

# WELCOME

Analyst Day at INBOUND 2019



# Introduction & Agenda

Chuck MacGlashing

Head of IR, Corporate Treasury

# Important Information

This presentation includes certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding management’s expectations for future financial and operational performance and operating expenditures, expected growth, and business outlook, including our long-term financial framework; our focus on profitable growth; cash flow and margin improvement expectations; the anticipated benefits of our product and feature launches and plans and timelines for developing and expanding those offerings; the anticipated benefits of our investments on our revenue growth, profitability and cash flow; our product plans, strategies, and trends; our ability to expand our ecosystem and total addressable market; our position to execute on our growth strategy and related growth drivers; our evolution to a platform model; our opportunities in international markets; and our ability to expand our leadership position and market opportunity for our inbound platform. These forward-looking statements include, but are not limited to, plans, objectives, expectations and intentions and other statements contained in this press release that are not historical facts and statements identified by words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates” or words of similar meaning. These forward-looking statements reflect our current views about our plans, intentions, expectations, strategies and prospects, which are based on the information currently available to us and on assumptions we have made. Although we believe that our plans, intentions, expectations, strategies and prospects as reflected in or suggested by those forward-looking statements are reasonable, we can give no assurance that the plans, intentions, expectations or strategies will be attained or achieved. Furthermore, actual results may differ materially from those described in the forward-looking statements and will be affected by a variety of risks and factors that are beyond our control including, without limitation, our history of losses, our ability to retain existing customers and add new customers, the continued growth of the market for an inbound platform; our ability to differentiate our platform from competing products and technologies; our ability to manage our growth effectively to maintain our high level of service; our ability to maintain and expand relationships with our agency partners; our ability to successfully recruit and retain highly-qualified personnel; the price volatility of our common stock, and other risks set forth under the caption “Risk Factors” in our Quarterly Report on Form 10-Q filed on August 6, 2019 and our other SEC filings. We assume no obligation to update any forward-looking statements contained in this document as a result of new information, future events or otherwise.

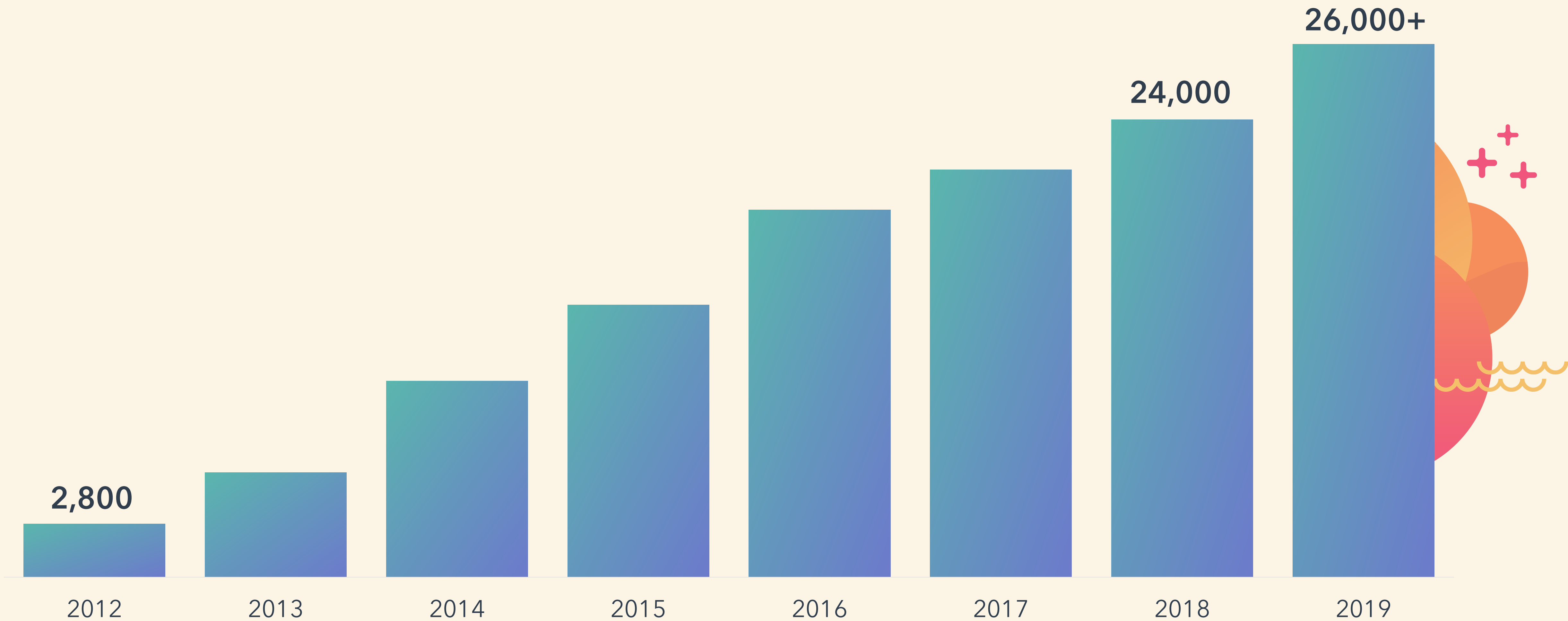


# Agenda

TIME	EVENT	PRESENTER	LOCATION
1:45p - 1:50p	Welcome & Introduction	Chuck MacGlashing, Head of IR, Corporate Treasury	Room 257
1:50p - 2:15p	Operations Overview	JD Sherman, President and COO	Room 257
		<i>15 minute break</i>	
2:30p - 4:00p	Founders' Spotlight	Brian Halligan, CEO and Co-Founder Dharmesh Shah, CTO and Co-Founder	Main Stage
		<i>30 minute break</i>	
4:30p - 5:15p	Product Spotlight	Christopher O'Donnell, SVP Product	Main Stage
		<i>20 minute break including dinner buffet</i>	
5:35p - 5:55p	Financial Overview	Kate Bueker, CFO	Room 257
		<i>5 minute break</i>	
6:00p - 6:35p	Analyst Q&A	HubSpot Executive Team	Room 257



# INBOUND 2019: Registered Attendees



Thank you



# Operations Overview

JD Sherman

President, Chief Operating Officer



# Safe Harbor Haiku:

I'm telling you stuff  
And it's definitely true  
But hey, things can change.



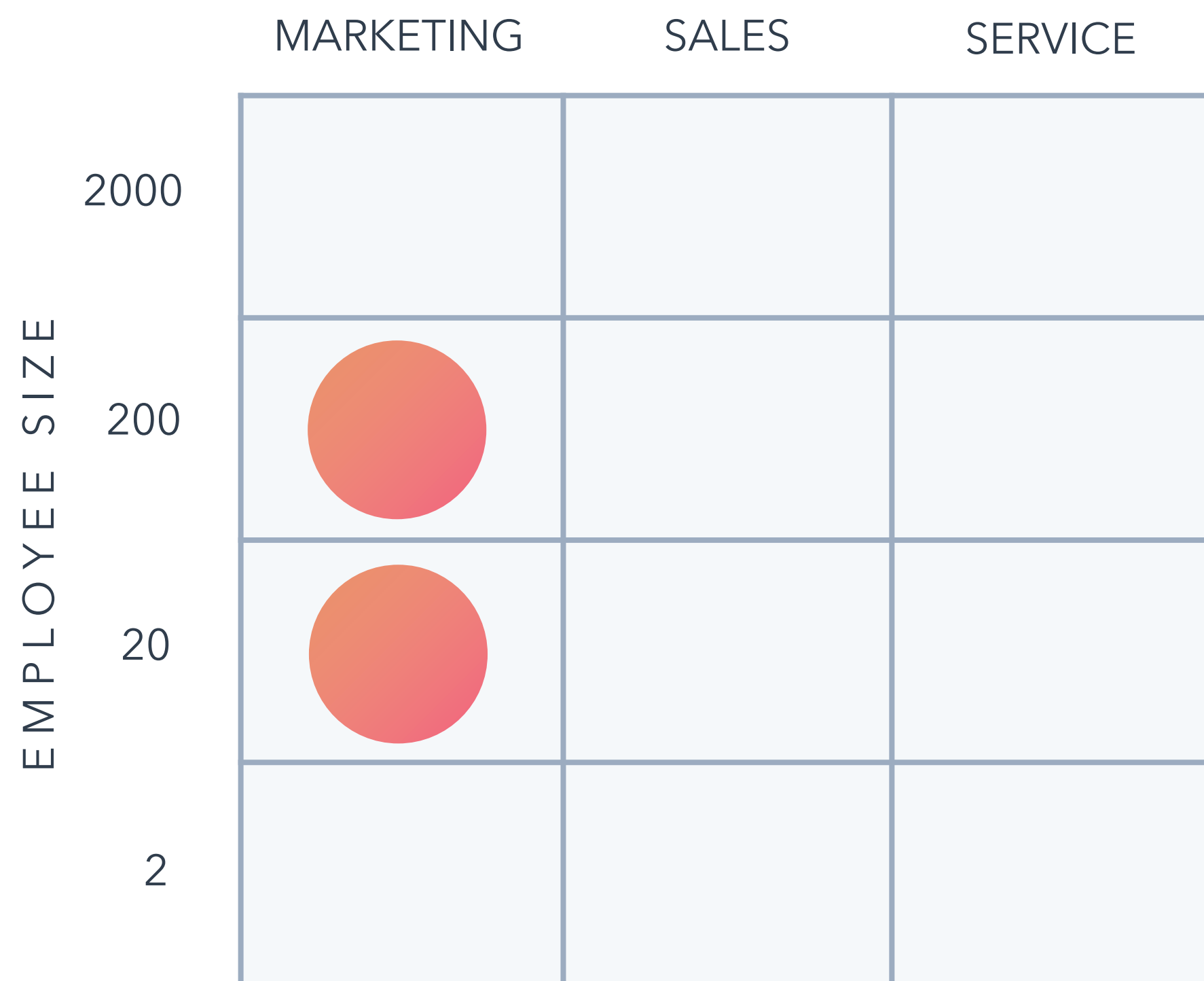
## Our Mission:

Helping millions of organizations grow better.

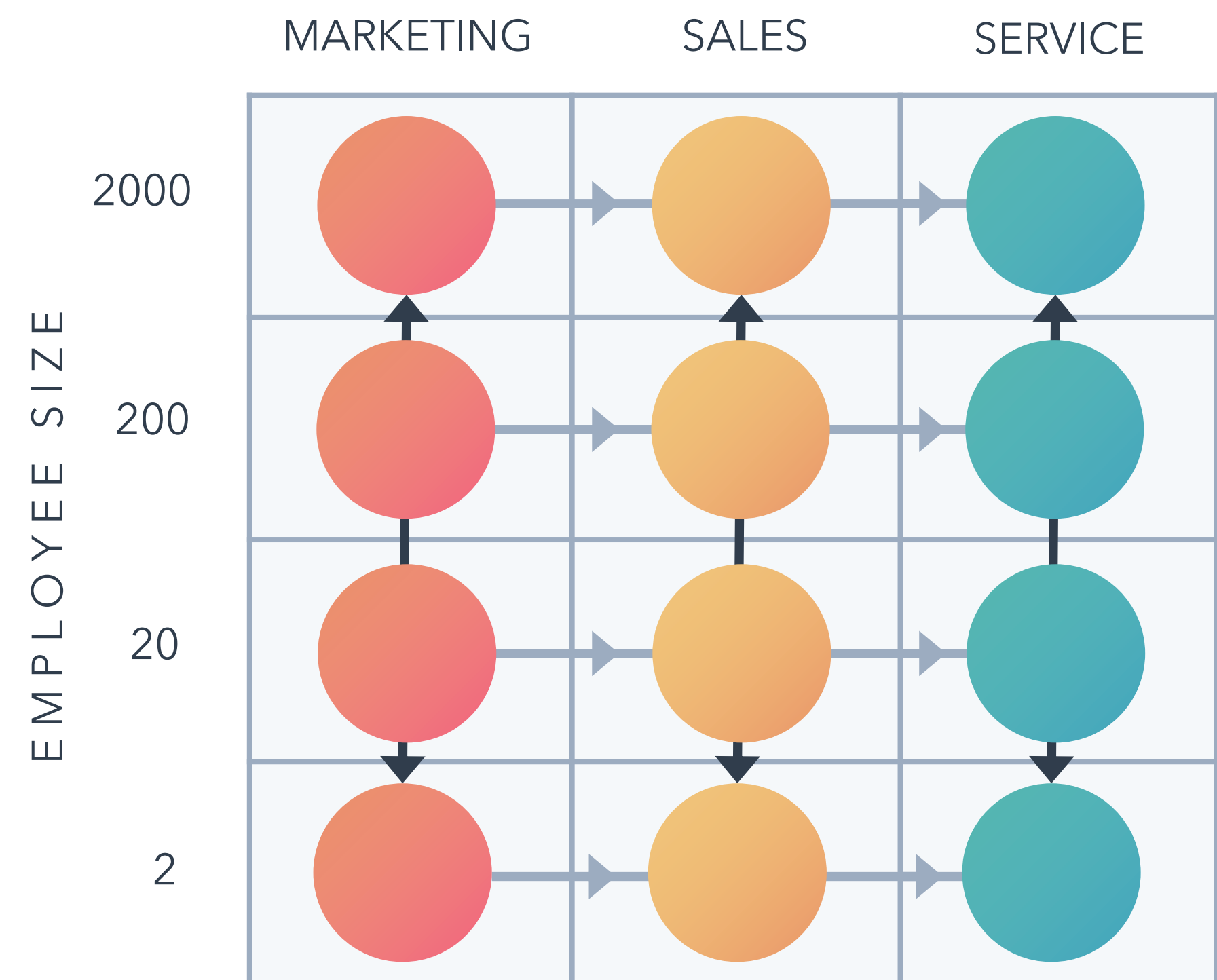
# 2018: A Year of Investing in the Suite

# Completing the Suite

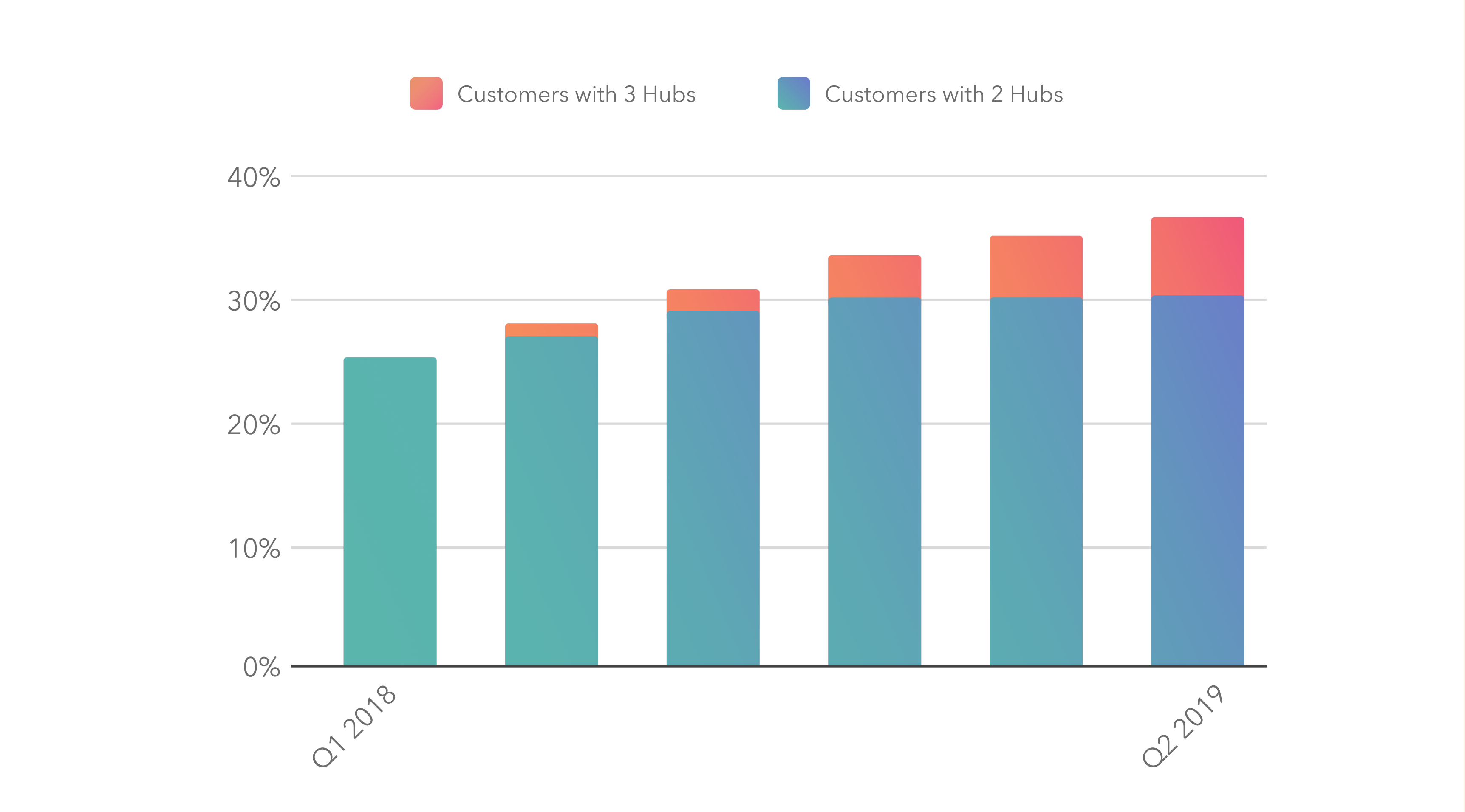
2015



2018



# Growing Suite Adoption

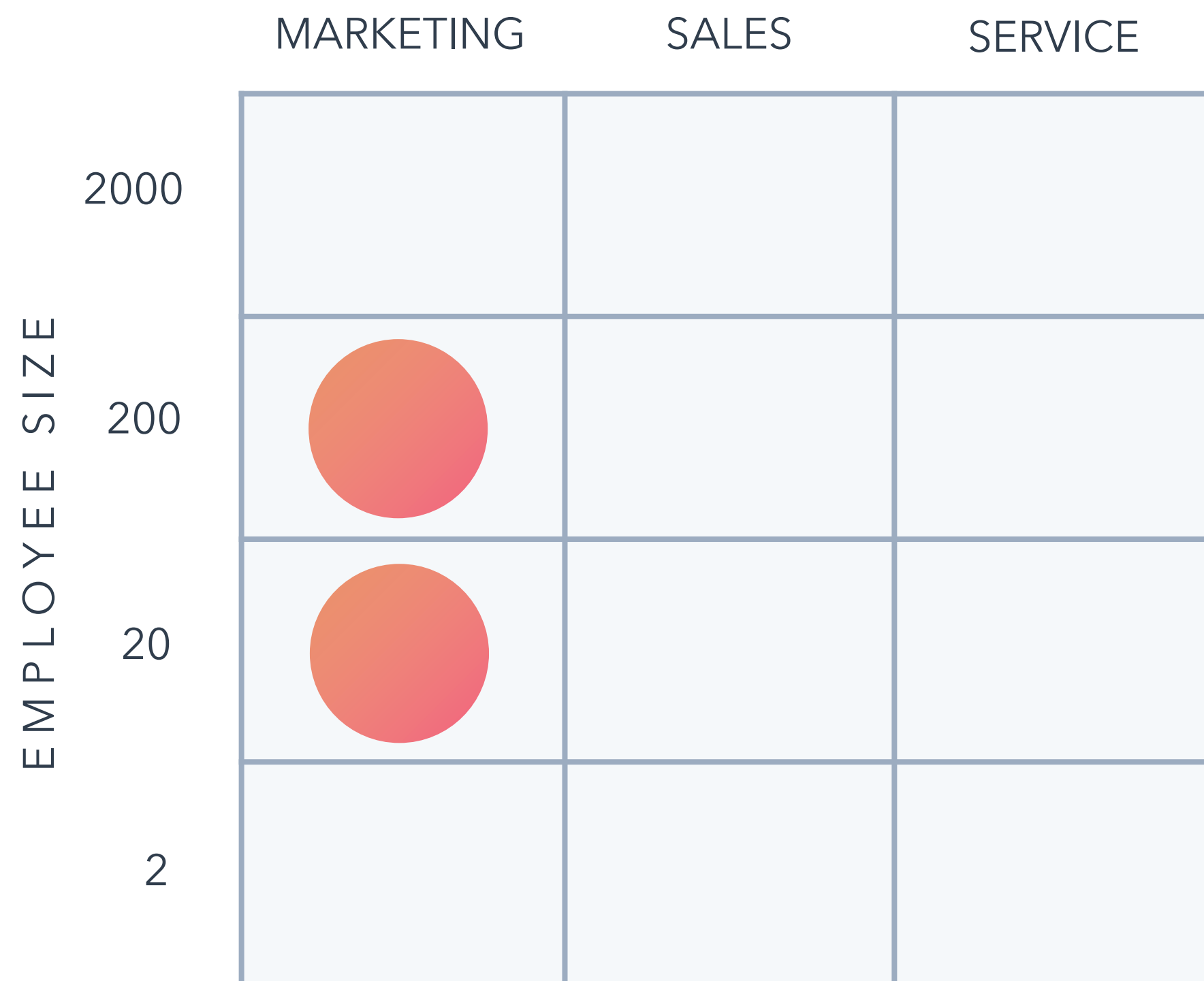


Percent of Total Customers who have subscriptions to any product on two or three distinct product hubs (Marketing Hub, Sales Hub, Service Hub).  
See definition for Total Customers at end of presentation.  
Data as of 6/30/19.

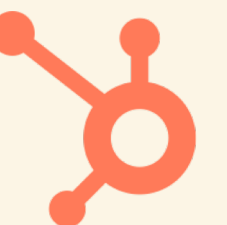
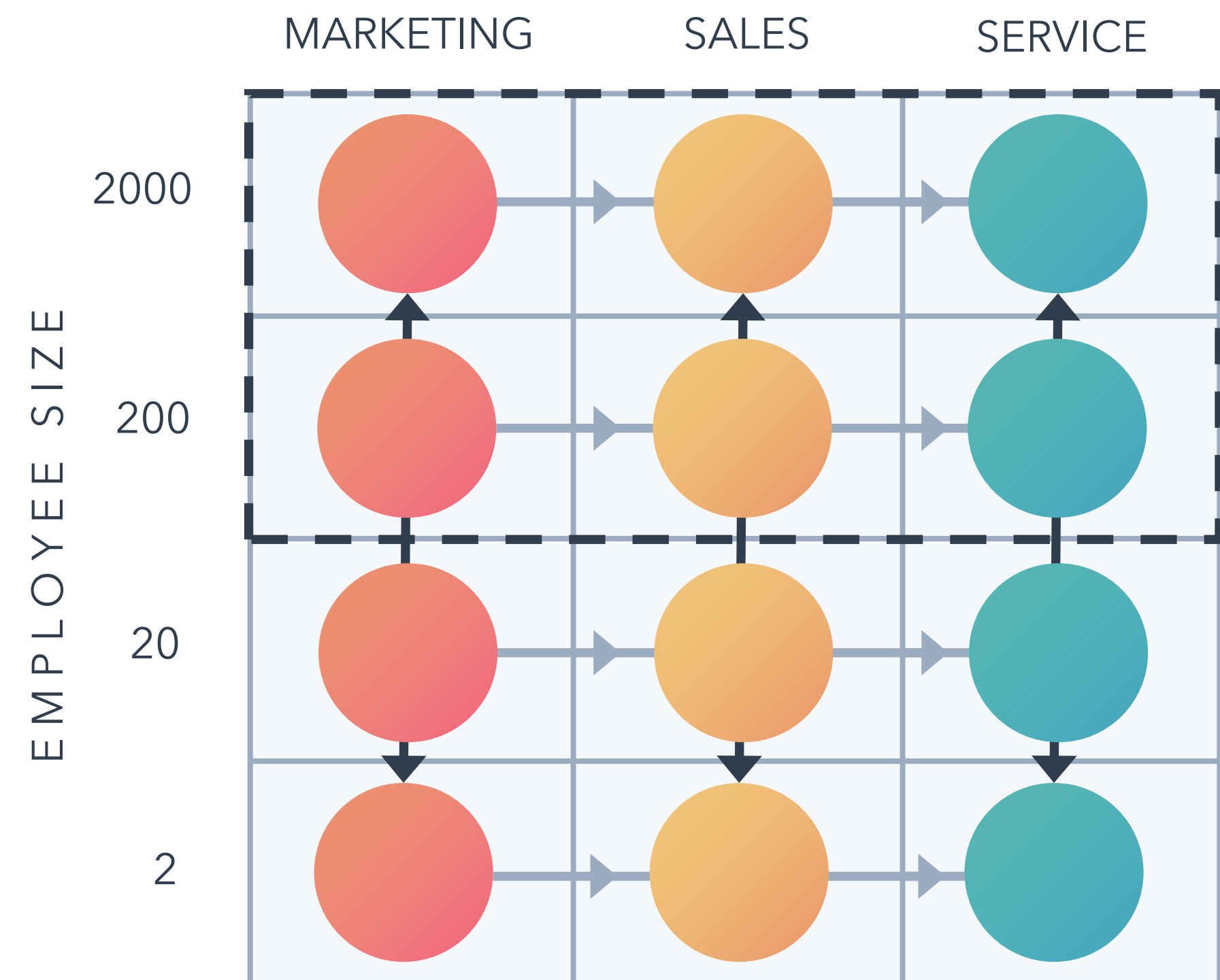


# Completing the Suite

2015

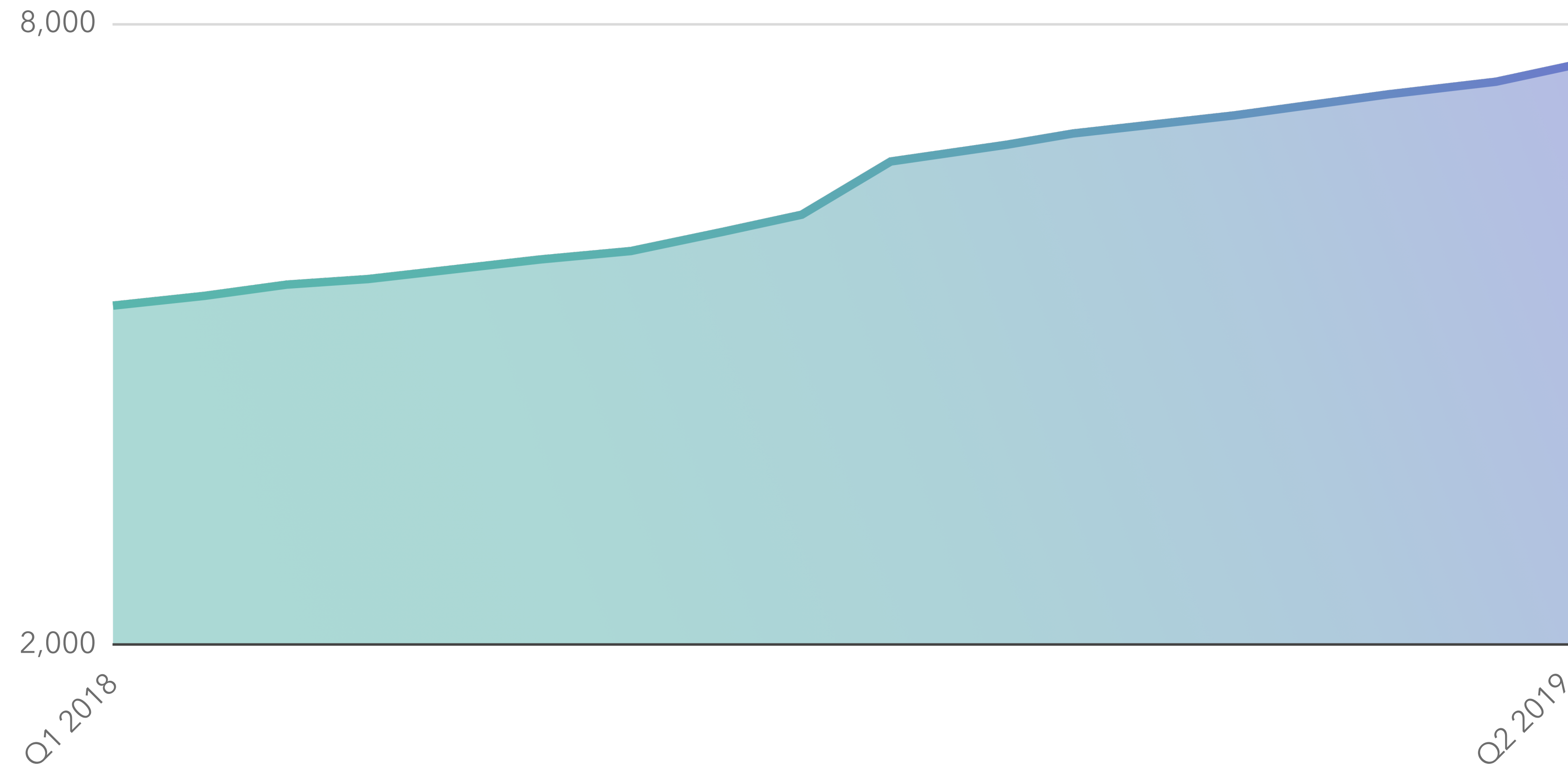


2018



# Growing Enterprise Adoption

## Enterprise Customers

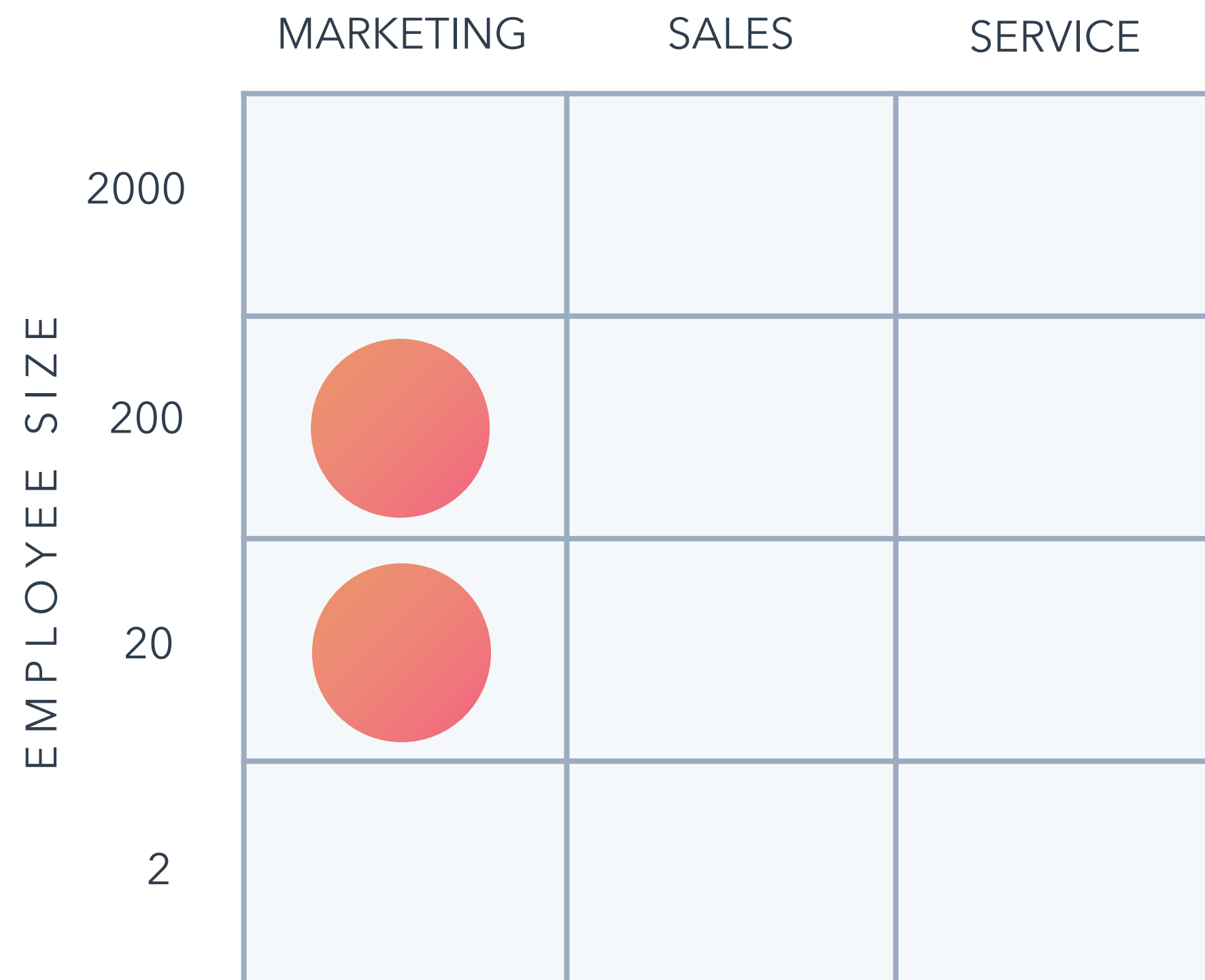


Number of customers who have at least one enterprise product subscription.  
Data as of 6/30/19.

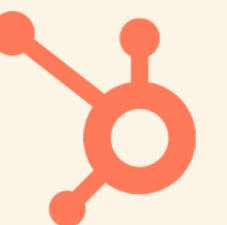
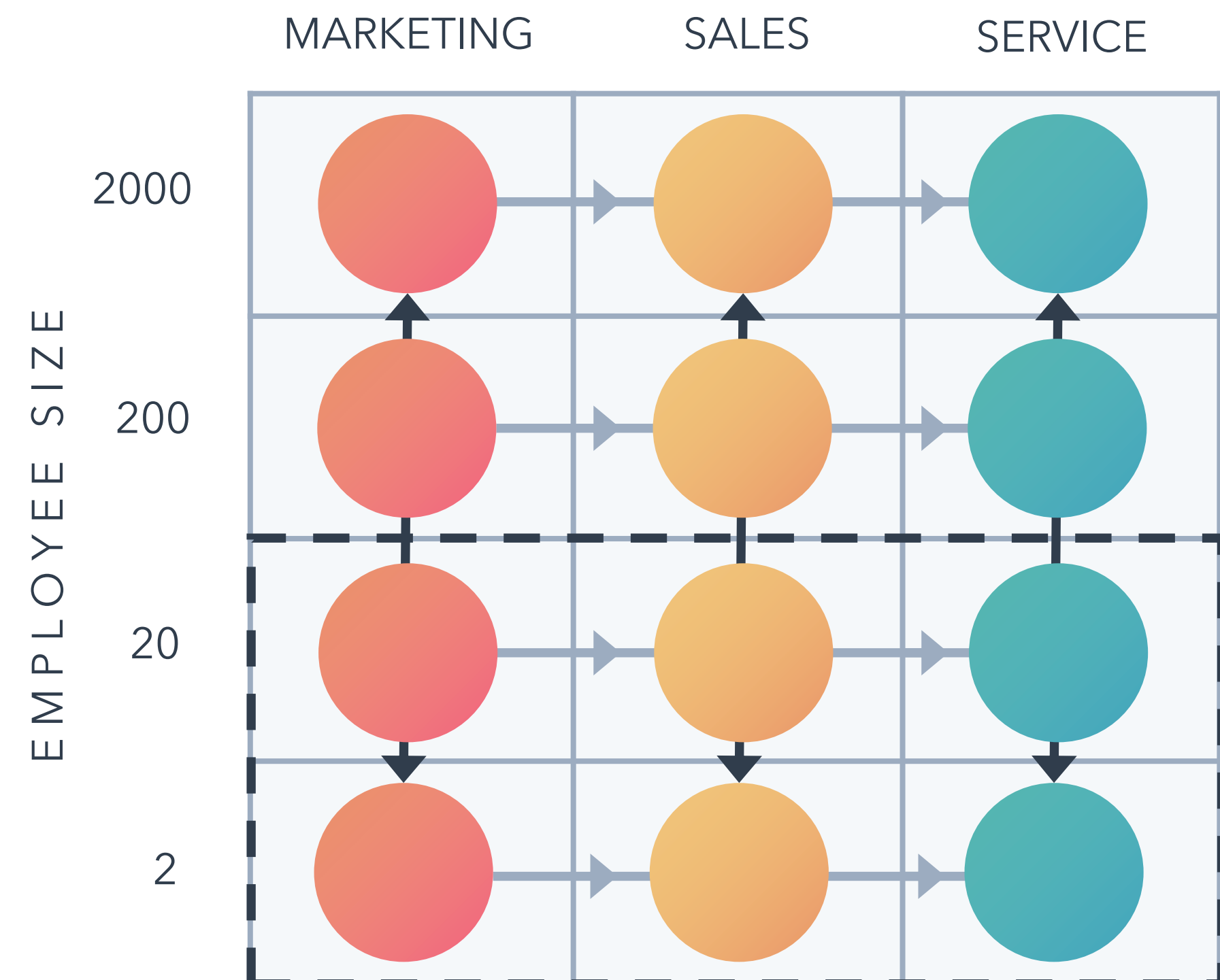


# Completing the Suite

2015

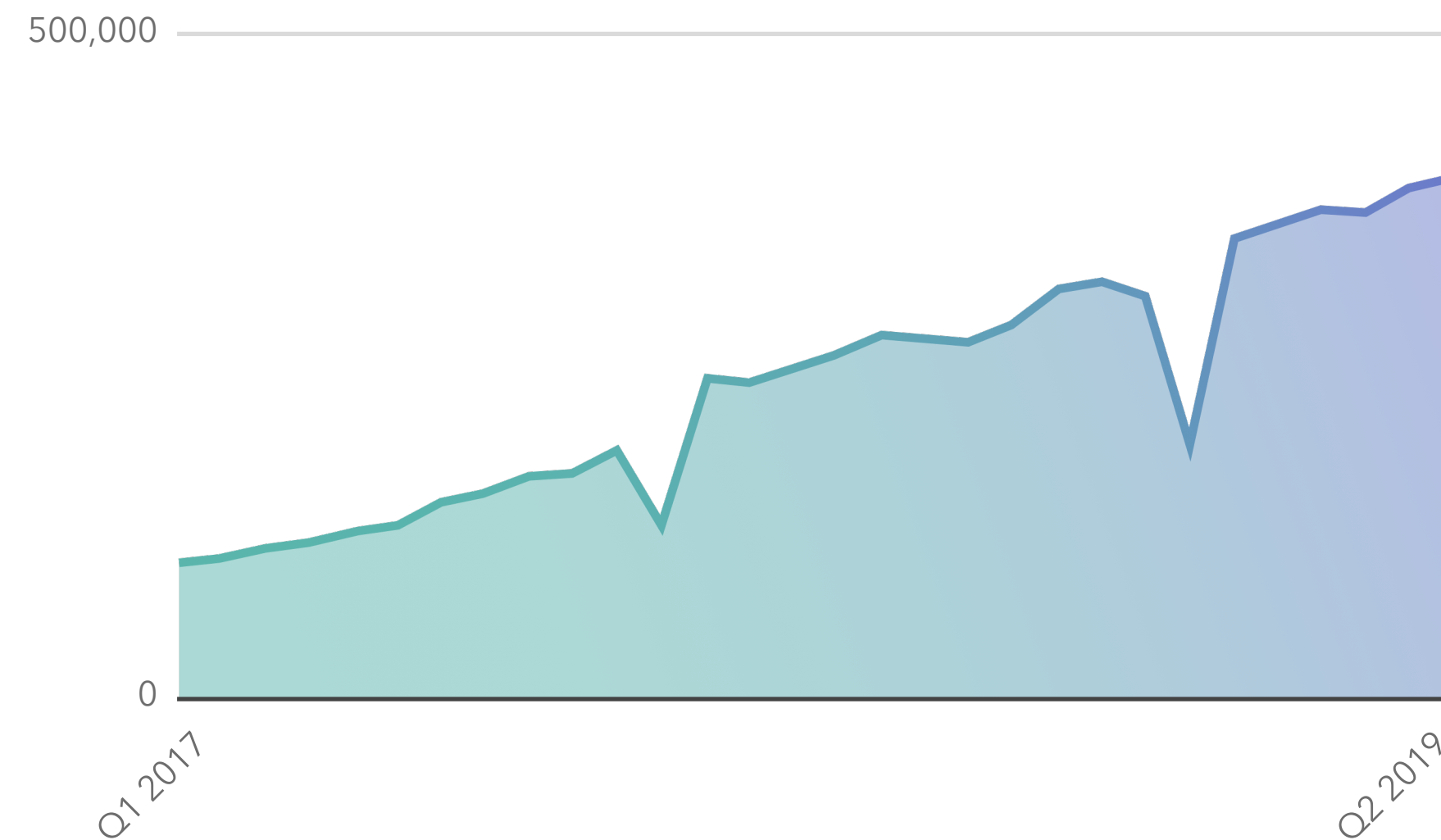


2018

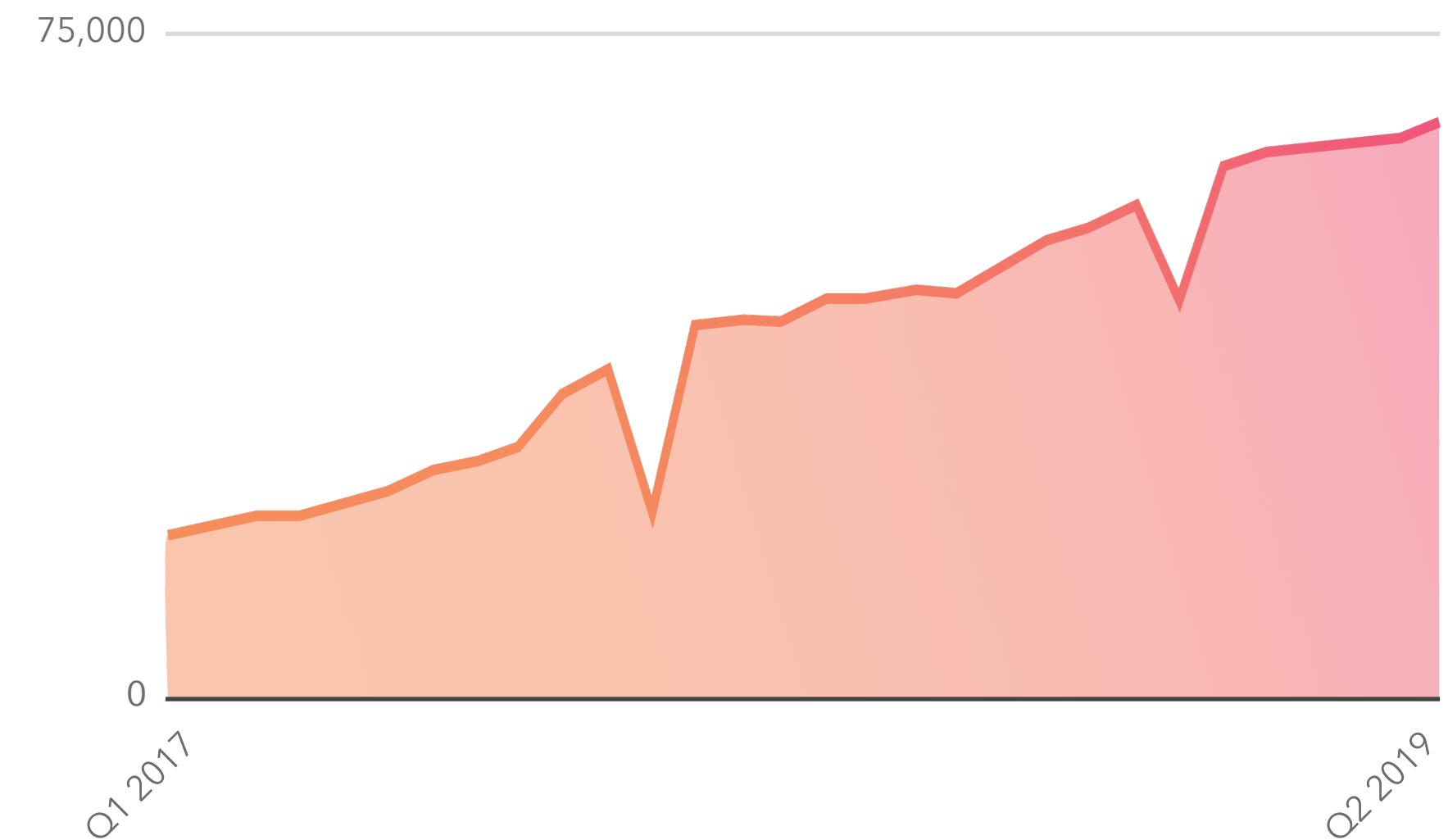


# Growing Our Pool of Free + Active Users

## CRM Weekly Active Users



## CRM Weekly Active Teams



CRM Weekly Active User is a user who takes one or more actions in the CRM, such as viewing a contact record or adding a deal, during a seven day period.

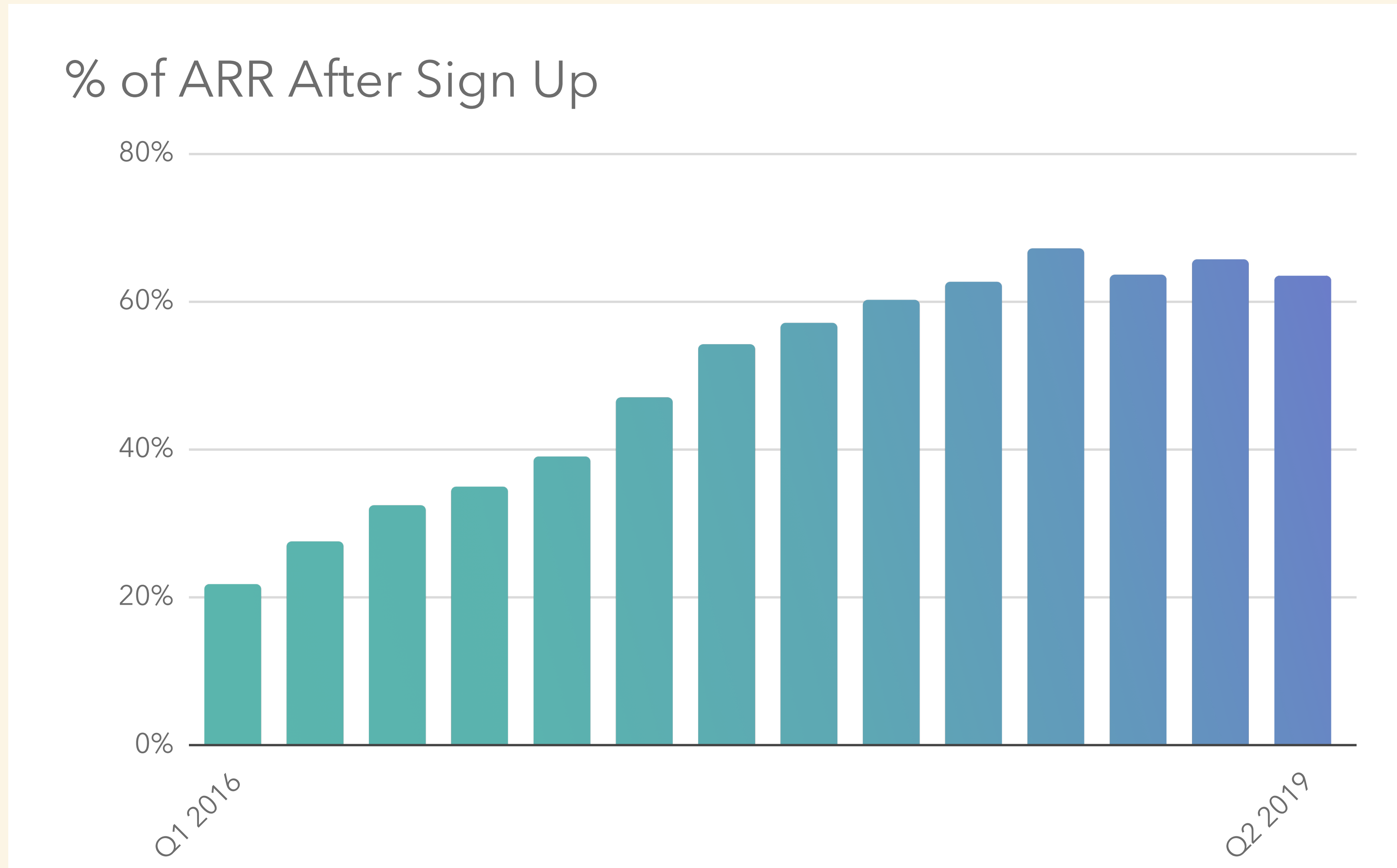
CRM Weekly Active Team is two or more users from the same portal who each take one or more actions in the CRM in the same week, such as viewing a contact record or adding a deal, during a seven day period.

Data as of 6/30/19.





# Reducing Friction Through: Freemium GTM



Percentage of new ARR that comes from a customer that signed up for a free product before they purchased a HubSpot product.  
See definition of ARR at end of presentation.  
Data as of 6/30/19.



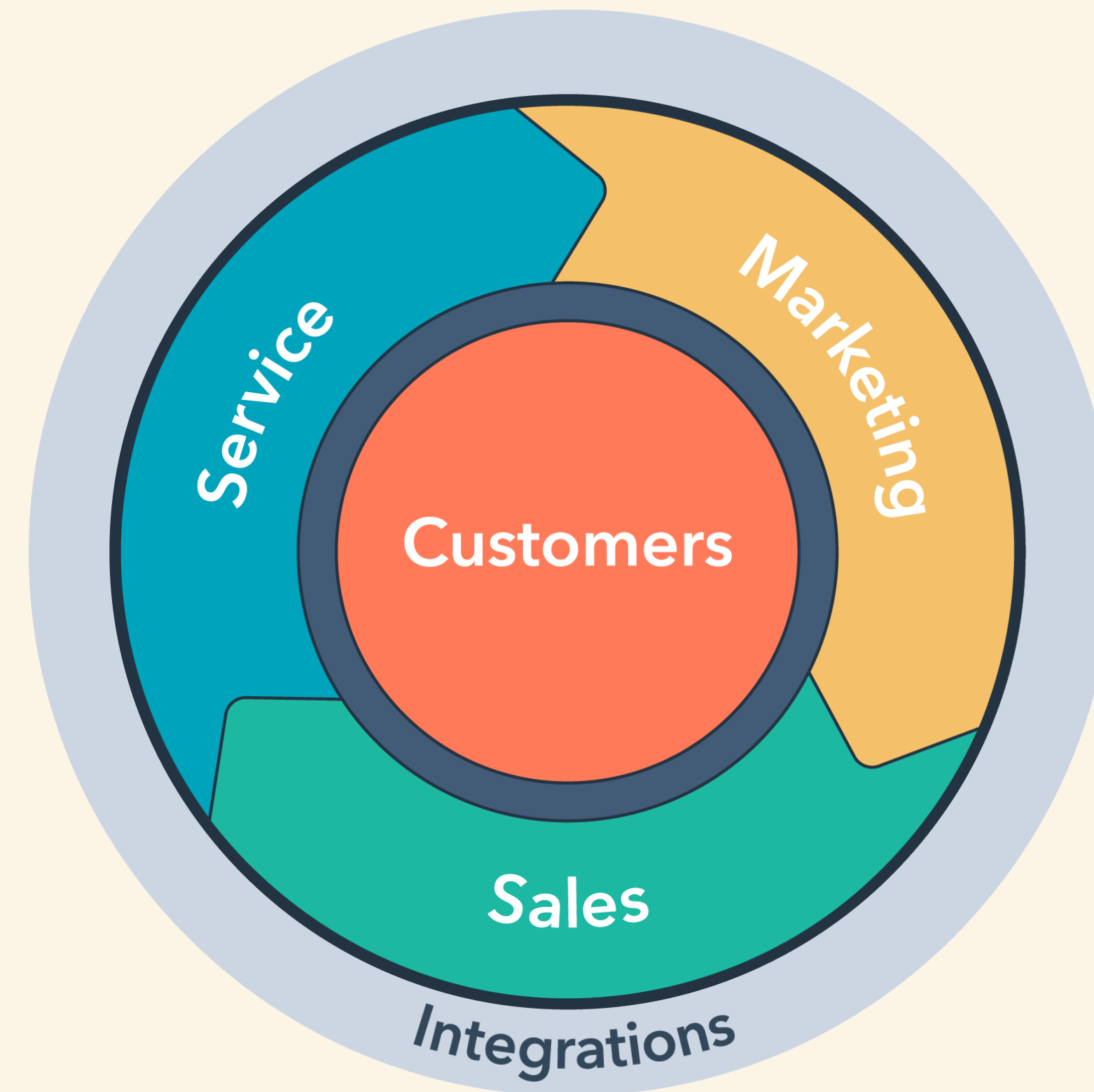
# 2019: A Year Defined by Our Customers

# Moving from the Funnel to the Flywheel

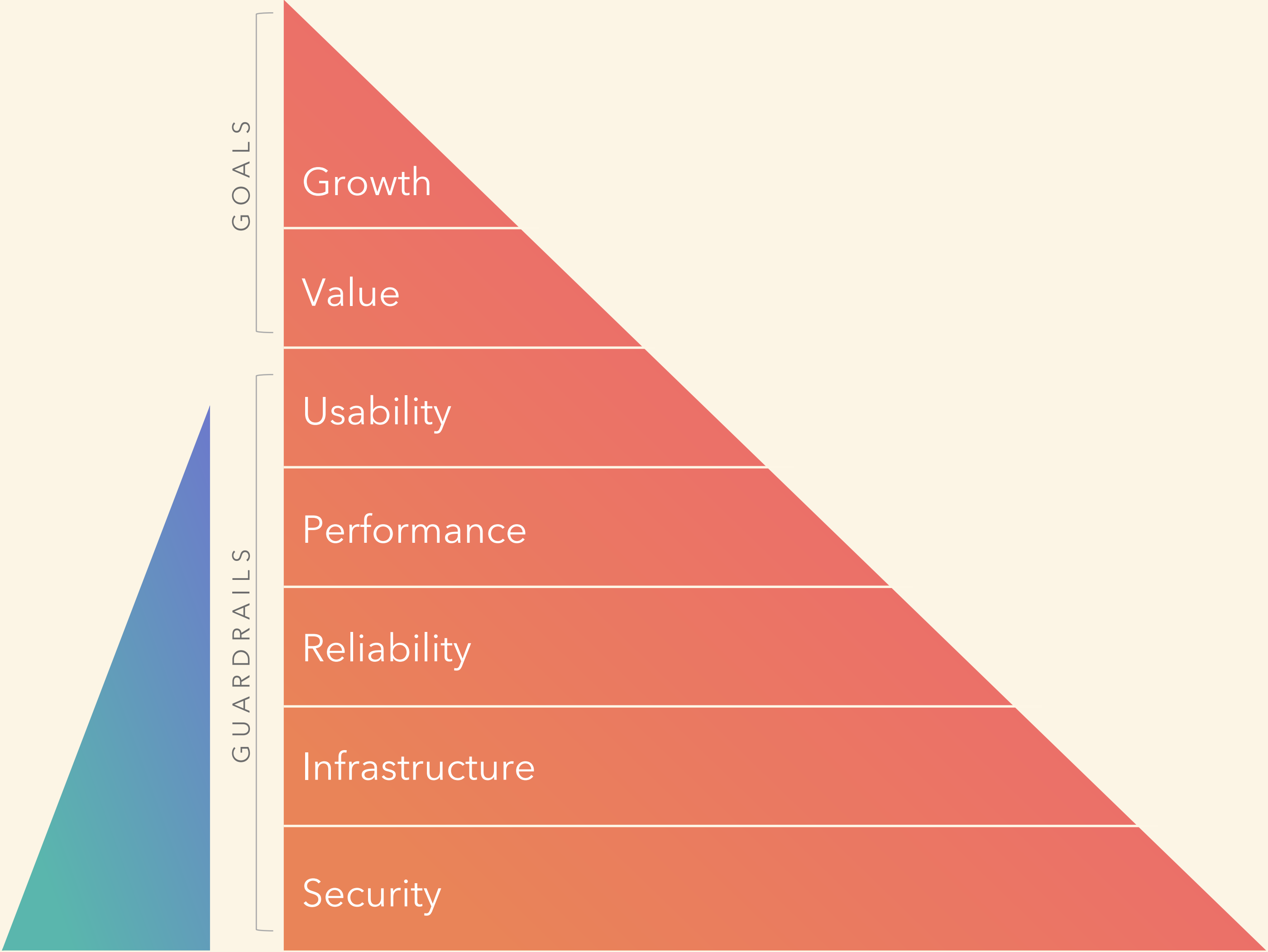
**Then = Funnel**  
Customers as an afterthought



**Now = Flywheel**  
Customers at the center



# Reducing Friction Through: The Mainsail



# Reducing Friction Through: Value + Growth

## Grow Easier

Contact deduplication • Content editor • Contact record performance • Folders in workflows • Inbox collaboration • Improved reporting in sequences • Refined meeting availability • Internal team comments • Q&A fields in playbooks • Drag-and-drop email editor

## Grow Faster

All new app marketplace • FB Messenger integration • Chatflows - chat and bots combined • Advocacy automation • Attribution reporting • Single sign-on and 2FA • 300+ apps • Workflow extensions • Increased API limits • Multiple lead scores

## Grow Free

Free email marketing • Google ads • LinkedIn ads • Facebook ads • Instagram ads • Traffic and conversion analytics



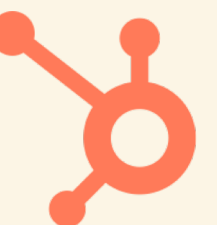
# Reducing Friction Through: Our Ecosystem

2019



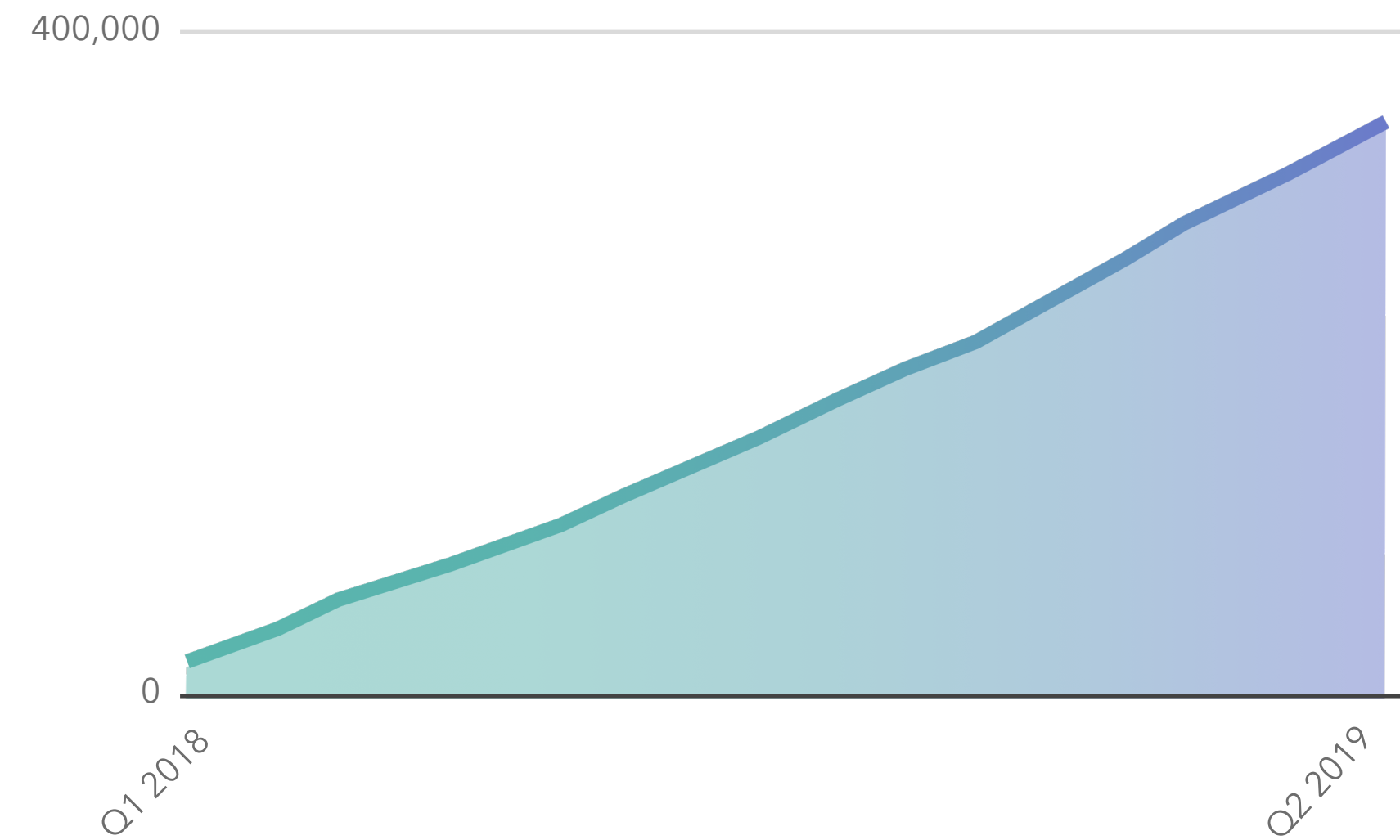
700,000  
cumulative  
integrations

On average, over  
5  
partner integrations  
per customer



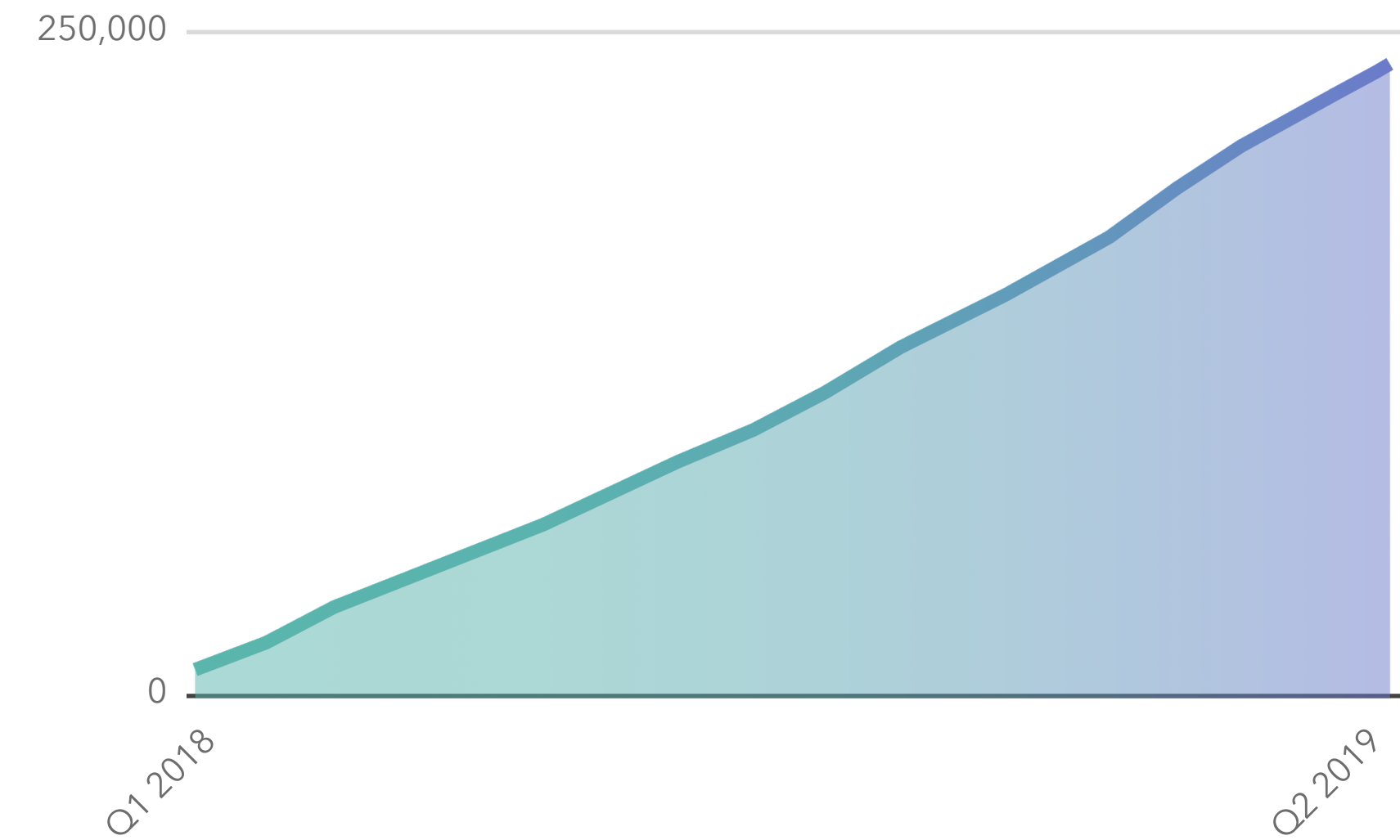
# Reducing Friction Through: Education

Cumulative Learning Center Sign Ups



**Over 150,000 Learning Center sign ups in 2019 to date, almost 350,000 since Q1 2018**

Cumulative Academy Certifications



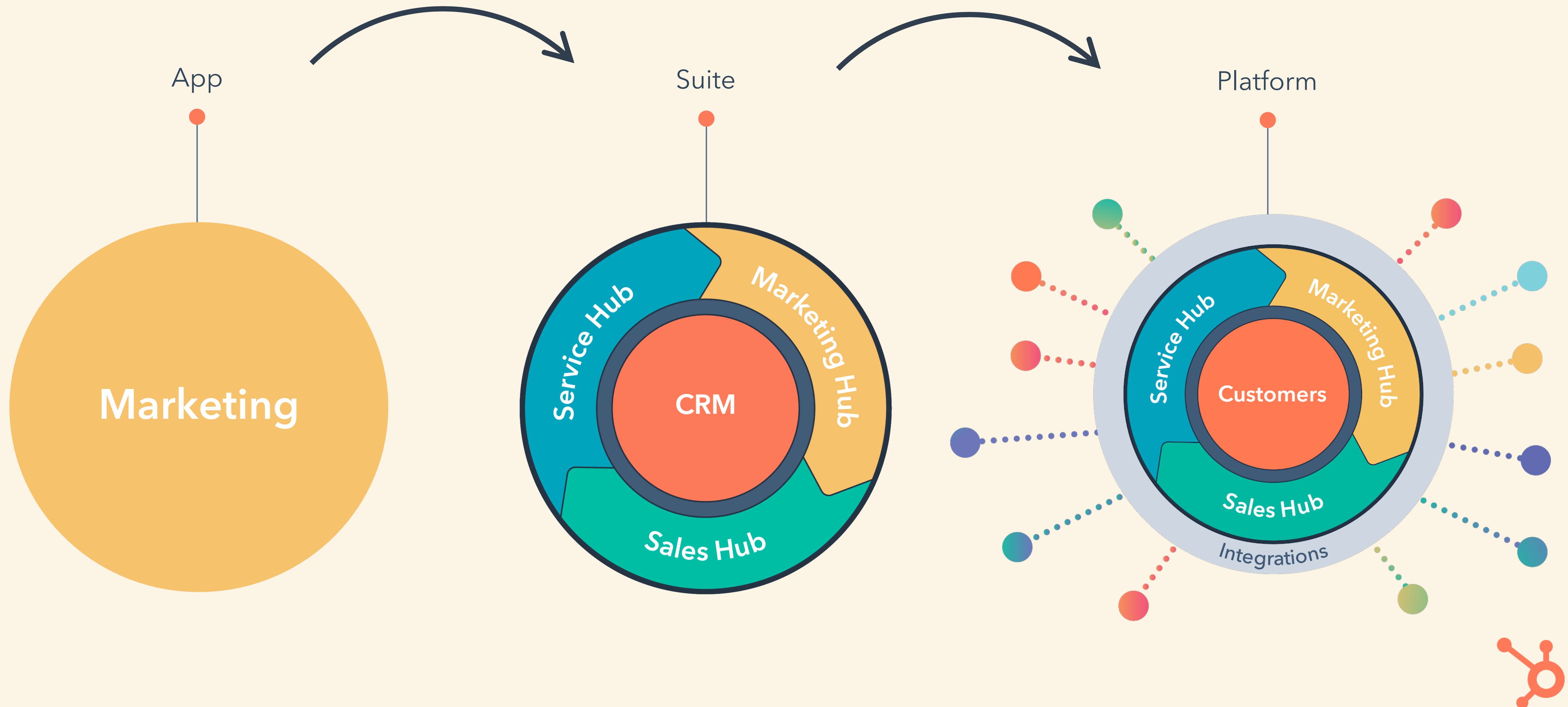
**Over 100,000 Certifications awarded in 2019 to date, almost 250,000 since Q1 2018**



# Looking Ahead: A Broader Platform + Stronger Ecosystem

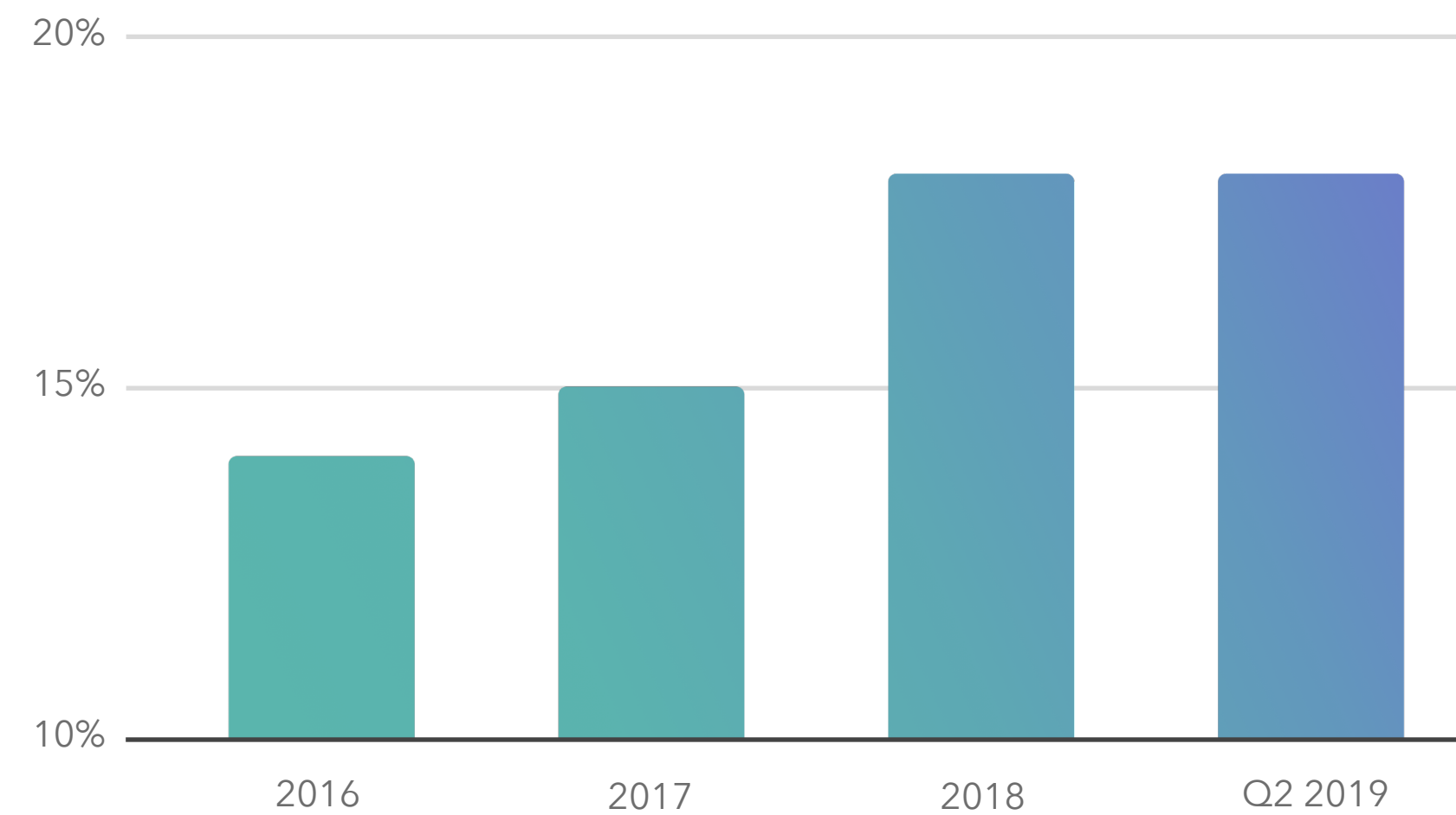


# Evolving From Suite to Platform

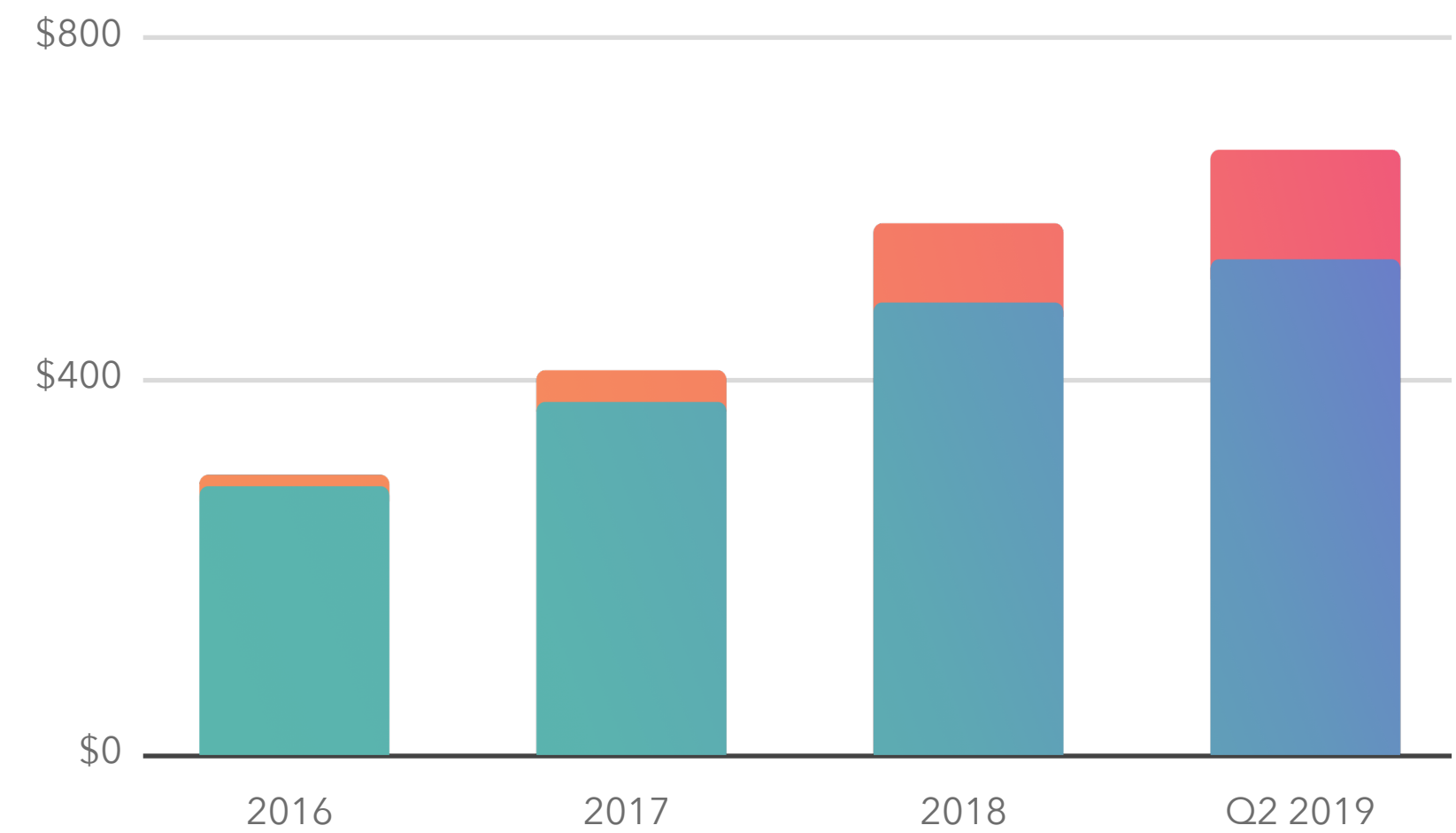


# Seeing the Return on R&D

R&D Expense as Percent of Revenue



ARR Install Base by Product Hub (in millions)

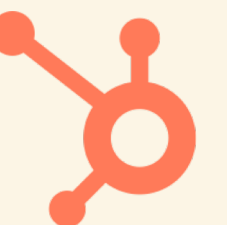
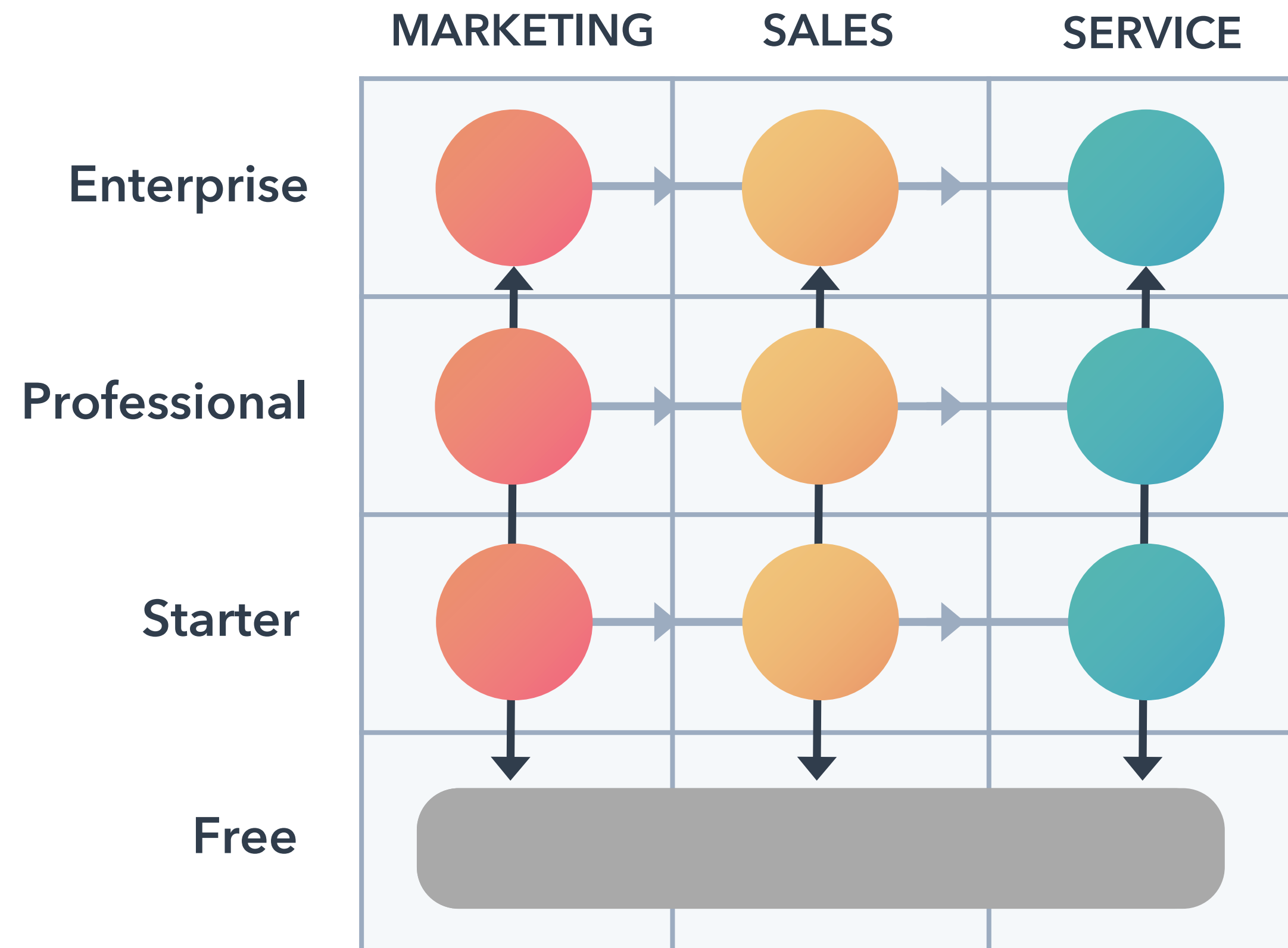


- Marketing Hub ARR Install Base
- Sales/Service Hub ARR Install Base

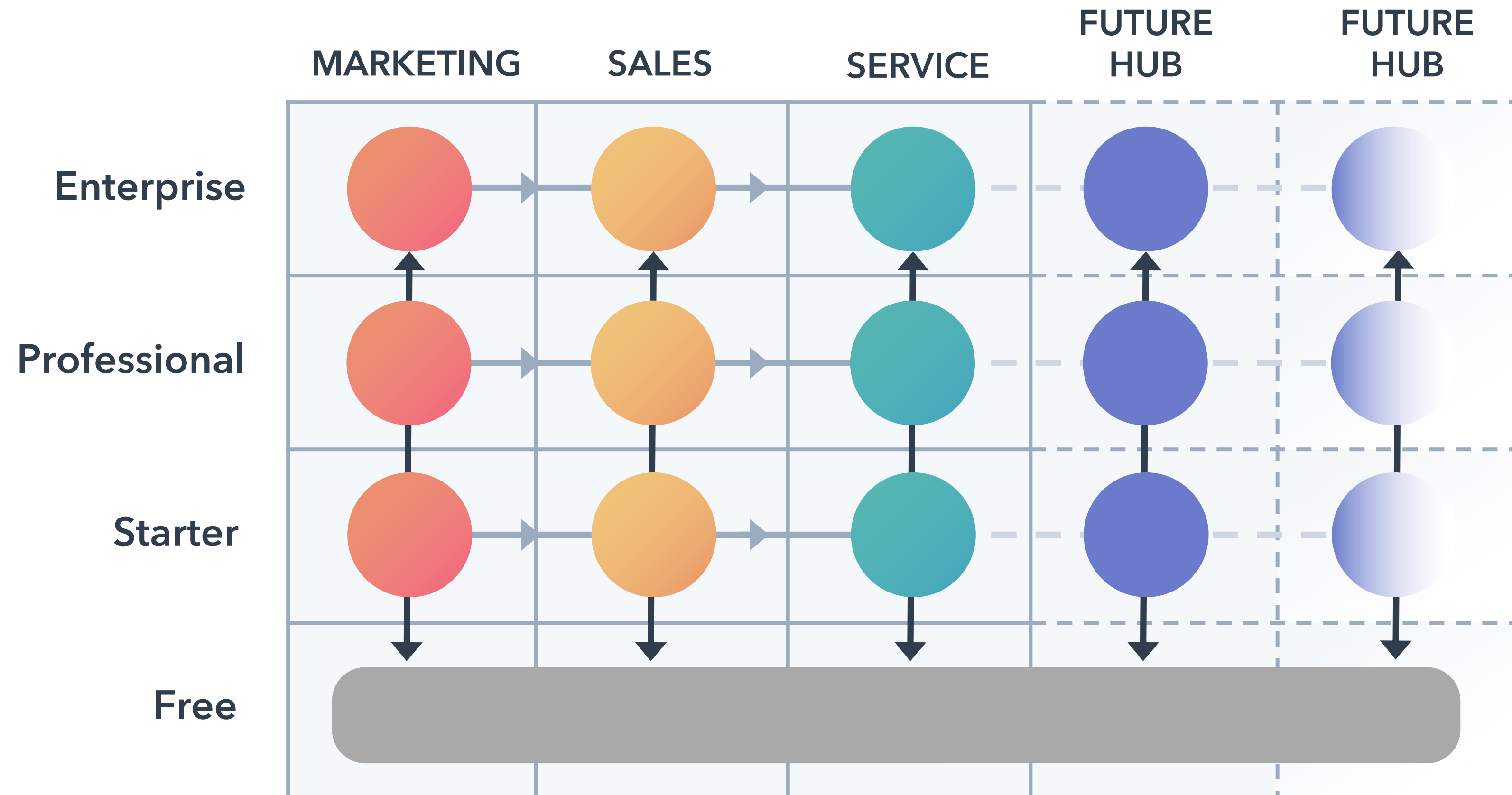
R&D expense percentages for historical periods are non-GAAP and exclude expenses associated with stock based compensation, amortization of acquired intangibles and acquisitions. Please refer to the end of this presentation for a reconciliation of GAAP to non-GAAP figures. See definition for ARR at end of presentation. Data as of 6/30/19.



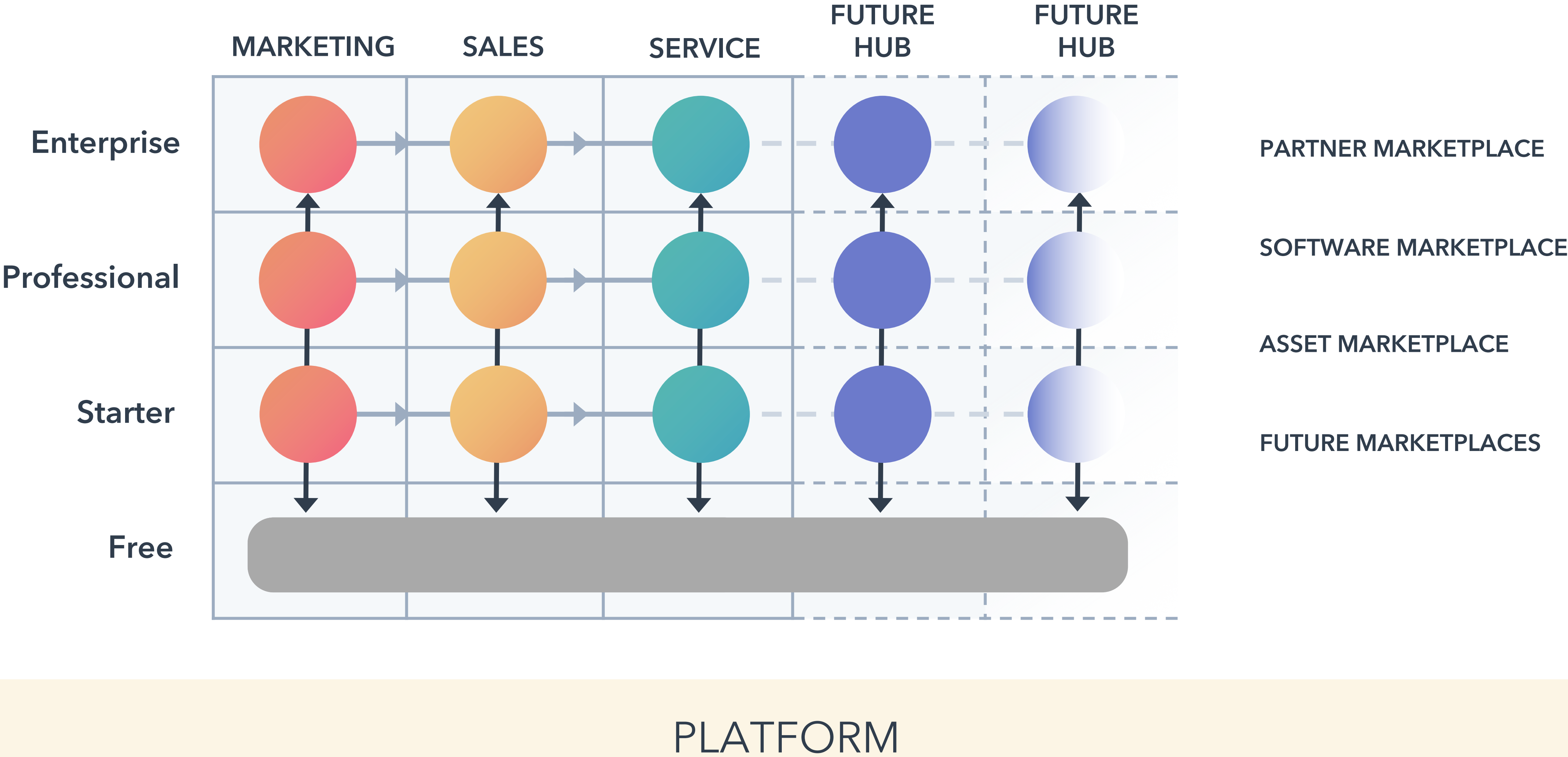
# Continuing to Layer in Fast Growing Hubs



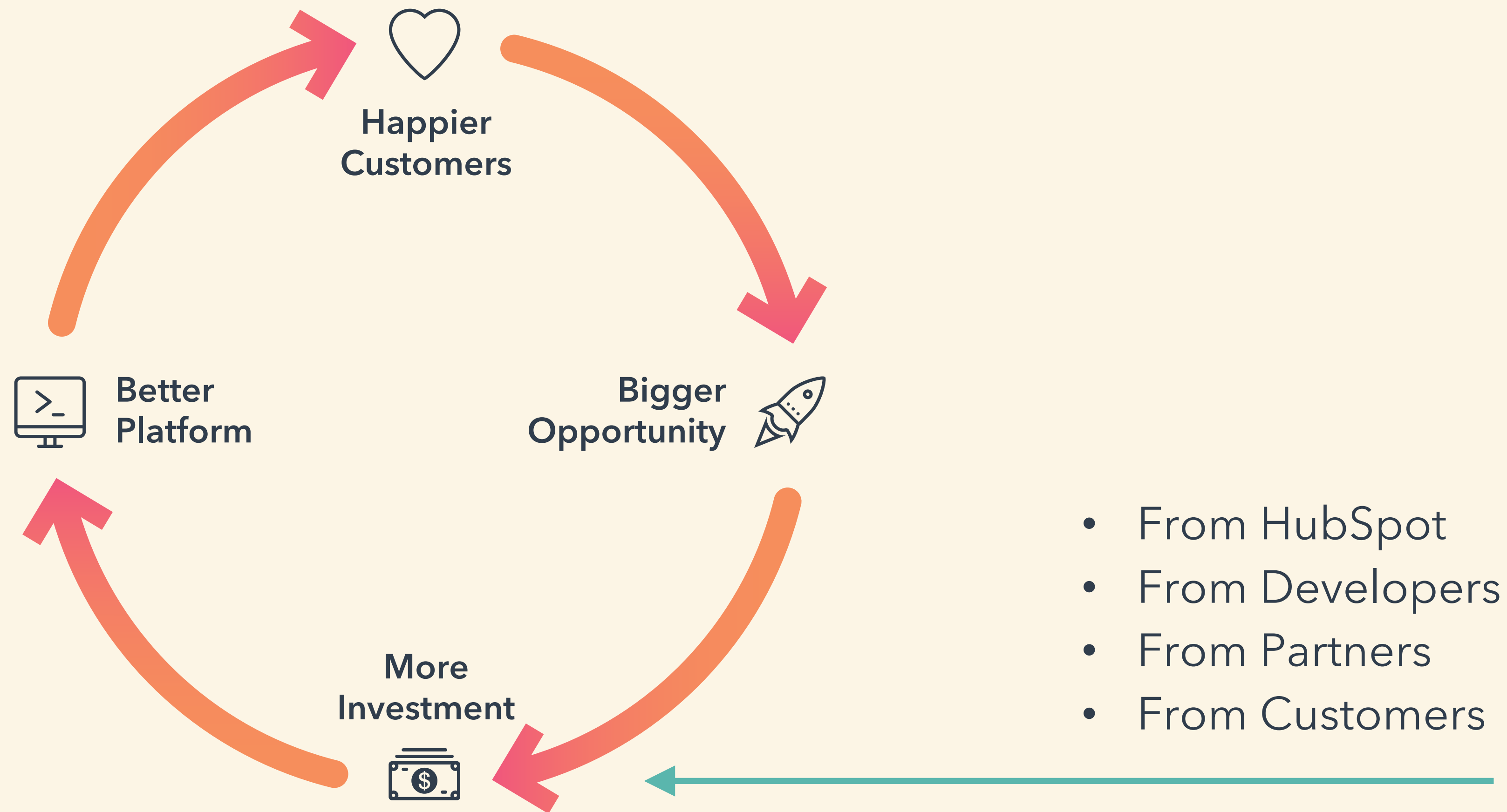
# Continuing to Layer in Fast Growing Hubs



# Continuing to Layer in The Platform



# The Platform “Investment Flywheel”



# Key Takeaways

1

## Improving Go-to-Market Model

- Less friction
- Full suite

2

## Strong ROI on R&D Spend

- New products
- Platform progress

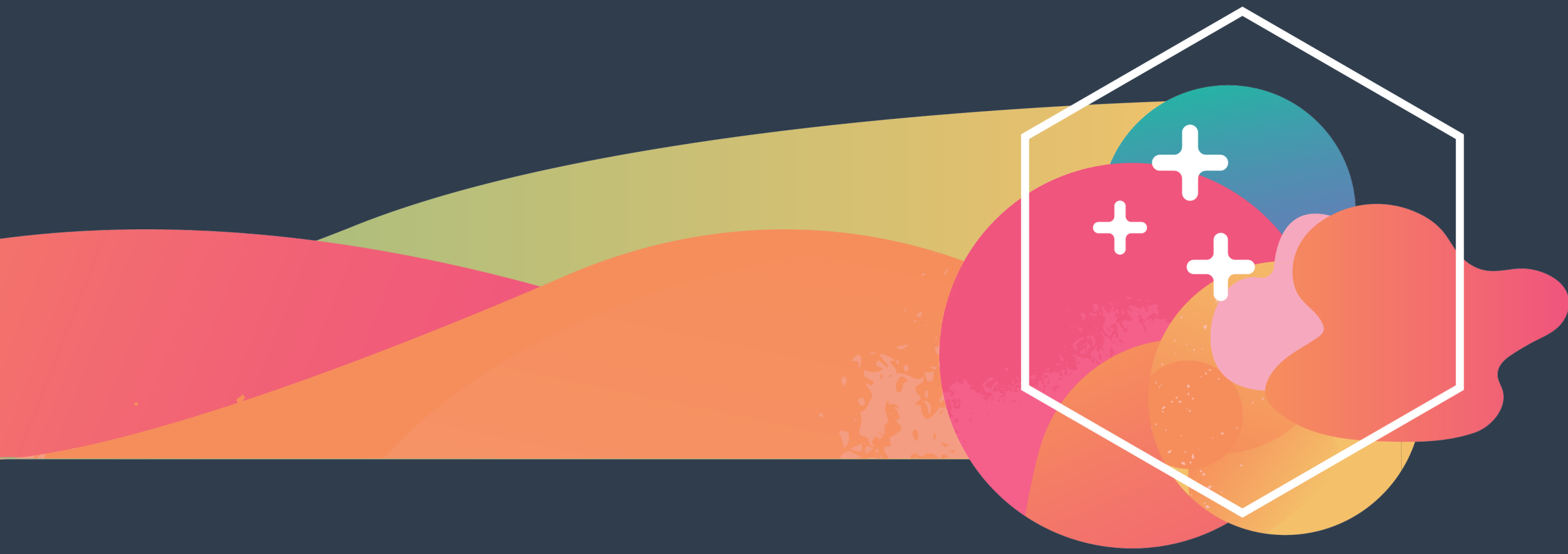
3

## Early Innings!

- Potential for more hubs
- Platform investment flywheel

Thank you





# Grow Better



# Financial Overview

Kate Bueker

Chief Financial Officer

# Important Information

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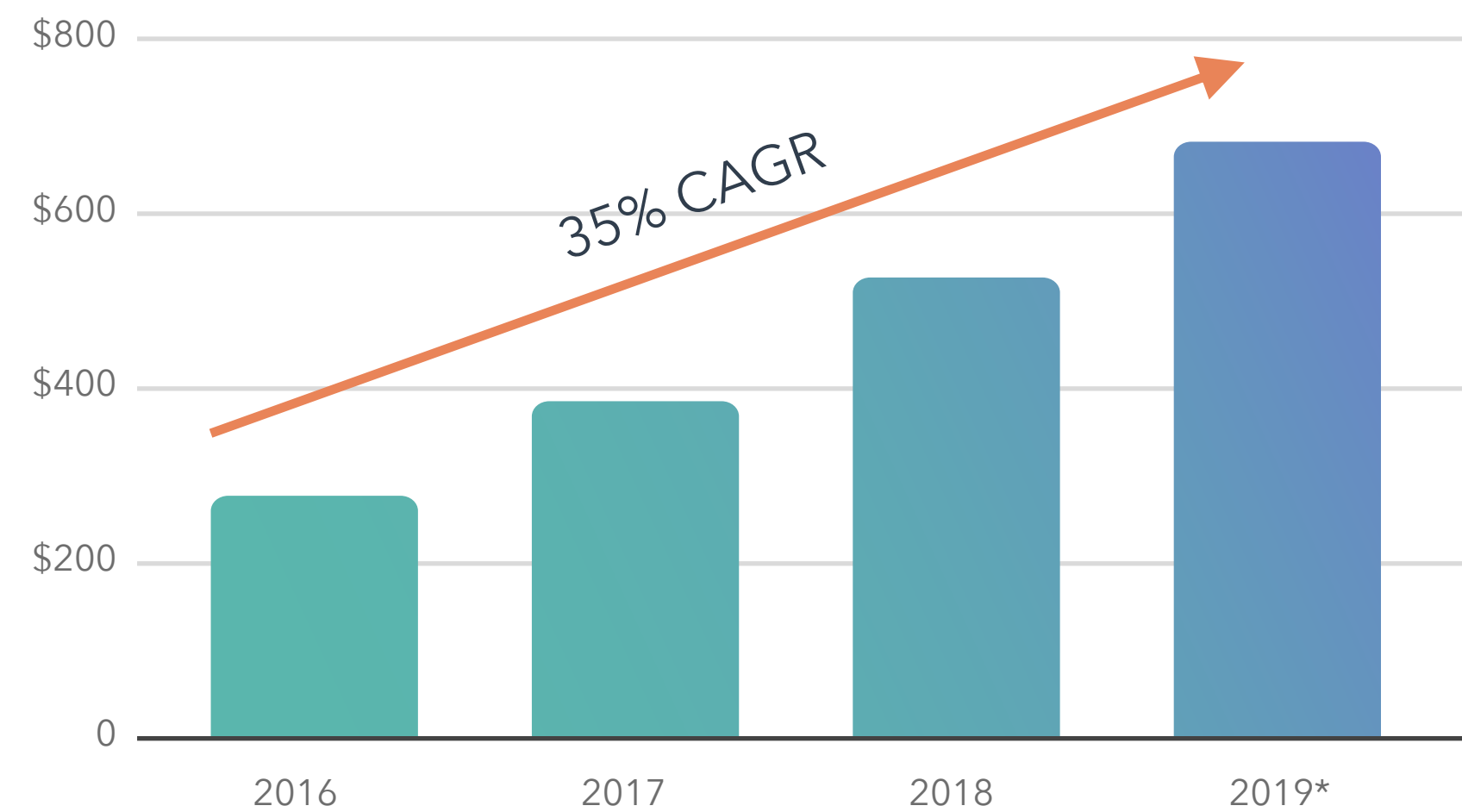




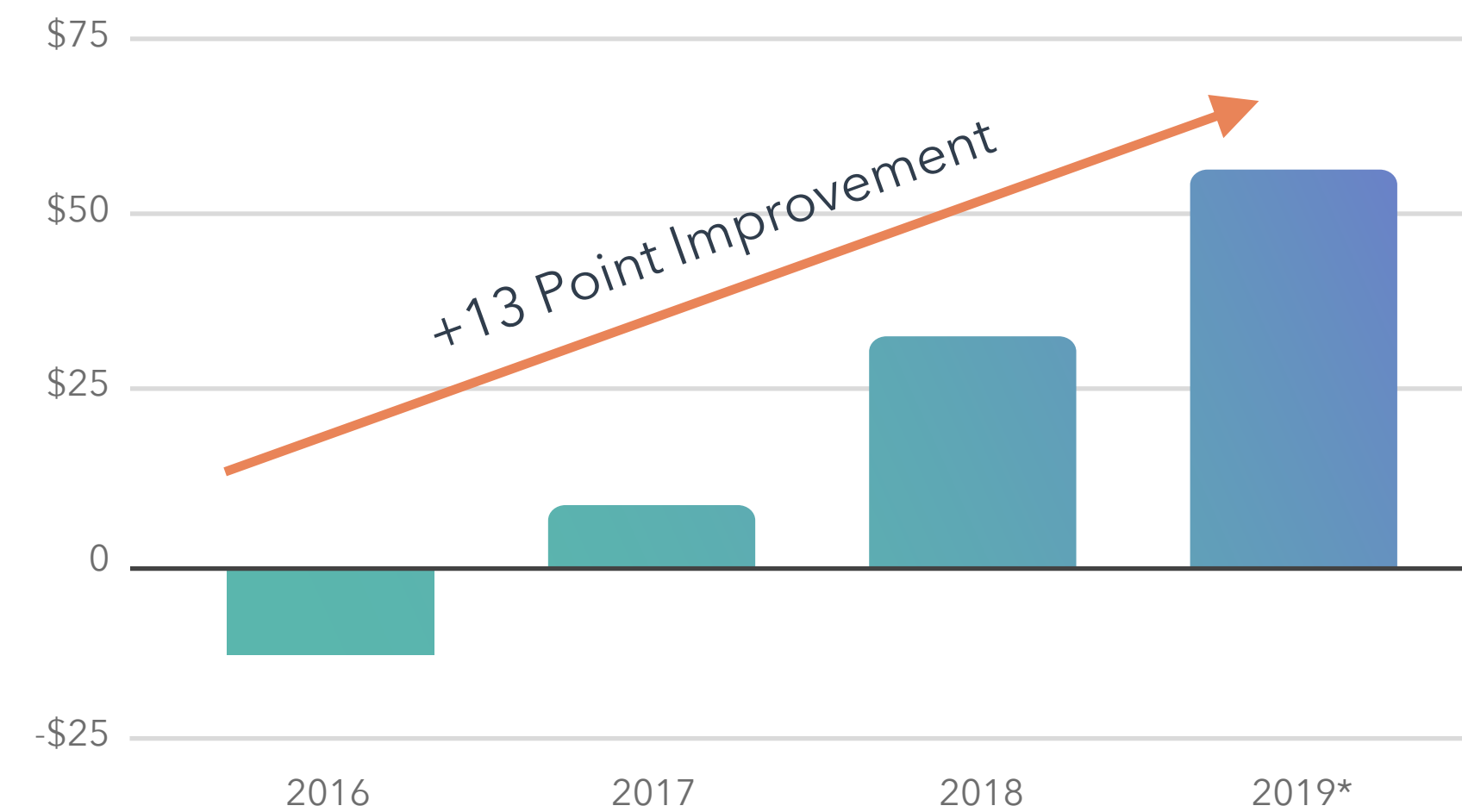
# Grow Better

# Strong Revenue Growth and Profitability

Revenue (in millions)



Non-GAAP Operating Profit (in millions)



\*Represents current mid-point of FY 2019 guidance.

Non-GAAP operating profit excludes expenses associated with stock based compensation, amortization of acquired intangibles and acquisitions.

Please refer to the end of this presentation for a reconciliation of GAAP to non-GAAP figures.

CAGR: compound annual growth rate.



# Rapid Customer Growth

**440K**

CRM Weekly Active Users

**45%**

YOY growth

**65K**

Total Paying Customers

**35%**

YOY growth

**24K**

Multi-product Customers

**75%**

YOY growth

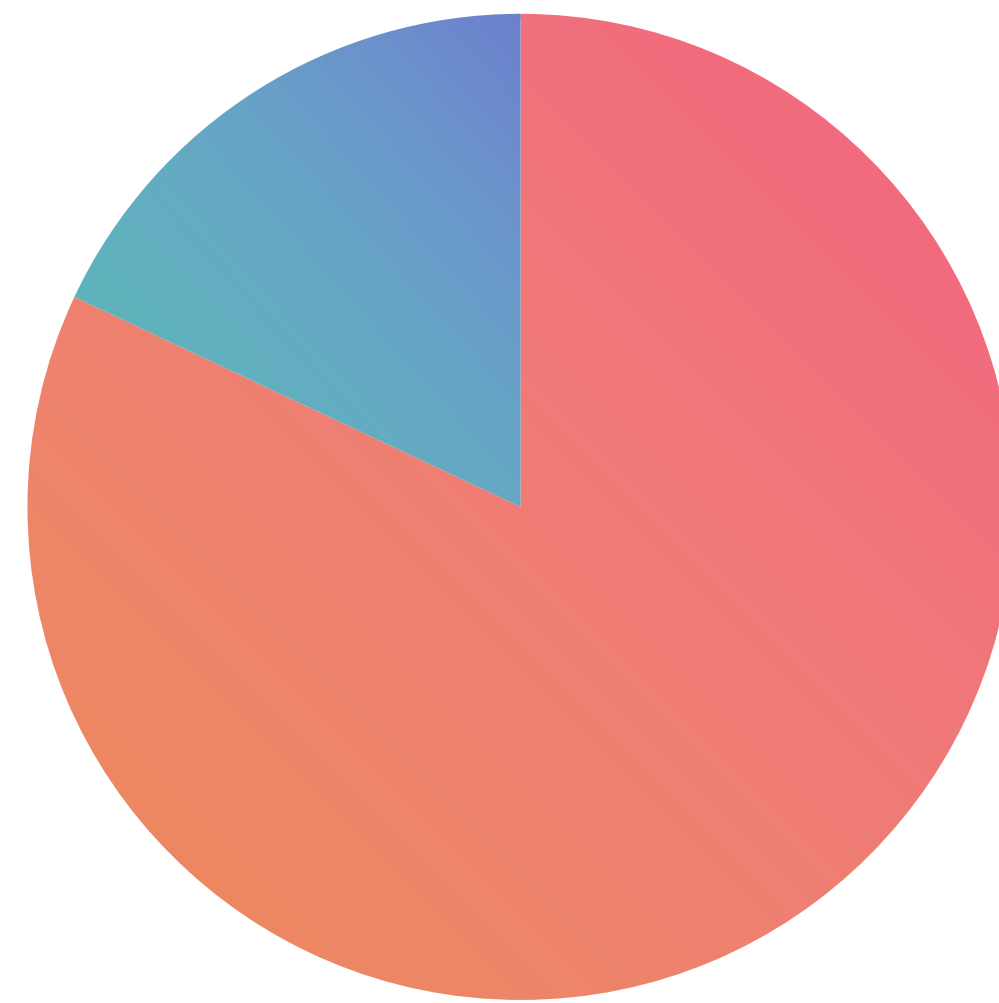
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Multi-product Customers are customers who have subscriptions to any product on two or three distinct product hubs (Marketing Hub, Sales Hub, Service Hub).  
See definition for Total Customers at end of presentation.  
Data as of 6/30/19 as compared to 6/30/18.



# Diversifying Growth Drivers



■ US ■ International



■ Marketing Hub ■ Sales & Service Hubs



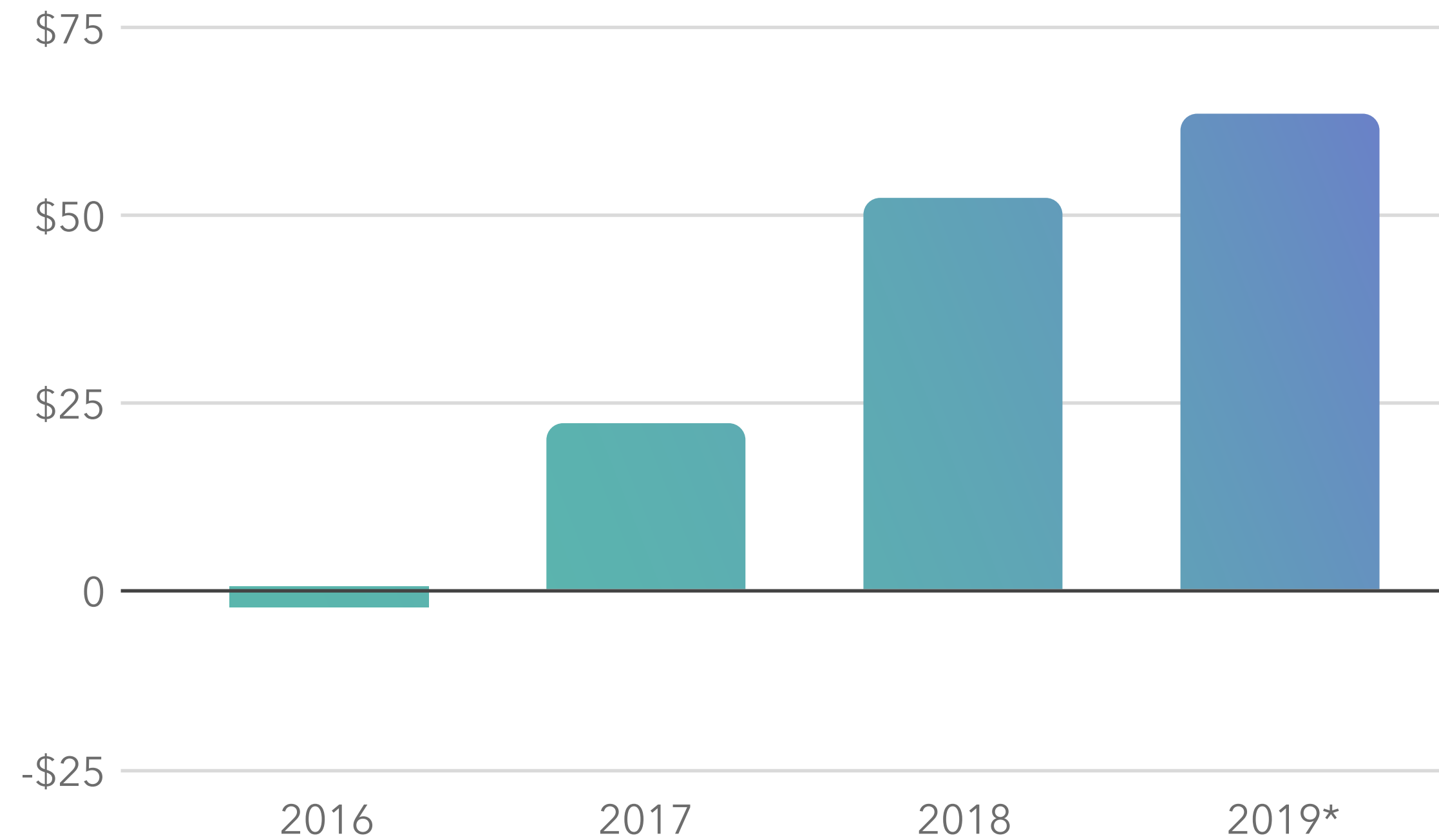
■ Direct ■ Partner

United States vs. International and Marketing Hub vs. Sales/Service Hubs are calculated on a % of Install Base as of the end of Q2 2019. Direct vs. Partner is calculated on a % of revenue basis for Q2 2019.



# Strong Free Cash Flow and Balance Sheet

Free Cash Flow (in millions)



**Ended Q2 2019 with \$994 million dollars in cash and investments**

\*Represents current mid-point of FY 2019 guidance.

All amounts are non-GAAP.

Free cash flow is defined as cash and cash equivalents provided by (used in) operating activities less purchases of property and equipment and capitalization of software development costs.

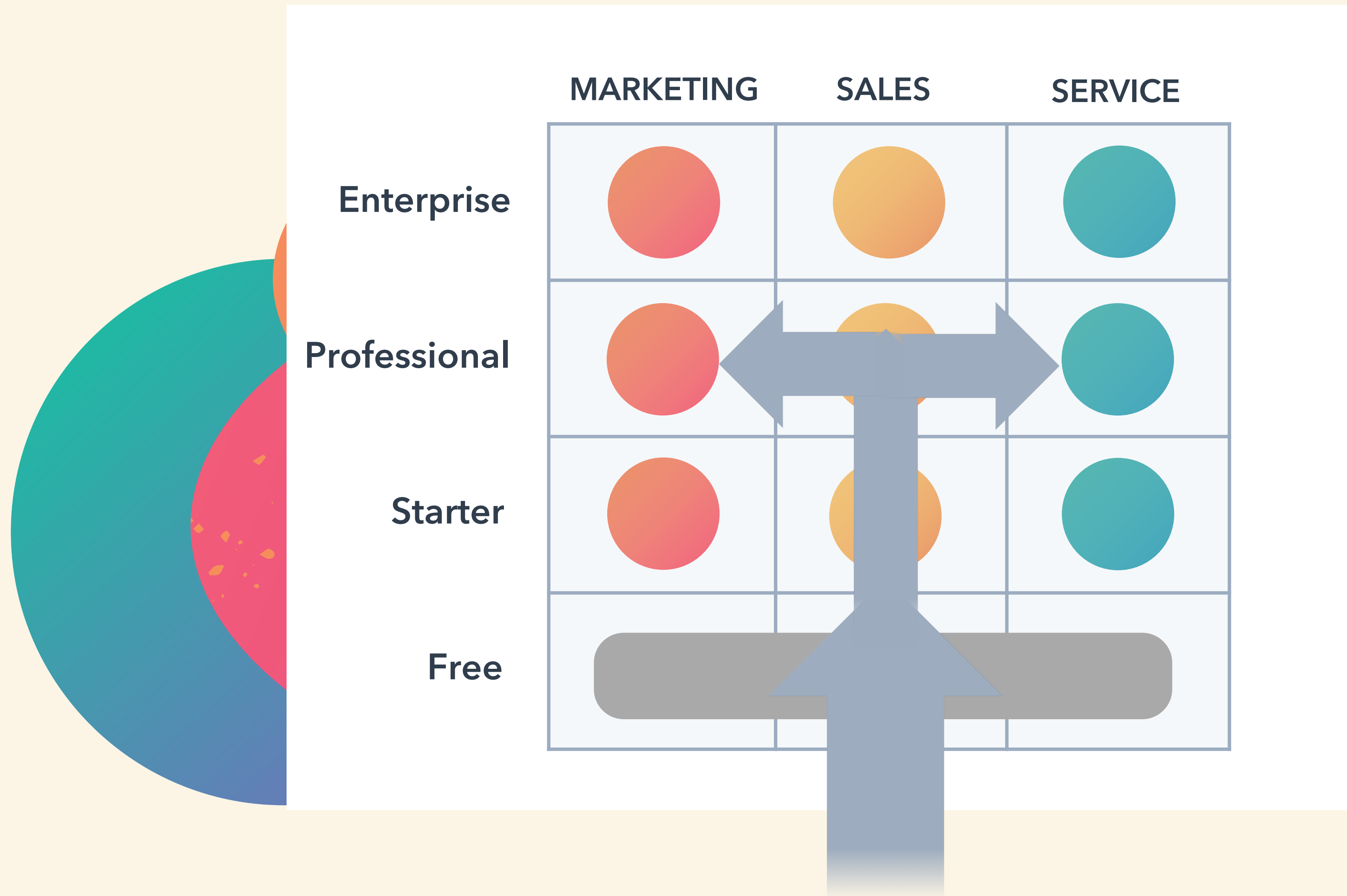
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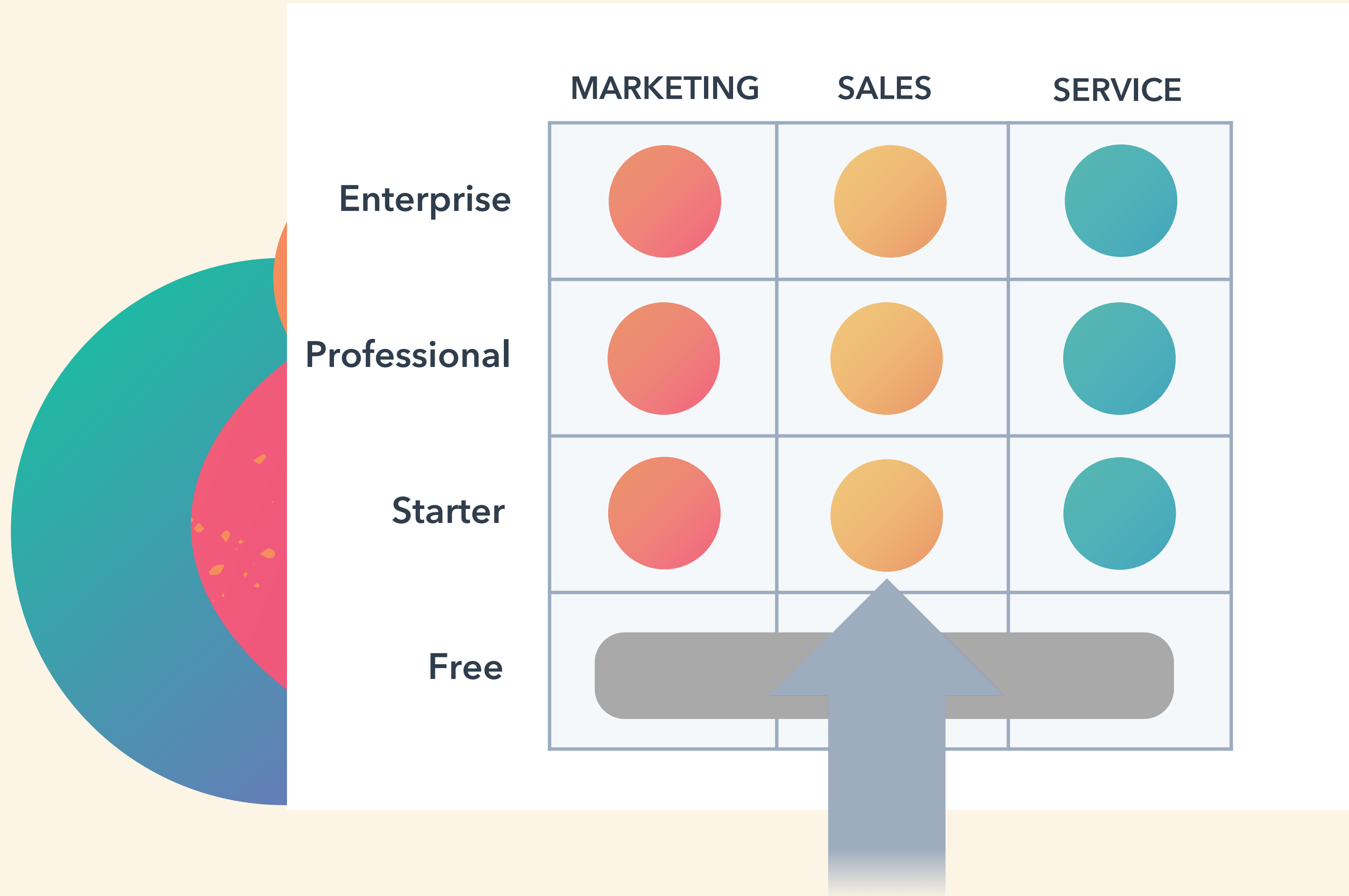


# A Year in Review: The Suite

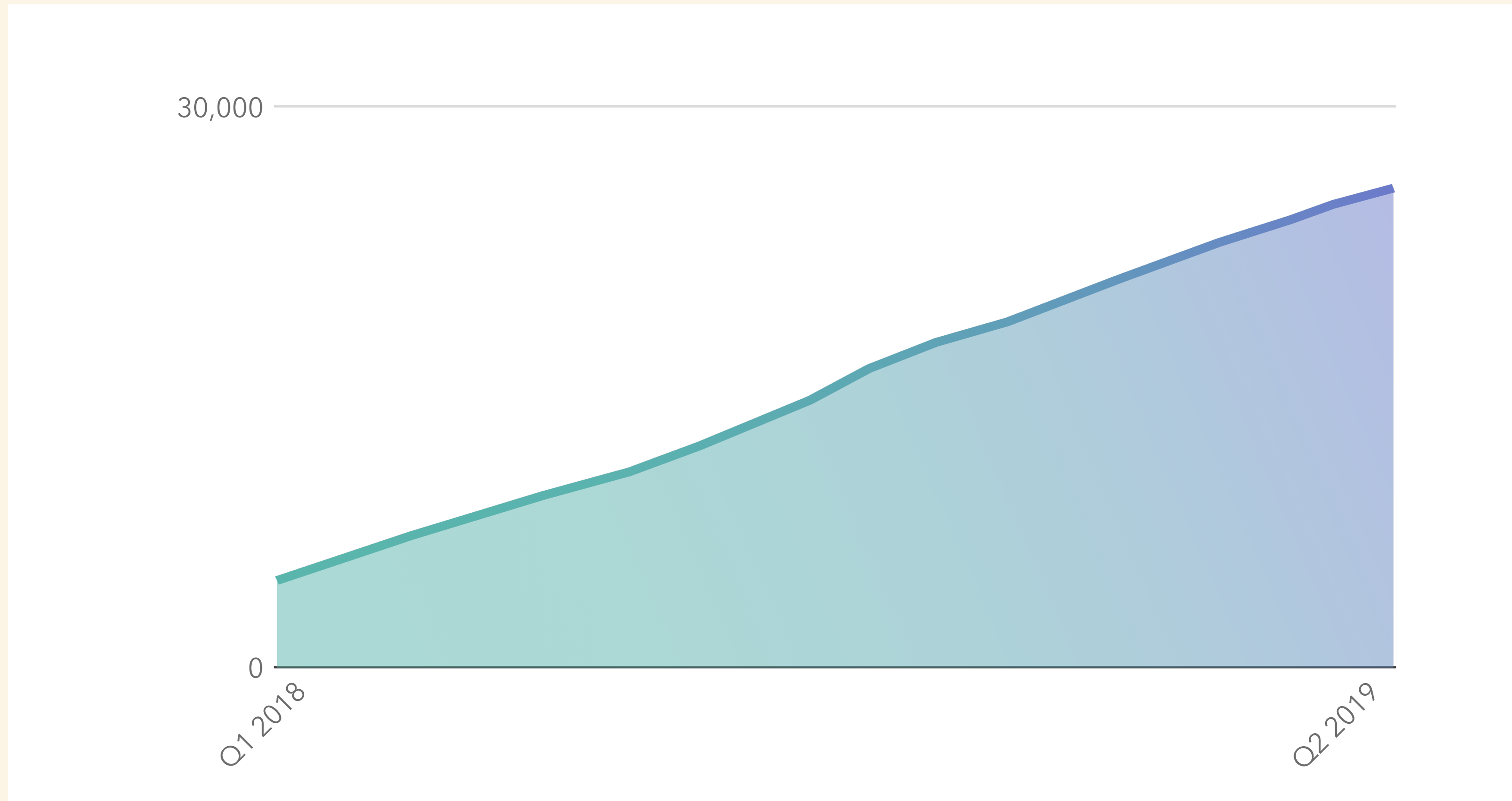
# Complementary Forces of the Suite



# Complementary Forces of the Suite



# Strong Starter Customer Growth



# Efficient Customer Acquisition

The cost to acquire a  
Starter customer is

**1/10th**

the cost to acquire a  
Pro/Ent customer

**150%**

Increase in  
Starter Upgrade  
\$'s YoY

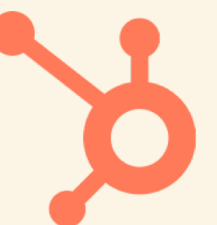
Cost to acquire Pro, Enterprise and Starter customers is calculated using estimates and assumptions based on internal data.

Starter Upgrade \$'s are defined as the net change in ARR from Customers who had a Starter Edition at the beginning of the period.

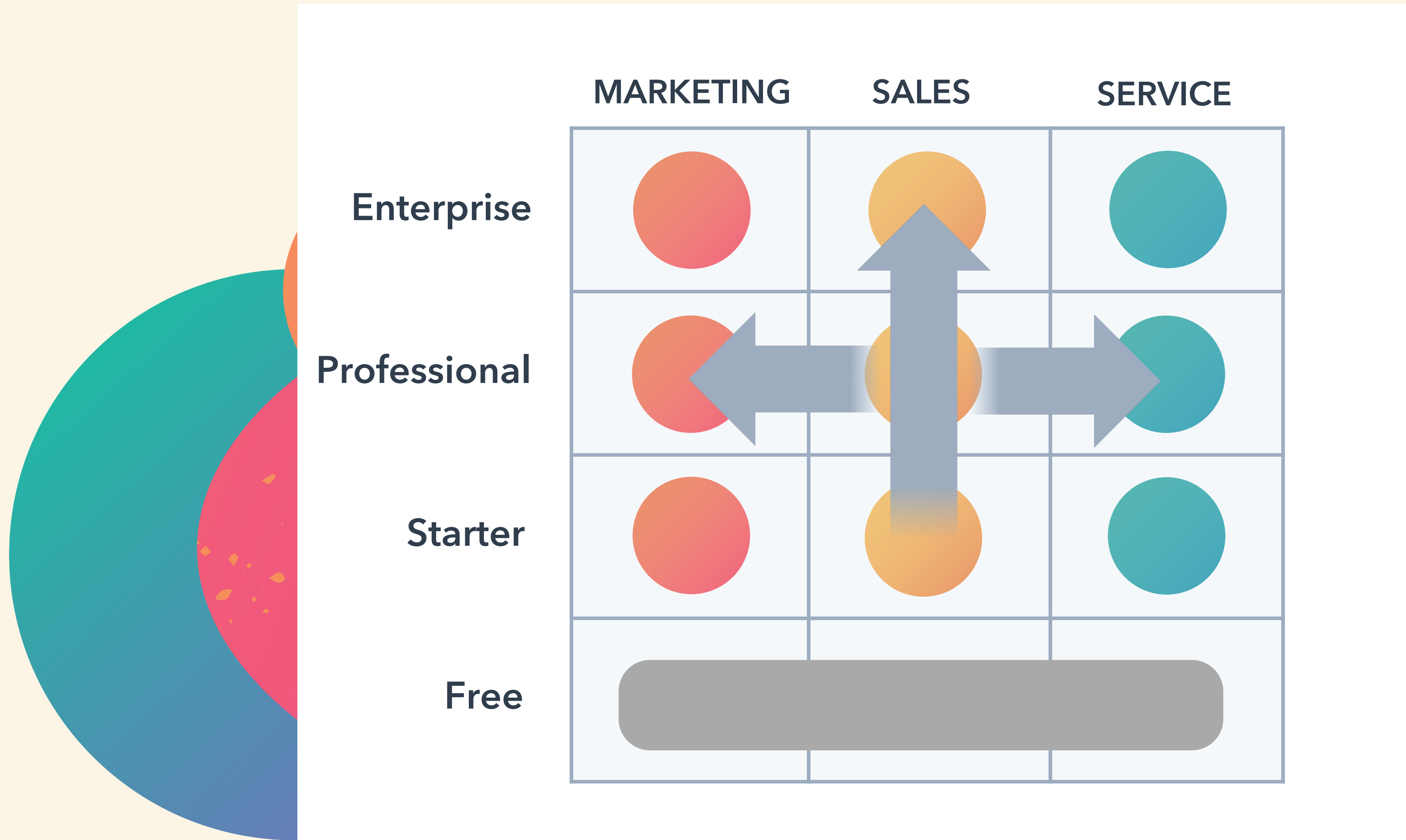
This ARR would include Edition upgrades from Starter and the purchase of Additional Starter portals, but would not include ARR from portals associated with these Customers who began the period as Basic, Professional, or Enterprise.

The calculation does not include any New ARR or Cancelled ARR in the period.

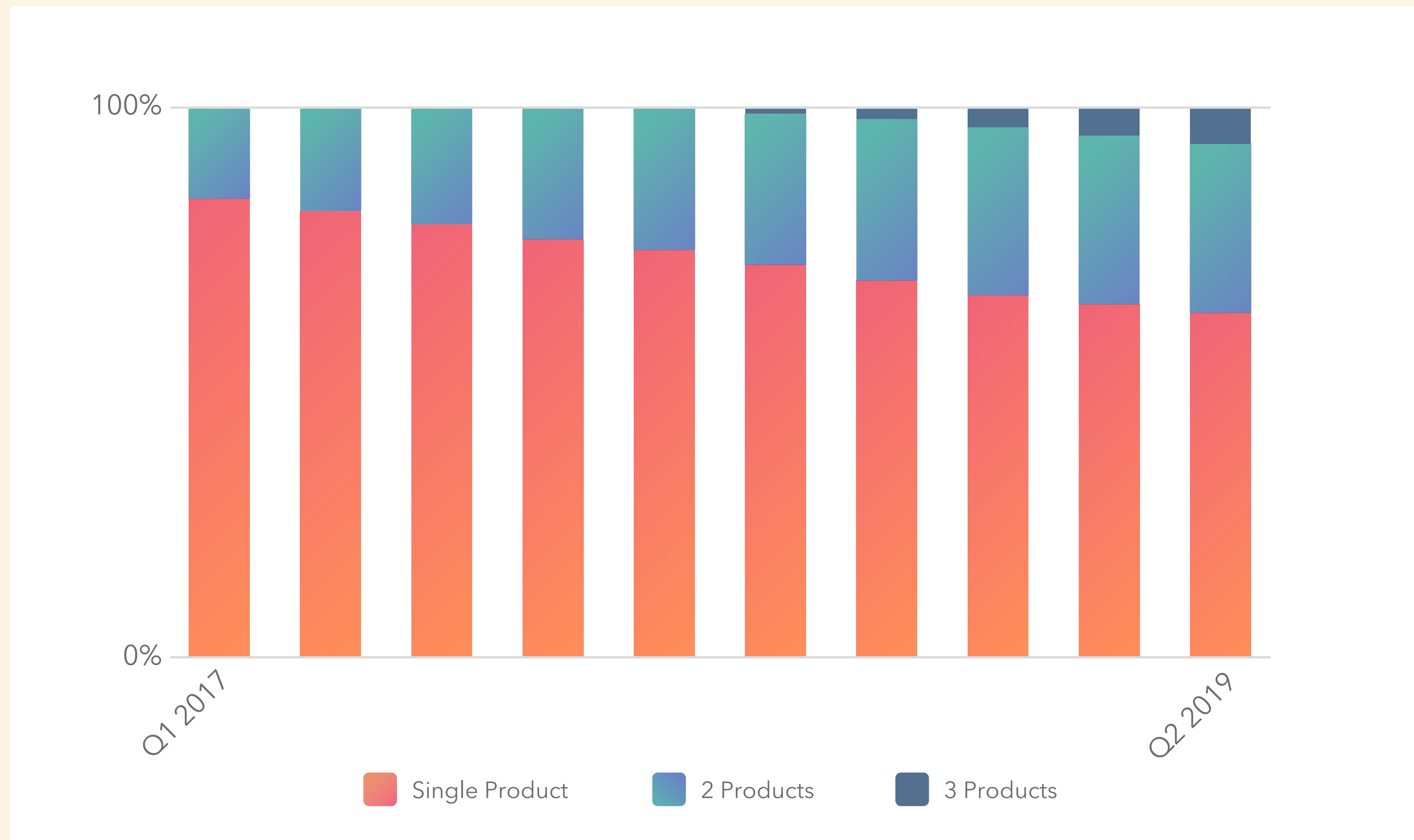
Growth is calculated as the change in the total Starter Upgrade ARR in Q2 2019 compared to Q2 2018.



# Complementary Forces of the Suite



# Significant Growth in Multi-Product Adoption

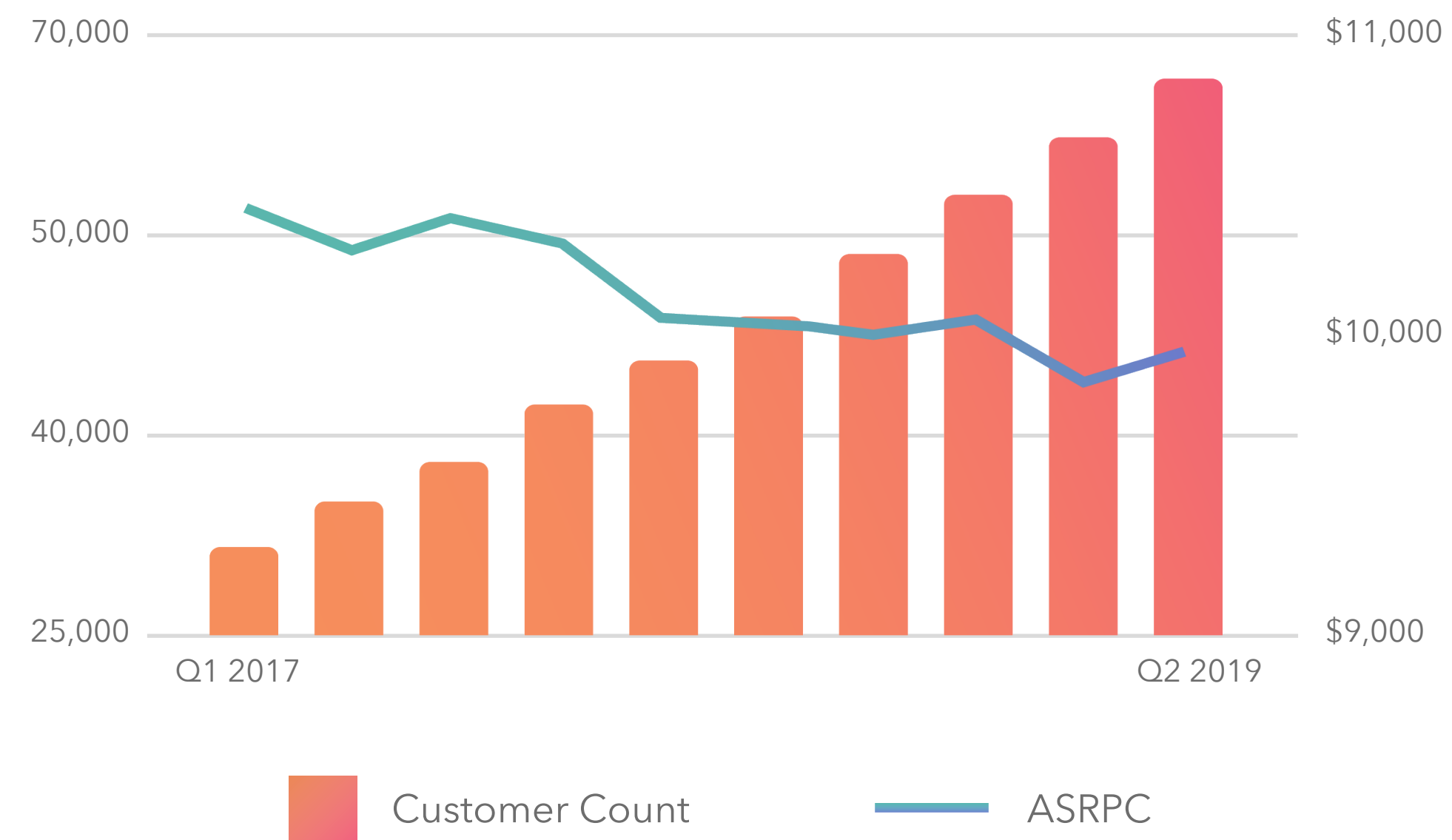


Multi-product customers are customers who have subscriptions to any product on two or three distinct product hubs (Marketing Hub, Sales Hub, Service Hub).  
Data as of 6/30/19.

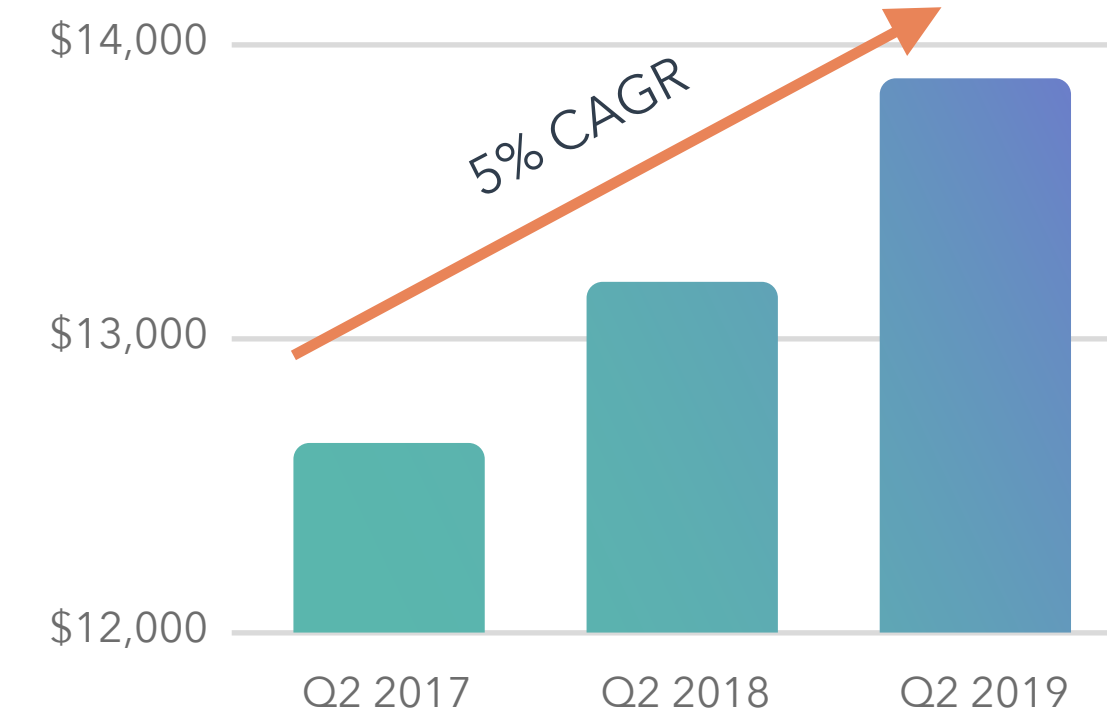


# Traditional Metrics Reflect Product Mix

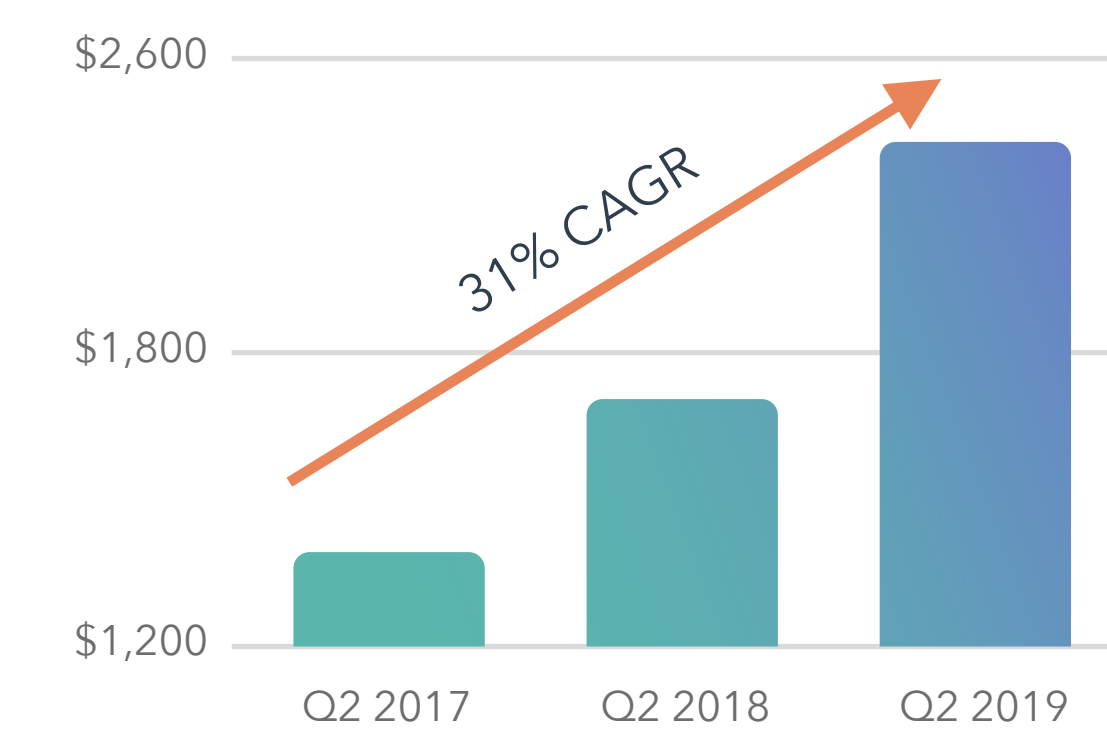
## Total Customer and ASRPC



## Marketing Hub ASRPC (ex Starter)



## Sales Hub ASRPC



See definitions for Total ASRPC, Marketing Hub ASRPC, and Sales Hub ASRPC at end of presentation.  
CAGR: compound annual growth rate.



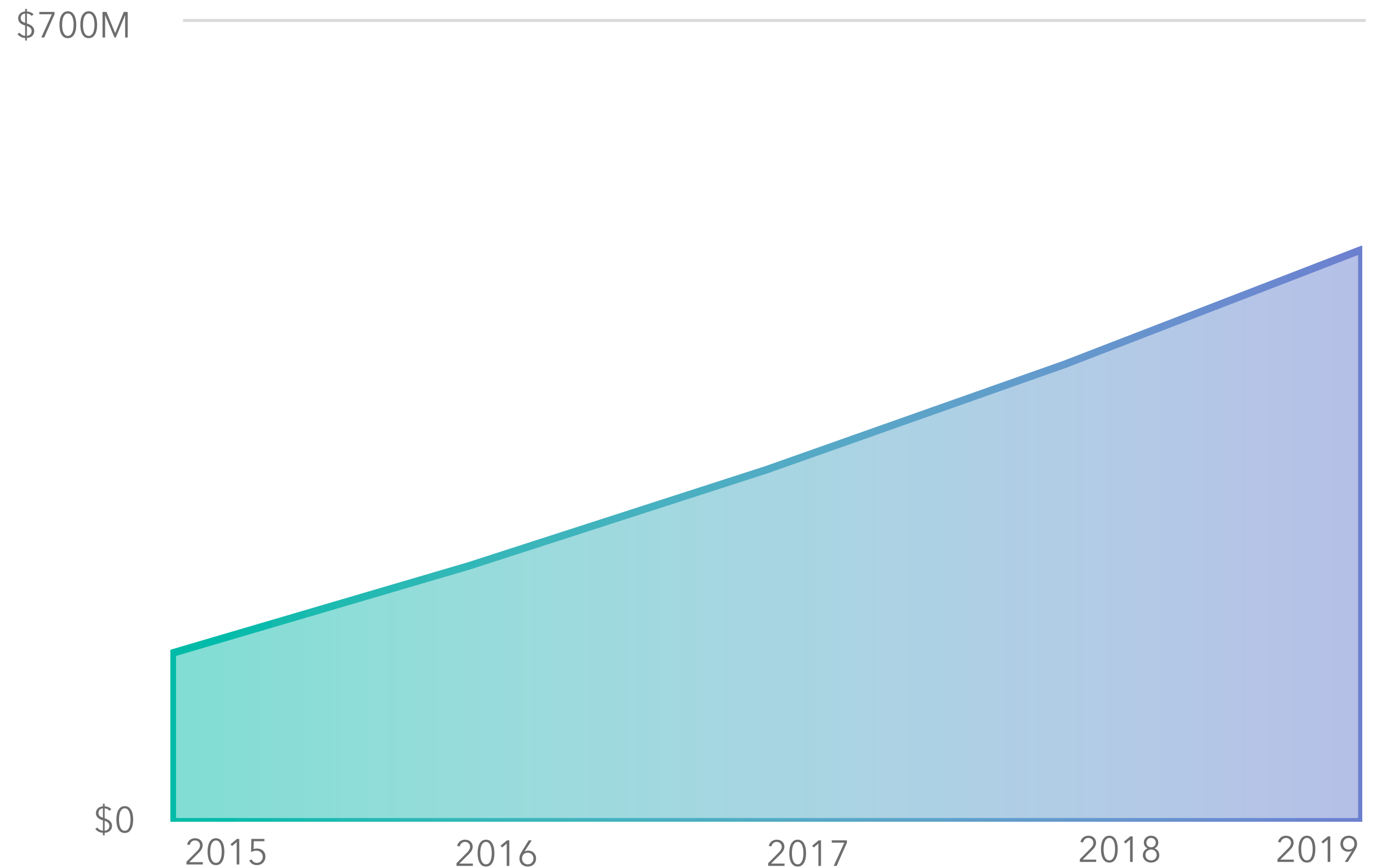


# A Year in Review: The Product Portfolio

# Marketing Hub

**\$530M ARR Install Base<sup>1</sup>**  
**Low to mid 20's % yoy growth**

- Free email, ads, automation
- Improved reporting, including drilldowns and multi-factor attribution
- CMS memberships and drag-and-drop editor in email and landing pages
- Marketing Hub Starter contact tier pricing increasing on November 1st



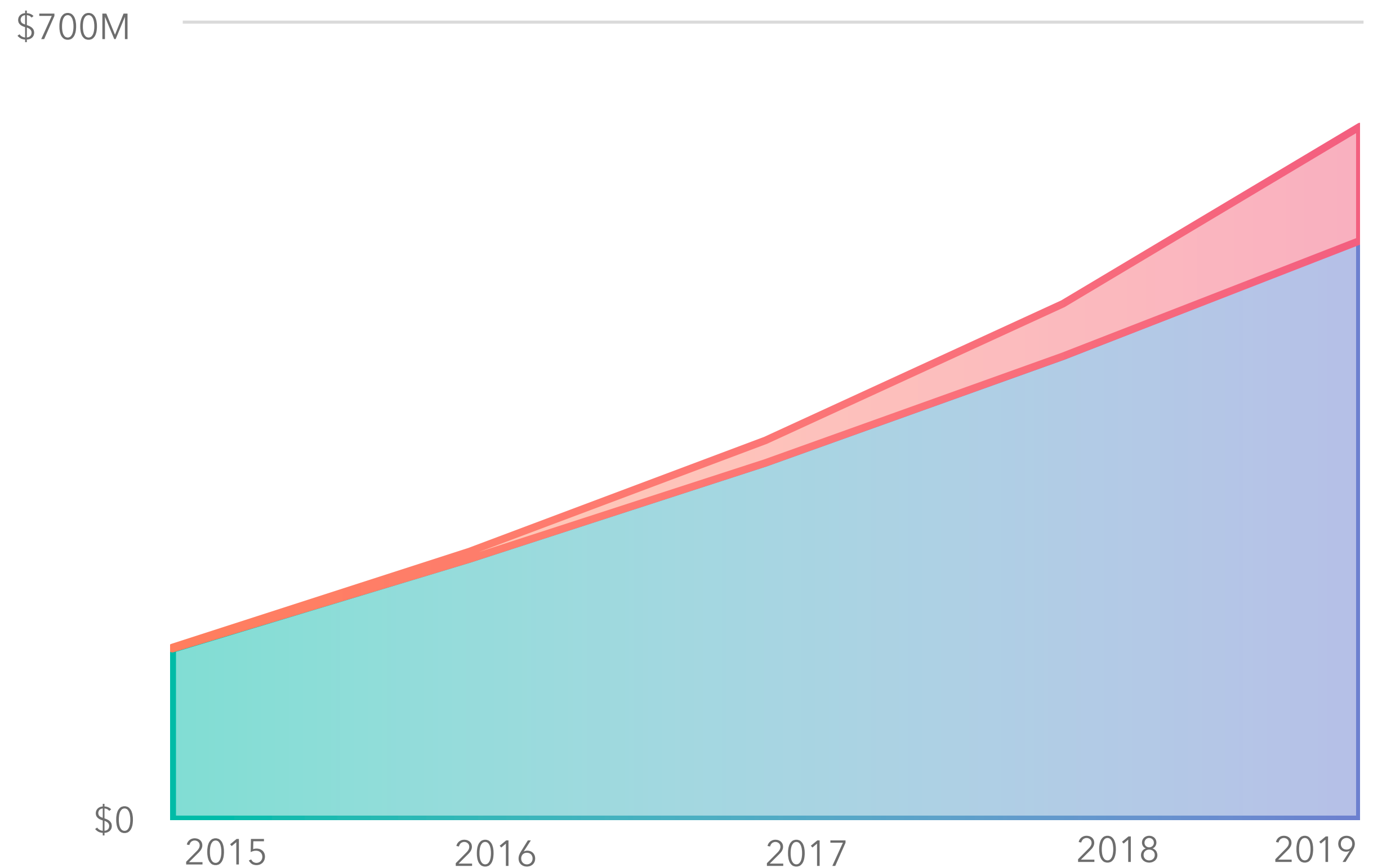
1. See definition for ARR at end of presentation.  
ARR as of 6/30/19.  
YoY growth vs. ARR as of 6/30/18.



# Sales Hub

**\$105M ARR Install Base<sup>1</sup>**  
**~100% yoy growth**

- New Sales Hub Professional features, including eSignatures, calculated properties, and more
- Quoting and "Buy Now" button
- New Sales Hub Professional price of \$500/mo or \$100/user on November 1st



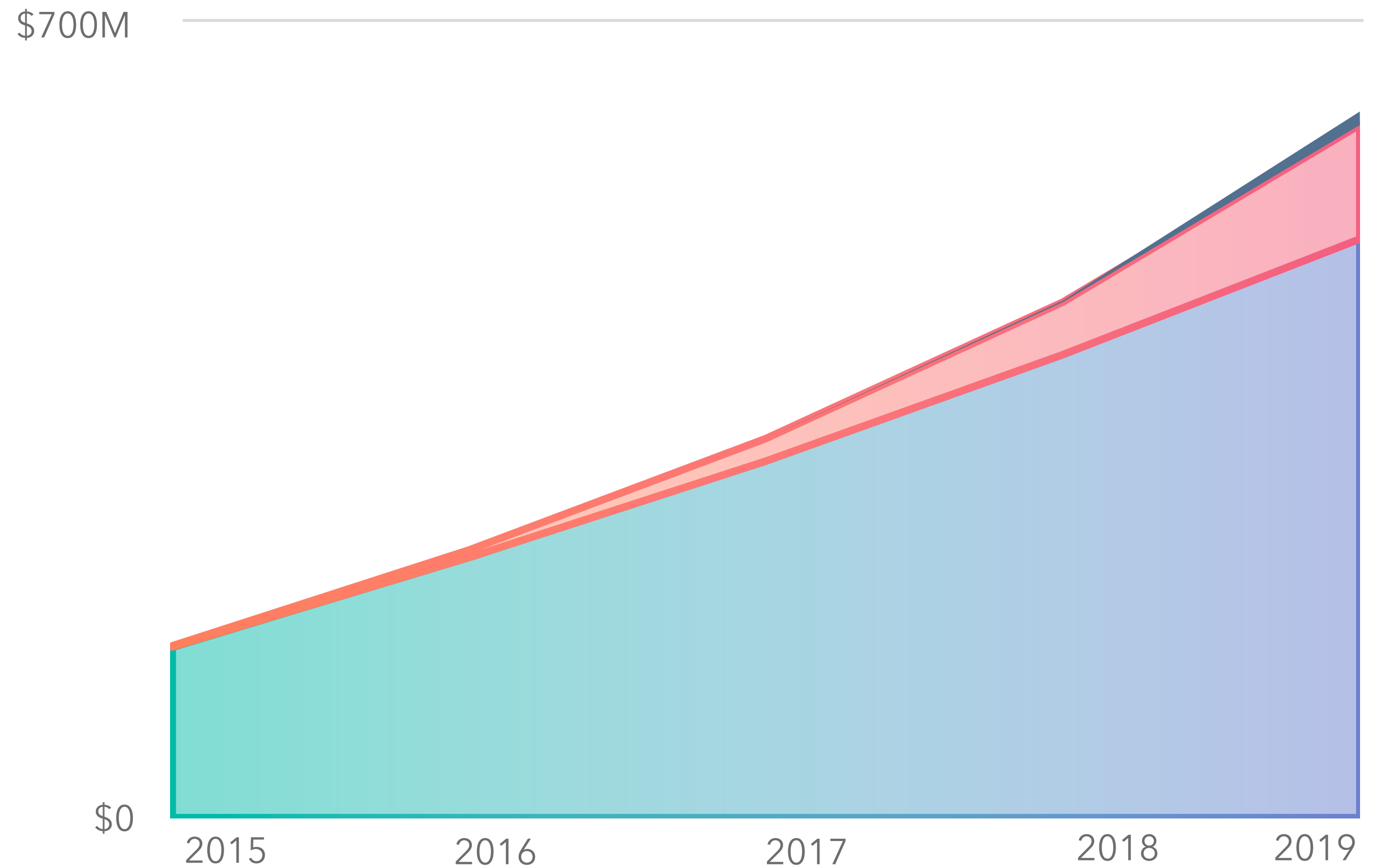
1. See definition for ARR at end of presentation.  
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# Service Hub

**\$14M ARR Install Base<sup>1</sup>**  
**Still growing fast**

- Unified customer experience resonating with Growth Suite and multi-product customers
- Surpassed 5,000 Service Hub customers
- Filling in feature gaps in core ticketing, knowledge base and advocacy



1. See definition for ARR at end of presentation.  
ARR as of 6/30/19.  
YoY growth vs. ARR as of 6/30/18.



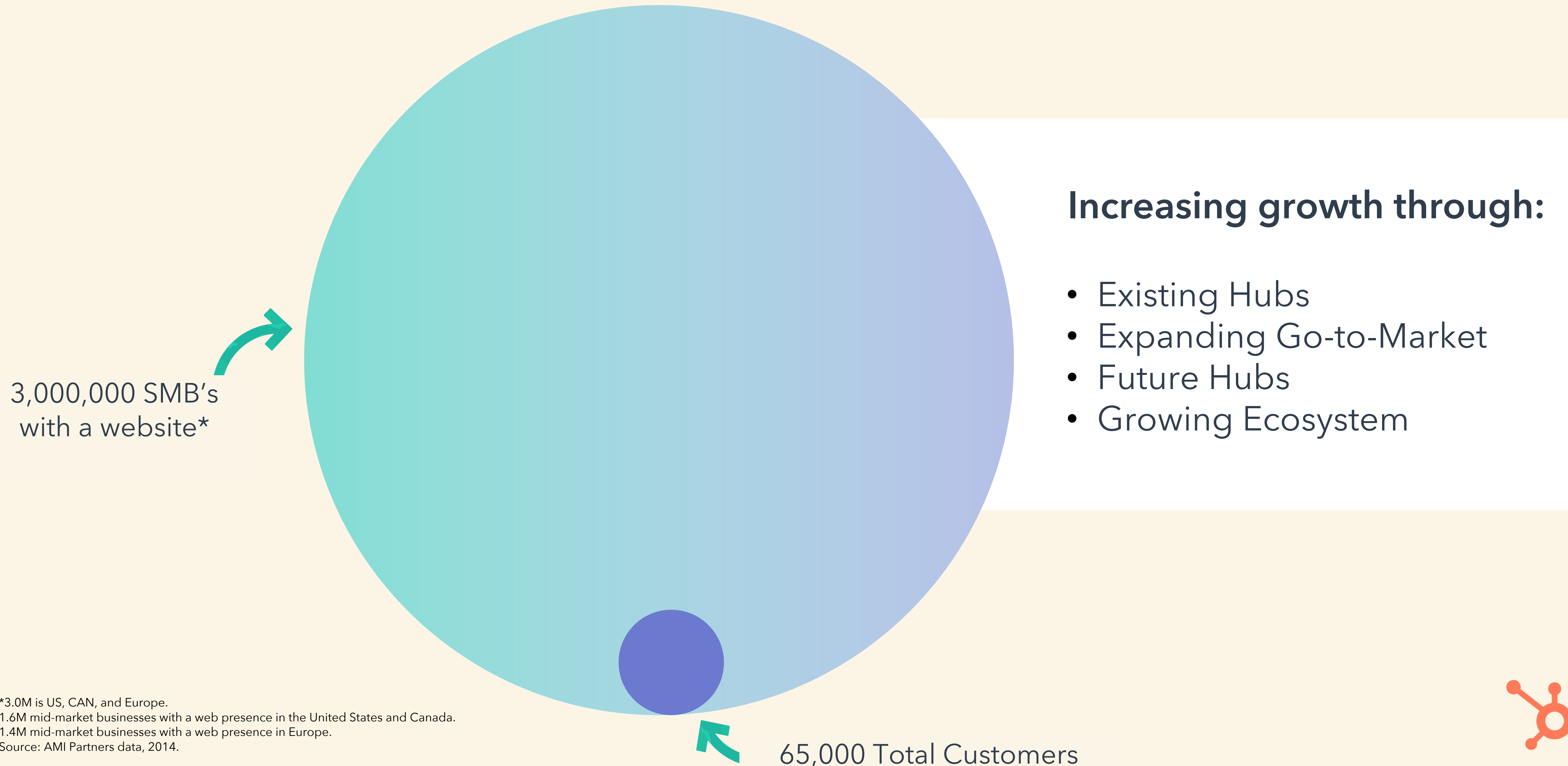
# Looking Ahead

# Solving for the Customer = Solving for Shareholders


INVESTMENT	NEAR-TERM IMPACT	EXPECTED LONG-TERM BENEFIT
Mainsail	Fewer product releases	Faster releases and better customer experience
Freemium	Cannibalization	Modern buying experience and customer self-service
Platform	Significant investment	Monetization opportunity and stickier customers



# Still in Early Innings of Growth

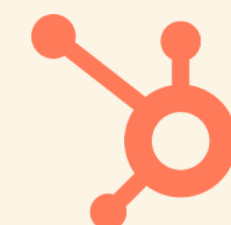


# Long Term Model Reflects Growth Focus



	2016	2017	2018	1H 2019	Long Term Target Model
Gross Margin	78%	81%	82%	82%	81% - 83%
R&D % of revenue	14%	15%	18%	18%	16% - 18%
S&M % of revenue	55%	52%	49%	45%	30% - 35%
G&A % of revenue	14%	12%	11%	11%	10%
Operating Margin	-4%	2%	3%	8%	20% - 25%

Long Term Target Model: These estimates reflect our current operating plan as of 9/4/2019 and are subject to change as future events and opportunities arise. All percentages are non-GAAP and exclude expenses associated with stock based compensation, amortization of acquired intangibles and acquisition related expenses. Please refer to the end of this presentation for a reconciliation of GAAP to non-GAAP figures.





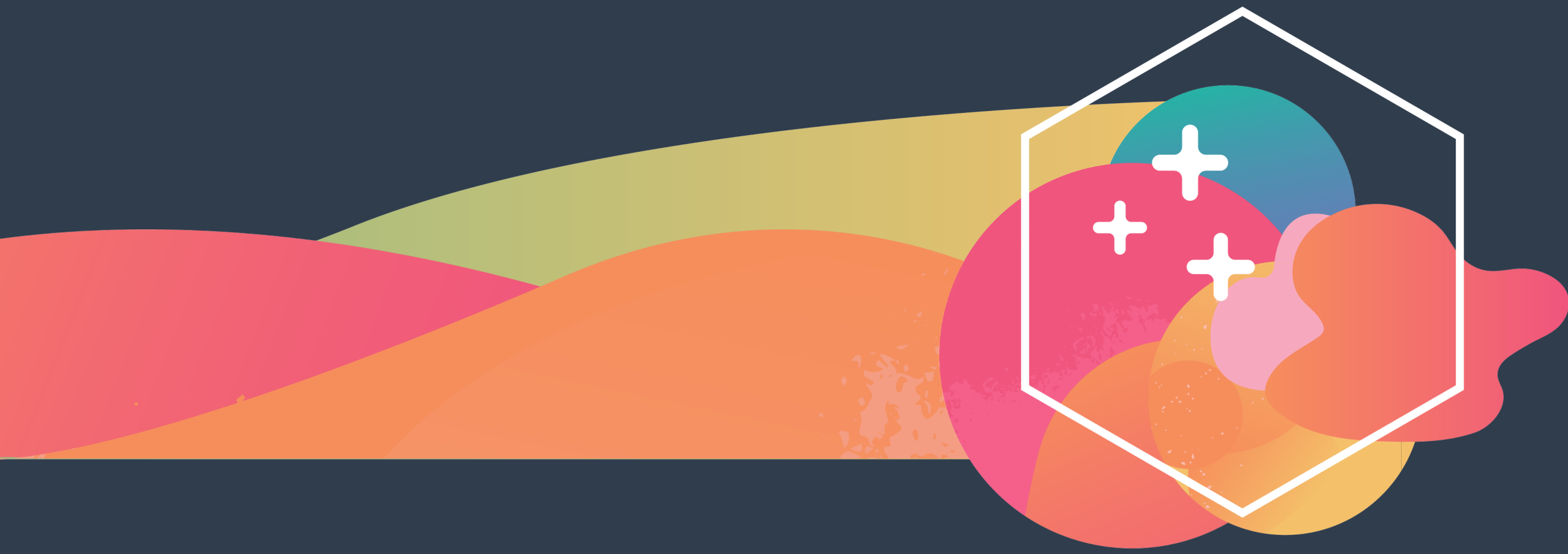
# Unit Economics Continue to Be Strong



# Key Takeaways

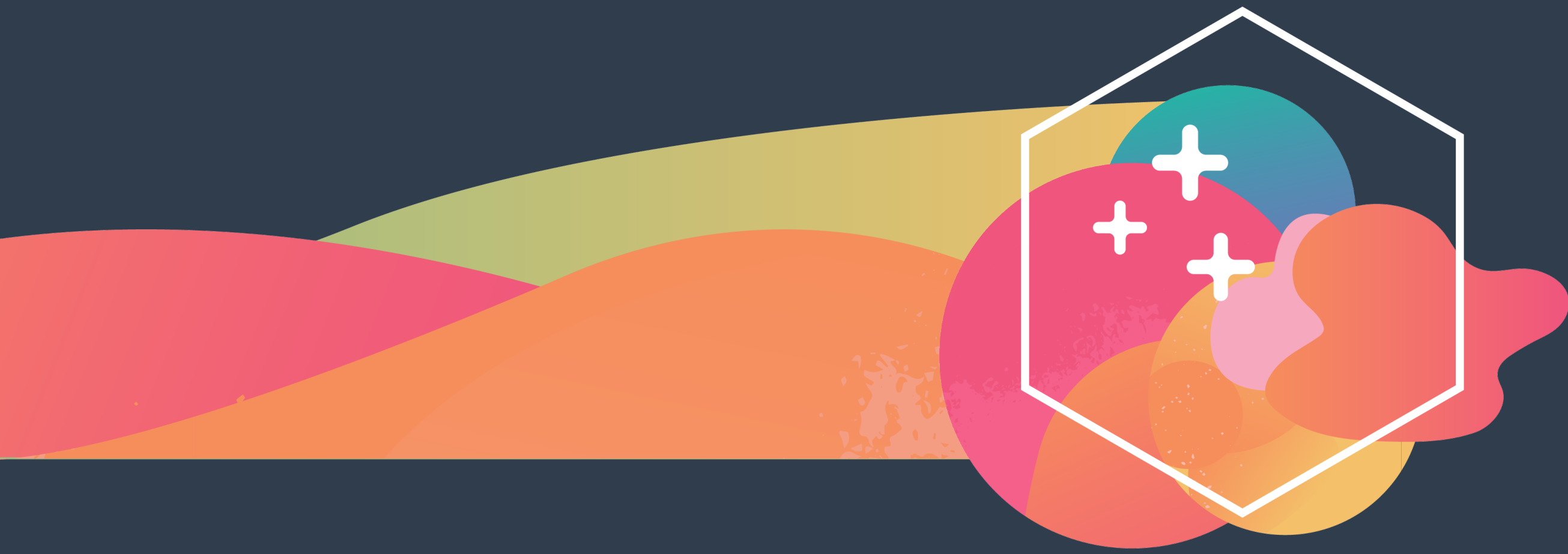
- 1 Strong, consistent financial performance
- 2 Customer-focused R&D paying off across existing product suite
- 3 Further suite innovation and ecosystem development provide opportunities for future growth
- 4 Healthy financial position provides flexibility for organic and inorganic investments

Thank you



# Grow Better

# Executive Q&A



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# GAAP to Non-GAAP Reconciliation

	2016		2017		2018		Six Months Ended June 30, 2019	
	\$ '000s	% of Revenues	\$ '000s	% of Revenues	\$ '000s	% of Revenues	\$ '000s	% of Revenues
<b>Cost of Revenue</b>								
Subscription	41,182	15%	51,563	14%	69,718	14%	44,879	14%
Stock-based compensation	(512)	0%	(658)	0%	(1,476)	0%	(1,437)	0%
Amortization of acquired intangibles	(57)	0%	(96)	0%	(1,394)	0%	(1,600)	-1%
Acquisition related expenses	-	0%	-	0%	-	0%	-	0%
Non-GAAP subscription	<u>40,613</u>	15%	<u>50,809</u>	14%	<u>66,848</u>	13%	<u>41,842</u>	13%
Professional services and other	20,683	8%	24,166	6%	30,639	6%	15,841	5%
Stock-based compensation	(1,640)	-1%	(2,327)	-1%	(2,924)	-1%	(1,685)	-1%
Amortization of acquired intangibles	-	0%	-	0%	-	0%	-	0%
Acquisition related expenses	-	0%	-	0%	-	0%	-	0%
Non-GAAP professional services and other	<u>19,043</u>	7%	<u>21,839</u>	6%	<u>27,715</u>	5%	<u>14,156</u>	4%
<b>Gross Margin</b>								
Gross margin	209,102	77%	299,883	80%	412,623	80%	254,333	81%
Stock-based compensation	2,152	1%	2,985	1%	4,400	1%	3,122	1%
Amortization of acquired intangible assets	57	0%	96	0%	1,394	0%	1,600	1%
Acquisition related expenses	-	0%	-	0%	-	0%	-	0%
Non-GAAP gross margin	<u>211,311</u>	78%	<u>302,964</u>	81%	<u>418,417</u>	82%	<u>259,055</u>	82%
<b>Operating Expenses</b>								
Research and development	45,997	17%	70,373	19%	117,603	23%	75,633	24%
Stock-based compensation	(8,828)	-3%	(12,816)	-3%	(23,328)	-5%	(17,644)	-6%
Amortization of acquired intangible assets	-	0%	-	0%	-	0%	-	0%
Acquisition related expenses	-	0%	(1,266)	0%	(2,696)	-1%	(65)	0%
Non-GAAP research and development	<u>37,169</u>	14%	<u>56,291</u>	15%	<u>91,579</u>	18%	<u>57,924</u>	18%
Sales and marketing	162,647	60%	212,859	57%	267,444	52%	158,984	50%
Stock-based compensation	(13,352)	-5%	(19,016)	-5%	(31,099)	-6%	(18,327)	-6%
Amortization of acquired intangible assets	(27)	0%	(7)	0%	-	0%	-	0%
Acquisition related expenses	-	0%	-	0%	-	0%	-	0%
Non-GAAP sales and marketing	<u>149,268</u>	55%	<u>193,836</u>	52%	<u>236,345</u>	46%	<u>140,657</u>	45%
General and administrative	45,120	17%	56,787	15%	75,834	15%	44,477	14%
Stock-based compensation	(8,343)	-3%	(12,500)	-3%	(17,434)	-3%	(10,776)	-3%
Amortization of acquired intangible assets	-	0%	-	0%	-	0%	-	0%
Acquisition related expenses	-	0%	-	0%	-	0%	-	0%
Non-GAAP general and administrative	<u>36,777</u>	14%	<u>44,287</u>	12%	<u>58,400</u>	11%	<u>33,701</u>	11%
<b>Loss from Operations</b>								
Loss from operations	(44,662)	-16%	(40,136)	-11%	(48,258)	-9%	(24,761)	-8%
Stock-based compensation	32,675	12%	47,317	13%	76,261	15%	49,869	16%
Amortization of acquired intangible assets	84	0%	103	0%	1,394	0%	1,600	1%
Acquisition related expenses	-	0%	1,266	0%	2,696	1%	65	0%
Non-GAAP loss from operations	<u>(11,903)</u>	-4%	<u>8,550</u>	2%	<u>32,093</u>	6%	<u>26,773</u>	8%



# GAAP to Non-GAAP Reconciliation

	2016		2017		2018		Forecast 2019	
	\$ '000s	% of Revenues	\$ '000s	% of Revenues	\$ '000s	% of Revenues	\$ '000s	% of Revenues
<b>Loss from Operations</b>								
Loss from operations	(44,662)	-16%	(40,136)	-11%	(48,258)	-9%	(48,830)	-7%
Stock-based compensation	32,675	12%	47,317	13%	76,261	15%	100,100	15%
Amortization of acquired intangible assets	84	0%	103	0%	1,394	0%	3,100	0%
Acquisition related expenses	-	0%	1,266	0%	2,696	1%	130	0%
Non-GAAP loss from operations	<u>(11,903)</u>	-4%	<u>8,550</u>	2%	<u>32,093</u>	6%	<u>54,500</u>	8%

	Three Months Ended	
	June 30, 2019	
	\$ '000s	% of Revenues
<b>Operating Expenses</b>		
Research and development	40,456	25%
Stock-based compensation	(10,553)	-6%
Amortization of acquired intangible assets	-	0%
Acquisition related expenses	<u>(32)</u>	0%
Non-GAAP research and development	<u>29,871</u>	18%





# GAAP to Non-GAAP Reconciliation

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Forecast 2019</u>
	<u>\$ '000s</u>	<u>\$ '000s</u>	<u>\$ '000s</u>	<u>\$ '000s</u>
<b>Free cash flow</b>				
GAAP net cash and cash equivalents provided by (used in) operating activities	19,366	49,614	84,851	112,500
Purchases of property & equipment & capitalization of software development costs	<u>(21,538)</u>	<u>(27,347)</u>	<u>(33,473)</u>	<u>(50,000)</u>
Free cash flow	<u>(2,172)</u>	<u>22,267</u>	<u>51,378</u>	<u>62,500</u>



# Definitions

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

**LTV: CAC\*:** LTV: Initial ARR from New Customers multiplied by the expected lifetime of our customers, while compounding expected upgrade rates over that lifetime. That "Gross LTV" is net against a margin which represents the ongoing costs of hosting, supporting, retaining and expanding our Customer revenues. All data points are in-period based on ARR Install Base changes, including Expected Lifetime (1/Churn) and Lifetime Upgrade Multiplier. CAC: Sum of our Sales, Marketing, and Service costs dedicated to acquiring New Customers divided over the number of New Customers acquired within that period.

**Total Customers (or Total Paying Customers):** We define our Total Customers at the end of a particular period as the number of business entities or individuals with one or more paid subscriptions to our Sales Hub Marketing Hub, or Service Hub products, either paid directly or through a Partner. We do not include in Total Customers business entities or individuals with one or more paid subscriptions solely for our legacy Sales Hub (\$10) product. A single customer may have separate paid subscriptions for separate websites, sales licenses or seats, or our Sales Hub, Marketing Hub, or Service Hub products, but we count these as one customer if certain customer-provided information such as company name, URL, or email address indicate that these subscriptions are managed by the same business entity or individual.

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

**Marketing Hub Average Subscription Revenue per Customer (excluding Starter) (ASRPC):** We define Marketing Hub Average Subscription Revenue per Customer (excluding Starter) during a particular period as Marketing Subscription Revenue from our Marketing Hub Customers during the period, excluding revenue from our Marketing Starter product and revenue from Sales Hub and/or Service Hub, divided by the average Marketing Hub Customers (excluding Marketing Starter Customers) during the same period.

**Sales Hub Average Subscription Revenue per Customer (ASRPC):** We define Sales Hub Average Subscription Revenue per Customer during a particular period as Sales Subscription Revenue from our Sales Hub Customers during the period, excluding revenue from our legacy Sales Hub (\$10) product and revenue from our Marketing Hub and/or Service Hub, divided by the average Sales Hub Customers during the same period.

\*Calculated using both internal and externally-provided data points.





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