

12-Feb-2020

HubSpot, Inc. (HUBS)

Q4 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. And welcome to the HubSpot Q4 2019 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 speakers today, Chuck MacGlashing, Head of Investor Relations. Thank you. Please go ahead.

Charles Tupper MacGlashing

Treasurer & Director of Investor Relations, HubSpot, Inc.

Thanks, operator. Good afternoon and welcome to HubSpot's fourth quarter and full-year 2019 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 Chief Executive Officer and Chairman; 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, the Securities Exchange Act of 1934 as amended.

All statements, other than statements of historical fact are forward-looking statements, including statements regarding management's expectations of future financial and operational performance, and operational expenditures, expected growth, and business outlook, including our financial guidance for the first fiscal quarter and full-year 2020.

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 was filed with the SEC on November 5, 2019, for 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 fourth quarter 2019 earnings press release in the Investor Relations section of our website.

Now, it's my pleasure to turn over the call to HubSpot's CEO and Chairman, Brian Halligan.

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

Thanks, Chuck. Good afternoon, folks. Thank you for joining us today as we review HubSpot's fourth quarter and full-year 2019 earnings results.

I'm really happy with the way the HubSpot team closed out the year. We grew full-year in Q4 constant currency revenue by 34% and 31%. And we expanded full-year non-GAAP operating margins by 2 points at just over 8%. Total customers surpassed 73,000, up 30% year-over-year, while multi-product adoption grew to nearly 30,000 customers.

That said, while I'm pleased with our 2019 financial results, I'm exceptionally proud of how it became the year of the customer at HubSpot. One of our key principles as the company is to aim to do the right thing, even when it's hard. Sometimes this meant taking a couple of steps back, so we could move multiple steps forward.

We invested heavily in our products this year with an emphasis on the unsexy, but critical pieces of it; infrastructure, security, speed, and usability. These investments in our customers are starting to bear real fruit. We closed out Q4 with revenue retention above 100% and a nice uptick in customer dollar retention year-over-year, which reached at a record high in the second half of the year. One of the most gratifying things we saw in Q4 were record high net promoter scores from our customers. We've been working on improving net promoter scores for years, and it's been a stubborn metric. We saw big lifting Q4 from the investments we made. This bodes well for future retention and word of mouth. I'm really proud of the efforts to improve our customers' experience across the HubSpot platform in 2019.

Now, it's not just the products that our customers are benefiting from, it's also our ecosystem. In 2019, we made great progress in making HubSpot the center of our customers' flywheel. Q4, we passed over a million total software integrations installed.

In addition to that, we acquired PieSync, which will enable our customers to synchronize more and more applications with their HubSpot flywheel. Just last week, we re-launched our Agency Partner Program into a new Solutions Partner Program, which will attract a much more diverse set of partners that will enable our customers to grow better beyond marketing into sales and service. Because of the investments we made in 2019, I think we're even better positioned to lead and differentiate in 2020. HubSpot's always focused on making our software easy to use, comes from our roots serving growing businesses that have no time for complexity. Over the years, those customers have grown; we've adapted to their needs and become more powerful too.

I want to stay on this point for a moment, because it's important to how I see our place in the industry. There's a kind of an assumption in the software industry that, as teams become more powerful, they have to sacrifice ease of use. "You can be easy or powerful, pick one," is a common expression. I think this choice of power versus ease limits software platforms and the customers who use them. Because honestly, what's the point of powerful software if it's too complicated and [indiscernible] (5:32) to use? We want to dispel this false choice. Looking at recent customer reviews and comments on our NPS, it seems like we're already starting to. HubSpot's marketing software just won top rank across six enterprise categories from G2, including overall leader, best usability, best support, and best results. We also won for being the easiest company to do business with in the enterprise category.

Along those lines, we started 2020 by re-launching a powered-up Marketing Hub Enterprise, adding account-based marketing, multi-touch revenue attribution, targeted chat, partitioning, higher usage limits, and other advanced features, while keeping usability at the forefront. We'll be following that with more sophisticated product announcements across the platform this year to meet the needs of customers as they scale. By relentlessly balancing power and ease of use across our offerings, we believe HubSpot will be the platform you'll never outgrow.

On the business side, I'm happy to report that we fully caught up on our hiring. We were voted the number one best place to work in the United States in Glassdoor's Annual Survey. Wow, voted a best place to work in Singapore and selected as the top company for women, diversity and culture, all of which should help us continue recruiting top talent. One of the most momentous hires of the year was hiring our first ever Chief Customer Officer, Yamini Rangan comes to HubSpot from Dropbox and Workday, two companies we admire. Very happy to have her as she'll enable us to grow even better.

2019 was an important year for us as a company. It gave us the foundation we need to head into 2020 feeling well-equipped and confident in our platform, team and direction. I believe that the most disruptive companies today are those that create a remarkable end-to-end customer experience. We're excited to show our customers in 2020 just how remarkable that experience can get.

With that, I'll hand it over to Kate.

Kate Bueker

Chief Financial Officer, HubSpot, Inc.

Thanks, Brian. Let's turn to our fourth quarter and full-year financial results and our guidance for the first quarter and full-year of 2020.

Fourth quarter revenue grew 31% year-over-year in constant currency and 29% as reported. Q4 subscription revenues grew 31% year-over-year, while services revenue declined 2% year-over-year, both on an as reported basis.

Full-year 2019 revenue grew 34% year-over-year in constant currency and 32% as reported. Full-year subscription revenues grew 33% year-over-year, while services revenue grew 12% year-over-year, again, both as reported.

Domestic revenue grew 23% in Q4, while international revenue growth was 43% year-over-year in constant currency and 39% as reported. International revenue represented 41% of total revenue in Q4, up 3 points year-over-year.

Deferred revenue, as of the end of December, was \$234 million, a 26% increase year-over-year. Calculated billings was \$217 million, up 30% year-over-year on an as reported basis and in constant currency. HubSpot ended 2019 with 73,483 total customers, which was up 30% year-over-year. Average subscription revenue per customer in Q4 was \$10,047, up slightly both sequentially and year-over-year.

Please note, we've excluded the impact of PieSync in our total customer and average subscription revenue per customer metrics. The remainder of my comments will refer to non-GAAP measures.

Fourth quarter gross margin was 82%, down about 1.5 point year-over-year. Subscription gross margin was 85%, while services' gross margin was negative 5%. Full-year gross margin was 82%, up 1.5 point compared to 2018.

Fourth quarter operating margin was 9.5%, down slightly compared to the same period last year. Full-year operating margin was 8.1%, up two points versus 2018. We are pleased that the operational changes and additional investments we made over the last couple of quarters allowed us to get back on our original hiring plan exiting 2019.

At the end of the fourth quarter, we had 3,387 employees, up 28% year-over-year, a 4 point increase in growth from last quarter.

Net income for the fourth quarter was \$21 million, or \$0.45 per diluted share. Net income for the full-year was \$70 million, or \$1.50 per diluted share. CapEx, including capitalized software development costs, was \$24 million, or 13% of revenue in the quarter and \$54 million, or 8% of revenue for the full-year. Free cash flow in the fourth quarter was \$24 million, or 13% of revenue and \$65 million or 10% of revenue for the full-year. Finally, our cash, cash equivalents, and marketable securities totaled just over \$1 billion at the end of December.

With that, let's dive into guidance for the first quarter and full-year of 2020. For the first quarter, total revenue is expected to be in the range of \$192.5 million to \$193.5 million, up 27% year-over-year. Non-GAAP operating income is expected to be between \$9.5 million and \$10.5 million. Non-GAAP diluted net income per share is expected to be between \$0.22 and \$0.24. This assumes approximately 48.2 million fully-diluted shares outstanding. And for full-year of 2020, total revenue is expected to be in the range of \$840.5 million to \$844.5 million, up 25% year-over-year.

Non-GAAP operating income is expected to be between \$54 million and \$58 million. Non-GAAP diluted net income per share is expected to be between \$1.24 and \$1.32. This assumes approximately 48.6 million fully-diluted shares outstanding.

As you adjust your models, keep in mind the following: at current spot rates, we're forecasting a foreign exchange headwind to as-reported revenue of one point for both Q1 and full-year 2020; subscription revenue is expected to grow two points faster than total revenue in Q1 and one point faster than total revenue for the full-year.

Given our strong 2019 back-half hiring and the acquisition of PieSync in Q4, as well as continued strong hiring in the first part of this year, we expect margins to be down a little over three points year-over-year in the first half of 2020 and to be flat in the second half of the year. This translates into an expected 1.5 point reduction to operating margins for the full-year 2020.

We expect free cash flow to be about \$75 million for 2020 with seasonally stronger free cash flow in Q1 and Q4 and more muted free cash flow in Q2 and Q3. We expect CapEx as a percentage of revenue to be about 7% in 2020, with heavier spending levels in the first half of the year as we finish the build-out of our Dublin location, expand our Cambridge campus, and kick off build-outs in Berlin and San Francisco.

With that, I'll hand the call back over to Brian for his closing remarks.

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

Thanks, Kate. I'm excited about the year ahead, precisely because we made so many investments in 2019 to get our customer experience right. I believe that the companies that stand out today and the companies that last will be the ones that do not relent on creating a remarkable customer experience for their customers. Whether it's a start-up using our free tools, or a large company scaling their operations globally, we're working to ensure that every HubSpot user has an intuitive, reliable, and powerful platform on which to grow their business.

In a field of technology that's often fragmented or messily tied together, we're working hard to build a single differentiated brand with products that work together perfectly, genuinely helpful staff, and a customer NPS that keeps going up. We're not flawless, but we are focused. And that makes me excited to come to work every day.

I want to close by thanking our customers, our partners, our investors, and all the HubSpotters around the globe who are helping to make that possible in advancing our mission to help millions of organizations grow better.

Operator, let's open up the call for a few questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Mark Murphy from JPMorgan.

Mark R. Murphy

Analyst, JPMorgan Securities LLC

Q

Yes, thank you very much. Brian, your revenue guidance is pretty robust at this scale. I'm wondering if we should infer that you kind of have a line of sight into moving past the lag effects that you've talked about, Project Mainsail and you having fallen behind on the hiring. Do you feel as though you're kind of moving past that sometime in the next quarter or two? And then kind of getting back on 100% terra firma?

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

Terra firma. Hi, Mark. Yes, I do. You know, I'm a Boston Red Sox fan, and 2019 was kind of a bridge year – 2020 is going to be kind of a bridge year for the Red Sox. They lost their manager; they just traded away Mookie Betts and David Price, so we're looking at a bridge year.

2019 was the bridge year for HubSpot. We did Mainsail, we made huge investments. We took a couple of steps back, and the idea is get us ready for three or four steps forward this year. So, that's an accurate assessment of what's on my mind. I think we're going to have a really good year this year.

Mark R. Murphy

Analyst, JPMorgan Securities LLC

Q

Okay. And as a follow-up, you've remained pretty intensely focused on the core SMB market. How are you responding, if and when have you a larger organization reach out to you, maybe they get tired of the heavy price point of the incumbent product? And if it's going to be a pretty complex engagement, do you sometimes turn them away if it doesn't make sense? Or are you trying to engage with them, even if it's sort of pulling you into a little higher realm?

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

I think one of the reasons I'm optimistic about this year, and one of the – a couple of things we got from the two steps back is this year that enterprise tier of our product will improve a lot.

Like, if I were to use an analogy, like three years ago, someone would buy HubSpot as a startup and they would be growing with us, and they graduate off of HubSpot to another system after junior high school. We want to take them through college and grad school, but we may not want to pay for law school or your PhD. but we want to keep you at least through college and grad school. And that's going to be an effort this year. And so, we think we'll win more solid mid-market accounts and we'll keep accounts longer, so feeling good about that.

And you've seen the early taste of that. Marketing Hub Enterprise, we just announced a couple of weeks back. I've been talking about this type of functionality that people have needed on calls, like what bigger accounts that are growing and good size need is the ability to partition different divisions and geographies in their marketing instances in a more sophisticated way. They need to be able to segment in that way. They need to be able to segment based on accounts and sell into, like, let's say, they're selling into GE, need to be able to do account-based marketing and then they need to be able to take that advanced segmentation and report and attribute what their marketing activities are and their effect on them and to do reporting in a much more sophisticated way. Those three things we just released in our new Marketing Hub Enterprise offering. So, I think we're off to a good start there.

Mark R. Murphy

Analyst, JPMorgan Securities LLC

Q

Thank you for having the perfect analogy for both questions off the top of your head.

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

I'm done. No more analogies.

Operator: Your next question comes from Siti Panigrahi from Mizuho.

Siti Panigrahi

Analyst, Mizuho Securities USA LLC

Q

Thanks for taking my question. I just want to dig a little bit into each of these hub marketing sales and service. Mid of last year, you talked about Marketing Hub at around mid-20% growth and then sales 100% and service growing rapidly. I'm wondering if you could characterize some of the performance end of this year and any color on that – those hubs will be great.

Kate Bueker

Chief Financial Officer, HubSpot, Inc.

A

Yeah, I'll start with the adult supervision response, which is, we will likely share that sort of hub level detail at our Analyst Day again this year. It's something that we have shared over the last two years at that point in the year. But it is not something that we talk about on a quarter-in and quarter-out basis.

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

Yeah.

Siti Panigrahi

Analyst, Mizuho Securities USA LLC

Q

Okay. That's – but any color in terms of adoption of those?

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

I think it's going pretty well. It's been kind of steady as she goes, that marketing product is growing a very steady way. That sales product is getting big and we're really excited about the opportunity there. The service product is pretty new; it's only a little over a year old and it's growing nicely. So, feeling good about the three hubs we have.

Those hubs are going to get better, a lot better over the next year, two years, and feeling good about them. Big market.

Siti Panigrahi

Analyst, Mizuho Securities USA LLC

Q

All right. Okay. And thanks for that. Just on the progress in the moving up-market, so for 2020 guidance, how do you plan to ramp in terms of adding more Sales Hub and system engineers moving up-market and product features? What's your expectation baked into your guidance, in terms of enterprise adoption for 2020?

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

I missed it. Can you ask the question again? Sorry.

Siti Panigrahi

Analyst, Mizuho Securities USA LLC

Q

So, just for 2020, just wanted to understand your expectations from the enterprise segment moving up-market. What are the – what's baked into that and your action for in terms of hiring more, I mean, adding more Sales Hub and system engineers for up-market?

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

I think you'll see some investment there from us. The product – early you've seen here, I just talked about Marketing Hub Enterprise. I think you'll see that layer of the product improve this year a lot. And I think you'll see customers stick with us longer or win new accounts. I wouldn't call it that we're selling into the Fortune 500. I think we have an opportunity to be kind of the standard platform in that mid-market, a company between five employees or two employees and 2,000 employees. And we want to be more attractive for a company between 200 and 2,000 employees. And we're making investments there on the product side, we're making some investments there in the go-to-market side, too, that I think will bear fruit.

Siti Panigrahi

Analyst, Mizuho Securities USA LLC

Q

Thank you.

Operator: Your next question comes from Richard Davis from Canaccord.

Richard Davis

Analyst, Canaccord Genuity LLC

Q

Hey, thanks very much. So, one question. I was thinking when you guys went public, I think you had a net dollar retention, I think it was like 90% or something like that, but you're at 100%. So, the question is, is do you need to add another hub to get net dollar retention to, I don't know, a lot of people like 105% to 110%, or is this a business, just by the structure of it, that we should kind of say listen, it will continue to grow, whatever, 25% to 30% a year, but net dollar retention will always kind of be 100%, because I'm just trying to figure that out and we get questions on that sometimes. Thanks.

Kate Bueker

Chief Financial Officer, HubSpot, Inc.

A

Yeah, I mean, I think the reality is you're right in your history. I think if you turn back the clock, the total revenue retention for the company was in that sort of low to mid-90%s. It's moved up pretty consistently over the last number of years. And we are sort of, at and around 100%. I think what we have said is that we're comfortable that we can maintain sort of 100-plus-percent.

The things that have driven, or that drive that revenue retention, have changed over time as we've become much more of a suite company. You see more of the up-sell coming from things like cross-sell. In the Sales Hub, for example, people are adding incremental seats. So, we have a lot of levers, and as we continue to add functionality into the enterprise, we will see more of sort of the addition upgrades, as well. So, I do think that we're – we remain comfortable that we can sort of sit at or above 100%, and I think we will continue to see different trajectories, or different things contributing to the retention.

Richard Davis

Analyst, Canaccord Genuity LLC

Q

So, I'll take that as a definite maybe. Long-way held maybe. All right. So I wouldn't expect any more from a CFO. So, that's good. All right, I'll – I'll let you guys go. Thank you so much.

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

Thanks, Richard.

Operator: Your next question comes from Stan Zlotsky from Morgan Stanley.

Stan Zlotsky

Analyst, Morgan Stanley & Co. LLC

Q

Perfect. Thank you so much for taking my questions. Two questions for me. One is, could you walk us through the changes that you're making to the partner ecosystem to enable them to support the growth of the Service Hub? And how are you thinking about Service Hub growth into 2020?

And then for Kate, just – could you help us break down the operating margin guide down for – not guide down, but the 150 basis point impact for the full-year and how much of the 3 points in the first half is due to the stepped-up hiring versus dilutive acquisition of PieSync? Thank you.

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

Okay.

Kate Bueker

Chief Financial Officer, HubSpot, Inc.

A

I think that was like four questions.

Stan Zlotsky

Analyst, Morgan Stanley & Co. LLC

Q

I know.

Kate Bueker

Chief Financial Officer, HubSpot, Inc.

But not a good, very good part.

A

Stan Zlotsky

Analyst, Morgan Stanley & Co. LLC

Two parts. Two parts.

Q

Kate Bueker

Chief Financial Officer, HubSpot, Inc.

Two questions, two parts.

A

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

Okay. I'll take the start of it. I think it's important we talk about, I'm glad you asked me about the Partner Program. And we've talked about this on calls before, HubSpot historically has been in the marketing software industry, and we had a partner program that was historically marketing agencies. And over the last couple of years, we've added Sales Hub and Service Hub and we've moved from helping people generate leads to helping people build a full flywheel and pull customers in and service them all the way through.

A

That Agency Partner Program is doing well. Some of our best agencies have moved from marketing to selling the full solution are doing quite well. The change we just announced, I think it was last week or just the other day, was a really important one. We changed our program – the name from an Agency Partner Program to a Solutions Partner Program. This is something we'd been piloting and I've talked about piloting for a while. It was going pretty well, and so we've rolled it out into production as of a couple of weeks ago.

I think this will open the door to all sorts of new partners. There is hundreds of thousands across the world of companies that are IT service companies, CRM implementers, there is all sorts of interesting potential partner types that we hope to pull into our business and convert into partners. I think that'll be good for business and will be very good for our customers. So that's underway.

The second change we made wasn't just moving it from marketing agencies to all kinds of IT implementers and CRM implementers, but also to make it easier to become a partner. We announced our Provider Partner Program, which is basically a premium model for bringing a partner into HubSpot. And so just last week, we announced a major, major change, not just rebrand, but change of our partner program that I think is going to really benefit our customers and our ecosystem.

The way I kind of think about HubSpot is like we have a giant customer flywheel that's spinning around. We want that to spin faster. There's this second flywheel, which is our partner program – the Solutions Partner Program, so we want that thing spinning as well and getting them both spinning together in that ecosystem is really key to helping bigger accounts implement and grow with HubSpot.

Kate Bueker

Chief Financial Officer, HubSpot, Inc.

All right. And on the margin side, you know, our operating profit guidance for 2020 should at least rank consistent with the narrative we've been talking about over the last six months. We talked sort of in Q2 about the fact that we deliver more leverage in the front half of the year than we wanted to, and that was really because we got behind

A

on hiring. And so as we caught up on hiring through Q3 and Q4 and then sort of made the incremental investment in PieSync, frankly we continue to hire well into 2020, you're starting to see that impact our P&L and our margins more specifically. You can see that the – what we shared in the prepared remarks was that the impact is going to be much more acute in the front part of the year than it is in the back half of 2020, and that's because really the primary driver here is the head count ramp. And you should, frankly, see the majority of the anti-leverage in the investments that we're making on the R&D side of the business.

Stan Zlotsky

Analyst, Morgan Stanley & Co. LLC

Q

Is there a way to break down the 150-basis point full-year impact to margins between how much is PieSync versus how much is, you know, the catch-up in hiring?

Kate Bueker

Chief Financial Officer, HubSpot, Inc.

A

We won't provide a specific breakdown, but the more of it is the result of the fact that we've caught up on hiring and we see that sort of rolling into Q1 and Q2.

Stan Zlotsky

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Okay. Thank you.

Operator: Your next question comes from Alex Zukin from RBC.

Alex Zukin

Analyst, RBC Capital Markets LLC

Q

Hey, guys, thanks for taking my questions. So, I wanted to ask about just the evolving competitive landscape up-market that you see and kind of who you're trying to really go up against and unseat in some of your – in some of the competitive deals?

And then, just another one for Kate on the margins, I guess, how should we – should we think about kind of 2020 as an incremental investment year? Margins kind of trough at this level and then we start going up from there or given kind of the continued product focused development, new hubs, both organic/inorganic, is this a level that we should kind of stay consistent at for a couple of years as we broaden the product portfolio?

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

I can take the first one, Alex. There's no huge changes on the competitive landscape. I would kind of characterize what we're up to here at HubSpot and part of what Kate is talking about is the increased R&D investment is just working very, very hard to increase the value we deliver to our customers that help our customers deliver a delightful experience, and in that hoping to create more and better competitive differentiation from our customers. Our products have always been really easy to use, our net promoter scores are hitting all-time highs, we win all of these awards from G2 and whatnot, and now, we're starting to layer in more powerful functionality. So, I think that's a really good combination and we're feeling good about it for this year.

Kate Bueker

Chief Financial Officer, HubSpot, Inc.

A

Yep. And on the margin side, as you know, we have a long-term framework that balances growth and profitability. And since the IPO, we have effectively over-delivered against that framework for a profitability expansion. And we over-delivered yet again in 2019. We still think that's the right framework over the long-term, but we believe this is a business that can drive sustained top-line growth and we want to make sure that we're continuing to invest there, but we believe at the same time profit – we can deliver profitability and expanded profitability over the long-term, just we want to make sure that we're finding the right balance between long-term and short-term.

Alex Zukin

Analyst, RBC Capital Markets LLC

Q

Got it. Okay. Thanks, guys.

Operator: Your next question comes from Samad Samana from Jefferies.

Samad Samana

Analyst, Jefferies LLC

Q

Hi. Good evening. And thanks for taking my questions. So, Brian, for you, and I know other people have asked the enterprise question, but I'm going to ask you slightly differently. Would you say that you're being pulled up-market more by large customers? Or is this a decision by the company to push up-market? And in that vein, do you think that there will be any changes to the go-to-market model and the pricing model which is much more geared toward SMBs?

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

I would say we're getting pulled. I was just in a meeting this morning that we run, it's called, "The Rhythm of the Upmarket Business" and we go through our top largest accounts. And the top largest accounts love us, really easy to use, but there's these like four or five things they really want us to do. And on the marketing side, some of those things we've just kind of ticked off, so feeling a lot better about it. There's some of that stuff on the sales side and service side that's in our sight.

And so, it's definitely a pull. We have an opportunity to keep these larger accounts and grow with them as they grow. So, yeah, it's a little bit like we finally got to it, like let's just get to it, this is the year we can build some functionality in there for them, deliver the mail for them. I think we can really delight them with an awesome combination of, boy, these are really like consumer level easy to use combined with, boy, these are really powerful, too.

And one of the customers that we were just talking to, the analogy of the use is great. They're like back in the day, you could buy a Mac or you could buy a PC with Windows on it. And with Windows, you can kind of do anything. You can build applications. You have developers, you got a bunch of money, you can do really whatever you want. But that Mac was just beautiful. The software was designed beautifully, everything worked together beautifully, there was an appropriate number of integrations in there. He was like, you guys are the apple of the CRM industry. And I think he's right. We're – maybe not we're the apple, we're heading that way.

Samad Samana

Analyst, Jefferies LLC

Q

Great. A tough one. And then maybe a follow-up for Kate. On the business model side of it, how should we think about maybe – when you think about the guidance for 2020, does that factor in maybe larger customers, more

deferred revenue and so, maybe kind of the elongation of the rev-rec cycle? Or just how should they think about the billings in revenue outlook there with that as a basis? Thanks a lot for taking my questions.

Kate Bueker

Chief Financial Officer, HubSpot, Inc.

A

Yeah. Yeah, I mean, there's not a step function change in any of those factors assumed in what we're guiding.

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

Yeah.

Operator: Your next question comes from Chris Merwin from Goldman Sachs.

Kevin Kumar

Analyst, Goldman Sachs & Co. LLC

Q

Hi, this is Kevin Kumar on for Chris. Thanks for taking my question. Net customer adds saw a nice uptick this quarter. Can you maybe talk a bit about the puts and takes there and what drove the strength? And then specifically on Customer Hub, can you remind us in terms of adoption, how much is typically cross-selling versus new customers? Thanks.

Kate Bueker

Chief Financial Officer, HubSpot, Inc.

A

Yeah. I'll start. So, on the customer account growth, we had 73,000 customers growing 30%. We're feeling pretty good about that. We're really happy with the customer additions in Q4, 4,700 is sort of a new high watermark for us, so happy. I would highlight, generally, the strength in marketing there across the board, starter through enterprise; we saw some really nice additions in Q4. You might remember in Q3 we talked about the fact that we launched free email and had a little bit of an impact on starter as in Q3, so it was nice to see that kind of tick back up a little bit.

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

Kevin, I didn't understand your question on Customer Hub.

Kevin Kumar

Analyst, Goldman Sachs & Co. LLC

Q

Just trying to get a sense of, is that primarily cross-selling to existing customers and are you landing more with that product?

Kate Bueker

Chief Financial Officer, HubSpot, Inc.

A

So, I'm assuming that you mean Service Hub when you're talking about Customer Hub?

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

That's what he means, okay.

Kevin Kumar

Analyst, Goldman Sachs & Co. LLC

Yeah. Service Hub. That's right.

Q

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

Yeah, yeah, yeah, yeah. [indiscernible] (35:32). Service Hub's going pretty well. I like to compare it to how the Sales Hub do a year, a year-and-a-half in, and it's far bigger, of course, you get a larger install base. Growth's been solid. What the magic of it is, when one of our customers is using our content management system, Marketing Hub, Sales Hub, Service Hub, holy crap is there a lot of power unlocked when they all use all that stuff together. And so a lot of Service Hub business is coming that way. Still super early, I think it's a nice, nice opportunity and a big market for us.

A

Kevin Kumar

Analyst, Goldman Sachs & Co. LLC

Great. Thank you.

Q

Operator: Your next question comes from Ken Wong from Guggenheim Securities.

Ken Wong

Analyst, Guggenheim Securities LLC

Great. Thanks for taking my question. This first one, maybe for you Brian. Last quarter, I think you mentioned as far as Mainsail went, you guys were about 50% through. Any update on that number and is this still something that you guys expect to wrap up in the first half of next year?

Q

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

I'm glad you asked me about that. I'm really happy with the Mainsail decision we made in Q2 of last year. And just to remind folks, it is a new approach to the way we build products. We've come to the realization that, gosh, people really, really rely on us to run their entire front office. We are very important piece of our customers' puzzle and we intend to be around a long, long time. And so we want to – they put a lot of trust in us, we want to reward that trust. So Mainsail was a new way of building product, where we really focused on the foundational issues; security, infrastructure, speed, ease of use, and we basically had every team inside of HubSpot only work on that and not build a single new feature.

A

We've made tremendous progress on that and most of the teams are out there. I don't think we're – I don't have that number at the top of my head, but we've made a lot of progress since the last time I've updated it. And it feels like it's working, Ken.

Our net promoter scores – so net promoter scores – we ask our customers two questions. Hey, on a scale of one to 10, how likely you refer HubSpot to a colleague or friend, and then why? And we've been tracking our – that metric for a long time. We have had – we just haven't been able to budge it. It is a very, very hard number to move. But the Mainsail has worked, and so in Q4, you see it's a big lift in that number. We were really excited about that. I think that bodes well for retention in the future, I think it bodes well for us to acquire customers in the future. I think it's going to really – I think we're going to benefit a lot from it.

The other thing that's happening now is, because most of the teams are out of this mode that we had them in last year, we're starting to build new products. So, we just came out with the Marketing Hub Enterprise and it combines that really ease of use that we put in, that high net promoter score, with a bunch more power. So, feeling good about that Mainsail decision. It was definitely a couple steps back and I definitely think we're going to go a few steps forward because of it.

Ken Wong

Analyst, Guggenheim Securities LLC

Q

Got it. Appreciate the color there, Brian. And then Kate, last quarter you guys also touched on just how new product mix was maybe a bit of a headwind of billings. Is that something we should be factoring in for 2020? How are you guys thinking about the impact of product mix and billings growth?

Kate Bueker

Chief Financial Officer, HubSpot, Inc.

A

Yeah. I would say, as always, billings is a complicated equation. There are a lot of moving pieces there. I think, if you looked at our Q4 billings, we had some headwinds and tailwinds. FX was sort of headwind to revenue, but the in-period move in helped us a bit on the billing side, so largely offset that.

We also had a really strong December finish. We had a good, solid marketing quarter, so that helped us there on the billing side. So, we do continue to see a headwind on the duration from the shift in product away from marketing and into sales and service, and we expect that will sort of continue into 2020.

Ken Wong

Analyst, Guggenheim Securities LLC

Q

Great. Perfect. Thanks a lot, guys.

Kate Bueker

Chief Financial Officer, HubSpot, Inc.

A

I think, in general, what we said is that billings growth and revenue growth and constant currency will trend together. I still think that's the right way to think about it.

Ken Wong

Analyst, Guggenheim Securities LLC

Q

Great. Thanks, Kate.

Operator: Your next question comes from Arjun Bhatia from William Blair.

Arjun Bhatia

Analyst, William Blair & Co. LLC

Q

Hey, guys. Thanks for taking my question. It sounded like Sales Hub is getting some really good traction. Brian, I think you mentioned that in your opening remarks. Just curious what you're seeing in terms of new customers landing there versus a cross-sell motion from existing Marketing Hub customers. I think we're a few years away – a few years past the release now, but just wondering, is this – should we start thinking of this as more of a stand-alone kind of viable product now, or is it still something that's kind of best when coupled with Marketing Hub?

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

Yeah, it's both. It's because the thing we did on it that worked was we said we want to make that sales product so good that it's not just for cross-selling into the existing marketing customers that we wanted to be a magnet to pull new customers in, then we can then cross-sell marketing in. And that works extremely well. It is a magnet that pulls tons of new customers in, we sell marketing to and vice versa. Lots of customers buying both together. And so it's viable on its own. We have a lot of just using Sales Hub customers and they're doing great, and we have a lot of them that use all three, all four of our products together. So, it's – the answer is both on it.

Arjun Bhatia

Analyst, William Blair & Co. LLC

Q

Got it. That's helpful. And then on the hiring front, it's great to see that you've caught up. Just curious how you've – how you're kind of managing the large influx of people that have come into 2H? Is your on-boarding process kind of scaling to handle that step up in hiring and maybe how you're thinking about managing some of those risks that come with bringing on so many people in such a tight window?

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

We're feeling – we're feeling much better about that. I mean, a year ago we were in a bad spot there and we challenged our team to rethink the way we brought people in and onboard them. And it took a little while, but they figured it out and they've done a fantastic job of it. I'm really proud of them. So, we're back on head count and really pleased with the quality of folks that we're bringing in. I don't get to interview all of them, but the people I meet are great. Certain parts of the organization just have an absolute recruiting machine going.

I think the thing that really helps us there is winning some of these awards, like the Glassdoor Award. We were named the best company to work for in the United States. Like, that's hard to do. You need to have a remarkable culture and remarkable people to do that. And I think we really do. And it's starting to pay off. So, the quality is good, the on-boarding seems tight now. I think we've come a long way in the last year.

Arjun Bhatia

Analyst, William Blair & Co. LLC

Q

Got it. Thanks and congrats on the quarter.

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

Thank you.

Operator: Your next question comes from Terry Tillman from SunTrust.

Q

Hey, guys, this is actually [ph] Nick (42:45) on for Terry. Thanks for taking my questions. I guess, the first one, of the various hub products, Marketing Hub is the most established. I guess what are the most relevant catalysts going forward for sustaining above 20% growth in this hub just moving forward?

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

I think the new release. We just came out with Marketing Hub Enterprise. It's much, much more powerful. I think customers who use Marketing Hub Pro will upgrade. I think customers who were using Marketing Hub Enterprise and were thinking about churning, because we didn't have the sophistication, we'll stick around, and I think we'll win new competitive deals, so I think that will be a nice driver for us.

Q

Got it. Okay. And then just a quick follow-up, so have you seen any greater activity as Salesforce's essentials in the market competitively?

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

Haven't seen a big shift there. It has been out for a while. We see it from time to time. But it feels similar to the way it has felt the last couple of quarters.

Q

Got it. Okay. Thank you.

Operator: Your next question comes from Ryan MacDonald from Needham.

Ryan MacDonald

Analyst, Needham & Co. LLC

Q

Thanks for taking my question. I guess, first, Brian, for you, it's now been a few quarters since you've started to really add and enhance that, the functionality of the free CRM solution and around that. What are you starting to see in terms of adoption trends of customers? Are they starting to move up to some of the higher, higher suite of products or hub of products off of that free solution or more into the bundle solution? Are you seeing signs of that yet?

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

It has been steady progress on it, I would say. The free edition of our CRM is solid and getting better. Our onboarding of free users, our growth team is doing really well on taking someone who has never used a CRM, let's say, and getting them in using it themselves, importing their context, inviting their colleagues, and getting them off to the races. We're starting to work on getting people from the free, to the starter, to the pro. So making steady progress. I think you'll see that hub improve over the course of this year. We've got big plans for it. And so, I think there will be continued, steady progress there throughout 2020.

Ryan MacDonald

Analyst, Needham & Co. LLC

Q

Awesome. And then just as a quick follow-up, obviously it's pretty early days since you announced the hiring of the new Chief Customer Officer, but is there anything we should expect going into 2020 here in terms of structural changes to the organization with that new person coming in? Thanks.

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

Yes. Thank you for asking about that. A couple of thoughts on Yamini. There was a structural change we made to bring her in, so we combined sales, marketing and services in HubSpot under Yamini. It's the first time we had done that. I think it's also, I like her title. A lot of people call that type of a role a Chief Revenue Officer; we call as our Chief Customer Officer. We want her focused on creating a great experience for our customers. We think that will pay off in the numbers in the long-haul.

But beyond that, I don't expect major changes in the short-term. I mean, she just get out of training. She is whip smart and everyone seems to be really gelling with her. So, I'm really happy with the hire so far. One of the things I like about her is she spent a long time at Dropbox, so she understands that premium light-touch motion much better than we do. And then she spent a long time at Workday, so she understands that up-market motions better than all of us do. And so, I think she's going to do great.

Ryan MacDonald

Analyst, Needham & Co. LLC

Q

Excellent. Thank you.

Operator: Your next question comes from Jennifer Lowe from UBS.

Jennifer Swanson Lowe

Analyst, UBS Securities LLC

Q

Great. Thank you. Maybe just going back to the product priorities a bit. Last year, Mainsail was a big focus and as you said earlier, those resources are now being reallocated, in many cases to other projects. There's been a lot of discussion around enterprise, there's been a lot of discussion on how do you improve the customer experience.

If you think about what you're really focused on and want to see in the next year, is it really more of that continuing to push more into the enterprise, getting better at the low-touch side of making it easier to use the product, or are you starting to think about – at the Analyst Day there was discussion of more hubs in the future, is that something that could start to be a focus this year or is that still a couple of years out in terms of where you're prioritizing the R&D resources?

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

Great. Thanks, Jennifer. A point of clarification on Mainsail. Mainsail is a little bit like [indiscernible] (47:24) hierarchy of needs, where the bottom is things like security and infrastructures, the middle is things like speed and usability, and the top is new features and new powerful functionality. What we challenged all the teams to do is to get through that entire hierarchy of needs before they could build any new features or any new powerful functionality.

So, that lives – that Mainsail concept lives on. It's just that most of our teams now are through the bottom levels and the middle levels of that hierarchy and are onto building new features and functions. What we don't want to do is get lazy on that stuff. So, it's kind of a new way we build products. Most of those product teams have satisfied the bottom and middle levels, and are off to the races on the new stuff.

Having said that, when they're in the top part of that Mainsail, they're starting to build cool new products. That Marketing Hub Enterprise release, it shouldn't be surprising that that came out at the beginning of 2020, because we just really are getting through those bottom levels of the Mainsail through 2019 and started really cranking on new stuff in 2020. And so, there's going to be more activity there. The hubs we have are going to get better. You might see a new product this year. Feeling very, very good about where we sit.

Jennifer Swanson Lowe

Analyst, UBS Securities LLC

Q

Great. Thank you.

Operator: Your next question comes from Michael Turrin from Wells Fargo Securities.

Michael Turrin

Analyst, Wells Fargo Securities LLC

Q

Hey, there. Thanks. Good afternoon. Just – given the ramp back in hiring you've been working through in the back half of this past year, you still put up another quarter of 30-plus percent constant currency growth. I'm wondering, if there's any way to quantify how much of an impact the shape of hiring may have had, if any, in terms of Q4 top-line results. And then how should we maybe think about the ramp in contribution from those newer cohorts of employees here heading into 2020? Thank you.

Kate Bueker

Chief Financial Officer, HubSpot, Inc.

A

Yeah.

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

I think it's great to assume we would have grown faster had we not fallen behind on recruiting.

Kate Bueker

Chief Financial Officer, HubSpot, Inc.

A

Yeah. There's definitely – yeah, it's definitely a positive number, quantifying it is obviously a bit more complicated. I think the way you should think about it is that we got caught up on hiring really in the back half of Q3 throughout Q4. And it typically takes a rep, depends on where they live in the organization, about six to seven months for them to become fully productive. And then you'll see that that takes a little bit of time to show up in things like revenue, for example. And so, we expect to see the impact kind of phase in over the course of 2020. Yeah.

Michael Turrin

Analyst, Wells Fargo Securities LLC

Q

Thank you.

Operator: Your next question comes from Kirk Materne from Evercore.

Peter Levine

Analyst, Evercore Group LLC

Q

Great. Thanks for taking my questions. Pete Levine in for Kirk. So, just one. How should we think about the balance between international versus U.S. investments? Curious to know, is the purchasing behavior any different than what you're seeing here at home? Meaning are customers adopting the full stack upfront versus just buying one and moving up? Just any color around the international side. Thanks.

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

Our international is going well. The way we do investment has been pretty similar. We look at the relative economics between the U.S. versus international markets and we invest where the economics are really strong. We invest behind where the reps are significantly over quota, we'll invest more in. We'll look at lead flow, look at all those factors and decide where internationally we will invest. The truth is on the purchasing patterns in the hubs and tiers and whatnot, is pretty darn similar across the globe. It's almost surprisingly similar in each of the international and domestic markets.

Peter Levine

Analyst, Evercore Group LLC

Q

And, Brian, I know – maybe it's just worth asking, but your last question you mentioned maybe you will see a new hub. Any hints in terms of where that can go?

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

We don't typically forecast that kind of thing. Stay tuned.

Peter Levine

Analyst, Evercore Group LLC

Q

All right. Thank you.

Operator: Your next question comes from Koji Ikeda from Oppenheimer.

Koji Ikeda

Analyst, Oppenheimer & Co., Inc.

Q

Oh, great. Thanks for taking my questions. Just had a quick one here. With close to \$1 billion in cash on the balance sheet, curious to hear your thoughts on the M&A strategy going forward? I guess is there any change in the way we should be thinking about both the appetite and the scale of a potential target or the overall velocity of M&A activity? Thank you.

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

Hi, Koji. We are definitely looking at deals. If I had one word to describe how we think about it, it would be picky. We want – we want it to be a good team that we respect. We want the culture to work with HubSpot. We want it to be legit technology. We want to pay a reasonable price. And then when we buy something, we want to make sure it doesn't break sort of our apple-like, very easy to use and powerful at the same time. So, we want to be careful about who we acquire, but we're definitely still in the market. PieSync won't be the only deal we ever do. But we just want to be careful and picky about who we acquire.

Koji Ikeda

Analyst, Oppenheimer & Co., Inc.

Q

Great. And then just one follow-up, if I may. From a vertical standpoint, I was wondering what verticals out there you're seeing strong end market demand right now? And maybe what are some verticals that are focus areas to gain more awareness in over the next year. Thanks for taking my questions.

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

There's no big vertical for us, per se. It's mostly B2B, I'd say, I don't know this is, don't hold into this number, but roughly 75%, 80% B2B versus B2C. In B2B, services companies, professional services companies, software companies, tech-enabled services companies, those are big, big, nice verticals for us.

Operator: Your next question comes from Brian Peterson from Raymond James.

Q

Thanks, guys. [ph] Kevin (53:28) here on for Brian. I know there's still a number of moving pieces, but do you have any updated thoughts on how you think ASPs trend over the intermediate terms, just given some of your comments on product development across the enterprise tier?

Kate Bueker

Chief Financial Officer, HubSpot, Inc.

A

Yeah, it was nice we had a little bit of an uptick in Q4. Again, with ASRPC, the biggest thing that's been driving ASRPC over the past couple of years is really product mix. And we continue to see positive trends at the individual hub level. Frankly, we feel like we've seen a little bit of stability in and around the 10,000 range, which is nice. And I think we're feeling that over the longer term we can start to see that tick up a little bit.

Q

That's helpful. And then at inbound, you announced some enhancements for Sales Hub, including a Buy Now button, and I was curious how the beta on that was going, and I guess any early customer feedback or adoption insights that you could share there.

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

It's going well. A lot of people are adopting that functionality and liking it. And our partners are implementing that for folks. You'll see a lot more of that kind of thing over time. I'm bullish about that – that area between where the sales rep leaves off and where cash hits the balance sheet. I think there's lots of room in there.

Q

Got it. Thanks, guys.

Operator: Your next question comes from Tom Roderick from Stifel.

Thomas Michael Roderick

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Hey, good afternoon. Thanks for taking my questions. So, Brian, let me throw the first one at you here, just thinking about PieSync a little bit more. You've had it under your belt for a few months. So, I know it's still early, but as you think about that product and its integration with your own product and go-to-market, can you just talk a little bit more about how customers are embracing it and how you're pushing it on go-to-market? You've got over 200 application integration. So, do you find your customers are more and more using it as a way to integrate with other applications they might have in the front office side and then utilizing that to bring the – sync the data back and allow HubSpot to be the customer data of record, or are they using it more to integrate with your applications across different hubs? Just talk a little bit more about usage patterns and go-to-market with that product right now. Thanks.

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

Sure, Tom. PieSync is going well. It's really good technology. It's a really good team. They're making big enhancements to that synchronization engine to make it much more powerful for our customers, like, I'll tell you I've got a customer that wants to sync to Microsoft dynamics, like how do you do that and make it as easy as possible and as powerful as possible. So, they're working hard on some very, very cool stuff. What you'll see over the long haul is that synchronization technology will be embedded inside of HubSpot in different ways and in powerful ways. And so, I think that acquisition could work out really well for us and we're really happy with it.

Thomas Michael Roderick

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Outstanding. And then one just other product-related question. You touched on email marketing earlier, the free offering. And in prior quarters, you just mentioned that that has been a product that maybe there's a little bit of cannibalization at the low end of the starter marketing. What are you seeing with respect to, again, adoption and usage patterns on that? Is it having any impact on some of the lower-end core marketing hub features? And then what sort of adoption are you seeing on email marketing? Thanks.

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

A

I think the change we made that was interesting is we – we put email marketing into our free layer of products and starter layer of products. And that's been well received. We haven't seen any cannibalization, of note, from starter or pro. There was a little – the numbers moved a little bit in the short term, but they kind of – they steadied themselves by September, October on that change. So, no big cannibalization. I think it's going pretty well. That starter product is pretty legit. The free product is pretty legit. And what we can get a lot better at, I'll tell you, is moving those free to starter to pro to enterprise. That's still an area that we're early in our investment cycle on.

Thomas Michael Roderick

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Outstanding. Thank you very much. Appreciate it.

Operator: And that was our last question at this time. I will turn the call back over to Brian Halligan for any final remarks.

Brian Patrick Halligan

Cofounder, Chief Executive Officer & Director, HubSpot, Inc.

Thanks all of you for joining. Really appreciate it.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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