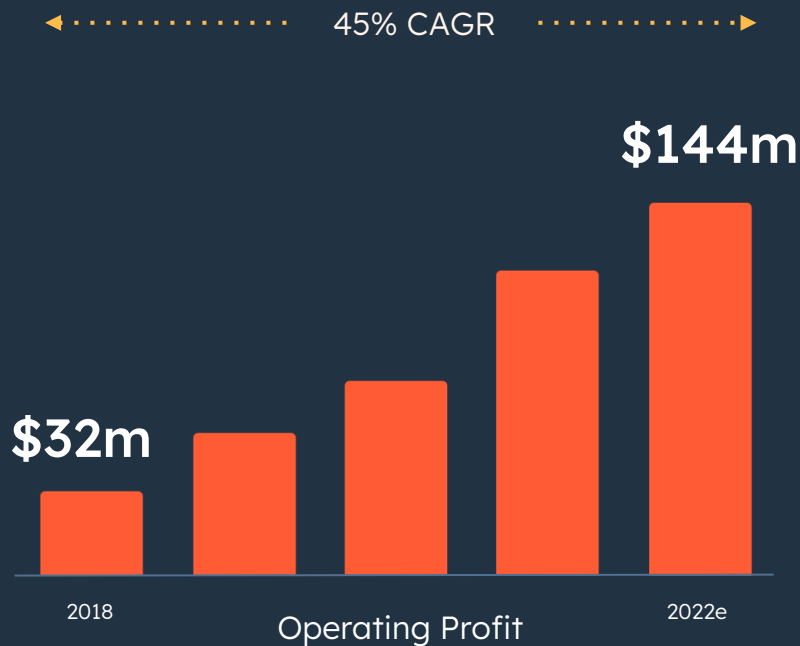
# Strong Revenue Growth



**35% CAGR**  
2018 → 2022e

2022e: based on midpoint of 2022 full year revenue guidance of \$1.6925 billion. CAGR: compound annual growth rate; based on as-reported revenue from 2018 to 2022e.

# Strong Profitability, FCF + Cash

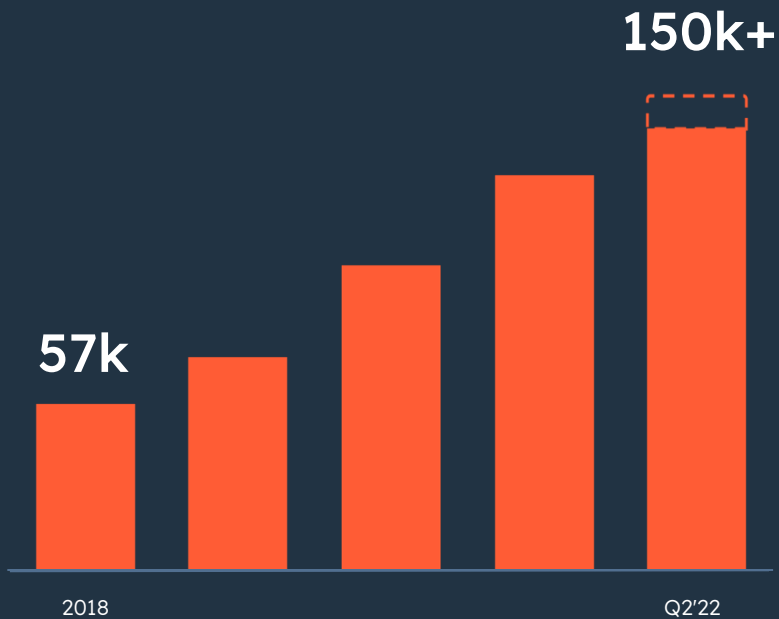


**\$200 million**  
FCF, 2022e

**\$1.4+ billion**  
in cash, Q2'22

2022e: based on midpoint of 2022 full year operating profit and free cash flow guidance of \$143.5 million and \$200 million, respectively. See definitions and reconciliations of non-GAAP operating income and free cash flow in appendix. CAGR: compound annual growth rate; based on operating profit from 2018 to 2022e.

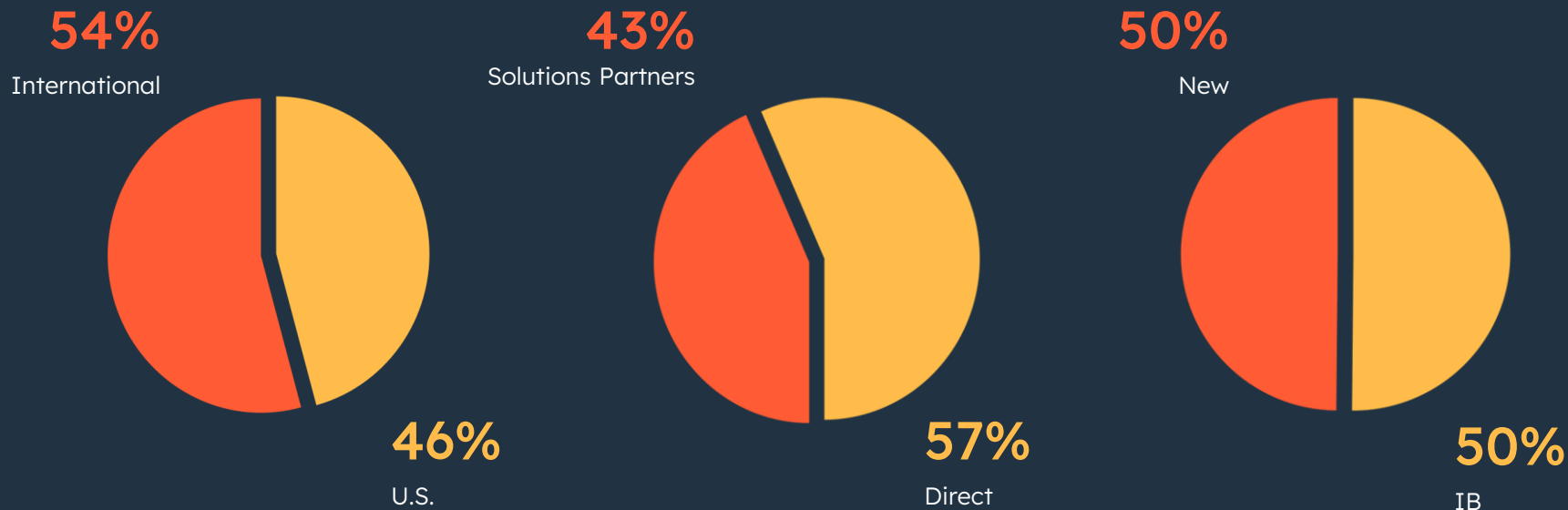
# Strong Customer Growth



**32% CAGR**  
2018 → Q2'22

Dotted box: The dotted lines are an estimated illustration of the net new customers we expect to add in the second half of 2022 and is not to scale.  
CAGR: compound annual growth rate; based on customer count from 2018 to 2022e. See definition of Customers in appendix.

# Balanced Growth Drivers



U.S. vs. International; Direct vs. Solutions Partners; New vs. Install Base are calculated based on a % Net New ARR from end of December 2021 to end of June 2022. See definition of Net New ARR appendix.

# World-Class Connected Apps

## Anchor Hubs



### Marketing Hub

**\$1.1b**

IB ARR

**30%**

YoY Growth



### Sales Hub

**\$450m**

IB ARR

**mid-50s%**

YoY Growth



### Service Hub

**\$95m**

IB ARR

**high-50s%**

YoY Growth

## Emerging Hubs



### CMS Hub

**\$70m**

IB ARR

**mid-50s%**

YoY Growth



### Operations Hub

**\$35m**

IB ARR

Growing... fast

Install Base ARR and year-over-year growth rates as of Q2 2022. See definition for ARR in appendix.

# Agenda



1

Strong Business  
Performance



2

Diverse Levers for  
Durable Growth



3

Balancing Growth  
and Profitability



# Multiple levers to drive growth



Land



Expand



New  
Categories

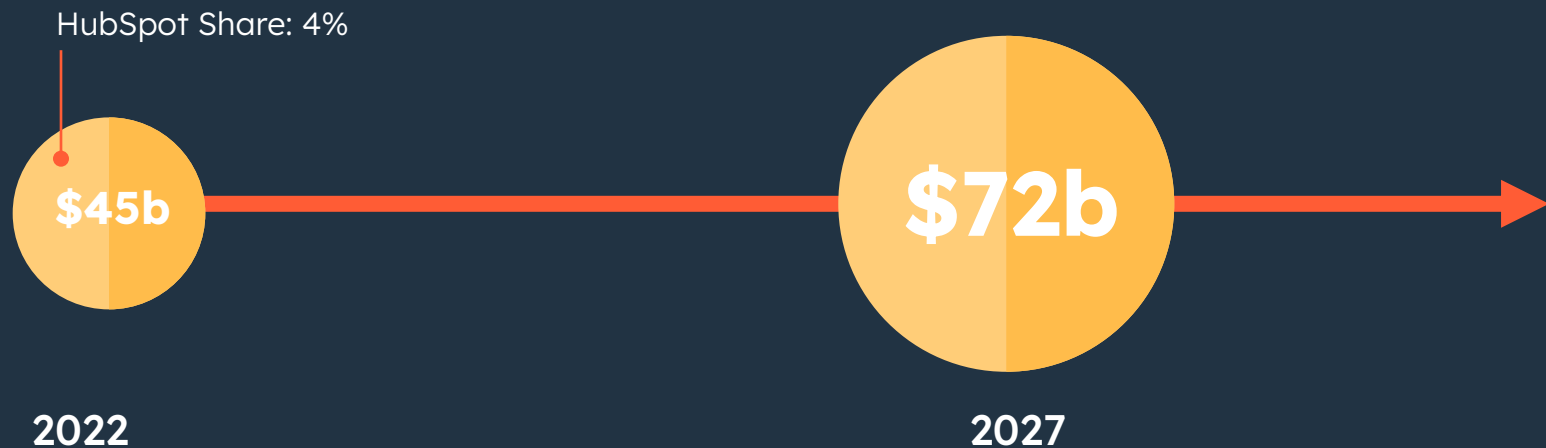
Land



## Multiple Paths to Land on HubSpot's Platform



# Early Stages of Significant TAM Opportunity

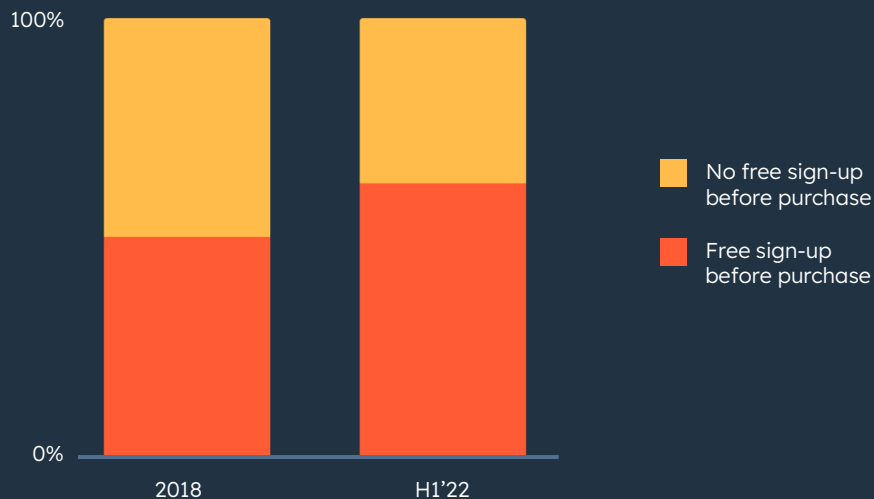


Includes Total Addressable Market for software in HubSpot's core product groups including Marketing Hub, Sales Hub, Service Hub, Operations Hub and CMS Hub. Does not include Commerce and Payments TAM. Source: IDC, US Census Bureau and HubSpot estimates. HubSpot share based on mid-point of 2022 full-year revenue guidance of \$1.6925 billion.

# Land: Adding Value with Free Products

**60%+**  
of Customers Try  
a Free Product First

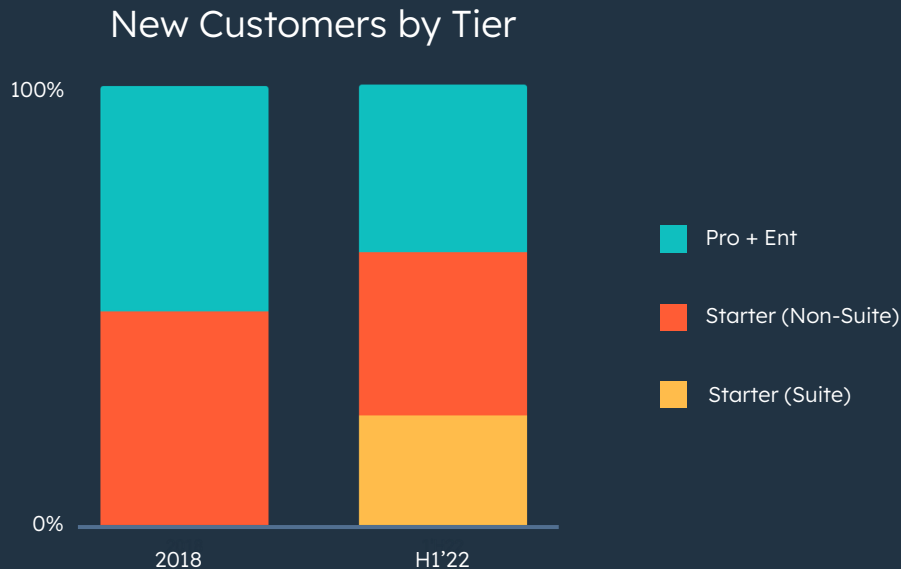
New Customers by Channel



Free sign-up before purchase: Customers that signed up on a free product before purchasing a paid version as of June 30, 2022. See definition of Customers in appendix.

# Land: Fueling Customer Acquisition with Starter Suite

**25%**  
of Customers  
First Land  
with the Starter  
CRM Suite

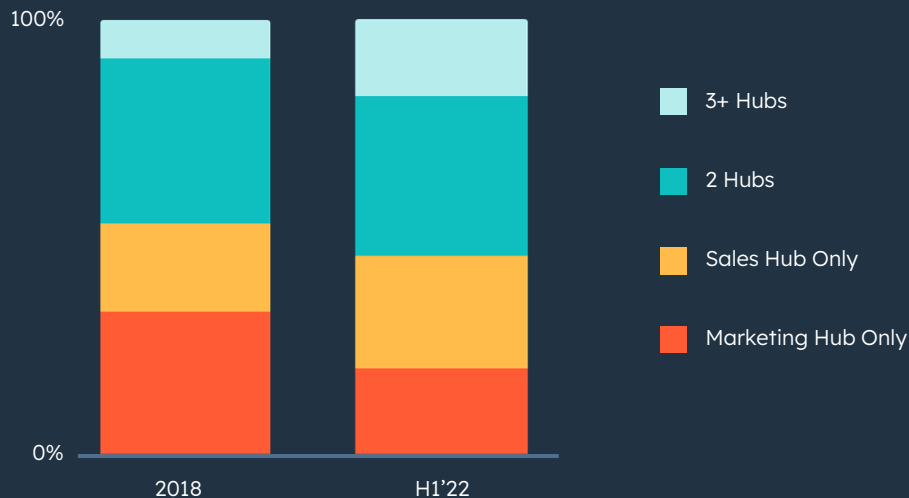


Starter (Suite) = Customers who bought MHS+SHS+SvHS or MHS+SHS+SvHS+OHS or MHS+SHS+SvHS+CHS or MHS+SHS+SvHS+OHS+CHS upfront. Starter (Non-Suite) = Customers who bought any other single or combination of Starter-only products upfront. Pro + Ent = Customers who bought any combination of products as long as one of the products was a Professional or Enterprise edition. See definition of Customers in appendix.

# Land: Increasing Share of P + E Multi-Hub Customers

**50%+**  
of New Upmarket  
Customers Land  
with Two or More  
Hubs

New Pro + Ent Customers



Marketing Hub-Only = New Customers who bought Marketing Hub Professional or Enterprise edition. Sales Hub-Only = New Customers who bought Sales Hub Professional or Enterprise edition. 2 Hubs = Customers who bought Professional or Enterprise editions of any 2 Hubs. 3+ Hubs = Customers who bought Professional or Enterprise editions of any 3 or more Hubs. See definition of Customers in appendix.

Expand

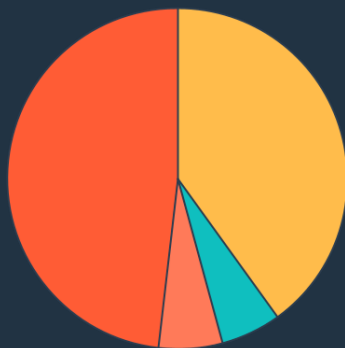


# Innovation Driving Greater Expansion Opportunity

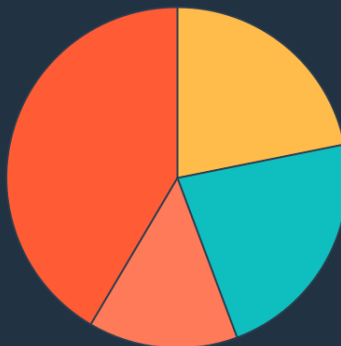


# Growing Diversity of Expansion Motions

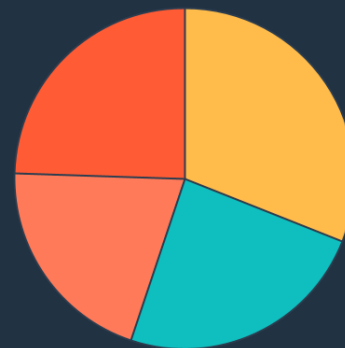
2015: App



2017: Suite



H1'22: Platform



Marketing Contacts

Edition Upgrades

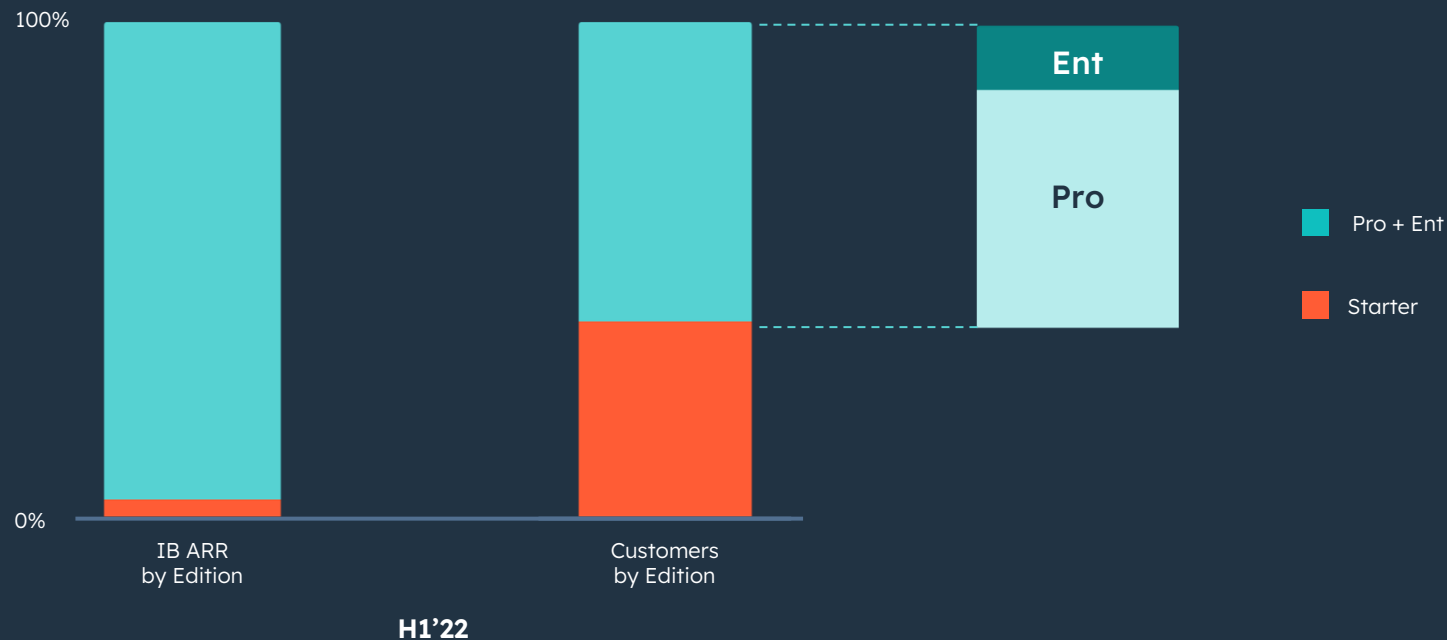
Cross-Sell

Seat Upgrades

Percentage of upgrades by category. Calculated for 2015, 2017, and H1'22 (December 31, 2021 - June 30, 2022). Additional URLs are included in the Edition Upgrades category. Excludes "Other" upgrades including: discount changes, list price changes, add ons, and partner margin changes.

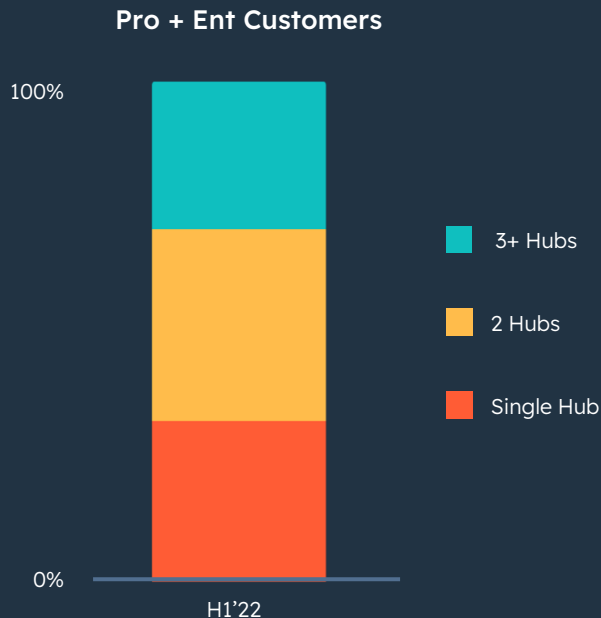


# Expand: Growing Customers Upgrading to Pro + Ent



Install Base ARR and Customers as of June 30, 2022. See definitions for ARR and Customers in the appendix.

# Expand: Value of Multi-Hub Fueling Cross-Sell



**+10pt**

improvement

in deals closed for  
MH, SH, SvH +  
CMS customers

**+50%**

improvement

in website traffic  
for MH + CMS  
customers

**+5pt**

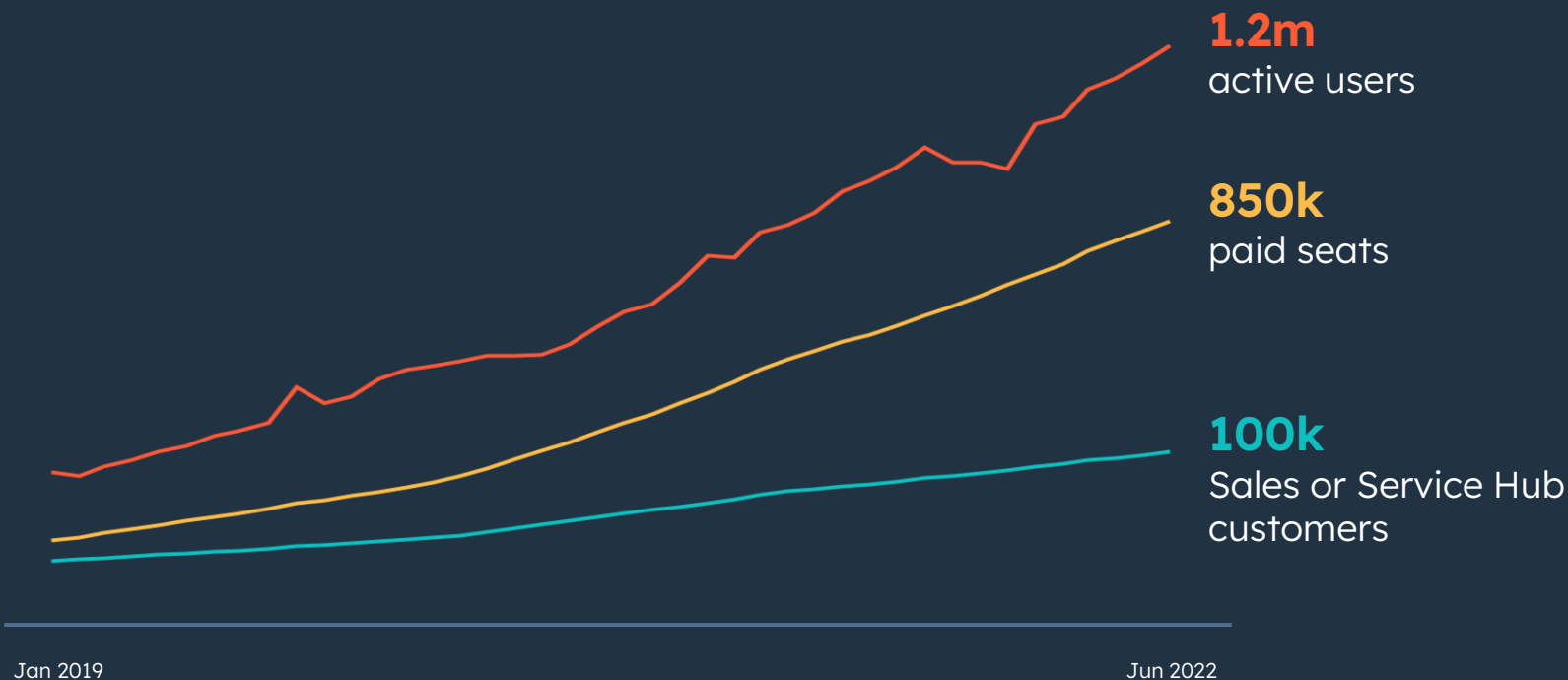
improvement

in tickets closed  
for SH + SvH  
customers

**vs. single-Hub customers**

Professional and Enterprise Customers as of June 30, 2022. See definition of Customers in appendix.

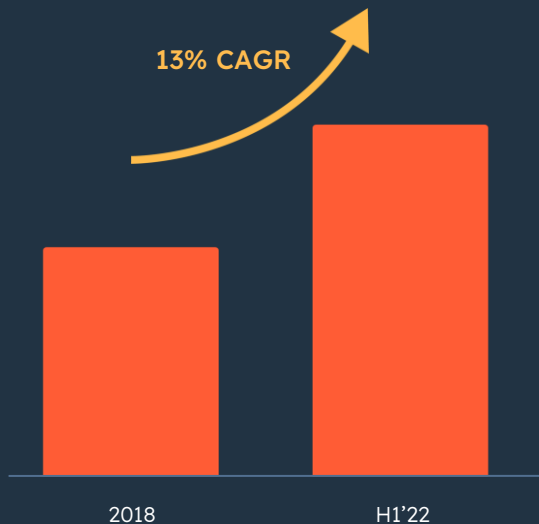
# Expand: Growing Opportunity for Seat Expansion



Active User is defined as any user taking specific actions in a given time period in a portal that has either a Sales Hub or Service Hub subscription. Paid seats is defined as a paid Sales or Service seat.

# Strong ASRPC Growth + Retention Performance

Pro + Ent ASRPC Growth



Long-Term  
Net Revenue  
Retention  
**110%+**

CAGR: compound annual growth rate; based on customer growth rate from 2018 to 2022e. See definitions of Net Revenue Retention and ASRPC in appendix.

New Categories

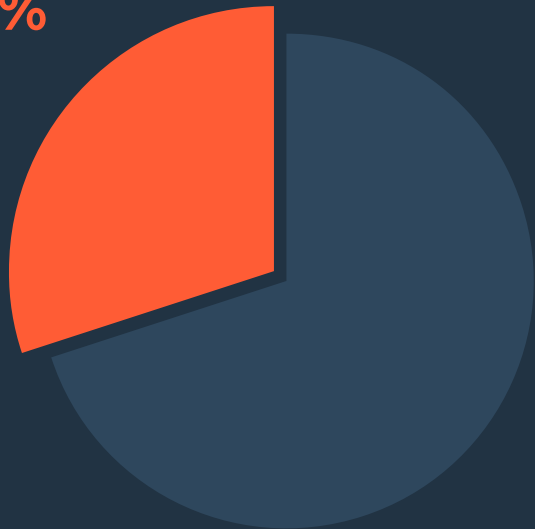


## B2B Commerce and Payments



# Initial Target Payment Customers

33%



## Who's Using it?

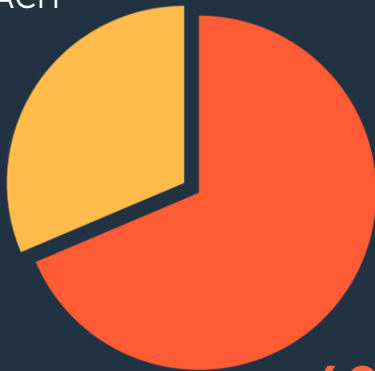
- **<100 EEs**  
90+% Small Business or Mid Market
- **Pro + Ent**  
80+% on Pro/Ent Editions
- **Multi-Hub**  
60+% on 3+ Hubs

User metrics expressed as a percentage of active users as of Q2 2022.

# Common Payments Use Cases

**31%**

ACH

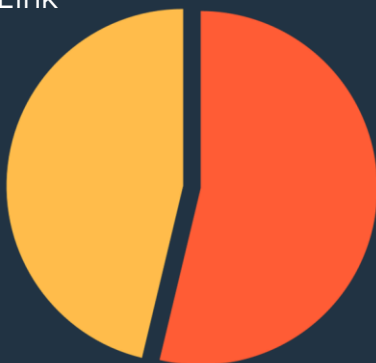


**69%**

Credit Card

**46%**

Payments Link

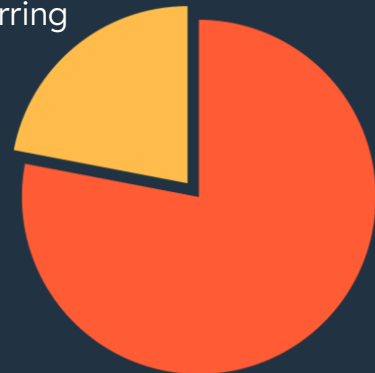


**54%**

Quotes

**22%**

Recurring



**78%**

Non-Recurring

ACH vs. Credit Card, Payments Link vs. Quotes, and Recurring vs. Non-Recurring are all based on a percentage of Gross Payment volume from December 31, 2021 to June 30, 2022.

# Payment Links Driving Higher Sales

## Simple Commerce

Make it easy for B2B companies to sell touchlessly online



## Apps Without Code

- Marketing, Sales and Service Hub Customer
- Previously using cobbled payments solution involving five different vendors
- Consolidated on HubSpot Payments and placed payment links on sales page
- Saw 33% increase in monthly revenue
- Significant time savings from reduction of manual tasks



# Quotes Enabling Shorter Payment Cycle

## Complex Commerce

Streamline quote to cash process for more sophisticated customers



## Web Canopy Studio

- HubSpot Diamond Partner
- Previously used manual QTC process
- Average time from signing to payment ~2 weeks
- Moved to HubSpot Sales Quotes
- Clients sign and pay directly from quote
- 36% increase in revenue
- Reduced average time to payment from ~2 weeks to ~1 day.

# Payments Business Priorities 2023

## North Star: Increasing Active merchants



### Discovery

- Improve discovery points in navigation
- “Getting Started” checklists
- Deeply embed payments across platform

### Activation

- Create consumer grade onboarding process
- Faster time to transaction for low-risk merchants
- Build simple payment use cases for less sophisticated customers

### Adoption

- Add invoicing flexibility... discounts, payment schedules
- Enhance subscription functionality
- Expand integrations with accounting and tax

# Agenda



1

Strong Business  
Performance



2

Diverse Levers for  
Durable Growth



3

Balancing Growth  
and Profitability

# Philosophy on Balancing Growth and Profitability

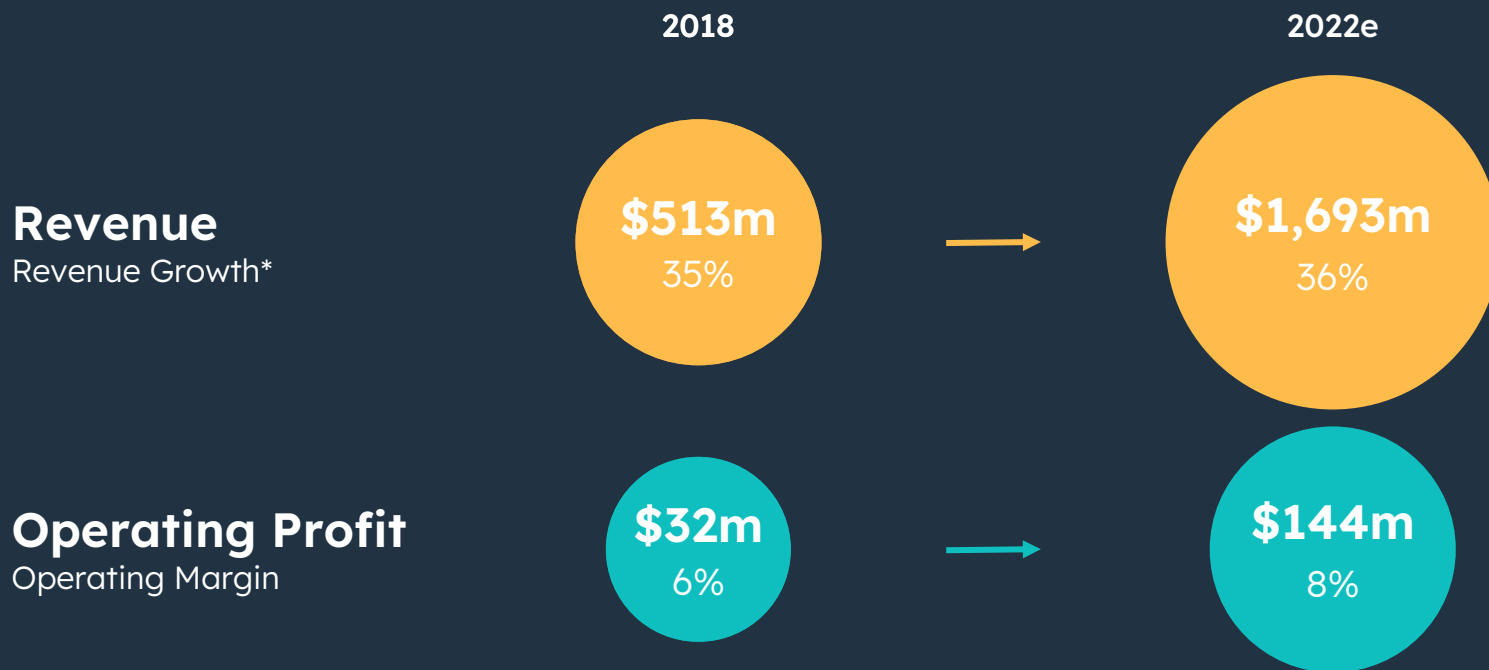


Drive durable revenue growth at scale



Generate operating leverage as we scale toward long-term margin targets

# Track Record of Delivering Growth and Profitability



\* Revenue growth rates in 2018 and 2022e are adjusted for the impact of foreign currency. 2022e: represents the current midpoint of HubSpot's full year 2022 guidance.

# Long Term Financial Targets Remain Unchanged

	2018	2022e		Long Term Target Model
Gross Margin	82%	82%		81% - 83%
R&D % of revenue	18%	20%		18% - 20%
S&M % of revenue	46%	45%		30% - 35%
G&A % of revenue	11%	9%		8% - 9%
Operating Margin	6%	8%	→	20% - 25%

Long-Term Target Model: These estimates reflect our current operating plan as of September 7, 2022 and are subject to change as future events and opportunities arise. 2022e: represents the current midpoint of HubSpot's full year 2022 guidance. All percentages are non-GAAP and exclude expenses associated with stock based compensation, amortization of acquired intangibles and acquisition related expenses. Percentages are based on actual values. Totals may not sum due to rounding. Please refer to appendix for a reconciliation of GAAP to non-GAAP figures.

# Driving Long-Term Margin Expansion Via S&M Leverage

	2018	2022e		Long Term Target Model
Gross Margin	82%	82%		81% - 83%
R&D % of revenue	18%	20%		18% - 20%
S&M % of revenue	46%	45%	→	30% - 35%
G&A % of revenue	11%	9%		8% - 9%
Operating Margin	6%	8%		20% - 25%

## S&M Leverage

- Invest in data and systems to improve rep efficiency
- Grow freemium acquisition
- Non-linear growth with Commerce

Long-Term Target Model: These estimates reflect our current operating plan as of September 7, 2022 and are subject to change as future events and opportunities arise. 2022e: represents the current midpoint of HubSpot's full year 2022 guidance. All percentages are non-GAAP and exclude expenses associated with stock based compensation, amortization of acquired intangibles and acquisition related expenses. Percentages are based on actual values. Totals may not sum due to rounding. Please refer to appendix for a reconciliation of GAAP to non-GAAP figures.

# Early thoughts on 2023 Profitability

2023

Gross Margin

Continued investment in platform resilience and efficiency

R&D  
% of revenue

S&M  
% of revenue

G&A  
% of revenue

Operating Margin

Long-Term Target Model: These estimates reflect our current operating plan as of September 7, 2022 and are subject to change as future events and opportunities arise. 2022e: represents the current midpoint of HubSpot's full year 2022 guidance. All percentages are non-GAAP and exclude expenses associated with stock based compensation, amortization of acquired intangibles and acquisition related expenses. Percentages are based on actual values. Totals may not sum due to rounding. Please refer to appendix for a reconciliation of GAAP to non-GAAP figures.



# Early thoughts on 2023 Profitability

2023

Gross Margin

Continued investment in platform resilience and efficiency

R&D  
% of revenue

Sustain investments in product innovation to drive future growth

S&M  
% of revenue

G&A  
% of revenue

Operating Margin

Long-Term Target Model: These estimates reflect our current operating plan as of September 7, 2022 and are subject to change as future events and opportunities arise. 2022e: represents the current midpoint of HubSpot's full year 2022 guidance. All percentages are non-GAAP and exclude expenses associated with stock based compensation, amortization of acquired intangibles and acquisition related expenses. Percentages are based on actual values. Totals may not sum due to rounding. Please refer to appendix for a reconciliation of GAAP to non-GAAP figures.

# Early thoughts on 2023 Profitability

2023

Gross Margin

Continued investment in platform resilience and efficiency

R&D  
% of revenue

Sustain investments in product innovation to drive future growth

**S&M**  
**% of revenue**

Ensure sales capacity, while driving efficiencies in discretionary areas

G&A  
% of revenue

Operating Margin

Long-Term Target Model: These estimates reflect our current operating plan as of September 7, 2022 and are subject to change as future events and opportunities arise. 2022e: represents the current midpoint of HubSpot's full year 2022 guidance. All percentages are non-GAAP and exclude expenses associated with stock based compensation, amortization of acquired intangibles and acquisition related expenses. Percentages are based on actual values. Totals may not sum due to rounding. Please refer to appendix for a reconciliation of GAAP to non-GAAP figures.

# Early thoughts on 2023 Profitability

2023

Gross Margin

Continued investment in platform resilience and efficiency

R&D  
% of revenue

Sustain investments in product innovation to drive future growth

S&M  
% of revenue

Ensure sales capacity, while driving efficiencies in discretionary areas

**G&A**  
**% of revenue**

**Leverage through automation and scrutinizing discretionary expenses**

Operating Margin

Long-Term Target Model: These estimates reflect our current operating plan as of September 7, 2022 and are subject to change as future events and opportunities arise. 2022e: represents the current midpoint of HubSpot's full year 2022 guidance. All percentages are non-GAAP and exclude expenses associated with stock based compensation, amortization of acquired intangibles and acquisition related expenses. Percentages are based on actual values. Totals may not sum due to rounding. Please refer to appendix for a reconciliation of GAAP to non-GAAP figures.

# Early thoughts on 2023 Profitability

	2022e	2023
Gross Margin	82%	Continued investment in platform resilience and efficiency
R&D % of revenue	20%	Sustain investments in product innovation to drive future growth
S&M % of revenue	45%	Ensure sales capacity, while driving efficiencies in discretionary areas
G&A % of revenue	9%	Leverage through automation and scrutinizing discretionary expenses
Operating Margin	8%	Flat at 8%

Long-Term Target Model: These estimates reflect our current operating plan as of September 7, 2022 and are subject to change as future events and opportunities arise. 2022e: represents the current midpoint of HubSpot's full year 2022 guidance. All percentages are non-GAAP and exclude expenses associated with stock based compensation, amortization of acquired intangibles and acquisition related expenses. Percentages are based on actual values. Totals may not sum due to rounding. Please refer to appendix for a reconciliation of GAAP to non-GAAP figures.

# Key Takeaways

1. Strong foundational business model
2. Still early in massive opportunity
3. Diverse levers for growth
4. Balanced growth and profitability over short and long-term



# Thank You

# GAAP to Non-GAAP Reconciliations

# GAAP to Non-GAAP Reconciliation

	2018		2019		2020		2021		Six months ended June 30, 2022	
	\$ '000s	% of Revenues	\$ '000s	% of Revenues	\$ '000s	% of Revenues	\$ '000s	% of Revenues	\$ '000s	% of Revenues
<b>Cost of Revenue</b>										
Subscription	69,718	14%	98,510	15%	130,685	15%	211,132	16%	123,815	15%
Stock-based compensation	(1,476)	0%	(3,127)	0%	(4,408)	0%	(6,287)	0%	(4,206)	-1%
Amortization of acquired intangibles	(1,394)	0%	(2,301)	0%	(2,340)	0%	(937)	0%	(627)	0%
Gain on termination of operating leases	-	0%	-	0%	-	0%	395	0%	-	0%
Loss on disposal of fixed assets	-	0%	-	0%	-	0%	(600)	0%	-	0%
Non-GAAP subscription	<u>66,848</u>	13%	<u>92,182</u>	14%	<u>123,937</u>	14%	<u>203,693</u>	16%	<u>118,982</u>	15%
Professional services and other	30,639	6%	31,448	5%	36,274	4%	47,725	4%	28,052	3%
Stock-based compensation	(2,924)	-1%	(2,829)	0%	(2,536)	0%	(3,092)	0%	(2,083)	0%
Gain on termination of operating leases	-	0%	-	0%	-	0%	275	0%	-	0%
Loss on disposal of fixed assets	-	0%	-	0%	-	0%	(415)	0%	-	0%
Non-GAAP professional services and other	<u>27,715</u>	5%	<u>28,619</u>	4%	<u>33,738</u>	4%	<u>44,493</u>	3%	<u>25,969</u>	3%
<b>Gross Margin</b>										
Gross margin	412,623	80%	544,902	81%	716,067	81%	1,041,801	80%	665,487	81%
Stock-based compensation	4,400	1%	5,966	1%	6,944	1%	9,389	1%	6,289	1%
Amortization of acquired intangible assets	1,394	0%	3,201	0%	2,340	0%	937	0%	627	0%
Gain on termination of operating leases	-	0%	-	0%	-	0%	(670)	0%	-	0%
Loss on disposal of fixed assets	-	0%	-	0%	-	0%	1,015	0%	-	0%
Non-GAAP gross margin	<u>418,417</u>	82%	<u>554,059</u>	82%	<u>725,351</u>	82%	<u>1,052,472</u>	81%	<u>672,403</u>	82%
<b>Operating Expenses</b>										
Research and development	117,603	23%	158,237	23%	205,589	23%	301,970	23%	211,650	26%
Stock-based compensation	(23,328)	-5%	(33,748)	-5%	(39,366)	-4%	(61,614)	-5%	(48,684)	-6%
Acquisition/disposition related income (expenses)	(2,696)	-1%	(357)	0%	(1,287)	0%	(1,152)	0%	300	0%
Gain on termination of operating leases	-	0%	-	0%	-	0%	1,346	0%	-	0%
Loss on disposal of fixed assets	-	0%	-	0%	-	0%	(2,036)	0%	-	0%
Non-GAAP research and development	<u>91,579</u>	18%	<u>124,132</u>	18%	<u>164,936</u>	19%	<u>238,514</u>	18%	<u>113,252</u>	14%
Sales and marketing	267,444	52%	340,685	50%	452,081	51%	649,681	50%	421,396	52%
Stock-based compensation	(31,099)	-6%	(36,599)	-5%	(50,552)	-6%	(67,413)	-5%	(49,052)	-6%
Amortization of acquired intangible assets	-	0%	-	0%	(79)	0%	(389)	0%	(535)	0%
Acquisition related expenses	-	0%	-	0%	-	0%	(367)	0%	-	0%
Gain on termination of operating leases	-	0%	-	0%	-	0%	1,839	0%	-	0%
Loss on disposal of fixed assets	-	0%	-	0%	-	0%	(2,781)	0%	-	0%
Non-GAAP sales and marketing	<u>236,345</u>	46%	<u>304,086</u>	45%	<u>401,450</u>	45%	<u>580,570</u>	45%	<u>265,642</u>	33%
General and administrative	75,834	15%	92,971	14%	109,225	12%	144,949	11%	95,845	12%
Stock-based compensation	(17,434)	-3%	(21,451)	-3%	(24,626)	-3%	(28,345)	-2%	(22,844)	-3%
Acquisition related expenses	-	0%	(552)	0%	(545)	0%	(568)	0%	(19)	0%
Gain on termination of operating leases	-	0%	-	0%	-	0%	421	0%	-	0%
Loss on disposal of fixed assets	-	0%	-	0%	-	0%	(636)	0%	-	0%
Non-GAAP general and administrative	<u>58,400</u>	11%	<u>70,968</u>	11%	<u>84,054</u>	10%	<u>115,821</u>	9%	<u>54,067</u>	7%
<b>Loss from Operations</b>										
Loss from operations	(48,258)	-9%	(46,991)	-7%	(50,828)	-6%	(54,799)	-4%	(63,404)	-8%
Stock-based compensation	76,261	15%	97,754	14%	121,488	14%	166,761	13%	126,869	16%
Amortization of acquired intangible assets	1,394	0%	3,201	0%	2,419	0%	1,326	0%	1,162	0%
Acquisition related expenses	2,696	1%	909	0%	1,832	0%	2,087	0%	(281)	0%
Gain on termination of operating leases	-	0%	-	0%	-	0%	(4,276)	0%	-	0%
Loss on disposal of fixed assets	-	0%	-	0%	-	0%	6,468	0%	-	0%
Non-GAAP (loss) income from operations	<u>32,093</u>	6%	<u>54,873</u>	8%	<u>74,911</u>	8%	<u>117,567</u>	9%	<u>64,346</u>	8%



# GAAP to Non-GAAP Reconciliation

	2018		2019		2020		2021		Forecast 2022	
	\$ '000s	% of Revenues	\$ '000s	% of Revenues	\$ '000s	% of Revenues	\$ '000s	% of Revenues	\$ '000s	% of Revenues
<b>Loss from Operations</b>										
Loss from operations	(48,258)	-9%	(46,991)	-7%	(50,828)	-6%	(54,799)	-4%	(136,877)	-8%
Stock-based compensation	76,261	15%	97,754	14%	121,488	14%	166,761	13%	278,025	16%
Amortization of acquired intangible assets	1,394	0%	3,201	0%	2,419	0%	1,326	0%	2,640	0%
Acquisition/disposition related income (expenses)	2,696	1%	909	0%	1,832	0%	2,087	0%	(288)	0%
Gain on termination of operating leases	-	0%	-	0%	-	0%	(4,276)	0%	-	0%
Loss on disposal of fixed assets	-	0%	-	0%	-	0%	6,468	0%	-	0%
Non-GAAP (loss) income from operations	32,093	6%	54,873	8%	74,911	8%	117,567	9%	143,500	8%

# GAAP to Non-GAAP Reconciliation

	2018		2019		2020		2021	
	\$ '000s	% of Revenues	\$ '000s	% of Revenues	\$ '000s	% of Revenues	\$ '000s	% of Revenues
GAAP net cash and cash equivalents provided by operating activities	84,851	17%	118,973	18%	88,913	10%	238,728	18%
Purchases of property & equipment and capitalization of software development costs	(33,473)	-7%	(53,846)	-8%	(58,917)	-7%	(61,865)	-5%
Repayment of 2022 Convertible Notes attributable to the debt discount	-	0%	-	0%	49,048	6%	26,428	2%
Free cash flow	<u>51,378</u>	10%	<u>65,127</u>	10%	<u>79,044</u>	9%	<u>203,291</u>	16%

# Definitions

**Customers:** We define our Customers at the end of a particular period as the number of business entities with one or more paid subscriptions to our CRM Platform either purchased directly with us or purchased from a Solutions Partner. We do not include in Customers business entities with one or more paid subscriptions solely for our legacy Sales Hub (\$10) product or any PieSync product. A single customer may have separate paid subscriptions to our CRM Platform, but we count these as one Customer if certain customer-provided information such as company name, URL, or email address indicate that these subscriptions are managed by the same business entity.

**Install Base:** Refer to definition of Annual Recurring Revenue below.

**Net Revenue Retention:** Net Revenue Retention is a measure of the percentage of recurring revenue retained from customers over a given period of time. Our Net Revenue Retention for a given period is calculated by first dividing Retained Subscription Revenue by Retention Base Revenue in the given period, calculating the weighted average of these rates using the Retention Base Revenue for the period, and then annualizing the resulting rates. A definition of each of the key terms used to calculate Net Revenue Retention is included below.

**Average Subscription Revenue per Customer:** We define "ASRPC" during a particular period as subscription revenue, excluding revenue from our legacy Sales Hub (\$10) and PieSync products, from our Total Customers during the period divided by the average Total Customers during the same period.

**Non-GAAP Operating Income:** We define as GAAP operating income or loss plus stock-based compensation, amortization of acquired intangible assets, gain on termination of operating leases, loss on disposal of fixed assets, and acquisition related expenses.

**Free Cash Flow:** We define "FCF" as cash and cash equivalents provided by or used in operating activities less purchases of property and equipment, capitalization of software development costs, plus repayments of convertible notes attributable to debt discount.

**Annual Recurring Revenue:** We define "ARR" as the annual value of our customer subscription contracts as of the specified point in time excluding any commissions owed to our partners. For each Hub, this is the sum of customer ARR for the Starter, Basic, Professional and Enterprise subscriptions, plus applicable Contacts (Marketing Only) or Add-Ons (e.g. Reporting or Ads). For multi-product customers, their ARR would be distributed across based on the value of each SKU/Hub for which they pay. ARR can differ from Revenue due to several factors. ARR is converted into USD at fixed rates that are held consistent over time and may vary from those used for Revenue or Deferred Revenue. ARR would exclude any impact for Bad Debt and Partner Commissions (as noted above) and would also differ from Revenue due to timing of revenue recognition.