



HubSpot, Inc.

First Quarter 2022 Earnings Conference Call

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PRESENTATION

Operator

Hello, and welcome to HubSpot's Q1 2022 Earnings Call.

I would now like to hand over to our host, Chuck MacGlashing, Head of Investor Relations, at HubSpot. Please go ahead.

Charles (Chuck) MacGlashing

Thanks, Operator. Good afternoon, and welcome to HubSpot's First Quarter 2022 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 Yamini Rangan, our Chief Executive Officer, Dharmesh Shah, our Co-Founder and CTO, 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 may be 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, and business outlook, including our financial guidance for the second fiscal quarter and full year 2022.

Forward-looking statements reflect our views only as of today and, except as is 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 the 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 first quarter 2022 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 Executive Officer, Yamini Rangan. Yamini?

Yamini Rangan

Thank you, Chuck, and welcome, everyone. Thank you for joining us today as we review HubSpot's first quarter 2022 results.

To start off, I first want to acknowledge the devastating situation in Ukraine. We're deeply saddened by the Russian invasion and our hearts go out to the people of Ukraine. With this war and ongoing pandemic and volatile markets, it's clear that we continue to live in a time of great uncertainty. 2022 is a year of focus and consistency at HubSpot for that exact reason.

With that backdrop, now let's talk through HubSpot's first quarter results.

HubSpot saw strong performance across the business, with revenue growing 44% in constant currency year-over-year in the first quarter and total customers growing 26% year-over-year to more than 143,000 customers globally. These results prove that HubSpot continues to be mission-critical for our customers.

The pandemic accelerated digital transformation and fundamentally transformed the way companies work, buy and sell. Our customers are faced with hybrid work, decentralized teams and disconnected systems, creating a significant growth challenge. As a result, they're realizing it's even more important to have a single, unified view of the customer in order to grow. That's why our customers continue to choose HubSpot. We provide a connected, easy to use platform that enables growth.

In 2022, we're continuing to focus on helping our customers grow and executing on our clear growth strategy. We've previously shared the four strategic priorities guiding our path to becoming the number CRM platform for scaling companies. Now, I want to walk you through the meaningful progress we made over the past quarter in each of those areas.

Our first strategic priority is to deliver a world-class front office platform by investing in our anchor hubs and innovating with new emerging hubs. We have recently crossed two important milestones on this front.

First off, I'm thrilled to report that Marketing Hub surpassed \$1 billion in annual recurring revenue in the first quarter. We have built a world-class marketing automation platform that's powerful and easy to use. Over the past couple of years, we've made significant investments to better serve all of our customer segments. We've enhanced the onboarding and user experience, and introduced simple automation functionality to free and starter tiers. To serve the higher end of the market, we rolled out business units and advanced reporting capabilities to drive deeper insights. These investments have enabled Marketing Hub to achieve significant scale of \$1 billion in ARR, and now we have the opportunity to replicate the success across all of our anchor hubs. HubSpot operates in markets with very large TAMs, and when we build world-class products that solve for our customers, like Marketing Hub, we see scale. I'm incredibly excited about this milestone and the opportunity ahead for HubSpot.

The second milestone is that we recently relaunched Service Hub with expanded features and functionality. In today's hybrid world, customers expect a service experience that's human and exceptional. We built Service Hub to enable small and medium businesses to deliver that kind of exceptional service. Our Service Hub strategy is threefold: build a modern support center, deliver omnichannel support and drive AI-powered automation and insights. As part of the relaunch in March, we introduced service level agreements, a mobile hub desk and support workspace to fuel a modern support center. To power omnichannel support, we added customer portals, live chat, Facebook Messenger and email functionality, and to provide our customers with richer automation and insights, we added feedback surveys and ticket automation. I'm also pleased to share that inbound calling is now generally available to Service and Sales Hub customers as of this week. We believe this will empower our customers to provide an even more authentic service in real time. I'm excited by the early feedback we are hearing from our customers about the new features and the value that they're seeing from Service Hub.

One such customer is Dake, a trusted name in metalworking manufacturing since 1887. Their legacy customer service system was holding them back from providing a level of service that matched the quality of their product. So, Dake started with Marketing Hub and Sales Hub, they saw a ton of value from HubSpot, and expanded to Service Hub as a result. Dake now uses shared inboxes to gain visibility into customer interactions throughout the journey and leverages automation to streamline all of the manual tasks, all of which increases their productivity. With Service Hub, Dake has improved their customer satisfaction score by 13 points, up to 87%. This illustrates how a connected platform makes it possible to remove friction and deliver an incredible customer experience.

Now, let's talk about our second strategic priority, which is to strengthen our segmentation approach across both product and go-to-market. Our approach here is twofold: we want to drive volume at the lower end of the market with products that are easy to buy and easy to use, and we want to fuel value on the higher end with robust features for customers with sophisticated needs.

In Q1, we made a few key investments here. On the lower end, we introduced simple automation for free and starter tiers, as I mentioned earlier. In addition to that, we are running experiments, like pricing page optimization and self-guided demos. These investments are resulting in strong adoption of our starter suite. Within our upmarket segment, both our Direct Sales Team and partner channel are focused on driving multi-hub sales, and the investments we are making are beginning to pay off. We're seeing multi-hub adoption grow, with 24% of our professional and enterprise customers now using three or more hubs. Looking ahead, we'll continue to focus on making HubSpot an easy choice for scaling businesses and driving multi-hub adoption upmarket.

Our third strategic priority is to invest in payments and commerce. As more businesses become digital-first, having a native payments solution is critical for SMBs to grow. On our last call, I shared that HubSpot Payments had just become generally available in the U.S. for B2B customers. I'm pleased to share that we have already expanded the offering with the addition of recurring ACH functionality and Payments Dashboard and Object, which are currently in beta. Payments Object is a top-requested feature, because it really enables customers to see commerce data in all of their CRM interactions, delivering an even more unified view of their customer's journey. We're continuing to hear positive feedback from customers confirming the opportunity we see to empower businesses with a commerce-enabled CRM. That said, we're early in our Payments journey and our focus remains on building the features on functionality our customers need to help them grow.

Moving on, our fourth and final strategic priority is to build a sustainable company. An important part of that journey is hiring and developing diverse talent. In the last quarter, we released our annual diversity report and I want to celebrate how far we have come as a company. Today, 47% of HubSpot employees globally identify as women or non-binary, up seven points over the past five years. In the U.S., 35% of employees identify as BIPOC, up 20 points from 2017. Additionally, we have four women on our Executive Leadership Team, I'm particularly proud of that, and 70% of our Board identifies as a woman or person of color. I'm incredibly proud of how far we have come, and we'll continue to work towards building a company that reflects the diversity of our customers.

With that, I'll turn it over to Kate to give an overview of our financial results for the quarter. Kate, take it away.

Kate Bueker

Thanks, Yamini.

Let's turn to our first quarter 2022 financial results.

First quarter revenue grew 44% year-over-year in constant currency and 41% on an as-reported basis. Q1 subscription revenue grew 42% year-over-year, while services and other revenue decreased 4% on an as-reported basis. Domestic revenue grew 37% year-over-year in Q1, while international revenue growth was 53% in constant currency and 44% as reported. International revenue as a percentage of total revenue increased by one point year-over-year to 46% in Q1.

We added 8,200 net new customers in the quarter, bringing our total customer count to over 143,000, up 26% year-over-year. Average subscription revenue per customer grew 12% year-over-year to just over \$11,000, driven primarily by continued multi-hub adoption and strength in our enterprise tier.

Deferred revenue as of the end of March was \$463 million, a 36% increase year-over-year.

Calculated billings were \$423 million in Q1, growing 41% year-over-year in constant currency and 39% as reported. Consistent with trends we've seen in prior quarters, constant currency revenue growth exceeded constant currency billings growth in Q1, primarily as a result of the strong install base selling mix in the quarter and a lower overall billing duration.

The remainder of my comments will refer to non-GAAP measures.

First quarter gross margin was 82%, up one point year-over-year. Subscription gross margin was 85% in Q1, while services and other gross margin was negative 19%.

First quarter operating margin was 9%, up two points, compared to last year.

Net income in the first quarter was \$28 million, or \$0.54 per fully diluted share.

At the end of the first quarter, we had 6,400 employees, up 41% year-over-year.

Capex, including capitalized software development costs, was \$20 million, or 5% of revenue, in Q1, and free cash flow in the quarter was \$63 million, or 16% of revenue.

Finally, our cash and marketable securities totaled \$1.4 billion at the end of March.

Before I turn to our outlook, I wanted to highlight the impact of foreign currency translation on our as reported financial results. The U.S. dollar strengthened sharply throughout Q1 and into May. This has created a meaningful incremental headwind to our 2022 as reported revenue and non-GAAP operating profit, relative to the guidance we provided on our February earnings call. At current spot rates, we now expect FX to negatively impact full year revenue growth by five points, up from our prior expectations of a three-point headwind, and to create a headwind to non-GAAP operating profit margin of approximately a half a percentage point.

With that, let's dive into guidance for the second quarter and full year of 2022.

For the second quarter, total as reported revenue is expected to be in the range of \$409 million to \$410 million, up 32% year-over-year at the midpoint. We expect FX to be a six-point headwind to as reported revenue growth in the second quarter. Non-GAAP operating income is expected to be between \$27 million and \$28 million. Non-GAAP diluted net income per share is expected to be between \$0.42 and \$0.44. This assumes 51.2 million fully diluted shares outstanding.

For the full year of 2022, total as reported revenue is now expected to be in the range of \$1.722 billion to \$1.728 billion, up 33% year-over-year at the midpoint. As I mentioned, we now expect FX to be a five-point headwind to as reported revenue growth for the full year of 2022, representing an incremental \$30 million headwind to 2022 as reported revenue from our prior forecast. Non-GAAP operating income is now expected to be between \$152 million and \$154 million. This includes approximately \$10 million, or a half percent, margin impact from the incremental FX headwind. Non-GAAP diluted net income per share is now expected to be between \$2.40 and \$2.42. This assumes 51.5 million fully diluted shares outstanding.

As you adjust your models, keep in mind the following: We continue to expect capex as a percentage of revenue to be roughly 6% and now anticipate free cash flow to be about \$230 million for the full year of 2022, including a headwind of about \$10 million from the strengthening of the U.S. dollar, relative to our prior estimate.

With that, I'll hand things back over to Yamini for her closing remarks.

Yamini Rangan

Thank you so much, Kate.

I want to close out by sharing two exciting developments on HubSpot's Leadership Team and Board.

First, we recently welcomed Rob Giglio as HubSpot's new Chief Customer Officer. Rob is a customer-centric, multi-disciplinary leader who has seen tremendous scale from his time at Adobe and DocuSign. His expertise across marketing, sales and operations will meaningfully help HubSpot scale our go-to-market strategy through this next phase of growth.

We're also thrilled that Claire Hughes Johnson, former COO of Stripe, joined our Board this past quarter. We have so much to learn from her expertise scaling businesses, especially in the payments space.

I'm confident we have the right team to execute on our vision of helping millions of organizations grow, and I'm really excited about the impact both Rob and Claire will have on our business.

Looking ahead, our plan is to stay focused and execute on our four strategic priorities in 2022, to continue driving value for our customers, partners, employees and shareholders.

With that, Operator, please open up the call for some questions.

Operator

Thank you. Our first question today comes from Mark Murphy from JPMorgan. Your line is open. Please go ahead.

Mark Murphy

Yes, thank you very much. Kate and Yamini, I wanted to ask you—you're clearly absorbing just a tremendous amount of FX impact, we can see that, you're actually raising guidance in constant currency, but I think one of the questions is what is your sense of the overall health of inputs just in terms of business confidence and pipeline build? For instance, is there any hesitancy in Europe or interest rate pressures for your SMB customers, or do you think that that picture is actually fairly steady?

Yamini Rangan

Hey, Mark, thanks a lot for your question. Look, like, everyone else, we are paying attention to all of the macro-trends. We're watching interest rates, we're watching inflation, we're watching demand trends more broadly. In terms of the impact, Mark, we saw some pockets of delays in purchasing decisions from our customers, mostly in Europe. Now, having said that, and while the macro-economic environment could change, it has not been a material headwind to the growth of our business, and, more fundamentally, we're seeing a big secular change, where customers are adopting front office software to drive productivity and growth. As you know, our customers leaned into technology during the pandemic to

stay very, very connected to their end customers, and what I'm seeing now is that they're continuing to lean into technology as they operate in this hybrid world and drive productivity.

I think, more specifically, we made a CRM bet a few years ago, and that bet is working. Our product innovation is in high gear, as you just heard me talk about, the innovation that we—with the features we launched and relaunched this quarter. We're seeing customers consolidate on HubSpot, because we are quick to implement, we're easy to use and we are easy to adopt, and our value proposition is resonating within our customer base.

Mark Murphy

Thank you, and, Yamini, just to clarify that, anywhere there was a little pocket of purchasing delays in Europe, are you saying that that was kind of counteracted elsewhere in the world because the customs adds were a bigger number than we have seen in a while, and I'm sort of wondering how are the customer adds possible given there was kind of a more volatile environment and just slower new business formation.

Kate Bueker

Maybe, Mark, I'll jump in and talk specifically to the customer adds. We were, obviously, happy to see the net new customer additions sort of pop back up above 8,000 for the quarter. The growth we're seeing quarter-over-quarter is really being driven at that starter tier. We saw within the quarter a positive uptick in growth additions at the starter level.

Mark Murphy

Thank you.

Operator

Our next question comes from Gabriela Borges from Goldman Sachs. Your line is open.

Gabriela Borges

Hi, good afternoon. Thanks for taking the question. So, Yamini, maybe I'll follow up on the comments on Service Hub. Since the re-release and the upgrade, I'm curious what the feedback has been, and if you're starting to see the pipeline change or your conversion rate or win rate go up, based on some of the broader set of features and functionality.

Yamini Rangan

Hey, Gabriela, thanks for that question. I'm very excited about the Service Hub relaunch and the long list of new features that we launched. I think it's going to be game-changing for Service Hub, but, more importantly, it's just going to be game-changing for the entire CRM platform, because the combination of Marketing, Sales and Service Hub becomes even more powerful. I'd say that our focus, when we relaunched Service Hub, is just simple: we want our SMBs to be able to deliver just exceptional service. What you saw us deliver this quarter is a three-pronged product strategy, which is to build a modern support center, deliver just omnichannel support and provide AI-powered automation and insights, like ticket predictions and smart routing and conversation intelligence. So, overall, we launched a ton of features that are going to be pretty big needle-movers for SMBs.

The reactions have been very, very positive. We see it in both kind of demand strength for Service Hub, as well as feature usage. In fact, our ticketing usage has gone up since the relaunch, and that shows that customers are getting a lot of value from the features that we released.

If I step back, I see three big opportunities that begin to accelerate with this relaunch. First, I think we accelerate all of this cross-sell opportunity within the install base. So, I can see Marketing Hub customers, Sales Hub customers who have seen value from our platforms lean into Service Hub. Second, as I've mentioned, multi-hub adoption is a pretty big lever for us and the Service Hub relaunch has bolstered our ability to sell three-plus hub deals. Then, longer term, this is an important milestone for Service Hub to become a ledge to that front door.

So, overall, very excited about this relaunch, but also hearing very good feedback from our partner community, as well as our customers.

Operator

Our next question comes from Samad Samana from Jefferies. Please go ahead.

Samad Samana

Hi, good afternoon, and congrats on the strong results. Maybe first one for you, Yamini. It's great to hear that Marketing Hub crossed the \$1 billion mark for ARR. It's now one of the largest, yet still fastest-growing, marketing businesses in software. Can this be a durable growth driver going forward, and what investments need to be made to get there?

Yamini Rangan

Hey, Samad, yes, thanks a lot for the question. We're pretty excited about that important milestone. First off, I'd say, like, marketing operates in a mega-market. This is a market with a very large TAM and still low-single-digit penetration, so I feel like there's plenty of opportunity and runway for us to grow. We see significant growth with Marketing Hub, but there's also runway for us to build a multi-billion-dollar business here.

As I talk to customers, it is clear that marketing needs have not remained static and their core marketing innovation is not remaining static. Almost every company is now looking for ways to drive more effectiveness in marketing, looking to support more channels, it's becoming much omnichannel in marketing, more campaign visibility, and more cohesion for the rest of the go-to-market, including sales and service. So, we're not sitting still.

On the product front, our focus is to drive the type of omnichannel marketing which our customers need, drive more advanced automation and a lot more reporting. We're doing all of this while maintaining that ease of use, and, in fact, this is something that I was very excited about. Marketing Hub recently earned the number one spot in the TrustRadius Ten Most Loved Products in 2022. That's just a great testament to the powerful, and yet easy to use, platform that we're building in marketing.

Then, on the go-to-market side, Samad, Marketing Hub is in almost every marketing automation conversation within our segment. It's become a great front door. But, more importantly, it's becoming a de facto standard within the customer segments that we're focused on. So, we definitely feel very positive and there's plenty of runway left for marketing to grow. It's also a great playbook for the other anchor hubs to follow. So, happy about the result.

Samad Samana

Great, and, Kate, maybe a follow-up for you. It's really impressive to see the increase in the constant currency guide. I'm curious, maybe, how did net retention, to that end, trend in 1Q, and maybe what you've seen early so far through May for net retention?

Kate Bueker

Yes, it's an interesting question, Samad. It has, over time, become a natural shape to the retention curve within a quarter, where you tend to have more of that install base up for renewal in the third month. What happens there is you have a bit of a lower gross retention in the third month and a bit of more up-sell opportunity, so a bit of a higher net revenue retention as you finish the quarter, and that is very much what we saw in Q1.

Samad Samana

Great, appreciate the additional color. Thanks.

Operator

Our next question comes from Brad Sills from Bank of America. Your line is open.

Brad Sills

Oh, great. Thanks so much, guys, for taking my question, and congratulations on a real nice quarter here. I wanted to ask about the upmarket business. We keep hearing about real strength there. It's obvious in the results. You can see the accelerating ASP growth constant currency now for several quarters in a row, so tremendous traction there. I wanted to ask, what is the environment like up there, what does the landscape look like? Is there an underserved segment here, a lot of white space? Are customers running a hodge-podge of different tools? Maybe just a little bit of color on what's driving the success there and where are customers coming from.

Yamini Rangan

Brad, thanks a lot for that question, and I think you're hitting on the right areas. If you peel back the onion and look at upmarket, there's a huge challenge for midmarket companies to stitch together very disparate systems that don't work well. They don't have the time, they don't have the budget, they don't have the Technical Teams sitting around, and that's a fundamental challenge. They also have a challenge of being able to get clear visibility across their entire journey, from marketing, from sales, from service, and they need that to be able to grow in any environment. So, I think, fundamentally, what is happening is that HubSpot is solving both of those challenges and it's becoming a clear and easy platform choice. Our customers love the fact that we provide a cohesive experience across all of front office, and sometimes they'll say, "Look, we can't figure out where one hub ends and the other begins," so it's very, very seamless. We've invested in the platform. We have more than a thousand integrations that have made us an easy platform choice for those upmarket customers, when they even choose to integrate with others. So, I think, overall, you're seeing that.

The other part, I would say, is, look, we have planted seeds along. I'd call ourselves seed planters, and we've planted seeds along, and over the last 18 months our product portfolio has gone broad and deep. That means we have the sophistication of the powerful features to be able to support upmarket customers and at the same time we have the breadth of the portfolio. The combination of those two lead to high ASPs and higher upmarket adoption, and also lower graduation rate.

Brad Sills

That's great to hear, thanks, Yamini, and then one more, if I may, just on the volume business. This is the strongest quarter of net adds we've seen in several quarters, and you mentioned starter additions strong this quarter. Was there something behind that? Was this kind of a one-time thing or is something else going on on the demand side? Thanks so much.

Kate Bueker

Thanks, Brad, for the question. I think what we've seen nicely is a bit—over time, last year, we saw a bit of a shift in new customer additions out of starter and more into professional and enterprise. As we lapped those big, new customer cohorts during 2020, that were primarily focused on that starter tier, that really began in March of 2020, and so this is like the first quarter where we had not a clean comp, but something that's on the road towards that. But, as I mentioned when Mark asked the question, this is very much a factor of growth additions ticking up versus anything else.

Brad Sills

Thanks so much, Kate.

Operator

Our next question comes from Brian Peterson from Raymond James. Please go ahead.

Brian Peterson

Thank you, and I'll echo my congrats on the strong net add number. The starter momentum has really been impressive. I'm curious, with the relaunched Service Hub, how big of a front door could that be, relative to some of your other products on the stater tier? I'd also be curious, with the new starter momentum, is that more of a single product adoption or multi-hub adoption as they're going through the front door, or how do we think about that?

Yamini Rangan

Yes, great question, great question. If I talk about the priority that we mentioned, which is we almost have like bimodal strategy, and the way I describe it is that we have a volume motion at the lower end of our tiers and we have a value motion at the high end of the tiers. Across products and pricing, packaging and go-to-market, we really focus on those two broad motions at HubSpot. So, what you're seeing here is a starter motion which is a full-suite motion. From a product perspective, we have done a lot to make it exceptionally valuable. You saw me talk about automation down there. We are also doing much more in terms of pricing page optimization. So, there's a lot that goes into the lower end. Therefore, it translates into high volume of starter suite adoption, entire suite.

Now, I talked in the earlier question about the upmarket, where our motion is very different. There, it is much more about a value play, where customers might actually start with one hub and then go on a multi-journey—multi-hub journey with us. Certainly, Service Hub Pro helps with all of that. I think, overall, our product innovation, that has been just on a strong cadence over the last couple of years across every one of those tiers, helps us execute that type of a bimodal strategy.

Operator

Our next question comes from Michael Turits from KeyBanc. Please go ahead.

Michael Turits

Hey, thanks very much, guys. Two things. One, first, continuing on the starter motion, the starter package adds, how do we think this year whether or not we'll see that similar impact on ASRPC, that headwind that we saw last time around and what eventually ended up being higher churn? How do you make sure that you get—will we see those dynamics?

Kate Bueker

Thanks for the question. Actually, one of the things that I liked a lot about the KPIs this quarter was the balance across the uptick in net additions and the increase in ASRPC that we see within the quarter. I think about that balance as being something that is reflective of the bimodal strategy that Yamini is laying out. Historically, what I have said is that we're comfortable in and around, call it 7,000-plus in quarterly net adds, and that this year we are focused on ASRPC growth that's in the low-double-digits, and I continue to remain comfortable at those levels.

Operator

Our next question comes from Michael Turrin from Wells Fargo Securities. Please go ahead.

Michael Turrin

Hey, there. Thanks, Good afternoon. Nice job of the team executing, especially given the current environment. Certainly appreciate the commentary and quantification on the FX side. I was hoping you could maybe just help us think through exposure or diversifiers across industry, as well. I think some investors still think HubSpot is tied to helping businesses digitize that are more modern. We've picked up a fairly broad-based customers across even some of the more traditional industries as you've expanded your product set. Maybe you can just help us frame, from your perspective, the diversification of HubSpot and your ability to just overall withstand some of the macro-shocks we're seeing from an overall demand perspective. Thank you.

Kate Bueker

Yes, I very much appreciate the question. We did a lot, as you can imagine, of a deep dive into our customer base and the industries associated with the customer base as we navigated the early days of the pandemic, and despite digging very hard, what we found was (inaudible) was the most popular of all of the categories of our customers as it relates to industries. I think we have—we are a B2B company that is broadly diverse across industries. If I were to call out anything, I would say software and services tend to be the sweet spot for us.

Operator

Our next question comes from Parker Lane from Stifel. Please go ahead.

Parker Lane

Yes, hi. Thanks for taking the question. I wonder if we can get an update on the Operations Hub. I know you launched some up-tier versions of that in the last year. What kind of success are you seeing on that front with your internal Sales Teams, as well as the partner channel? Thank you.

Yamini Rangan

Hey, Parker. Yes, thanks a lot for the question on Ops Hub. It continues to perform really nicely, much of our original expectations when we launched last year. We're seeing strong customer adoption across all the tiers of Ops Hub, and we saw the same level of Ops Hub attach in March, as we saw in December, which was great. Specifically, we see a higher volume of Ops Hub customers coming through the starter tier as part of that suite motion that I was just talking about. That's certainly been the case that we've seen. The majority of the ARR is coming through the pro and enterprise tiers, which is also great to see.

Now, Operations Hub, for us, is very different from other hubs. Unlike Marketing and Sales and Service, which we have really thought about as front doors, we think Ops Hub is a super-charger. It increases the value of all of the other hubs. I call it the sauce that makes the whole meal come together. It just makes it taste really nice. That's what Ops Hub is. We think it's gaining a lot of traction with customers, as well as partners, and we're not done innovating. On the go-to-market side, we're continuing to invest in terms of sales-enablement resources and training to get our reps and partners more familiar with use cases, creating a library of case studies, and so on, and on the product side, we recently launched a bunch more features in the enterprise tier, scheduled triggers, custom code actions, more data quality, things that really improve on the power within the enterprise tier.

So, overall, it's early, but we're very pleased, and we're hearing from both customers, as well as partners, that this is really helping with the adoption of the full suite.

Operator

Our next question comes from Alex Zukin from Wolfe Research. Please go ahead.

Alex Zukin

Hey, guys. Thanks for taking my question. I wanted to key in one more time, maybe, Kate, on net retention. Specifically, what was the net retention for the quarter? I think, previously, you said above 100%. Given the macro-picture for the year, are you still expecting that to be sustainable over the course of the year? Then, I've got a quick follow-up.

Kate Bueker

Yes, sure thing. You are right, the net revenue retention target that we shared at Analyst Day last fall was 110-plus, and we were, again, trending nicely above 110 in Q1, with very much the same drivers of that retention strength, strong fundamental gross retention, and then, really, the upgrade drivers being seat expansion, cross-sell and addition upgrades. We do remain comfortable at that 110-plus for 2022.

Operator

Our next question comes from Keith Bachman from BMO. Please go ahead.

Keith Bachman

Hi. Thank you, and nice segue from Alex's question. I wanted to ask a question on—the investor pervasive psychology is that marketing budgets enhance HubSpot's revenue will get negatively impacted during the course of an economic downturn, particularly one that might have longer duration, and I'm trying to get kind of what your response is to that, particularly in light of if you look at what happened during COVID, it was a very short-lived economic challenge, and HubSpot, in fact, accelerated meaningfully in the September and December quarters after the onslaught of COVID, because many of the SMBs, in fact, weren't prepared for the whole kind of work-from-home model, and whatnot, and so

there was tremendous buildup capacity, but what do you see is different or similar to—if we face a more prolonged economic challenge, whether it be Europe or otherwise, what's different today than what happened during COVID.

And just to sneak one quick one. Kate, the adds were great this quarter. It sounds like you expect them to go back to kind of sevens, but I just wanted to see if you could clarify that. Then, that's it for me. Many thanks.

Yamini Rangan

Yes, thanks a lot, Keith. I'll maybe start with the broader macro-question and then Kate can take the specific one.

Look, we're not economists and we certainly do not have a better crystal ball than any of you, but we're watching, we're watching the trends across all of this. Look, if there is a really massive recession, no one is immune to that, I think that becomes very, very clear. The thing I would say is there is a big structural change when we see customers that are adopting front office software. Before, it was just "We need to be able to talk to our customers and we need a digital channel to be able to do that across marketing, sales and service." Now, it is "We operate in a hybrid environment and we need to continue to drive productivity and growth."

As I talk to customers, two things stand out for me this year, which is that digital transformation in the front office is not over. Even though we started to accelerate over the last couple of years, and maybe the tailwinds were like really gushing, it's not over, and customers that I talk to are still struggling with basics, you know, spreadsheets, Google spreadsheets, point solutions, disconnected teams. They don't have the insights that they need to be able to drive growth. So, continuing to put in technology that can provide that type of visibility is going to be important in almost every environment.

Then, the second thing—I said this earlier—we made some really smart strategic bets a long time ago, which was around the CRM platform, and having a platform that is just world-class is really paying off right now, because people want easy to implement solutions, they want quick time to implement, and if you think about HubSpot, we're able to implement in like a matter of weeks, not months, and we're pretty cost-effective, and so we've become more of a platform choice in this environment.

Look, all bets are off if the economy turns completely negative, but I do think there are structural changes that are continuing to play out, and so we'll continue to lean in and focus on our priorities, so that we can really build a world-class CRM for scaling businesses.

Kate Bueker

Yes, and, Keith, I don't want to feel like we're splitting hairs here on the net customer adds. As you've heard us say before, this isn't a metric that we manage the business to. My comments around 7K-plus is consistency versus what we've share in the past. I'm happy to substitute 7 to 8. I don't think we're particularly precise in terms of giving you some guardrails around this number.

Operator

Our next question comes from Ryan MacDonald from Needham. Please go ahead.

Ryan MacDonald

I wanted to touch on Payments. With them having been generally available now for five months, can you guys give us a sense of the conversions you've had from the pilot customers and general uptake thus far, and how are transaction volumes trending compared to your initial expectations? Thank you.

Yamini Rangan

Yes, Payments is going great. We have a clear vision in terms of Payments, which is we want to help B2B customers sell online and we want to improve that last mile of the rep-assisted sale. We've been very focused on introducing new functionality, as well as improving the experience of customers, all the way from when a customer discovers a payment link within a product to starting an application to completing the transaction, and then maybe, you know, recurring transactions. As you heard, we launched recurring ACH, which is a really big ask, and this will position us to capture lots more growth payment volume, and we're definitely seeing good pickup in usage. The early feedback from customers has been very, very encouraging. The same thing with Payments Dashboard, that we just launched. It brings a ton of payment context into CRM. In prior calls, I've talked a lot about our vision for having a commerce-enabled CRM and having the Payments Object and bringing that Object into CRM marketing campaigns, into sales campaigns, into support calls, is going to be really valuable, and that hypothesis has been validated. Our customers are saying that is exactly what they want. So, overall, we're very happy with the feedback from our customers and traction that we're getting.

Look, I'll make a broader point. I think we think of ourselves as seed planters. We always plant seeds that can grow into these giant, big trees, and, Ryan, Dharmesh planted some nice seeds a few years back and, therefore, we're getting nice benefit in terms of the growth that we're seeing right now. We've done this multiple times, with Sales Hub and with Service Hub, and we think of payments and commerce in the same vein. We're planting the seeds, we are nurturing it, we're getting really good feedback, we're continuing to maintain our pace of innovation, and this is something that's going to provide us a lot of shade as we go forward.

Operator

Our next question comes from Keith Weiss from Morgan Stanley. Your line is open.

Elizabeth Porter

Hi, this is Elizabeth Porter on for Keith Weiss. I just wanted to ask a little bit on the average subscription revenue per customer. It's had a bit of acceleration in growth. If you could just unpack what were some of the drivers of that, especially given that some of the new customer adds sounded more in the starter suite. Thank you.

Kate Bueker

Yes, thanks so much for the question. I think I would call out two main drivers of the ASRPC growth. One is just the continuation of multi-hub adoption that we're seeing across our customer base and the second is the traction that we're seeing at the enterprise tier. Those two things are really the primary catalysts for that growth in ASRPC.

Operator

Our next question comes from Arjun Bhatia from William Blair. Please go ahead.

Arjun Bhatia

Perfect, thank you. Yamini, I wanted to maybe go back to Europe. I think you had said earlier that there were some small pockets of delays in Europe in terms of purchasing decisions. I'd be curious if you have a more granular insight into whether that's Eastern Europe or you're seeing that spreading to Western Europe, given the impact of the war there; and to follow on to that, does that impact your international investment decision at all this year? I did see international growth outpaced domestic growth, but just curious how you're thinking of that given the geopolitical uncertainty there.

Yamini Rangan

Yes, thanks for the question. First off, I'll say that my heart goes out to Ukraine and the millions of people that are impacted by the Russian invasion. Specifically, there, we have been supporting our HubSpot community and providing relief through organizations that are doing some really important work on the ground.

In terms of direct impact, we don't have employees, but we have some contractors in that region, and we paused all sales into Russia. In terms of scoping, we have less than 200 customers and about 0.5% of ARR combined across Russia, Ukraine and Belarus, so very small direct impact from that region.

Then, your question, more broadly, on international and Europe, Q1 was a very good quarter for us. As you saw from the results, international grew 53% year-over-year on a constant currency basis. What I mentioned was that we saw a few delays in purchasing decisions, mostly took one or two additional conversations, but once again, it is not material in terms of growth at this point.

I will reiterate all of the things. If all of this worsens, we can't really control any of that, but we are controlling the controllable. We have focused efforts in terms of the priorities. I laid out the priorities. We are investing in terms of the priorities. We always look at this as long-term bets. We don't look at it as quarterly bets. The investments that we make in international are how do we continue to grow the region and grow our presence in the region for the longer haul.

Operator

Our next question comes from Kirk Materne from Evercore. Please go ahead.

Kirk Materne

Yes, thanks very much for taking the question. Yamini, I was wondering if you could just talk about the upmarket opportunity for you all, if there's anything you're seeing that's different inside the U.S. versus Europe or international markets in terms of bundling. Europe would seem to be actually an area where there's potentially more greenfield, where customers haven't made as many decisions across as many hubs. So, I was just kind of curious if there's any real difference in how sort of the bundle strategy plays out internationally versus the U.S. Thanks.

Yamini Rangan

That's a good question. I would say that, more broadly, we think about it as the volume play and the value play that I talked about. When you think about our segmentation strategy, in the lower end of our market, everything that we do is to remove friction, from the product, from the customer experience, from the go-to-market perspective, and upmarket, everything that we do is driving value for our customers. It's a similar set of strategies in place that we drive upmarket in North America as we do in Europe.

Now, to your point, we do think that the European market is a little bit behind in terms of digital transformation, so there are more greenfield opportunities, more opportunities where they are maybe

currently using spreadsheets or they have a point solution and they're looking to drive that, and we certainly see that within the market. But, overall, our approach to the value side of our sales play is build fantastic products, continue to solve for our customer's biggest problem, and enable our partner channel, as well as direct channel, to have great conversations that drive multi-hub growth.

Dharmesh Shah

(Inaudible)

Operator

Our next question comes from Brent Bracelin from Piper Sandler.

Clarke Jeffries

Hi, this is Clarke Jeffries on for Brent.

Yamini Rangan

Dharmesh, go ahead and add your comment.

Dharmesh Shah

Yes, I was just going to add a comment on the upmarket in terms of international. One thing we've also seen recently is an uptick in kind of our platform usage and our integration partners; specifically, with local app developers in these regional markets. So, we've been kind of focused on increasing the number of integrations overall, which were up over 1,000, and that's been growing very nicely. But, specifically, for our kind of local application partners that are in-region, we've seen 80% year-over-year growth in terms of the number of those integrations, and I think that's really helping us as far as upmarket adoption.

Operator

Brent Bracelin, your line is open. Please go ahead.

Clarke Jeffries

Yes, thank you. This is Clarke Jeffries on for Brent. I wanted to ask about the hiring environment, what you're seeing right now in terms of acquiring talent; and then, additionally, maybe about the appetite to pursue tuck-in acquisitions to accelerate the innovation in anchor hubs, or potentially new hubs. I appreciate that you wouldn't want to impact the user experience by bolting on poorly integrated features, but how are you weighing M&A as an opportunity to kind of accelerate that innovation versus the number of internal initiatives that you have running right now?

Yamini Rangan

Yes, thanks a lot. Maybe I'll start with the hiring question and then take the broader question on M&A and how we view that.

I'd say, look, the talent market is definitely competitive, we see that, but it's not necessarily a new phenomena. As you saw, in Q1, we hired 41% more and we ended the headcount at 6,400, so we've been able to hire some incredible talent even in the very, very competitive market that we have. I'd really point to the strong culture that we have of listening, learning and evolving, that is a real big part of the

culture, and we think of culture as important as product, and so we pay a lot of attention to the Net Promoter Score on the product side and we pay a lot of attention to the Employee Net Promoter Score on the culture side. That means that when we hear things, we certainly listen to it and then we go back and we're able to kind of make sure that the culture is evolving as we continue to scale. So, our commitment to our people is really, really key in this environment. It's really helped us hire and retain top talent, and we'll continue to do that. It's not a one-and-done.

In terms of the broader question on M&A, I think you said it right. For us, we've taken a very, very different path to crafting a CRM solution. In times like this, in times—almost in any time, it is a real value proposition that resonates within our segment of customers. Our customers don't want to spend a ton of time, a ton of money, a ton of resources, a ton of IT to be able to cobble things together, and so our crafted experience and platform resonates, and continues to resonate. So, when we think about M&A, we'll certainly look at it, but we want to maintain and enhance the customer experience, and when we do look at M&A, it'll be more from the perspective of accelerating one of our primary colors which is within our HubSpot framework, or maybe adding a new primary color. We'll continue to look at it, but the crafted experience is something that we really deeply care about and believe in.

Operator

Our next question comes from Ryan MacWilliams from Barclays. Your line is open.

Ryan MacWilliams

Thanks for taking the question. We noticed the price increase on the professional tier of Service Hub recently, and this may have been a part of the Service Hub relaunch, but as we enter possibly a more inflationary environment, is there an opportunity here to take advantage of price on some of your other products? Thanks.

Yamini Rangan

Yes, a great question, good top-of-mind question in terms of pricing, and you're absolutely right, we did change the Service Hub pricing from \$400 per month to \$500 per month, based on all of the features and functionalities that we just relaunched. I'd say, look, I think our—we're going to stay consistent with our pricing and packaging philosophy. Our pricing philosophy is that we add value to customers, and when we know we have added value and then our customers have received a tremendous amount of value, then we look at pricing changes, and that's exactly what we did with the Service Hub price increase that you just mentioned.

The other part of our overall packaging strategy is that we'll continue to pour innovation. We want to build these exceptionally powerful features on the enterprise tier and we want to keep bringing down those features, high-end features into starter and professional additions, so that our customers can get the value from all the innovation that we are doing.

That's our consistent pricing and packaging strategy. We'll remain focused to that strategy, and when we deliver value to customers, then we will make changes to pricing.

Operator

Our next question comes from Terry Tillman from Truist Securities. Please go ahead.

Connor Passarella

Hey, good afternoon team. This is Connor Passarella on for Terry. Thanks for taking my question. I just wanted to ask one around the partner ecosystem. As you continue to push upmarket and see enterprise customers adopting a multi-hub strategy, what kind of synergies are you seeing with the stronger communication between the partner ecosystem and your Direct Sales Team, and what kind of impacts are customers experiencing from a strengthened cross-selling motion? Thank you.

Yamini Rangan

Yes thanks a lot for the question. Look, the partner ecosystem has contributed about 40% of our overall ARR, and that continues to be the case, so very strong synergies there. As we have really transformed from being a marketing automation company to a CRM platform, and as we have transformed from really being a small business company to a midmarket company, which is both of these are pretty big transformations, we've really enrolled our partner ecosystem in that transformation and we've enabled them to come along with us, and we've made a ton of investments. So, overall, our strategy, that we have clearly communicated to the partner ecosystem, is we want to scale selling and servicing with that partner ecosystem. I think it's going really well. I talk to partners a lot, and I know some of you do, as well, and what I hear from them is that the CRM platform scaling is going well. Our customers definitely clearly see the need for a platform and our partners are able to help. When our partners get engaged with customers, customer dollar retention improves, revenue retention improves, and the multi-hub adoption improves, and so it's a win for customers, it's a win for our partners, and, therefore, it's a win for HubSpot. So, I'm pretty excited about how the partner ecosystem is coming along with us.

Dharmesh Shah

Yes, just a quick note, Yamini, around—the platform itself, we have three different dimensions of value that the platform allows our partners to create. One we talked about a lot is our app integration partners, and that creates value not just for the company developing those applications, but also our solutions partners that help kind of make those integrations come to life. The second dimension of value is around creating assets that work within the HubSpot platform. So, we have—CMS have templates now. So, a web design (inaudible) create a template for a particular industry that works with CMS Hub, therefore, driving down that kind of time enjoyment. The third one is around customizing HubSpot platform, which we've been continually making more and more investments in to make the platform more accessible, and this creates another wave of opportunity, another dimension of value, that our solutions partners can kind of bring to our customers and really bring value there. So, all three of those things are exciting, we hear from partners all the time, but the HubSpot platform is kind of unlocking more and more value for them over time.

Operator

Our final question comes from Taylor McGinnis from UBS. Your line is open.

Taylor McGinnis

Yes, hi. Thanks so much for squeezing my question in. Kate, earlier, you spoke about comfort with ASRPC growth remaining in the low-double-digits, so could you maybe just talk about what's giving you comfort with the durability of this metric, just given some of the earlier comments you made with starter being strong in net adds this past quarter, and just as the comps for this metric get tougher as we go throughout the year; and maybe as a second part to this question, I would imagine the mix of starter versus some of the premium tiers has a role there, so curious how you're thinking about that mix evolving throughout the year.

Kate Bueker

Yes, thanks for that question. I would say, you've heard us talk a lot about the strength of the install base selling motion that we've seen over the last three or four quarters. Yamini talked a lot about the innovation that we've been pouring into the product at the high end and in introducing new hubs. That creates a lot of opportunity for our Sales Team to go into our customer base and find opportunity to deliver more value to them. That is a natural tailwind to ASRPC and provides a nice balance to any incremental uptick in that starter tier.

Operator

We have no further questions and now I'll hand back to Yamini Rangan, CEO, for closing remarks.

Yamini Rangan

I want to finish off by thanking all of our customers, our partners, employees, as well as the investors. Thank you so much for your support, I really appreciate it, HubSpot appreciates it, and we look forward to talking to you again next quarter.

Operator

Today's call has now concluded. We'd like to thank you for your participation. You may now disconnect your lines.