Company Name: HubSpot, Inc. (HUBS)
Event: Stephens Nashville Investment Conference
Date: November 14, 2019

<<James Rutherford, Analyst, Stephens Inc.>>

All right. Good afternoon, everybody. Thanks for being here in Nashville. Warmed up a little bit today, so pleased about that. I'm James Rutherford, the Application Software analyst here at Stephens, and pleased to have HubSpot in the room with us today. Representing the company is Chuck MacGlashing, who is the Corporate Treasurer and the Senior Director of IR. So thank you very much for making the trip to Nashville from Boston, Chuck. We really appreciate you being here.

I know there's various levels of knowledge of HubSpot in the room most likely. So I thought it'd be good to start out, Chuck, with just an introduction to the business strategy, the high-level growth drivers and sort of the vision for the business before we get into some of the weeds of the topics.

<<Charles MacGlashing, Corporate Treasurer and Head of Investor Relations>>

Well, thanks for having me, and thank you all in the room for coming out to hear the story. So yes, HubSpot was founded in 2006 by our two cofounders: Brian Halligan, our CEO; and Dharmesh Shah, our CTO.

Before HubSpot, so Brian worked in software, worked on the venture capital side of the world for a period of time. And he was really sort of tasked with helping his portfolio companies grow, and it's sort of back in the early 2000s. And the playbook at that point in time was actually quite standard, right? Like you bought a list of company and contact information. You e-mail the list, you cold call the list, you advertise against the list, you invite the list to your trade show, and then you sort of rinse and repeat, right?

Like that was the way that you marketed to people. And Brian, on the venture capital side, trying to get these businesses grow, like was realizing that, that old marketing playbook was breaking down in many ways. That it was getting more difficult to reach people. It's getting more expensive. And why was that? Well, it was because consumers actually had tools at their disposal to fight back against that marketing noise. And so you think back to around that time, there were – the DVR was coming in, skip advertisements. You had ad blockers to block out ads through your web browser. You had a caller ID on your phone. And so as it turns out, like all of you people in the room that people wanted to market to were quite difficult to reach.

And so Brian leaves the venture capital side. He heads off to my team, meets Dharmesh, they strike up a friendship. And it's kind of funny to hear Brian tell the story, but I'll do my best here. So meets Dharmesh, and Dharmesh is actually sort of writing and blogging his way through business school at that point. Everything that he sort of learned in school that's interesting to him, he puts up on his blog. And as Brian tells it, Dharmesh was able to generate a thousand times much interest in that crappy little blog than anything Brian was able to do with his sort of well-backed wealthy venture capital firms using these old marketing techniques.

And so the two of them struck up this friendship and start talking about the marketing world and really begin to sort of juxtapose the way that they thought about old outbound marketing and really sort of like interrupting your way into people's lives with your marketing versus this new inbound way of creating helpful and useful content to sort of – that was sort of tailored to the way that people sort of wanted to shop and buy and make purchasing decisions. And so that was like really the beginning of HubSpot back in 2006, was this marketing – actually, before that, sorry. So Brian leaves business school, goes back to his portfolio companies and quickly finds that like this inbound methodology is really, really cool in concept, but it's actually quite a bit more difficult to sort of pull off and execute against.

And the reason for that was to do it correctly, you needed an e-mail tool, you needed a social tool, you needed a web analytics tool, you needed a CMS, and you needed a CRM. And quite frankly, like you needed somebody pretty technical like Dharmesh to sort of pull all those tools together and sort of make them work. And so Brian and Dharmesh hooked back up. They started HubSpot in 2006. And the early versions of HubSpot really were to help marketers turn website strangers into qualified marketing leads using inbound content. And that was really kind of the first six or seven years of the company. But it was in around like 2012 that they realized that marketing was kind of the tip of the iceberg for the front office opportunity for small and medium businesses.

And so in 2014, we announced our entry into the sales market through our Sales Hub. In 2018, introduced our Service Hub product, which really kind of rounded out that front office suite of products. Since then, we've moved from what had been sort of a very heavy inside sales touch to more of a freemium model so that companies of all sizes could get started with HubSpot really regardless of their budget. We've invested quite heavily over the last two to three years in our ecosystem of APIs that plug-and-play with 300-plus integration applications that plug into our paid apps and our CRM.

And the last thing I'll say before I hand it over is that I think that in many ways, HubSpot, like a number of these other businesses, SaaS businesses that sort of serve the SMB market, so think of the Shopifys and the Atlassians and the Zendesks of the world, have really made some pretty big strides in terms of democratizing technologies that were only traditionally available to S&P 500 or S&P 1000 companies that utilize these big, powerful enterprise software platforms upmarket.

And I think we've done it in an attempt to help our customers grow more quickly but also grow better. And so about a $670 million revenue business, growing in the low 30s, 400,000 free users, 68,000 customers, 10% free cash flow margins. I'm the Corporate Treasurer, I've got to like say something financial here. And $1 billion in balance sheet, which gives us a lot of flexibility. So with that, I guess I'll hand it over.

<<James Rutherford, Analyst, Stephens Inc.>>

Yes. So let’s dig in there. Let’s just start with the suite, which is, of course, a big driver of the business. And it’s, of course, bundling the three core applications that you offer today. I think mid-30s percent of your customers are using the suite or using at least two products today. Can you talk about the sales motion there? Is that mostly you’re going back to your base and selling additional? Are we talking about out of the gate, people buying multiple hubs or a bit of both? So what’s the go-to-market motion there? And ultimately, how much of your business do you think could be kind of multi-hub if you’re prepared to answer that one?

<<Charles MacGlashing, Corporate Treasurer and Head of Investor Relations>>

Sure. Yes. So we – with the introduction of Sales Hub in really that sort of 2015 time frame, we’ve seen a pretty steady uptick in multiproduct adoption. We tend to give milestones as we’ve sort of reached them. And one of the milestones we hit this quarter was 25,000 of our 68,000-plus customers are now paying us for two or more products. Sales portion is actually really the same as it’s been for the last few years. We had this inside sales motion. We have a freemium motion. We generate multiproduct customers out of both of those. We split the sales team internationally versus domestic.

And then we have a small and medium business, mid-market and a corporate segment. And I think one of the emerging trends that we’ve begun to see is, since the introduction of Service Hub in 2018 and some unique bundled pricing that we now offer to customers that want to buy all three products upfront, is a lot of customers that are now starting with all three products. And one of the numbers we’ve talked about is about a sort of high-teens percentage up to 20% of our net new multiproduct customers in a given quarter are coming from folks that are buying all three products up together upfront.

<<James Rutherford, Analyst, Stephens Inc.>>

That’s helpful. And then I’ll ask one that you probably can’t answer, won’t answer, but it’s part of my job to do it anyway. You’ve now got marketing, sales force automation, of course, ServiceNow. And there’s a platform play, which we’ll get into in a moment as well. But just thinking about what additional application areas you might launch into. I can make some guesses. But I’m just curious, what are the big pain points for your customers that you can envision? And will it become a build or buy or maybe a mix of both?

<<Charles MacGlashing, Corporate Treasurer and Head of Investor Relations>>

I’ll tell you what. I’ll tell everybody in the room here, if you guys can all keep a secret, like that will be our little – yes, that’s – it’s one of the areas that is a bit of a third rail, right? And so the product road map and so where we’re headed. What we have said publicly is that we have a couple of additional paying hubs in mind that we plan to deliver over the next few years that could sit to the right and to the left of sales, marketing and service. We’ve consistently said that we want to play in the front office. We feel like there’s a big opportunity there, particularly for small and medium businesses.

And yes, that's probably all I can say about that. And listen, like, we feel good about the road map. We've taken R&D as a percentage of revenue from what had been sort of low to mid-teens up to the mid- to high teens and really do feel like there's a lot of innovation left, a lot that we can deliver in these markets.

<<James Rutherford, Analyst, Stephens Inc.>>

Fair enough. So let's shift over to the partner channel. And I think that drives around – touches around 40% of your revenue today, somewhere in that neighborhood. Just curious, as your business has evolved from a single app to multi-app platform, how that makeup of partners has changed, how you see it changing? And if there's any kind of motion, I think there is, to really build out different elements to your partner channel?

<<Charles MacGlashing, Corporate Treasurer and Head of Investor Relations>>

Yes. So you're right, partner as a percentage of revenue is 40%. Direct is 60%. And it's been a big piece of the growth lever that we've been able to pull on really since coming public. And there was a bit of an open question when we went multiproduct about whether or not our partners could follow us, whether or not they would have the resources because these aren't the traditional multi-billion dollar partners that you guys know that are sort of public.

For the most part, they're 20- to 30-person organizations that really just resell HubSpot in many cases. And I think it was a bit of an open question internally in terms of whether or not they could make the leap to sales and ultimately to service and sell the full suite. And quite frankly, they've done just as good a job as we have on the direct side, given that three and four years ago, they represented 40% of our revenue. Today, they do. And the only way to get there would have been to be selling healthy amounts of multiproduct. What we've begun to see really over the last year or two is good growth out of agencies that don't classify themselves as marketing agencies, so CRM implementation firms and strategy consultants on the service side that have begun to ramp up and resell HubSpot.

What's kind of interesting about them is that they come through this different part of the channel for us in terms of their sign-up flow. And ultimately, like when they get up and ramped up and trained, the first question they ask is, like, can we sell marketing, too? And so what we're kind of seeing is a bit of a blending between even the folks that have joined us just to resell sales and service that sort of want in on the marketing side.

<<James Rutherford, Analyst, Stephens Inc.>>

Okay. And then just remind us how those partners are compensated. I think it's been fairly consistent, but if there's any change there, if there's an intention to change that with sort of the nuance shift and sort of the makeup of your partners?

<<Charles MacGlashing, Corporate Treasurer and Head of Investor Relations>>

So, I mean no major shifts. So we pay them a 20% commission on managed MRR. And that's something that we've done forever, and I wouldn't anticipate us making a big change in that regard going forward. Now on the other hand, like we do make changes to the partner program to help support our partners and really support the ones that are successful reselling HubSpot. And so there are changes that can happen year-to-year with the resources that we're putting behind those agencies, but no wholesale changes. The channel is actually working quite well for us.

Q&A

<Q>: [Question Inaudible]

<A – Charles MacGlashing>: Sure. So the way that we measure it is LTV to CAC. When we became public back in 2014 when we were just a marketing agency – or just serving the marketing side of the business, it was kind of in that four to five range. Today, it's in the five to six range, so it's actually moved up.

<Q>: [Question Inaudible]

<A – Charles MacGlashing>: Within each of the hubs?

<Q>: [Question Inaudible]

<A – Charles MacGlashing>: Yes. I mean we don't give explicit numbers. We did way back when it was just a – when we're just looking at the marketing side of the equation. And it was something like 50,000 LTV, 10,000 for the CAC, and that's kind of how you got to the five. The reason why we haven't really given the absolutes is we're seeing big mix changes in terms of the LTV. When we brought on Sales Hub, it was a much lower-priced product, right?

LTV was quite a bit lower, but the CAC was also a lot lower because we're bringing customers on through our freemium channel. And so that was a big mix impact. With multiproduct, you can see higher levels of LTV and, in some cases, actually a pretty stable CAC. And so we've seen some mix changes with it. But overall, the ratio has actually moved up. And I think freemium has been a big piece of that. As in the just finished quarter, we talked about the fact that two-thirds of our net new ARR in the quarter actually came through a customer that had started on free – a free product, anyone of our free products and then upgraded into a paid product.

Now the vast majority of them, and at least today, end up speaking to a sales rep. And so we paid the commission on that, retire quota against it. But we are seeing a growing trend in terms of folks that are starting on free, upgrading touchlessly into a paid product, particularly at the low end of the portfolio.

<Q – James Rutherford>: Awesome. So on the platform side of this business, which, of course, is a big priority for the team, the shift from single app to multi app has been a very nice shift and successful. Now we're going through this platform side with all these integrations. So the question is, what gives you confidence that you can be that kind of growth platform for the SMB, given there are others chasing that goal? You had Shopify starting on the commerce side, and

they recently launched a marketing or e-mail marketing applications. So I'm just thinking if you're SMB, what makes you kind of take the HubSpot route and sort of maybe how pricing fits into that strategy as well?

<A – Charles MacGlashing>: Sure. I mean I think like one of the things that gives me personal confidence is that there's multiple examples of big, successful platforms in the enterprise segment, right? Like it's not a winner-take-all situation up there. And I don't think there's anything structural about the small or mid-end of the market that would suggest that it has to be one player that wins here. I think there could be a lot of opportunity for a number of players to do well.

I think what makes HubSpot a bit different than a number of companies is that we built this organically. It's all on the same code base, it's on the same tech stack. And I think that just generally speaking, when companies are plugging into your platform that can be a bit of a competitive advantage. I think we have a pretty big head start in terms of our freemium user base of hundreds of thousands of free CRM users. We have free marketing sales and service users as well, and that's particularly attractive for the ecosystem, right? Like, that's what they go after when they're thinking about who to sort of plug-and-play with.

And of course, we have 68,000 paying customers as well. And so that's a big piece of it. And then third, I can't speak for others, but one thing that gives me confidence that this can be a big thing for us is that I think we're playing the long game in terms of trying to build this up, really deliver a lot of value with the ecosystem without trying to extract value out of it too quickly in the short term. And so we'll have to see.

We've seen a lot of growth in terms of folks that are plugging into HubSpot. PieSync, the acquisition that we just did a couple of weeks ago, is an important acquisition for us because these guys actually do bidirectional sync of data between applications like HubSpot and 200 applications that are already in our ecosystem at this point, which is incredibly important for customers, and they do that in real time, so yes.

<Q – James Rutherford>: So you touched on this a little bit, I think. But just to follow up on the monetization point. I mean I can see benefits to the platform approach even if you don't monetize it in terms of retention and those dynamics, of course. So if you could speak to that and if you observe any kind of differences in retention. And then I guess you kind of already answered it in terms of monetization, there's a possibility at some point in the future. But right now, there's nothing concrete in the works, it sounds like.

<A – Charles MacGlashing>: Yes, that's right. And we do actually see an uplift for customers that are using multiple integrations versus folks that are just using stand-alone products. There's actually a nice uplift there. So there's that sort of tangential uplift that we get financially speaking from customers to ground a little bit longer. They're using integration, so that is a bit of a benefit. But yes, at least as of now, the way that we're thinking about this is building platform ecosystem to be a flywheel to get our other applications spin a little bit faster. And when we're ready to talk about monetization, we will.

<Q – James Rutherford>: Great. If there's questions, just raise your hand, and we'll get a mic to you.

<Q>: Are you seeing any meaningful improvement in gross churn from the customers that are adapting multiproduct?

<A – Charles MacGlashing>: Yes we are. If we're sitting here having this conversation three or four years ago, we would have been talking about a gross churn sort of in the mid-90s, give or take. We've consistently talked about 100% net revenue retention, give or take, in a given quarter. And a big piece of that has been the move up in the multiproduct, where we do see higher levels of net revenue retention.

<Q>: [Question Inaudible]

<A – Charles MacGlashing>: Okay. So maybe we're getting our lines crossed. Okay. So yes, we talk about three things. We talk about customer logo retention, blended, which is in the high 70s. We talk about customer dollar retention, which is the dollars that we maintain of the logos that stick around in a given year. That's been pretty consistently in the low to mid-80s. The nuance there is that our Sales Hub product – as new hubs have come on, they tend to start with a much lower customer logo and customer dollar retention.

And so Sales Hub had been depressing the overall when it came online, and that customer revenue retention has actually moved up quite nicely. It's not quite up to marketing, but it's getting there. And our Service Hub product has customer logo and customer dollar retention that's quite a bit lower, given that it's sort of in the first year of its life.

<Q>: Got it. It may have a drag right now.

<A – Charles MacGlashing>: That’s right.

<Q>: Down the road, how do you…

<A – Charles MacGlashing>: Yes. I mean I think it could, although I caution people that just to think a little bit about the markets that we're serving here. You have to think – like best-in-class in the enterprise side is probably high 80s, low 90s. And the fact that we're doing low to mid-80s, like, I don't know, maybe there's a point or two to sort of move that up. But I think structurally speaking, we're in a bit of a disadvantage relative to selling that, figure DOJ deals, right, like those guys are pressed to ground full well.

<Q>: Is most of that churn happening in the first year?

<A – Charles MacGlashing>: I’m sorry.

<Q>: Did most of that churn happen in the first year?

<A – Charles MacGlashing>: Yes. Yes, that's when you tend to see the curve flatten – now that's actually year – month 13, we have annual contracts. And so people tend to sort of stick around or go in and around that.

<Q>: [Question Inaudible]

<A – Charles MacGlashing>: It's not a number that we've talked about publicly.

<Q – James Rutherford>: Let's shift over and talk about the low-touch customer acquisition model. Just help us understand which tiers, what categories of software can be self-provisioned today? And then that's kind of the first part. The other part is what can people upgrade without talking to a HubSpot salesperson?

<A – Charles MacGlashing>: Sure. So today, you can self-provision or purchase any addition of sales, marketing and service up to our professional level. You can't touchlessly buy any of the enterprise versions of those products. And I think the reality is that very few people are going to want to touchlessly purchase a $3,200 per month product without speaking to somebody. And so you can touchlessly purchase those. And then you can move within each of the segments today.

Although I think if Brian was sitting here, he would say that we do a pretty good job of serving up those offers and improving those workflows within the product, both within each of the respective hubs and in sort of a north-south fashion, the same with east-west in terms of going across. But I think we could be doing a much better job. And so we're investing actually quite aggressively in go-to-market to take friction out of those two moves.

<Q – James Rutherford>: Right. And the reason I ask is because with your LTV to CAC having walked up kind of in that 4% to 5% to 5% to 6%, it seems like that's been perhaps more on the LTV side. Or has this manifested – this benefit in the low-touch model manifested in a lower CAC? Or is that still kind of on the come in your view?

<A – Charles MacGlashing>: I think it's more on the come. I think it's helping on the margin. It can be a little bit difficult to sort of quantify, and we see it show up in things like S&M efficiencies. But we've tried to be pretty thoughtful about making wholesale changes to our go-to-market or the way that we incentivize reps or will allow them to hunt and really trying to make changes on the margin versus flipping the switch in any one given year and trying to drive a lot of leverage and reduce CAC as a result.

<Q – James Rutherford>: So I do want to touch on some of the recent – sorry, is there a question here?

<Q>: Sorry. So when you look at your customer base, is there any particular vertical or type of businesses that are more open to the types of marketing solutions that you have than others?

<A – Charles MacGlashing>: We over-index a little bit towards sales and service, but there isn't any one particular segment that represents a big chunk of the pie. The SMB market is quite

fragmented. And in many ways, I think we benefit from that in terms of the dispersion of businesses that we sell into as a result. So no. No major vertical exposure that I'll call.

<Q – James Rutherford>: Okay. So I did want to touch on the recent – kind of some recent events as well. Growth in the most recent quarter was strong, 33% constant currency on revenue. Billings growth, I think, was 30% constant currency. The guidance for the fourth quarter implies a bit of a deceleration. Now there's been a few dynamics that happened this year with the outage, with some sales hiring in those dynamics. So just if you'd help us understand what's going into that fourth quarter number. And of course, you're not talking about 2020, but just how to think about some of those fundamental dynamics and how those might play into the 12 to 24-month view?

<A – Charles MacGlashing>: So yes. I mean we – I think we've been talking quite a bit about getting behind on hiring to start the year. We called it on our Q2 call. We said that it was going to impact really the back half of the year just given that we've gotten behind. It takes four to six months to get a rep up to speed in carrying quota. The good news is that we made a lot of progress in Q2. October was a very strong month from a hiring perspective. And what Kate said on the call, both in our prepared remarks, I think Brian may have talked about this as well, is that with how October closed, it gave us a lot of confidence around the fourth quarter and meeting our plans for the full year.

Now that's sort of solving part of the problem. The other – the issue is that it takes time to get those folks up to speed. And so we don't have as many quota-carrying reps in the funnel that are up to speed, have the capacity to go after demand in the fourth quarter as we would have hoped. And so that's weighing a bit on the growth guidance that we've given you. We talked about the outage that happened back in March. And our Project Mainsail, I think JD spent a fair bit of time at our Analyst Day sort of dimensioning it. Brian talked about it on the most recent call. It slowed down our ability to deliver new features and functionality in 2019, and that's weighing a bit on growth.

The third piece of the equation is that FX has continued to go against us with dollar strength. And we're now expecting a two-point headwind to growth in the fourth quarter as a result of that phenomenon. And so as we think about 2020, we haven't given explicit guidance. But I think what Brian said on the call was that he's quite excited about the product road map. We're not going to make the same mistake from a hiring perspective out of the gates, and so there'll be the capacity in place to go after demand. We'll have to see what becomes of FX. As it stands right now, it's probably a point headwind to 2020 growth relative to 2019, but it seems to change every day.

And overall, like, I think we just want to get back to a position where the execution is at a high level, and we're going after the opportunity that we see in front of us.

<Q – James Rutherford>: All right. Excellent. That was on the top line sort of dynamics I do want to ask about profitability I think to Kate. Of course, you had this great sort of growth margin framework that you operate to roughly. But I think in 2020, you'll be outside that a little bit in terms of having a flattish margin as far as what Kate was telling us year-over-year. So is

that sort of incorporating the tenor of sales hiring that you're describing here? And so what are the incremental investments that are keeping those margins from expanding next year?

<A – Charles MacGlashing>: Up to 2020? No. So once again, haven't given explicit guidance for 2020. We'll do that in February when we report Q4 results, right? What we have said is Kate said at the Analyst Day quite explicitly that we were in the early stages of our planning for 2020. And at that point in time, she didn't anticipate any leverage in the model as a result. We talked on the Q3 call about catching up from a hiring perspective. I think Brian talked about not wanting to get off to a slow start again in 2020. And I think we've been talking pretty consistently for a while about our aspirations to grow product and engineering as fast as we can to deliver on the product road map.

And so the combination of all of those with some incremental OpEx from our PieSync acquisition, which was not part of the discussion at our Analyst Day, I think the word that Kate used on the call was that she expected it to pressure margins a bit in the short term until we sort of digested that. And so we'll talk about what that means more explicitly, the reality is that our financial framework has delivered quite strong leverage since coming public. Actually more leverage, given the growth bands that we've been operating in than we would have called for. But it is a long-term framework, right? And there are going to be periods of time where you operate above it and periods of time where you operate below it. And what we're trying to really do is make sure that we're investing in the business at the right levels to go after opportunity and drive growth.

<Q – James Rutherford>: Awesome. Thanks for entertaining that question. On 2020 or two questions on 2020, I should say. Let's look at the competitive position. From my perspective, it can be a little bit difficult to ascertain whether you're moving upmarket or not, given there's such strong growth on the low end as well as the high end. And it doesn't – it makes the ASRPC, average revenue per subscriber, rather difficult to get meaning from. So I'm just curious, is there a move upmarket? I know it's not a big strategy for the company, but are you seeing that as you add features at the higher end of your product set today?

<A – Charles MacGlashing>: So no. I mean there's not an intention to move upmarket per se. The way that we go to market, particularly with the inside selling model, is we have our small biz group going after accounts that are sort of in that two to twenty, two to 50-employee range. Our mid-market goes after kind of 20 to 200. And then our corporate sales team goes after accounts with 200 to 2,000 employees. And we feel like there's plenty of opportunity within those bands. I think when Brian talks about wanting to be more competitive within enterprise and corporate, it's more about dropping more features and functionality to better serve those customers and go after more opportunity. It's not about extending beyond 2,000 employees.

And what was your other question? Or is that it? And then in terms of competition, no change. We tend to see the guys you would expect upmarket that compete within sales, marketing and customer service at the low to mid-end of the market, it tends to be point solutions that small and medium businesses kind of couple together. And when they begin to get to 20 or 25 employees and hire their first marketer and have somebody focused on sales and customer service, that's when they tend to have more budget than they do time coupling together those point solutions. And that's when we tend to sort of enter the equation.

<Q – James Rutherford>: Have you seen any change since Adobe bought Marketo? I think that, of course, Adobe has this big enterprise focus. And then recently, they've made it clear they want to redouble their efforts in the mid-market. So just curious, since acquisition, have you seen any change from Marketo?

<A – Charles MacGlashing>: No major change. I mean we have a lot of respect for those guys. They compete aggressively in that upper band of the enterprise segment. If you're in the market for a marketing-only application that has all of the bells and whistles that you're looking for, Marketo is a really powerful marketing application that compete quite aggressively against us. And so I would say no real change because it's sort of always competitive up there, just like it is with Salesforce on the sell side and – through their Pardot asset and Oracle with Eloqua. So no major changes.

<Q – James Rutherford>: Awesome. And then you're sitting on a pretty nice stack of cash today. And you mentioned how one of the advantage of HubSpot has been it was organically built. So out of the box, really great integration, tight integration. To the extent, at some point, make – do a deal, how do you think about ensuring that the product stays seamless for your customers?

<A – Charles MacGlashing>: Yes, it's tricky. And you're right, we have a lot of flexibility with the cash that we have on the balance sheet. We tend to look at M&A through the lens of, of course, strategic fit. And financially, it has to make sense. And culturally, the values have to align with HubSpot, the way that we sort of think about the world. But one of the lenses that doesn't often get talked about that we tend to focus on to a high extent is, is it going to move the needle for our customers? And I think PieSync like squarely fits into an area that is a big pain point for mid-market companies that are utilizing 10, 20, 30, 40 different SaaS applications but not able to get the data between those applications.

And so we have a corp dev function, and it's grown, and we're looking at more deals today than we did a year ago or three years ago just because we're a bigger company. But I wouldn't say that the threshold that we look at deals to the lens has changed all that much. And I think we're pretty good at building software. And so I think we're going to err on the side of build over buy. And to the extent that a really, really attractive asset comes through and lines up quite well and can move the needle for our customers, we're also not going to be afraid to step up and do a deal if it aligns.

<Q – James Rutherford>: All right. I got here one or two more, so if anybody wants to jump in, just let me know. But I just want to ask on Service Hub before we close. It's fairly new, still not a big driver of revenue. But there's a lot of optimism around the product, I know. As we speak with partners, there's actually a fair bit of confidence that you guys will be very successful in that space despite the slew of competitors around service software. So we talked about partners earlier, but I guess one question is, what are you hearing from the partner channel in terms of that is a little bit different than the sales or marketing sales? So that, and then also just what surprised you most since you launched that product a couple of years ago?

<A – Charles MacGlashing>: Sure. Yes, we heard the same feedback. I think the partners are excited about it, although it's still early. They tend to be a little bit behind us on the adoption curve and kind of getting up to speed on new products and features and functionality. And so it's been a year. And to your point, like it's – the business has exceeded our expectations. I think the number that we gave at our Analyst Day was $14 million in ARR, which is up quite nicely year-over-year, with over 5,000 customers. And the vast majority of those customers getting attached to both marketing and sales and maybe even the CRM underneath it. And so we're quite happy with it.

That said, it's a v1 product, and we have a road map from a product perspective that we're looking to execute against. And so I think over the next year, the plan is to take that v1 product and turn it into a v2 and really drop some sophisticated features into ticketing and knowledge base and the feedback sections of that application and make it a much better product.

<<James Rutherford, Analyst, Stephens Inc.>>

All right. Great. I'll leave it there. Thank you, Chuck, for the time. I really appreciate it. Thanks, everyone, for coming out.

<<Charles MacGlashing, Corporate Treasurer and Head of Investor Relations>>

Thank you.