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HubSpot, Inc. (HUBS)

Q2 2021 Earnings Call

CORPORATE PARTICIPANTS

Charles Tupper MacGlashing

Corporate Treasurer & Head-Investor Relations, HubSpot, Inc.

Yamini Rangan

Chief Customer Officer, HubSpot, Inc.

Kate Bueker

Chief Financial Officer, HubSpot, Inc.

Brian Patrick Halligan

Co-Founder, Chairman & Chief Executive Officer, HubSpot, Inc.

Dharmesh Shah

Chief Technology Officer, Director & Co-Founder, HubSpot, Inc.

OTHER PARTICIPANTS

Samad Samana

Analyst, Jefferies LLC

Mark R. Murphy

Analyst, JPMorgan Securities LLC

Brad Sills

Analyst, BofA Securities, Inc.

Stan Zlotsky

Analyst, Morgan Stanley & Co. LLC

Ken Wong

Analyst, Guggenheim Securities LLC

Alex Zukin

Analyst, Wolfe Research LLC

Drew Foster

Analyst, Citigroup Global Markets, Inc.

Terrell Tillman

Analyst, Truist Securities, Inc.

David Hynes

Analyst, Canaccord Genuity LLC

Brian Peterson

Analyst, Raymond James & Associates, Inc.

Jeffrey Parker Lane

Analyst, Stifel, Nicolaus & Co., Inc.

Matt Diamond

Analyst, Mizuho Securities

Michael Turrin

Analyst, Wells Fargo Securities LLC

Michael Turits

Analyst, KeyBanc Capital Markets, Inc.

Brent A. Bracelin

Analyst, Piper Sandler & Co.

Kirk Materne

Analyst, Evercore ISI

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by. Welcome to the HubSpot Q2 2021 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your first speaker today, Chuck MacGlashing, Head of Investor Relations for HubSpot. Thank you. Please, go ahead, sir.

Charles Tupper MacGlashing

Corporate Treasurer & Head-Investor Relations, HubSpot, Inc.

Thanks, operator. Good afternoon, and welcome to HubSpot's second quarter 2021 earnings conference call. Today, we'll be discussing the results announced in the press release that was issued after the market closed.

With me on the call this afternoon is Brian Halligan, our Co-Founder and newly-named Executive Chairman; Dharmesh Shah, our Co-Founder and CTO; Yamini Rangan, our Chief Customer Officer and newly-named CEO; and Kate Bueker, our Chief Financial Officer.

Before we start, I'd like to draw your attention to the Safe Harbor statement included in today's press release. During this call, we'll make statements related to our business that maybe considered forward-looking within the meaning of Section 27A of the Securities Exchange Act of 1933, as amended; and Section 21E of the Securities Exchange Act of 1934, as amended.

All statements other than statements of historical fact are forward-looking statements, including those regarding management's expectations of future financial and operational performance and operational expenditures, expected growth, the leadership transitions and business outlook, including our financial guidance for the third fiscal quarter and full-year 2021.

Forward-looking statements reflect our views only as of today, and except as required by law, we undertake no obligation to update or revise these forward-looking statements. Please refer to the cautionary language in today's press release and our Form 10-Q, which will be filed with the SEC this afternoon for a discussion of risks and uncertainties that could cause actual results to differ materially from expectations.

During the course of today's call, we'll refer to certain non-GAAP financial measures as defined by Regulation G. The GAAP financial measure most directly comparable to each non-GAAP financial measure used or discussed and a reconciliation of the differences between such measures can be found within our second quarter 2021 earnings press release in the Investor Relations section of our website.

Now, it's my pleasure to turn over the call to HubSpot's Chief Customer Officer, soon to be Chief Executive Officer, Yamini Rangan. Yamini?

Yamini Rangan

Chief Customer Officer, HubSpot, Inc.

Thanks, Chuck, and greetings, everyone. Thank you for joining us today as we review HubSpot's second quarter 2021 earnings results. I know you've likely seen the exciting news that Brian will be taking on the role of Executive Chairman as of September 7th. We're all looking forward to having Brian back in action and stronger than ever when he returns next month. Brian will be joining the call here in a few minutes to talk about his path forward in this new capacity, as well as to share some reflections on the 15 years that have led us to today's news and this quarter's fantastic results.

Before we do that, I want to focus on the business at hand, the great results from last quarter. We continue to operate from a broad position of strength, with Q2 revenue growth accelerating to 47% year-over-year in constant currency and total customers growing 40% year-over-year to over 121,000. We've seen market product adoption grow to over half of our total customers, a great indicator that more companies are realizing the advantage of managing their entire front office on one platform with one data model, one view of their customers, and one user interface that's easy to use.

A key driver of this continued growth is digital transformation we're seeing as more companies have had to adapt to doing business online. This shift towards digitally powered customer experiences is one that HubSpot has been evangelizing for the past 15 years. So we've been well positioned to meet the moment. As consumers increasingly expect remarkable digital experiences at each step of their journey, scaling companies need a powerful CRM platform to tie it all together. This makes CRM not just a nice-to-have solution but an indispensable driver of long-term growth for our customers.

A key part of that digital experience is the company website. This is the digital front door. Traditional website content management systems are often siloed from other essential front-office functions. They're complex to manage. They lack speed, security and scalability that companies need to grow their business. That's why we launched CMS Hub Professional and Enterprise last year, and we are continuing to invest in the platform with CMS Hub Starter launched yesterday.

CMS Hub Starter is built as part of our CRM platform to give companies seamless access to all of their customer data. Having a CRM-powered site enables both marketers and developers to efficiently work together to build remarkable digital experiences and maximize the revenue-generating opportunity.

As part of that launch, we also adjusted the pricing of our CMS Hub Professional and Enterprise tiers to reflect the increased value we are delivering to our customers through SEO enhancement, dynamic pages, site trees and increased limits on capacity with even more advanced features in the road map. We're still in early stages of this launch, but we are confident that CMS Hub Starter will fill a painful gap for marketers and developers that are looking to spend less time managing their systems and more time driving growth.

Another important function of digital-first transformation is revenue operations. Last quarter, I talked about the launch of Operations Hub, a new product designed to transform the role of operations professionals and empower them to become strategic drivers of revenue and growth. I'm excited to share that we are continuing to hear positive feedback from customers and partners and that Operations Hub has performed nicely ahead of our internal growth expectations over the past 1.5 quarters.

Data Sync, our robust new integration engine, has quickly become one of the most compelling and popular free tools, particularly among small customers, exemplifying how Operations Hub will drive adoption of our CRM platform. We're also seeing strong adoption of programmable automation among larger companies who are looking to take full advantage of their data and deliver personalized experiences to their customers.

One of our top solutions partners had this to say about the feature, programmable automation makes HubSpot significantly more flexible. We've used it to build even the most advanced business processes in HubSpot from ERP integrations to data enrichment, commissions calculations to renewal communications. With programmable automation in Operations Hub, if you can dream it, you can automate it. Thanks to the team at Aptitude 8 for sharing the feedback. We're so glad that they are seeing value in Operations Hub.

Both Operations Hub and CMS Hub Starter are great examples of our commitment to crafting our CRM platform in-house rather than cobbling it together through clunky acquisitions. That focus on delivering a consumer-grade UI matched with a scalable enterprise back end sets us apart from traditional CRM platforms and puts HubSpot in a strong position to achieve our goal of becoming the number one CRM platform for scaling companies.

With that, I'll turn it over to Kate to give an overview of our fantastic financial results.

Kate Bueker

Chief Financial Officer, HubSpot, Inc.

Thanks, Yamini. Let's turn to our second quarter financial results and our guidance for the third quarter and full-year of 2021. Second quarter revenue grew 47% year-over-year in constant currency and 53% as reported. Q2 subscription revenue grew 53% year-over-year, while services and other revenue increased 44%, both on an as-reported basis. We continued to see strong performance across all of our hubs, tiers and geographies in Q2.

Revenue retention continued to be very strong in the quarter, once again benefiting from healthy customer dollar retention levels. In addition, our net revenue retention continued to benefit from a diverse set of upgrade drivers with particular strength from addition upgrades, cross-sell activity and seat expansions.

As of Q2, 58% of our customers are getting value out of two or more hubs as they adopt HubSpot as a platform. Domestic revenue grew 42% in Q2, while international revenue growth was 54% year-over-year in constant currency and 68% as reported. International revenue represented 46% of total revenue in Q2, up 4 points year-over-year. We added over 7,100 net customers in the quarter, bringing our total customer count to 121,000, up 40% year-over-year.

Average subscription revenue per customer grew 8% year-over-year to approximately \$10,200, as we saw a positive mix shift toward our Professional and Enterprise tiers, coupled with strong installed base selling in the quarter. We expect our strong installed base selling and positive product mix shift to continue through the second half of 2021. As a result, we anticipate second half net customer additions to sustain around these levels as we continue to compare against the robust Starter Growth Suite customer additions from 2020. And we expect high single digits year-over-year growth in ASRPC in Q3 and Q4.

Deferred revenue as of the end of June was \$362 million, a 50% increase year-over-year. Calculated billings was \$334 million, growing 60% year-over-year in constant currency and 65% as reported. This acceleration in constant currency billings growth was driven by strong business performance in the quarter in addition to an easier overall comparison as a result of the challenging business environment in the second quarter of 2020. The remainder of my comments will refer to non-GAAP measures.

Second quarter gross margin was 81%, down a little over one point year-over-year. Subscription gross margin was 84% while services gross margin was negative 5%. Second quarter operating margin was 9%, relatively flat as compared to the same period a year ago.

Operating margin in the quarter exceeded our expectations primarily as a result of our strong revenue performance. At the end of the second quarter, we had just under 5,000 employees, up 32% year-over-year.

Net income in the second quarter was \$22 million or \$0.43 per fully diluted share. CapEx, including capitalized software development costs, was \$16 million or 5% of revenue in Q2. Free cash flow in the quarter was \$26 million or 8% of revenue.

We continue to expect CapEx as a percentage of revenue to be about 5% in 2021 and now expect free cash flow to be between \$170 million and \$175 million, with a seasonally-strong free cash flow quarter in Q4. Finally, our cash and marketable securities totaled \$1.3 billion at the end of June.

And with that, let's dive into guidance for the third quarter and full-year of 2021. For the third quarter, total revenue is expected to be in the range of \$325 million to \$327 million, up 43% year-over-year at the midpoint. Non-GAAP operating income is expected to be between \$27 million and \$29 million. Non-GAAP diluted net income per share is expected to be between \$0.42 and \$0.44. This assumes 50.6 million fully diluted shares outstanding.

And for the full-year of 2021, total revenue is now expected to be in the range of \$1.268 billion to \$1.272 billion, up 44% year-over-year at the midpoint. Non-GAAP operating income is now expected to be between \$107 million and \$109 million. Non-GAAP diluted net income per share is now expected to be between \$1.67 and \$1.69. This assumes 50.5 million fully diluted shares outstanding.

As you adjust your models, keep in mind the following. At current spot rates, we're forecasting an FX tailwind to as-reported revenue of 2 points in Q3, a neutral impact to Q4 and a 3 point tailwind for the full-year. Lastly, I look forward to seeing many of you again for our Virtual Analyst Day as part of our INBOUND 2021 event on October 12.

And with that, I'll hand things over to Brian for some closing thoughts.

Brian Patrick Halligan

Co-Founder, Chairman & Chief Executive Officer, HubSpot, Inc.

Thanks, Kate. It's a true pleasure to be able to speak with all of you again. I'm so proud of the entire HubSpot team. They've been absolutely cranking during my time away. And I'm so thankful for the work that Yamini, Dharmesh, Kate and the rest of the leadership team have done in my absence. My sincere thanks to all of you.

I also want to say a huge thank you to all of you for the well wishes over the past couple of months. The road to recovery has been a long one, but I'm feeling really, really good. My head is 100% back. My body, well, that needs a little more physical therapy, but I'm making great progress and should get back to 100% quite soon.

Now, back in June, we celebrated our 15-year anniversary of HubSpot's founding. When I look back at the last 15 years, I'm super proud of what we've been able to accomplish. We built a truly mission-driven organization designed to solve for the customer and actually helped millions of organizations grow better. This past year, we've hit some exciting milestones like passing \$1 billion in ARR and 100,000 customers.

These are just the start. HubSpot is still in the very early innings and has a lot more value to provide to our customers, partners and employees. One of the keys to the amount of success we've had so far is we haven't been afraid to take inspiration from the Warren Buffett quote that goes something like "someone is sitting in the shade today because someone planted a seed several years ago." That's HubSpot in a nutshell. We've been willing to plant seeds like shifting from a [indiscernible] (00:15:16) to a front office suite, shifting from a front office

suite to a front office platform, shifting to a freemium model, and many, many others that are all paying off quite nicely for us today, lots of shade going on.

Now, over the last six months, I've been thinking a lot about how I can have the most impact on HubSpot moving forward. And moving to the Executive Chairman role feels like a natural fit. As an executive member of the board, I'll be able to lean into the things that excite me, like planting and nurturing more of these seeds that will turn into big shady trees for years to come.

My transition to Executive Chairman would not be possible if we weren't super confident in Yamini's ability to lead HubSpot. When we hired Yamini, we knew we're getting an incredible leader with an amazing track record of holding high impact roles at SAP, Workday and Dropbox, who will be able to align marketing, sales and service teams and create a more cohesive experience for our customers.

But what we've actually gotten is so much more than that. Since the day Yamini arrived, she's made HubSpot better from reducing friction for our customers to leading the company with clarity and empathy through the pandemic, Yamani has proven she's ready to take on the role of CEO to help both HubSpot and our customers and partners grow better. And she's just a perfect complement to Dharmesh and me to write the next chapter.

I want to close out by once again thanking Yamini for her terrific leadership over the past six months and offering my heartfelt congratulations to her on this exciting milestone. Dharmesh and I have no doubt that she's the right person to lead HubSpot moving forward, and I'm super excited about the journey ahead.

I want to thank all of you for your time. Now, speaking of Yamini, over to you.

Yamini Rangan

Chief Customer Officer, HubSpot, Inc.

Thank you so much, Brian, for your kind words and for your incredible support during my time here at HubSpot. I'm deeply humbled, grateful, and super excited to take on this new role, in partnership with you, Dharmesh, and the entire HubSpot team. It was your visionary leadership as founders that got us here today, and that leadership will continue to be invaluable as HubSpot grow.

I'm excited to continue working together to build innovative products for our customers, create a remarkable culture for our employees, and ultimately make HubSpot, the number one CRM platform for scaling companies.

Operator, please open up the call for some questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question is from Samad Samana from Jefferies. Your line is open.

Samad Samana

Analyst, Jefferies LLC

Q

Hi, good evening. Welcome back, Brian. 2Q really representing [indiscernible] (00:19:14) the great company you and Dharmesh have built all of these years and Yamini's strong leadership steering it recently. Congrats on the move to Executive Chairman, really happy you're staying. And Yamini, congrats on your move to CEO full time.

I'd love to hear from both of you a little bit more about how you two will be dividing up the core responsibilities going forward and where each of you will be focusing your individual attention. And then, Yamini, maybe for you, it's obviously early, but you've been at the helm now for six months. It would be great to hear maybe if you could give us some thoughts about HubSpot's vision and strategy going forward.

Brian Patrick Halligan

Co-Founder, Chairman & Chief Executive Officer, HubSpot, Inc.

A

Samad, I will kick it off and hand it to Yamini. But it's great to hear your voice, my friend. Thank you very much for asking the first question here. I'll say I feel fantastic. My head has fully recovered from my accident. I'm thrilled to be back at HubSpot in this room with my friends and colleagues. It's just a terrific time for me.

Now, when I got hurt, I had a lot of time in my hands. I spent a lot of time in a hospital bed looking at the ceiling. And I was thinking about, what can I do? How can I add value to HubSpot in a bigger way going forward? I've been at this 15 years, and what's next for me? And I thought, this is a good time I'm going to become an Executive Chairman, and Yamini's going to become CEO. And it's going to be a one plus one equals three combination.

Yamini, we hired – I hired Yamini, she is a perfect fit for this job and for this phase of growth to take us to the next level. She's just a perfect fit. She's at my job for the last six months. You guys see the numbers are fantastic. She's done a masterful job. I'm very, very, very bullish on her.

In terms of dividing up what we're going to work on, we've talked a lot about that, and I'll let Yamini weigh in on her side. What I'm sort of focused on as Executive Chair is, first and foremost, I plan to be Executive Chair, active and engaged Executive Chair. And you probably heard me tell the bad joke that I used to say on these calls that if I ever leave HubSpot, they have to take me out on a stretcher or straightjacket. [indiscernible] (00:21:25) But my main role is to help Yamini do as best as she can, keep this thing rolling. I do feel like it's a very early innings of HubSpot.

Second thing that I've always enjoyed doing and help drive is plant those seeds that turn into big shady trees that we've all enjoyed over the years. The app to suite tree, we planted several years ago, it's still the small tree. There's a lot more growth to go in the suite. We're just now planting the suite to platform seed. That's going – it's going to go really well. It's top of the first inning on that seed. [ph] This puts the (00:22:03) freemium model, [ph] it's bet on (00:22:04) culture. These are seeds we planted a long, long time ago [ph] that have all paid off (00:22:09). And I like that type of work, and I like product and product vision. So that's kind of where I'm going to be focused and then just helping Yamini.

How about you, Yamini?

Yamini Rangan

Chief Customer Officer, HubSpot, Inc.

A

Yeah. Well, thank you, Brian. And I am so humbled, grateful and super excited to take this new role and write the next chapter of growth at HubSpot. It's not – I would say I'm particularly excited because I get to work with two brilliant people, Brian and Dharmesh, who have done this for 15 years, who have fantastic experience. The three of us share a lot in common: a growth mindset, just curiosity, focus on product innovation, focus on customer-centricity. And I think the combination of their experience plus my focus on scaling customers is going to be powerful.

You asked a question about the vision and strategy. Our vision is clear. Our vision is to help millions of organizations grow better, and we're just getting started in accomplishing that vision. And our strategy over the last six months and over the last couple of years, it's been working, it's clear and it's not changing.

And if I had to articulate the strategy, it's threefold. First off, we want to build a best-in-class CRM platform for scaling companies. And we'll do this by expanding into new hubs, like you saw us do with Operations Hub last quarter. And we'll do this by investing heavily into our existing hubs, like you heard about the CMS Hub this quarter. We have just a long way to go, a lot more to do in terms of the product.

The second part of our strategy is fueling all of our segments. Now, we focus on the 1 to 2,000 segment. And historically, they've been really good at the 20 to 200, and we have unparalleled product market fit there. We've been investing heavily in the lower end of the segment, 1 to 20. And we'll continue to invest in the 200 to 2,000. So we have just a great enterprise class of product with consumer-grade ease of use, and this is working.

And finally, the third part of the strategy, I'm very excited about is that, we are continuing to build an organization that can scale. We care deeply about our employees. We care deeply about diversity. And we want HubSpot to be in a place that's really the best place for people to work and serve our customers. So, I'm super excited to get started on this journey and write the next chapter of growth at HubSpot.

Samad Samana

Analyst, Jefferies LLC

Q

Great. Thank you both for that detailed answer. And Kate, I know the big news was the transition, but it wouldn't be a HubSpot quarter if I didn't ask on the financials. Just that billings number was very, very strong. I know [ph] there's an (00:25:06) easy comp there, but even if I look against a very strong 1Q. Maybe could you just help us unpack if there's anything that changed in terms of either duration or was just – were there more larger customers in the quarter that lean toward Enterprise and took more seats than normal? Just help us understand the really good amount of strength there.

Kate Bueker

Chief Financial Officer, HubSpot, Inc.

A

Yeah. Sure thing, Samad. Billings growth was notable – notably strong in Q2. Frankly, there's not much out of the ordinary here. There's not a lot of big changes in duration. The biggest driver of the billings performance was the strong bookings growth that we had in the quarter. The one thing that I would point out, and you kind of got it in the question, is that there is a relatively easier compare for billings relative to revenue in constant currency. You might remember last year, in Q2, we ran a number of short-term customer relief plans that had a bit of a negative impact on our Q2 2020 billings. And so billings have just, frankly, a little bit of an easier comp than revenue.

Samad Samana

Analyst, Jefferies LLC

Q

Great. Thank you. Brian, we'll miss you on the call, but congrats again, and look forward to seeing you at future INBOUNDS.

Brian Patrick Halligan

Co-Founder, Chairman & Chief Executive Officer, HubSpot, Inc.

A

Yeah. I'll see you actually pretty soon at – I'll be at the Investor Day at INBOUND. So we'll see you soon.

Operator: And our next question is from Mark Murphy from JPMorgan. Your line is open.

Mark R. Murphy

Analyst, JPMorgan Securities LLC

Q

Yes, thank you, very much. Brian, as much as I enjoy reading your tweets, it's so much better to hear your voice live. So, great to hear from you, and congrats to both of you on all these tremendous milestones.

Yamini, let me start with this. I think you've talked in the past about bringing high-end features down to mid-market companies. I'm just wondering which features maybe have driven the greatest traction recently in some of the Enterprise additions, whether it'd be Custom Objects or account-based marketing or different channels that are emerging. Just anything else that you see which might be resonating in the results here?

Yamini Rangan

Chief Customer Officer, HubSpot, Inc.

A

Yeah. Thanks a lot, Mark. Good to hear your voice and I appreciate your wishes for both Brian and myself. I'd say that Enterprise – all of the product investments that we have been making in Enterprise is working. Our strategy is really to build products that fit every one of our segments. And our upmarket segments from 200 to 2,000, that's been a focus area for us.

Now last year, we powered up Marketing Hub, and a lot of the features that we announced at the beginning of the year deeply resonated with our customers. And at INBOUND, we launched Sales Hub Enterprise as you know and Custom Objects, huge hit a lot of the CPQ advanced features that we added, huge hit. In Q1 of this year, we added Conversation Intelligence. Now, this is a category in and of itself, the fact that we added it to power a hub and is now a seamless part of our whole suite, that is resonating deeply within the market. So, our strategy for continuing to build powerhouse features while maintaining the ease of use that is consumer grade, I think that is what is working. And, broadly, if you look at the upmarket, we're just getting a fair share of a fast and growing market, and we'll continue to invest both on products as well as go-to-market to continue fuelling that.

Dharmesh Shah

Chief Technology Officer, Director & Co-Founder, HubSpot, Inc.

A

One thing that we've seen from our -

Mark R. Murphy

Analyst, JPMorgan Securities LLC

Q

Okay.

Dharmesh Shah

Chief Technology Officer, Director & Co-Founder, HubSpot, Inc.

A

Go ahead – just kind of adding from there is that, we talked about Custom Objects, which has been really well received, we're continuing to pull on that trend. So, we have Custom Objects, customer data association, things that customers have been asking for. And the idea there is for a company to be able to model its entire business within HubSpot. So the more flexible database they gets, the more data we can hold there. And the higher percentage of that's 200 to 2,000 segments we can serve well.

Mark R. Murphy

Analyst, JPMorgan Securities LLC

Q

Okay. Thank you for that. Appreciate the additional color. Yamini, just as a quick follow-up, it sounds like you're mostly focused on executing on the pre-existing roadmap and strategy, you've been a big part of it, it's been performing amazingly well. I think kind of following on Samad's question, I am just wondering do you carry some unique philosophies or maybe just think the time is right to make any kinds of little tweaks or for instance, the focus up market versus down market or the optimal number of hubs right and the Conversation Intelligence the thing to think about or how deep to push on the operation side, any of those vectors where you have a little different view?

Yamini Rangan

Chief Customer Officer, HubSpot, Inc.

A

That's a great question. I think it goes back to the earlier thoughts in terms of strategy. Our strategy is clear. We have a focus on having the best CRM suite in the market. That means we'll continue to invest in our existing hubs, and we'll continue to make new investments in additional hubs. And there's plenty of ideas.

Mark, we just came from our annual strategy off site in June. And we have in our collective heads, product innovations for the next 15 years. And the focus on Horizon 1, Horizon 2, and Horizon 3 bets have worked really well for the company. And my job is to work with Brian, Dharmesh and to really empower that type of innovation going forward, as we have done.

I also think that our focus in terms of all of the segments, we're fired off every portion of our segment. And the way I look at it is, how do we continue to optimize where we are strong, which is the 20 to 200 segments, but how do you continue to optimize the product lead motion at the bottom-end as well as the upmarket motion through the investments that we have. And so that will continue to be the focus. And I'm super excited. I think we have the right leadership team in product. We have the right leadership team, and execution-focused team in the go-to-market, and I'm really excited to work with all of them.

Mark R. Murphy

Analyst, JPMorgan Securities LLC

Q

Excellent. Thank you.

Operator: And our next question is from Brad Sills from Bank of America Securities. Your line is open.

Brad Sills

Analyst, BofA Securities, Inc.

Q

Oh, great. Thanks, guys, and congratulations, Yamini and Brian, on your new roles. Well deserved both. And Brian, great to hear from you as well. Good to hear your voice again.

One of the things that stuck out for me in the quarter was the ASP acceleration, and a lot could be driving that. Obviously, you're executing upmarket. You're seeing Operations Hub traction. It's scale with some of the early results there. My question is, where is the incremental ASP growth coming from when you look across all the different levers that could be driving that? Just larger customers, more Enterprise uptake and upsell, Operations Hub, multiple products. There's a lot in there. If you could just maybe even to stack rank what's been driving that acceleration in ASP. Thank you.

Yamini Rangan

Chief Customer Officer, HubSpot, Inc.

A

Yeah. Maybe I'll take a shot at it. I think that it's sort of interesting to see where we had a really strong quarter, and that will tell you where you're seeing the real drivers of the ASRPC growth. The first thing I would say is real new business, our new additions were particularly strong in the Professional and Enterprise tiers, which tend to have a larger ASP. We had a really strong quarter selling into the installed base, including a record quarter for nominal upgrade from Starter into Professional and Enterprise tiers.

And then, you also saw the fueling of the cross-sell with the addition of the Operations Hub. And then I guess the final thing that I would highlight is just an expansion in the number of seats that we're seeing of our Professional and Enterprise customers on the sales side.

Operator: Thank you. Our next question is from Stan Zlotzky from Morgan Stanley. Your line is open.

Stan Zlotzky

Analyst, Morgan Stanley & Co. LLC

Q

Perfect. Thank you so much guys and congratulations on the very exciting moves within the company, and Brian, obviously, great to hear your voice back on these calls. A quick question from my end. You mentioned the pricing changes that you guys made to some of the products. Could you walk through the spirit kind of the pricing changes? Why and what? And as far as like the pricing changes, is it fair to say that you're going to follow a similar strategy as in the past of grandfathering existing customers when the pricing changes are mainly for new customers? And then I have a quick follow-up.

Yamini Rangan

Chief Customer Officer, HubSpot, Inc.

A

Yeah. Thanks a lot, Stan, for the question. In general, our pricing philosophy is twofold. What you will see us do is continue to bring high value-added features down to our freemium and Starter tiers. And what this ensures is that we manage disruption within our installed base versus allowing competitors to disrupt off.

The second part of the strategy is that it also ensures that we keep innovating and adding new features to our higher tiers, Pro and Enterprise. And so that's our broader pricing philosophy. It's worked really well for us. That's exactly what you saw us do with CMS. As we have added more features to Enterprise and Pro, we feel pretty comfortable that we are delivering a lot more value to our customers. And therefore, there's confidence in kind of increasing that price.

And in terms of your second question on grandfathering, very similar to before, we'll first roll this out. This will impact all of the new customers and then over a period of time, we'll grandfather.

Stan Zlotsky

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Got it. That's very helpful. And then the follow-up on net revenue retention, I know you guys don't really give it every quarter, but just maybe qualitatively directionally, how did it do relative to the really outstanding results you guys put up in Q1?

Kate Bueker

Chief Financial Officer, HubSpot, Inc.

A

Yeah. Thanks. We saw another really strong quarter of both customer dollar retention and net revenue retention. The story that we would tell you about retention in Q2 is basically the same story that I told you about retention in Q1. It starts with that foundation of customer dollar retention, where we've seen like really healthy trends there since the back half of 2020. And then again, similar to last quarter, there were a real diversity in terms of the upsell motions that are really driving the positive net revenue retention.

Operator: Thank you. Our next question is from Ken Wong from Guggenheim Securities. Your line is open.

Ken Wong

Analyst, Guggenheim Securities LLC

Q

Great. Thanks for taking my question, and kind of congrats across the board from me as well. Building on Stan's question just on CMS Hub, so just thinking about that kind of the new basic SKU there. Is this intended to get the laggards over to adopt? Or should we view this as potentially a way to open the funnel into the HubSpot franchise using CMS?

Brian Patrick Halligan

Co-Founder, Chairman & Chief Executive Officer, HubSpot, Inc.

A

That's a great question, Tim. Thank you. So taking a step back, if we think about CMS and why we're in that business, so CMS is one of the things that makes HubSpot unique. There are no other leading CRM platforms that have a legit content management system as part of our overall platform offering. If you ask us why is that, I think the reason is, is because it's really hard to build a CMS. It's different from everything else. It's like picking up trombone, which is say, okay, well, it's kind of hard. You have to get to use that sliding thing to find it. There's no keys or anything else that. It's difficult. By the way, sliding thing is an official musical term, in case you're wondering. But the reason – but if you have a marching band, you need a trombone and that's what kind complete the thing.

And so if you need – if you want a full CRM platform, you need a CMS. And the reason is it's not just about putting a website up there. It's about making the website a window into the back-end data into the CRM itself and bringing the customer in. It's about forging that connection. So we're really excited about it.

In terms of why we launched a Starter tier, it's basically exactly what you were alluding to. We've been getting this kind of web experience up is the first step often in the digital journey, and we want customers to take that first step correctly. So we want to bring as many people on to the platform using CMS Starters as we possibly can and kind of get them on the CRM platform from HubSpot and helps kind of grow from there. So we're super excited about the opportunity it opens up.

Operator: Thank you. Our next question is from Alex Zukin from Wolfe Research. Your line is open.

Alex Zukin

Analyst, Wolfe Research LLC

Q

Hey, thanks, guys. Well, Brian, first, great to have you back, sad to see you go. Yamini, really excited to work with you. Maybe just the first question for you, Yamini. If you think about the – what you see in the pipeline, what you see in customer behaviors as we look out to the second half and into a new post-COVID world, can you kind of compare and contrast that with either what you saw in the first half and what you saw in the second half of last year for us?

Brian Patrick Halligan

Co-Founder, Chairman & Chief Executive Officer, HubSpot, Inc.

A

Hi. Alex, I'll start that. I'm actually not going anywhere. I'm going to be Executive Chairman and super active. And hopefully, for a long, long time, I'm going to be very active in HubSpot in helping drive strategy and partnering with Yamini. So you're not getting rid of me that easily, my friend.

Yamini Rangan

Chief Customer Officer, HubSpot, Inc.

A

I would echo that. Brian's like super active, always challenging us, always inspiring us. So that's pretty good. We're glad to have come back in full force. So Alex, the question in terms of demand environment comparing first half and second half, our demand environment is solid, similar to what we saw in the last quarter.

Now, if you step back, our product is really unique relative to competition. I'd say, we have a very, very strong value proposition that is resonating in the market. And Brian talked about sowing seeds. I think we've done enough product investments in the past few years, and you're seeing all of that pay off. We not only have that product market fit, but we also have a go-to-market fit. And the combination of those two are really helping us drive really strong financial results.

Now, in terms of pipeline, I'd say that the digital-first and digital-ready, both of those trends are here to stay. We're not going back from here. We are clearly seeing our customers modernizing their CRM platform from website to marketing to sales and service. They're all focused on delivering a connected customer experience. And that's the kind of customer interest that we're seeing from a pipeline.

And in July, at the very beginning of the quarter, we actually gave our entire global employee base a week of rest. And we did that – it was a very important choice. We care about culture. We care about employees. We wanted them to rest, recharge and come back with a full focus in the second half, and that was the right thing to do. And I think I'm really feeling good about second half and looking forward to what they're going to do in the second half.

Operator: Thank you. Our next question is from Drew Foster from Citigroup. Your line is open.

Drew Foster

Analyst, Citigroup Global Markets, Inc.

Q

Hey, guys, thanks for taking the questions. Great to hear you doing well, Brian, and congrats, everyone else on their new roles. Given everything that's been said about some of the importance of digital channels not going away, can we get an update on where net logo retention stands today? And as you reflect over sort of a more protracted period, maybe two or three years, what are kind of the one or two things playing the biggest role there? Is it a greater share of customers using more products and just general stickiness? The category more broadly rising in strategic importance? Maybe just give an update and touch on drivers there. Thanks.

Yamini Rangan

Chief Customer Officer, HubSpot, Inc.

A

Yes. We'll probably talk in a lot more detail around retention in general at the upcoming Analyst Day, but I would give you maybe a couple of points to take away. Customer dollar retention, which is not the same as logo retention, but is sort of the baseline of how we think about it internally, is very strong and showed specific improvements through the back half of 2020 and stayed at that new elevated levels for the first and second quarter of this year. And I think it sounds kind of elementary, but the truth is that what we're seeing is that our customers are just using the product more. And as it turns out, that leads to higher retention. And we are, as a result, enjoying really healthy core retention levels.

Operator: Thank you. Our next question is from Terry Tillman from Truist Securities. Your line is open.

Terrell Tillman

Analyst, Truist Securities, Inc.

Q

Yes, thank you, and Brian, congrats and good luck on the next chapter. But I think on one of the last questions, I think you said you're going to stay on this call going forward. So I'm going to – that's my base case. So, we'll see you on the next call, and good to have you back. And congrats, Yamini, as well.

I guess my question just relates to – it was echoed a couple of times in terms of installed base selling strength. I think it was mentioned by Yamini maybe and Kate, if I'm not mistaken. What I'm curious about is, has there been some things you've done internally on a programmatic basis to kind of turn that dial more and/or investments? And is this more – should we see more of this in the future where there's more of a structural shift where you're just getting a lot more from the installed base selling each quarter? Thank you.

Yamini Rangan

Chief Customer Officer, HubSpot, Inc.

A

Terry, thank you for the wishes. I really appreciate it. I think in terms of the installed base, like our existing customers now have a lot more products that they can adopt, right? And in the past couple of quarters, we have introduced Operations Hub. We have improved the additions on a number of hubs, and so there's a lot more product for them to adopt. And I think that product has gotten much better. So when our customers are on one hub, and then they see the value of a seamless single data model, single interface of other hubs, that naturally pulls them in. We – so the product investments are probably the first ones that I talk about.

I think the second part of it is that we certainly, from a go-to-market perspective, have invested more heavily in our customer success team, working more closely with our sales team. And that helps us connect the dots in terms of installed base, and that's certainly been part of it.

Now going forward, I'd say we want to have a balanced approach. We would – we continue to acquire a lot of new customers because of the strong value proposition that we deliver, and we continue to sell into the installed base. So you'll see the balance of both of these across our future quarters.

Operator: Thank you. Our next question is from DJ Hynes from Canaccord. Your line is open.

David Hynes

Analyst, Canaccord Genuity LLC

Q

Hey, guys. Congrats, everyone, on the new roles and the continued success. [indiscernible] (00:45:50). Just a go-to-market question on Operations Hub. Is the buyer there somebody that you're already talking to when you're selling Marketing and Sales? Or is it somebody else in the organization that sits on top of those efforts? I'm just trying to think about the ease of cross sell and whether in most cases it's somebody you already know that's familiar with HubSpot?

Yamini Rangan

Chief Customer Officer, HubSpot, Inc.

A

That's a great question, DJ. That's a fantastic question. I'll say the buyer for Operations Hub is revenue of persona. Now I spent a better part of the couple of decades in CRM running these operations teams. And they're really the nerve centers of go-to-market functions. They're sometimes the unsung heroes but they have a really critical role to play, which is providing the single source of truth of our customers through VP of sales, the head of marketing, the head of customer success. That's the persona. And it's – they've always been involved in a CRM purchase, and now we are providing them the flexibility and the power for them to deliver insights into the front office.

And if you really step back on Operations Hub, it's a couple of things. It really helps our customers connect their tech stack. It helps our customers clean up the data. It helps our customers automate the processes. And these three challenges are traditionally the ones that revenue operations teams and all of our customers struggle with. And so it's really helping that critical persona be very, very successful.

And we see a lot of traction. As I mentioned in my prepared remarks, we are seeing very positive feedback from our customers as well as partners. And programmable automation has been on fire, really good traction. Clean use case of that is lead routing. You want to do advance lead routing. You are able to take all of the data from CRM, but also figure out what's the rep capacity, the rep seniority, rep is on vacation, the rep is on sabbatical, and use all of that information to now be able to automate your processes. And so Operations Hub provides flexibility, automate processes and supercharges our CRM suite.

Operator: Thank you. Our next question is from Brian Peterson from Raymond James. Your line is open.

Brian Peterson

Analyst, Raymond James & Associates, Inc.

Q

Thanks for taking the question. And Brian, it's great to hear your voice and glad to hear you're well. And congrats to you and Yamini in new roles. So maybe just a higher-level question for me. I'm curious if you – if we're looking at the pace of net new customer adds, I'm curious how much does the platform in the breadth of functionality between different areas come up? I guess I would think that post-COVID, people are looking to maybe consolidate vendors and think about simplification of a digital go-to-market model. Is that something that's coming up in a lot more conversations? And how do we think about that impacting win rates? Thank you.

Yamini Rangan

Chief Customer Officer, HubSpot, Inc.

A

Yeah. Brian, I'll address that and then have maybe Kate or Dharmesh jump in. You're exactly right. Like if you think about our customers, they're coming through this whole pandemic saying, one, I need to digitize my entire front office. And the starting point could be very different. The starting point could be a bunch of point solutions. It could be greenfield. They're using something like a Stretchy or they have a legacy system, and they're looking at providing an entire connected customer experience, and therefore, having an all-in-one solution resonates pretty

deeply with them. And that's part of what we are enabling through the CRM suite, and we definitely see that motion beginning to happen.

And I think we'll continue to invest in CRM suite. Now, the CRM suite is like very powerful. One of the things that for us works is that, when you get CRM suite in the hands of new customers or existing customers, they now see the power of the entire platform. There is higher product usage. Therefore, we get much better feedback on the product. Therefore, we can improve the product. And it's a nice little flywheel in terms of how we can drive the quality of our products even higher. And so there's a lot of goodness. And certainly, that's what we are seeing in terms of trends from our customers.

Dharmesh Shah

Chief Technology Officer, Director & Co-Founder, HubSpot, Inc.

A

Yes. One thing I'll add is that we – as you would expect, we see 1,000 companies that want to make that digital transformation be digital first. But that kind of path to digital transformation is often paved with good intentions, but really terrible IT implementation. It's so complicated because they have all these databases in multiple systems. So this kind of value proposition that HubSpot brings, which is we can simplify that. We can bring it all together into one operating system, one platform, one database, one experience, one company to call is a very compelling value proposition because most of these mid-market companies are dealing with that complexity as they scale, and we help with that. It's resonating really well.

Operator: Thank you. Our next question is from Parker Lane from Stifel. Your line is open.

Jeffrey Parker Lane

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Hi, thanks for taking my question. You've done a tremendous job in the last few years of really making the platform applicable to customers of all sizes with the Starter and Enterprise editions of all your tools. I was just wondering if you could talk about the multiproduct adoption across those different tiers. Is it mostly weighted towards the Enterprise customers that are using multiple HubSpot products? Are you seeing a lot of traction as well to the point you're just making at the Starter level as well as getting them in the door and attaching some newer solutions around the initial [ph] land (00:51:34)? Thanks.

Kate Bueker

Chief Financial Officer, HubSpot, Inc.

A

Maybe I'll start with some numbers and pass it on to Yamini for a little bit more color and context. We've talked about this for a number of quarters. The growth in our multiproduct adoption, so customers who use two or more of our products, has been on this sort of steady trajectory up for a number of years now. And that has happened across all of the tiers from the Enterprise to the Starter. We did see a bit of a step-function inflection last spring when we introduced the Starter Growth Suite at that really simple \$50 price point easy to buy. And so we see a lot of uptake at that Starter level of just the full set of HubSpot products.

As I shared in my prepared remarks, we're at 58% of our customers who are using more than one HubSpot product. And when you look at that, new customers are probably 50-50 now adopting multiple HubSpot products.

Yamini Rangan

Chief Customer Officer, HubSpot, Inc.

A

Yeah. I think to add to the commentary Kate provided, I think if you step back, we solve something really important having all of these products, which is we take a very crafted approach to CRM. It is not cobbled

together through acquisitions. And if you step back and think about the single biggest challenge for customers, they're putting together very complex tech stacks. And they're spending a lot of time on integration. They spend a lot of time on developers, spend a lot of resources there. And yet the customer experience, their end customer experience is not great for that. And therefore, for us are – the focus on multi-hubs is to provide one data model, a single view of the customer, a simple interface that's easy to use that is crafted and not cobbled together. I think that's what our customers like, and that's what is resonating with the market.

Operator: Thank you. Our next question is from Ryan MacDonald from Needham & Company. Your line is open.

Alex Zukin

Analyst, Wolfe Research LLC

Q

This is Alex Narum on for Ryan. Congratulations on a strong quarter. I was hoping just to get a little bit of additional information on the strength in the international?

Yamini Rangan

Chief Customer Officer, HubSpot, Inc.

A

Yeah. Brian, thank you for that question. We saw very consistent growth both in North America as well as international. As we mentioned, international has been growing really well. I think, year-over-year, a few points up from last year. If you step back on international, the market there and digital transformation is in earlier stage. A lot of the customers in international markets are looking at being digital-first, digital-ready. And really, it's in earlier stages, which means there is an even bigger opportunity for us.

I think the second part is that we've been investing steadily in a lot of the international markets from product localization, in terms of content for lead management, in terms of customer-facing resources and even brand. And those investments are paying off. Our LTV-to-CAC is really solid in these markets, and so we'll continue to invest in international markets.

I think the exciting part of it is that North America is a really big market, and that's doing well too. I think we're seeing very balanced consistent growth across all of the markets that we operate in, so very pleased about that.

Operator: Thank you. Our next question is from Siti Panigrahi from Mizuho. Your line is open.

Matt Diamond

Analyst, Mizuho Securities

Q

Hi, everybody. It's Matt Diamond on for Siti. One quick question for me, is there anything to be called out for the linearity of bookings this quarter? Your tone certainly suggests that there's some incremental conviction in the second half. I'm curious if something happened in the quarter that might have catalyzed that, that may not have been asked more directly.

Kate Bueker

Chief Financial Officer, HubSpot, Inc.

A

No. There's nothing that I would – there's nothing I would share around linearity of bookings.

Operator: Thank you. Our next question is from Michael Turrin from Wells Fargo. Your line is open.

Michael Turrin

Analyst, Wells Fargo Securities LLC

Q

Hey, there, thanks. Good afternoon. Yamini, congrats on the promotion. I hope regardless, you are planning to keep the whole music for earnings calls the same. I mean I got to sleep. It's much more pleasant with the jazz music and the classical, so appreciated. I mean there have been some questions on it, but the average revenue per customer metrics certainly stands out, as do comments on just expectations that trend can hold for the rest of the year. So can we just go back to that? I am wondering if some of that's just tied to this being the other side of the strong customer add strength we've seen over the past year and then just how much the new hubs and what you're doing with bundling also just helping out there? Thank you.

Kate Bueker

Chief Financial Officer, HubSpot, Inc.

A

Yeah I mean I think you've got it in terms of the underlying theme. We've talked about this in the past. There are in the [ph] last quarter-over-quarter (00:57:11) variability in the KPI metrics in particular the customer additions and the ASRPC. And you know what we saw this quarter was strong Professional and Enterprise trend, strong install base selling trends. And as a result what you're seeing is that ASRPC is up nicely year-over-year. And frankly, if you strip out the Starter and looked at ASRPC it's like up even more.

And so, we don't guide as you know to our KPI metrics and the frankly we don't guide because that's how we manage the business. And so, I share some commentary around back half in the prepared remarks around the expectations. We think that we should see net customer adds for the back half of the year in and around what we saw in Q2. And with that would come an ASRPC growth in the high single digits.

Operator: Thank you. Our next question is from Michael Turits from KeyBanc Capital Markets. Your line is open.

Michael Turits

Analyst, KeyBanc Capital Markets, Inc.

Q

Hey, guys. Quick congrats to Brian and Yamini. Kate, just briefly, you mentioned it, but on the strength in the Pro and Enterprise edition for new customers, anything in particular drive that? Because obviously, it's one thing to have added Starter a while ago at a lower price and have driven new customers, but to see that strength in the Pro and Enterprise for new customers is impressive. So how do you get that?

Kate Bueker

Chief Financial Officer, HubSpot, Inc.

A

Yes. Thanks. I mean this is – it's not a new thing for Q3 – I mean for Q2. We talked about it last quarter as well. We had really strong new customer additions in Pro and Enterprise in Q1 and Q2, and I think for all of the reasons that Yamini has talked about throughout the call.

Operator: Thank you. Our next question is from Brent Bracelin from Piper Sandler. Your line is open.

Brent A. Bracelin

Analyst, Piper Sandler & Co.

Q

Thank you. And Yamini, congrats on the promo. Brian, not only is it great to hear your healthy, but also great to hear you're planning to remain active with the broader team here. Again, wanted to go back to the durability of growth here. We've been trained here over the last four years not to think of ASRPC as a driver to growth. In fact, it's been a slight drag to growth the last four years. This quarter, five year high at 8%. It's emerged as the

incremental growth lever to the business. My question is, are we entering a new period where we could see both strong new customer additions and this revenue expansion, ASRPC expansion as an incremental lever to growth? Or is it too early to really weigh in on that? I get that you have some easy comparisons here, but it does feel like we are entering a new period here where this could be a nice incremental lever to growth as well.

Kate Bueker

Chief Financial Officer, HubSpot, Inc.

A

Yeah. I guess what I would tell you is, and we've been talking about this over the last three quarters, is that we have seen really nice customer additions and quarter-over-quarter expansion of ASRPC. I think this quarter marks a little bit of a different milestone, where we're seeing a real increase on a year-over-year basis as well. I think – yes. What – you would be surprised if I declare something here. What I'm going to tell you is that we expect that we will continue to see variability quarter in and quarter out of ASRPC and new customer adds. And that's going come as we innovate at the high-end, innovate at the low-end, introduce new products. And so, I think I shared our expectations for the back half of this year, but I don't think we are at a point where we would declare sort of a long-term trend at this point.

Operator: Thank you. Our next question is from Kirk Materne from Evercore. Your line is open.

Kirk Materne

Analyst, Evercore ISI

Q

Thanks very much and I'll echo the congrats to both Brian and Yamini. Yamini, maybe just on the Pro and Enterprise side of the business, seeing such good traction. I was just wondering how you think about the evolution of sort of your partner platform as you start talking to more of these customers that have maybe more bespoke needs. Are there things you're thinking about in terms of trying to lead various features for your partners to develop? Or are you thinking about sort of focusing on partners that might have more vertical expertise in certain areas where you're seeing trends? I guess just at a high level, how are you thinking about sort of the evolution of the partner ecosystem? Thanks.

Dharmesh Shah

Chief Technology Officer, Director & Co-Founder, HubSpot, Inc.

A

Sure. So, this is Dharmesh. When we think of the ecosystem, there's actually multiple parts there. There's the kind of app platform or the app ecosystem where there's a software company building integrations and extending HubSpot. And there's the solutions partner ecosystem, which basically help us service HubSpot and then bring in to different markets. Now, I'll let Yamini speak to the solutions partner side. On the app platform, we've seen great traction, more and more companies building and extending HubSpot using our APIs. And the thing we love about that is that it really kind of spins the flywheel. The more of those applications we get, the more of our customer problems we solve. We've seen a strong correlation between a number of apps on uses and their retention rates, so that's awesome. And the more apps we have the more customers we get. So those things kind of feed each other and kind of fuel the flywheel. So the app platform itself is going really well. And I'll let Yamini speak to the solutions partner program.

Yamini Rangan

Chief Customer Officer, HubSpot, Inc.

A

I think that's a very good commentary on the app side. I think on the solution partner side, we are diversifying our entire ecosystem. I mean – and our partners are continuing to go there in terms of CRM implementations, integrations, much more complex implementations. And we are really focused on this. Earlier this year, at Partner Kickoff, we went to our partners and we said, look, we want to scale with you. So the strategy has been scaled

with partners, which means we will sell more with partners and enable our partners to service our customers. And that's good for our customers, and that's good for partners, and therefore, it's good for HubSpot.

And in terms of the investments with our solution partner ecosystem, we'll continue to work on improved incentives. We have been investing pretty heavily on enabling our partners, so they can go to market with us when we do product launches, and that's beginning to work. And we'll continue to invest in scaling services through the partners. And so, we definitely see them as part of scaling HubSpot, and they play a critical role.

Operator: There are no further questions. I will now turn the call back over to Brian Halligan, Executive Chairman for closing remarks.

Brian Patrick Halligan

Co-Founder, Chairman & Chief Executive Officer, HubSpot, Inc.

Thanks, everyone, for joining and look forward to seeing you at the virtual Analyst Day and INBOUND.

Operator: Thank you, presenters. Ladies and gentlemen, this concludes today's conference. Thank you for your participation, and have a wonderful day. You may all disconnect.

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