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# HubSpot, Inc. (HUBS)

Q4 2018 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good afternoon. My name is Mike and I will be your conference operator today. At this time, I would like to welcome everyone to the HubSpot's Fourth Quarter and Full Year 2018 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there'll be a question-and-answer session. [Operator Instructions]

I will now turn the call over to Chuck MacGlashing, Director of Investor Relations. You may begin your conference.

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### Charles Tupper MacGlashing

*Senior Director of Investor Relations & Corporate Treasurer, HubSpot, Inc.*

Thanks, operator. Good afternoon and welcome to HubSpot's fourth quarter and full year 2018 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 of the Securities Exchange Act of 1934 as amended.

All statements, other than the 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 2019.

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 to our Form 10-Q, which was filed with the SEC on November 7, 2018 for a discussion of the risks and uncertainties that could cause actual results to differ materially from expectations.

During the course of today's call, we'll refer to certain non-GAAP financial measures as defined by Regulation G. The GAAP financial measure most directly comparable to each non-GAAP financial measure used or discussed and a reconciliation of the differences between each non-GAAP financial measure and the comparable GAAP financial measure can be found within our fourth quarter 2018 earnings press release in the Investor Relations section of our website at [hubspot.com](http://hubspot.com).

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

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### Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

Thanks, Chuck, and good afternoon folks. Thank you for joining us today as we review HubSpot's fourth quarter and full year 2018 earnings results with a strong earnings to 2018 and a really good year overall. So let's get right to it.

We grew revenue 37% for the full year and closed out Q4 with 35% revenue growth, which is 37% growth at constant currency. Our full year non-GAAP operating margins expanded 4 points to just over 6% and total customers surpassed 56,000, up 36% year-over-year.

Honestly, 2018 was one of the best years in our history in many ways, but especially when you think about it from a product and customer value perspective. We started the year with a really strong marketing application business that helped our customers generate leads in a fast growing sales enablement business that helped sales people sell. We ended the year with a full suite of marketing, sales and customer service products that helps our customers grow better by crafting a remarkable experience with their customers.

In addition to that, we built out that suite in such a way that small startups can start with their Starter layer, move into our Professional layer as they grow and ultimately purchase our entire Enterprise-gearred products. In addition to improving product portfolio and value proposition, we started evolving how we thought about how we grow better ourselves.

Now, speaking specifically about the flywheel growth model. In 2018, we started shifting from seeing our business as a traditional funnel to viewing it much more as a flywheel. The old funnel was great, but it tended to view customers as just an output, while the more modern flywheel recognizes the essential role customers play in driving growth through upgrades and especially word of mouth. Customers are not an output, they're the beating heart of your business. When you cut down the friction in your customer experience, you speed up the momentum of your business overall.

Let me give you an example of the flywheel on action. I met one of our customers at company called Stella on a recent trip to Europe. Stella has 800 employees. They provide home cleaning, child care and healthcare services in Finland. We didn't need a major marketing push to get into Stella. We just needed my new friend [ph] Ville. Ville (00:04:43) was a HubSpot customer at his last company and he had recently joined Stella. He enjoyed using HubSpot in his last role. So as soon as he got to his new job, he led the effort to bring HubSpot on board.

[ph] Ville (00:04:56) and Stella got with Marketing Hub in January of 2010. In June, they picked up Sales Hub Starter, and in September, they added Service Hub Professional. And then in November, they upgraded to the full Enterprise Growth Suite across the board. As they scale, the value they're getting from HubSpot is scaling up with them, but it's not just about scalability for our customer, it's all about creating a better experience for their customers. Now that Stella is using Marketing, Sales and Service Hubs together, every team at their company is working of the same shared understanding of their customers too. And that kind of alignment pays off in so many ways.

All of these new products and our flywheel mentality is working all over, not just at Stella. At HubSpot, we're seeing lots of new customers buying multiple products upfront and our new products have improved our cross-sell motion, allowing us to reach nearly 20,000 multiple product customers in Q4, up 90% year-over-year.

Customers are also responding to our new Growth Suite bundle pricing with nearly 50% of our new triple product customers in the quarter buying all three products upfront through the bundle. We think customers will find more value by using the full suite and multi-product customers carry better unit economics for HubSpot than single product customers.

In addition, the re-launch Marketing Starter product continues to get great traction with customers on this product up 3x year-over-year. This in turn has helped drive a nearly two-fold increase in upgrades from Marketing Starter to the Professional Enterprise tiers over the last year.

The nice thing about how these hubs and tiers work together is that they enable customers to grow and use more of HubSpot on their terms when they need it. As excited as I am about the progress we've made transitioning HubSpot from an app company to a suite company in 2018, I'm even more excited about the momentum we have going into 2019.

In 2019, we will again be focused on two parts of that flywheel equation. First, increasing the force applied to our flywheel by word-of-mouth from existing customers. We're working on a long list of funded and high-return projects in 2019 that we think will make an existing suite even more valuable to our customers, particularly at that Enterprise tier.

Secondly, decreasing the friction in our flywheel by making HubSpot easier to do business with for companies of all sizes with a particular emphasis on our freemium model. We want to match the way we go to market with the way modern human buy these days. There's lots of low hanging fruit left for us on both these flywheel initiatives in 2019. HubSpot's still in its very early innings in its development.

One more thing about 2019. We've used the Warren Buffet quote with you before that goes something like, someone is sitting in the shade today because the seed was planted several years ago. Several years ago we planted the suite seed and it's starting to throw off some shade for us today with much more shade to come in the future.

In 2019, you'll start to see a new seed we're planting as we shift HubSpot from an all in one suite to much more of an all on one platform. We want to be able to help our customers grow better. And although we'd love for them to completely rely on HubSpot's applications to do so, the reality is that a modern business has lots of important applications.

What we want to do over time is enable our customers to use all of their applications with HubSpot. Today, HubSpot manages its own applications data, its own applications work flow, and reports on all of its own data. In the future, we expect HubSpot to manage all of our customers' front office applications data, all of their front office workflow and report on that entire experience.

You're starting to see the beginning of the shift. We announced a strategic partnership with our friends at AWS. We greatly expanded our API endpoint footprint and support. We built some killer integrations of our own to commonly use applications like Stripe and Slack. And we welcomed a couple hundred connect partners into our program who have integrated their applications into HubSpot. All of this will further expand the value we can create for our customers who would open up new growth opportunities for us. So stay tuned for more in this front over time.

Okay. With that, I'll turn it over to Kate to run through our financials and our guidance.

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## Kate Bueker

*Chief Financial Officer, HubSpot, Inc.*

Thank you, Brian. Let's turn to our fourth quarter and full year financial results and our guidance for the first quarter and full year of 2019.

Q4 was a very strong quarter for HubSpot. We delivered strong revenue growth, over \$25 million of free cash flow and \$14 million of non-GAAP operating profit. Fourth quarter revenue grew 35% year-over-year on an as reported basis and 37% in constant currency, up nearly 2 points from Q3 2018 constant currency revenue growth.

The sequential increase in the quarter is the result of continued traction from our 2018 product launches and strong installed base sales. Q4 subscription revenues grew 35% year-over-year as reported, while services revenue grew 49% year-over-year.

Services revenue growth in Q4 benefited from a mix shift towards our Professional and Enterprise SKUs and an uptick in classroom training. While we're pleased with this overall performance, keep in mind that services revenue represents a small percentage of our overall revenue and we expect services revenue to grow more slowly than subscription revenue in 2019.

Full year 2018 revenues grew 37% as reported and 35% in constant currency. As Brian discussed, we had a really strong year of revenue growth overall in 2018, driven by several factors, including strong lead generation, new product releases and a seasoned sales force that executed very well.

HubSpot ended 2018 with 56,628 total customers, which was up 36% year-over-year. Average subscription revenue per customer in Q4 was \$10,012, down 2.4% year-over-year and up slightly compared to Q3. While we are encouraged by the sequential increase, we continue to expect this metric to bounce around depending on product mix and the amount of new versus installed base selling in any quarter.

International performance also continued to be strong in Q4 with international revenue growth of 48% year-over-year on an as reported basis and 52% in constant currency. Domestic revenue growth reaccelerated in Q4 to 28%, up 2 points from Q3. International revenue represented 38% of total revenue in Q4, up 3 points from last year.

During 2018, we opened a new office in Bogotá and announced plans to open an office in Paris later this year. We continued to see lots of opportunity for more growth outside the United States.

Deferred revenue as of the end of December was \$185.5 million, a 33% increase year-over-year, while calculated billings defined as revenue plus the change in deferred revenue was \$166.9 million, up 33% year-over-year.

Currency movements within the quarter resulted in a headwind to calculated billings, which grew 35% in constant currency, up 1 point compared to Q3 constant currency billings growth.

The remainder of my comments will refer to non-GAAP measures. Fourth quarter gross margin was 82.3%, up slightly sequentially and up 1 point year-over-year. Subscription gross margin was 86.5%, flat sequentially, while services gross margin was 2.5%, up nearly 16 points sequentially and up 20 points year-over-year. Full year gross margin was 81.6%, up nearly 1 point compared to 2017.

Fourth quarter operating margin was 9.8%, up 5.8 and 5.4 points from Q3 and Q4 of last year, respectively. Full year operating margin was 6.3%, up 4 points versus 2017.

As we've talked about in prior quarters, the adoption of ASC 606 had a positive impact on operating margin for the year because we extended the period of time over which we recognized commissions' expense. This contributed 3 points of margin expansion to our 2018 results, while the underlying business delivered 1 point of leverage.

We continue to drive operating leverage in the business that is consistent with our long-term framework for growth and profitability, and we remain committed to the framework going forward.

At the end of the fourth quarter, we had 2,638 employees, up 27% year-over-year. Attrition remained favorable throughout 2018, which positions us well to execute on our 2019 growth plans. CapEx, including capitalized software development costs, was \$8.1 million in the quarter and \$33.5 million for the full year.

Moving on to earnings, net income in the fourth quarter was \$15.8 million or \$0.37 per diluted share. Full year net income was \$36.9 million or \$0.89 per diluted share.

With that, let's dive into guidance for the first quarter of 2019. Total revenue is expected to be in the range of \$146.5 million to \$147.5 million. 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 \$0.23 to \$0.25. This assumes approximately 44.4 million fully diluted shares outstanding.

And for the full year of 2019, total revenue is expected to be in the range of \$648 million to \$652 million. Non-GAAP operating profit is expected to be between \$46 million to \$50 million. Non-GAAP diluted net income per share is expected to be between \$1.08 and \$1.16. This assumes approximately 45.6 million fully diluted shares outstanding.

We expect full year free cash flow to be about \$60 million. As you adjust your models, keep in mind the following. Currency movements created a 4 point positive impact on reported revenue growth in both Q1 and Q2 of 2018 was roughly neutral in Q3, and was a headwind of a little more than 1 point in Q4.

Given the volatility in FX rates throughout 2018, we thought it would helpful to provide some additional context for how FX will impact our as reported growth rates in 2019. At current spot rates, we're forecasting foreign exchange headwind of approximately \$8 million to as reported 2019 revenue, which would equate to a 1 to 2 point negative impact to as reported growth. Substantially all of this currency impacts will occur in the first two quarters of the year.

Our 2019 guidance implies 2 points of normal course operating margin improvement, offset by 1 point of margin pressure from the amortization of sales commissions expense under ASC 606. This will result in 1 point of operating margin improvement on an as reported basis. Furthermore, we expect to realize the majority of our operating leverage in the first and fourth quarters.

CapEx as a percentage of revenue for 2018 was 6.5%, which is a couple of points below our historic average. We expect CapEx as a percentage of revenue to return to 8% in 2019, primarily as a result of the build-out of our new Dublin facility.

To close, 2018 was an especially strong year of operational and financial performance, and we believe we are well-positioned to build on this momentum in 2019.

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

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**Brian Patrick Halligan**

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

Thanks, Kate. 2018 was a great year for us with the business performing well and I'm bullish on the outlook for our business entering 2019. There's a lot that goes into driving the results we've gone over today and the credit goes to the HubSpot team behind these results. We've invested a lot of energy these days into making our HubSpot team a more diverse and inclusive place for employees to work. That investment is starting to pay off.

In Q4, we were recognized again as a top company for diversity in women by Comparably. We were recognized for the first time by Fortune as a Best Workplace for Parents. We have a lot more work to do in 2019 on diversity, inclusion, and belonging in HubSpot, but I'm encouraged by our recent progress and excited about all the good stuff to come.

So with that in mind, I want to close by thanking all the HubSpotters for the work they do and the different passions and perspective they bring to their jobs. Thank all of our customers, partners and investors for a really great year in 2018. I'm super excited about 2019.

Operator, could we please open the call for some questions.

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## QUESTION AND ANSWER SECTION

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

**Mark R. Murphy**  
*Analyst, JPMorgan Securities LLC*

Q

Thank you very much. Congratulations on a great finish to the year. Kate, I was wondering how material of an uplift you think the [ph] freemium marketing edition (00:19:40) can be for you this year. If there's any way to pencil out some math on that? And as well, Brian, I think you've hinted in the past that there are other things out there after Marketing, Sales, and Service. I was just curious how you feel about that bandwidth of your engineering team to go after that, just given all the products they developed last year. And just whether that's mostly a reference to this all-in-one platform or are you looking at other markets like commerce or content or anything else? Thank you.

**Brian Patrick Halligan**  
*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

A

Hey, Mark. It's Brian. I can take those. In terms of the – you called it the [ph] freemium marketing edition, (00:20:24) we call it the Enterprise SKU, so far so good. We announced just to kind of take you through it, at INBOUND, we announced a new Marketing Hub, a bunch of new features in Marketing Hub at a new price point, and it's sold pretty well in Q4. That product, I think, is priced well and will sell well throughout 2019. I think the introduction of the Sales Hub and the Service Hub alongside that will make it a very powerful combination. So off to the races there, feeling good. That Marketing Hub product on the Enterprise side got a lot better. It's going to get even better over the course of this year. There is a couple – I sat with the product folks today, there's a bunch of cool stuff coming in that throughout 2019, so I'm excited about that.

In terms of new hubs, yes, we got three now and I guess I would say we're not done. We've got two, three – we have really solid ideas for new hubs in our heads now. I guess I would give you guidance that over may be the next three to five years, we'll add a bunch more hubs. I want to stay away from forecasting too short term on that, but there's more hubs coming, more opportunity there. And at the same time, we're investing in the platform side. And we're investing heavily in our API's and the support of those API's. We're enabling third parties to integrate



really nicely into HubSpot. We're building some really nice integrations to HubSpot. So things are really hopping on the R&D side at HubSpot. Our R&D team is really performing well. The recruiting is going well. I think the team's well managed, feeling really good about that.

Mark R. Murphy

*Analyst, JPMorgan Securities LLC*

Q

Thank you very much.

**Operator:** Your next question comes from Brad Sills with from Bank of America Merrill Lynch.

Brad Sills

*Analyst, Bank of America Merrill Lynch*

Q

Thanks, guys. Just a question please on the ISV opportunity you're just speaking about there, Brian. With the work on the API's, I mean, is the expectation that you are expecting more sale – custom sales apps from third parties, or is this more of a Marketing play, but where do you see the most opportunity for some of these third party applications?

Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

A

That's a really good question. I think it's across the board. It started when we first started opening things up a couple of years ago on Marketing, but we're starting to see a lot of activity on the Sales app side. And it's early, but we're starting to see some on the Service side as well. So I think you're going to see integrations across the platform. Some are cross-platform entirely or some are department-specific, but it's starting to pop kind of everywhere, really excited about that. It creates a lot of value with our customers. Like, think of the journey we've been on, and for the first really eight, nine years at HubSpot, we were in the business of selling an application that helped our customers generate leads. And then, we moved to selling a suite of applications that'll help our customers really orchestrate their customer experience and try to improve that. And over time, we want to let our customers not just use our applications, but weave in many, many other applications that they're already using or could potentially use to really create beautiful end-to-end customer experiences that will help them grow better. So we're on a journey here at HubSpot. It's still early, going quite well. I think you're going to see that partner program really pop over the next year or two.

Brad Sills

*Analyst, Bank of America Merrill Lynch*

Q

Great. Thanks, Brian. One more if I may please, just on Sales Pro. Now that it's been sometime since the product's been in the market, the new version, what are you seeing in terms of uptake there and what is the interplay with Sales Pro, with existing CRM application. Is this more greenfield opportunity or is it Sales Pro running alongside what these customers might already be running?

Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

A

That's a good question. Just to remind everyone. We came out with Sales Pro product last November, Chuck?

Kate Bueker

*Chief Financial Officer, HubSpot, Inc.*

A

Last INBOUND.

Charles Tupper MacGlashing

*Senior Director of Investor Relations & Corporate Treasurer, HubSpot, Inc.*

Yeah, last INBOUND

A

Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

Okay. Last INBOUND – no, no no, Sales Pro product, not the Service Pro product, so a year ago.

A

Brad Sills

*Analyst, Bank of America Merrill Lynch*

Yeah, Sales Pro.

Q

Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

Yeah, a year ago.

A

Charles Tupper MacGlashing

*Senior Director of Investor Relations & Corporate Treasurer, HubSpot, Inc.*

November of 2017.

A

Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

Yeah, November of 2017. That thing has gone really well, really, really well. The reps love selling it. The customers are picking it up and running with it. That thing is a very popular product. And most of the time, people are using Sales Hub Pro on top of our CRM. Sometimes people use Sales Hub Pro on top of other CRMs. More and more we're seeing the trend in our installed base, and I think this will happen industry-wide. They kind of – people pick up a platform or a hub and then they use some of our apps and other applications and weave the whole thing together. In some cases, there is mixed environments, but I think the trend will be kind of one platform level partners that you'll build around. So lot of Sales Hub Pro sold with our free CRM.

A

Brad Sills

*Analyst, Bank of America Merrill Lynch*

Great. Thanks, Brian.

Q

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

Samad Samana

*Analyst, Jefferies LLC*

Hi. Good evening. Thanks for taking my questions. Brian one for you and then a follow for Kate. On the expanded AWS partnership I think it was announced in mid 4Q. Can you help us think about how we should think about that impacting the customer funnel in 2019? And could you expand on some of the joint go-to-market efforts and how you think that's going to drive that new customers or if it's already new customers. How should we think about that opportunity and then I have a follow up for Kate?

Q

Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

A

I'm super [ph] excited (00:25:56) about that partnership. We're a big customer of theirs, of course, and we've designed some unique go-to-market things with them. You might have noticed, Samad, that they were a giant sponsor at INBOUND this year and they will be for the next couple of years. They're particularly interested in our HubSpot for Startups track. That's a program inside of HubSpot that's going really, really well. And our HubSpot for Startups team and their AWS for Startups program are working on a whole bunch of stuff that we're doing together that are really interesting and unique that we're starting to get rolled out. So I think that's a pretty cool partnership, really, really excited about it.

Samad Samana

*Analyst, Jefferies LLC*

Q

Great. And then, Kate, ASRPC increased quarter-over-quarter for the first time since 3Q 2017, and kind of conversely, net adds was – it was small, but it was down slightly year-over-year. I'm just wondering can you just help us understand if that's just kind of timing related or just help us understand the seasonality of why if either one should be seen as an inflection. Obviously, they're both doing well, but we're just trying to get some color as we think about modeling forward for 2019.

Kate Bueker

*Chief Financial Officer, HubSpot, Inc.*

A

Yeah. So we're obviously very happy with the customer growth this quarter. We saw continued strength in the growth of our customers from the Marketing Starter, but what we're probably more excited about is that you get sort of a positive impact on ASRPC from a sequential perspective on top of the continued robust growth of the net addition. I don't think we're going to be able to do that every quarter. And as we've said in the past, there will be pushes and pulls at the high and low end of our customer base. I wouldn't view either result as an inflection point for us. I think over the next set of quarters, we're going to continue to see ebbs and flows.

Samad Samana

*Analyst, Jefferies LLC*

Q

Great. That's really helpful. Thank again for taking my questions and congrats on a great quarter.

Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

A

Thank you

Charles Tupper MacGlashing

*Senior Director of Investor Relations & Corporate Treasurer, HubSpot, Inc.*

A

Thank you, Samad.

**Operator:** Your next question comes from Alex Zukin from Piper Jaffray.

Alex J. Zukin

*Analyst, Piper Jaffray & Co.*

Q

Hey guys. Thanks for taking my questions. Maybe just a question on the freemium and low touch customer acquisition strategy that you talked about and deployed in 2018. How you plan to expand on that in 2019 and how do you see that impacting margins in 2019 and beyond?

**Brian Patrick Halligan**

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

A

I can start with that.

**Kate Bueker**

*Chief Financial Officer, HubSpot, Inc.*

A

Sure.

**Brian Patrick Halligan**

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

A

Yeah. One of our big goals this year is to really just match the way we sell, with the way the people buy and part of that is the freemium edition. If you roll back the clock, the freemium edition got started three years ago really on the Sales Hub side of the business and worked real well. And so we rolled it out with the Service Hub products. Just now we're really getting quite serious about rolling that out within the Marketing Hub product. So it's still early days on it, but it seems it's working really well, really happy with that shift to freemium. We want to see this year more and more of our Starter business come in with, frankly, no touch, a little touch or no touch where people can start on the freemium and play around when they get a good feel with it and just buy that Starter without having to talk with sales reps. The company I really admire who is really good at this stuff is probably you admire them too is Atlassian. And we've got the President of Atlassian on our Board, Jay Simons, and they have been very influential on us as we move our model closer to where they are.

**Kate Bueker**

*Chief Financial Officer, HubSpot, Inc.*

A

I think from a margin perspective -

**Alex J. Zukin**

*Analyst, Piper Jaffray & Co.*

Q

Got it. And just maybe- I

**Kate Bueker**

*Chief Financial Officer, HubSpot, Inc.*

A

Yeah. I would say, from a margin perspective, I think we're very bullish at the long-term benefits of the freemium model. I think in the near-term, we continue to talk and look at the unit economics, which remain robust for the company. And so at these sort of returns on our investments, we will continue to invest in our go-to-market on both the freemium side and with our direct and partner ecosystem.

**Alex J. Zukin**

*Analyst, Piper Jaffray & Co.*

Q

Great. And then, just if I could squeeze one in on the competitive environment, what are you seeing from both the larger vendors, Salesforce and Adobe with [indiscernible] (00:30:09) as well as any kind of competition with vendors such as Zendesk and any other small direct competitors coming into the market? How do you see that – the environment kind of playing out and win rates for 2019?

Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

A

We haven't seen a whole lot of change, frankly. We see a fair amount of Salesforce.com and win our fair share of deals. We never see Adobe. They're pretty much upmarket. We see a little bit of Marketo, but they're very enterprisey. The truth of it is our products have gotten really good. We're well positioned in the market. We're unique in the market. Our value prop really pops. Our implementation team does a nice job. And so buying HubSpot, like I remember [ph] start of (00:30:54) the company, 13 years ago, it was pretty risky buying HubSpot. What is this HubSpot thing? Who are this HubSpot guys? And nowadays, man, the value prop is super strong. It's a no brainer to buy HubSpot these days. So feeling good about our position in the market.

**Operator:** Your next question comes from Richard Davis from CG Financial.

Richard Davis

*Analyst, Canaccord Genuity, Inc.*

Q

Hey. Thanks. Maybe just drilling a little bit on Mark Murphy's question. So do you guys – just logically, do you draw a line, kind of a bright line between kind of front office and back office? Because like when we talk to companies, they're like, man, we'd like to be able to get paid, and so that's a financial app, which is oftentimes considered back office. Is that – do you guys say, listen, all we are is front office or how do you think about that? Thanks.

Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

A

Yeah. Hi, Richard. It's primarily we think of ourselves as front office. We have recently added an integration with Stripe. It's nascent, but it's pretty slick. And so it gets a little gray in there, but we consider ourselves a front office platform and we consider ourselves a platform to help people really create remarkable go-to-market motions. So that's how I would think about it. It's a little bit of grayness there on the payment and invoicing, a little bit of grayness on the payment and the proposal layer, but we are a front-office company.

Richard Davis

*Analyst, Canaccord Genuity, Inc.*

Q

Yeah. And then a quick question on the CapEx. You improved that really nicely. Is there a component that we should think about that would improve with our partnership with AWS, because generally you see that happen? Is that something that – so is 8% kind of trend line, should it go to 6% over time or how do you think about that? Thanks.

Kate Bueker

*Chief Financial Officer, HubSpot, Inc.*

A

Yeah. If you think about our CapEx specifically, there's really two components of our CapEx. One is the spend on our facilities and the other is software capitalization associated with our internal development activities. I think underlying your question is really what – we had a very strong free cash flow quarter.

Richard Davis

*Analyst, Canaccord Genuity, Inc.*

Q

Right

Kate Bueker

*Chief Financial Officer, HubSpot, Inc.*

A

The operating performance of the company obviously drove that result, but we did have a one-time benefit in Q4 from the restructuring of the deal we signed with AWS.

Richard Davis

*Analyst, Canaccord Genuity, Inc.*

Q

Got it.

Kate Bueker

*Chief Financial Officer, HubSpot, Inc.*

A

In addition, 2018 was a light year for us in terms of facilities build-outs. And I did note in my opening comments that there is a material build-out in Dublin in 2019 that will help to support our continued growth internationally.

Richard Davis

*Analyst, Canaccord Genuity, Inc.*

Q

Super. Thank you so much.

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

Brian Peterson

*Analyst, Raymond James & Associates, Inc.*

Q

Hi guys. Thanks for taking the question, And so I wanted to hit on the Marketing Starter product a bit. You mentioned that 2x the upgrades this year. How are customers typically on the Starter package before they upgrade to the higher tiers? And does that change at all if they're coming on from self service?

Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

A

Okay, Brian, I'll take that one. The reality of the Starter product is they're pretty small – the Marketing Starter product's a pretty small business until, I guess, July of 2018 when we really shored it up and the big thing we added was e-mail marketing to it and dramatically increased the amount of people using it and the ARPU of that's gone up. So that's a very – in my mind, it's almost like a brand new business starting last summer. We're watching very carefully the trend of how long do they use Starter before they go to Pro and what not, but the reality is it's only – in my mind, it's only a six month old business at this point, so it's hard to say.

Having said that, that is an initiative going on inside the Marketing team, the general manager of our Marketing Hub. It's on his list to really figure out how to get that flow going from free to Starter to Pro and Enterprise. That's not something we had focused on previously on the Marketing side, [ph] needs (00:34:56) really focused on it this year. And I think he'll get that machine rolling.

Brian Peterson

*Analyst, Raymond James & Associates, Inc.*

Q

Got it. Thanks, Brian, and just wanted to hit on linearity. Anything that we should think about in terms of how the quarter developed through December and then anything that's changed thus far in January? Thanks, guys.

Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

[ph] Go ahead. (00:35:16)

A

Kate Bueker

*Chief Financial Officer, HubSpot, Inc.*

Yeah. I think Q4 is probably a little bit unique in that sense because we rolled out some pricing increases as of November 1. So there was some positive benefit to October as a result of some of the pricing increases, but Q4 is generally a very strong quarter for the company.

A

Brian Peterson

*Analyst, Raymond James & Associates, Inc.*

Thank you.

Q

**Operator:** Your next question comes from Bhavan Suri from William Blair.

Arjun Bhatia

*Analyst, William Blair & Co. LLC*

Hey, guys. This is actually Arjun Bhatia on for Bhavan. Thanks for taking the question. Just wanted to touch on your customer profile a little bit. You've talked about going after customers that have about 2,000 employees or in that range. Can you just talk about how your customer profile has changed over the past few quarters as you targeted this larger base?

Q

Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

Arjun, I'll take it. It's Brian. That's a good question. Here's how I – if I just step way back how I think about it is we have three segments inside of HubSpot. We have the small business segment, which is kind of between, call it, 2 employees and 20 employees; mid, which is 20 to 200; and Enterprise, which is 200 to 2,000. And historically, our sweet spot's been at that middle layer, the Pro layer, 20 to 200. And I would say we've got kind of perfect product market fit in there, product that we give an A or go-to-market, everything is really nice.

A

What we've done over the last 12 months is really invest below that in the 2 to 20 and above that in the 200 to 2,000. So I would give our product market fit, for example, two years ago in those two layers maybe a C. And I don't know if we're an A yet, but we're getting closer and closer to an A on the Starter layer and the Enterprise layer.

In terms of the median and mean employee size, I haven't looked at it recently, but it hasn't changed materially. The products have gotten stronger up on both ends. And they kind of push and pull on the metrics. And you see some of that in some of Kate's remark.

Arjun Bhatia

*Analyst, William Blair & Co. LLC*

Yeah. That's helpful. And then just on customer expansion trends, how should we think about the dynamic between what's driving customer dollar expansion between increased usage, tier upgrades and maybe multiproduct adoption?

Q

Kate Bueker

*Chief Financial Officer, HubSpot, Inc.*

A

Sure. Why don't I take that? I think what we have said about retention is that we think over the long term, retention can stay above 100%. We did see that retention in Q4 was above 100%. Customer dollar retention remains in sort of the low to mid-80s for the company. I think the big contributor to the increased retention overall were the upsell, the addition upgrades that we've been seeing as well as continued cross-sell into the installed base.

Arjun Bhatia

*Analyst, William Blair & Co. LLC*

Q

That's very helpful. Thanks.

**Operator:** Your next question comes from James Rutherford from Stephens, Inc.

James Rutherford

*Analyst, Stephens, Inc.*

Q

Hey. Good afternoon. Wanted to start and [ph] get at (00:38:29) the omni go-to-market strategy around Service Hub. I know you're beginning to develop the channel partners there, but just curious if you lean more on direct selling into 2019 or if you kind of think you've gotten the channel to a place where that's going to be a big sales motion for you all.

Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

A

Yeah. I think the reality is when we come out with this new hubs, our direct sales force grabs and runs with them pretty – very fast. It takes us a little longer to get that into the partner channel. Some of the partners are selling full stack and they sell Sales and Marketing and Service, the whole thing together. Some of the partners are really marketing agencies and they always want to be marketing agencies. So I think out of the box probably in 2019, a little bit heavier push on the direct side, but over the long haul, I think it will look pretty similar to the Sales business and the Marketing business.

James Rutherford

*Analyst, Stephens, Inc.*

Q

Okay. Thanks. And then one more if I may on the market. I'm just curious your read on small business sentiment and the health of that market. Seems to be very positive based on the revenue guide, but just hoping you can provide some commentary on SMB appetite to invest in new software, both domestically, but perhaps more importantly, on your international markets? Thank you.

Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

A

I think that's an excellent question. I haven't noticed any change. I sit on the sales floor here at HubSpot and I talk to the reps a lot and I talk to prospects and customers a lot. I just haven't seen any pullback in demand or hedging with budgets that's unusual or we're worried about recession. I mean it doesn't mean it's not happening, but I haven't heard it really at all so far, feels solid.

James Rutherford

*Analyst, Stephens, Inc.*

Q



Thank you, very helpful.

**Operator:** Your next question comes from Ross MacMillan from RBC Capital Markets.

**Ross MacMillan**

*Analyst, RBC Capital Markets LLC*

Q

Thank you and my congratulations on the re-acceleration of growth. Maybe I can start with some of the changes you made around pricing. I think there are three main ones; Marketing, Hub, Enterprise, there's a price increase, the Growth bundle that you introduced, the Growth Suite bundle, and then the elimination of Basic. Brian, I'm just curious, if you think about those three things, which ended up having the kind of biggest surprise to you in terms of impact on the business and maybe you could explain why?

**Brian Patrick Halligan**

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

A

I don't know. They're all pretty similar. I mean the Marketing Hub, you had a good November because we're going to raise the price, but we do that a lot in Q4 every year with the different products. I think that'll – I think we got to the price point that the market kind of expects in there. I think we're in good shape there. I think the Growth Suite work. We're getting a ton of Growth Suite business. It's really encouraging to see. It was like [ph] Ville (00:41:23) I talked about in the opening remarks where he started with Marketing and then he added Sales and then he bought the full Enterprise Growth Suite. I think we're going to see a lot of that.

Eliminating the Basic, I feel good about that that Basic product was a little awkward in there. It wasn't packaged quite right. There was sort of a heavy touch sale involved with it. So I like the fact that we've got the Starter in there and the Pro with a heavier touch. So I wouldn't say any of them really caught us by surprise. Would you...

**Kate Bueker**

*Chief Financial Officer, HubSpot, Inc.*

A

No, I agree. Yeah.

**Brian Patrick Halligan**

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

A

Yeah. They're kind of as expected. Yeah.

**Ross MacMillan**

*Analyst, RBC Capital Markets LLC*

Q

I guess, specifically on Basic, did you see a good trade-up effect to Pro versus a trade-down, if you will? Was that a good outcome in terms of that Basic price point?

**Brian Patrick Halligan**

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

A

Kind of a mix. If you're using Basic, we're pretty aggressive grandparents, so grandparent people in pretty aggressively.

**Ross MacMillan**

*Analyst, RBC Capital Markets LLC*

Q

Yeah.

Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

A

But if you're coming now and you normally would have bought Basic, you're seeing some go to Pro and some go to Starter. It's sort of wash, frankly, when we peel back the numbers.

Ross MacMillan

*Analyst, RBC Capital Markets LLC*

Q

That's helpful. And can I just add one other one just on platform.

Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

A

Sure.

Ross MacMillan

*Analyst, RBC Capital Markets LLC*

Q

If I am an existing customer and as we think about platform, is this just that I'm going to have access to a set of third-party applications that I can plug-in through APIs or is there something else that I will experience as a customer as you make this journey from Suite to platform?

Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

A

Yeah. I think, over time, this will be a big change, Ross, where if you looked at HubSpot two years ago, pretty much people used HubSpot with HubSpot. They didn't really have it connected to anything else and it was a pretty monolithic [indiscernible] (00:43:09) standalone application.

If you look at our real good customers today, maybe someone who's using the Pro suite, man, they're plugging all sorts of other applications into HubSpot in a really cool way, whether it's they're plugging Slack in, they're plugging Eventbrite in, they're connecting their WordPress website. They've got all these different applications that they're plugging in. And the way they're going to be able to do that is very powerful.

Like, traditionally, HubSpot, we've managed the data inside of HubSpot, we've managed the workflow between your different HubSpot applications and we've reported on all that stuff inside of HubSpot. Imagine in the future, we'll manage the data from all your front office applications. And you'd be surprised how many front office applications people use. We'll manage the workflow across all of those applications and then we'll report on all the things happening in there. And so it's a non-trivial shift that's going on inside the company and the value prop for our customers and it's already started. And I think it's going to be a big tailwind for us over the long haul.

**Operator:** Your next question comes from Scott Berg from Needham & Company.

Ryan MacDonald

*Analyst, Needham & Co. LLC*

Q

Hi. This is Ryan MacDonald on for Scott Berg. Talking more about the platform approach going forward. As you're looking at sort of net new customer opportunities, does there actually then have to be a shift in the selling motion at all for those customers to sell the platform approach? And if so, is there a prioritization that goes into sort of those three core modules, given the existing selling motion?

Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

A

Yeah, the selling motion hasn't dramatically changed yet. There's some small incentive tweaks we're making to try to encourage some folks in our organization to really encourage our customers to use HubSpot writ large, not just our applications but really use it to manage the whole customer experience. We'll probably lean into harder in 2020 as the platform gets more developed, as our marketplace gets more developed, as our APIs gets better.

The thing about the platform that's interesting is there's three ways it kind of comes to life. One way it comes to life is we'll build an integration, like we built an integration to Slack or Stripe, for example. The other way it comes to life is there's lots and lots of little applications out there, sales and marketing applications, where they're using our APIs, the same APIs, to integrate their products. And the third is there's lots and lots of our partners and customers who have relative advanced use cases who want to just build functionality using our APIs today. So it's really opening up a lot of opportunity to expand the value prop for us.

Ryan MacDonald

*Analyst, Needham & Co. LLC*

Q

Got it. And then just one quick follow-up on Sales Hub. I think last quarter, you talked about that most of the adoption was really around net new customers or that had been sort of the early trend there. Can you talk about if that's still sort of remained the trend or if you've been able to drive more upsells or if there's any initiatives in place to sort of switch that focus?

Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

A

I think it's a nice combination of new and cross-sell. There's a lot of cross-sell going on with that, okay. I'm using the Marketing Pro product. I'm interested in that Sales Hub product. And there's definitely some upsell too where I'm using that free CRM and, oh, I could use the Sales Starter, oh, looks like Sales Pro might be a good fit. So, it's kind of coming in from three different directions on it. That Sales Hub product's [ph] done (00:46:46) remarkably well for us.

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

Jeffrey Parker Lane

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Hi. It's actually Parker Lane in for Tom. Thanks for taking my questions. So as we think about the move into new markets, like Columbia and then the Paris office opening this year, is much of your early momentum in these markets sort of on the free and the Starter program and then it starts to move upstream to Professional and Enterprise as your channel starts to grow and the awareness of HubSpot builds or is it sort of whole hog early days? And then, has there been a substantial mix shift towards net customer growth in international market? Has it held pretty steady between international and domestic? Thanks.

Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

A

[ph] I'll get (00:47:29) into the first one.

Kate Bueker

*Chief Financial Officer, HubSpot, Inc.*

A

Yeah.

Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

A

I would say Columbia and Paris, those are two markets. Columbia is really the hub for Latin America. We've been in Latin America for a long time with a very small direct sales organization and an agency partner organization. We've been selling into Paris and Dublin for a long time. It's sort of similar where we've got some direct sellers in there and some agencies.

The way that they typically goes when we enter a new office is that market is, let say, and this is a rough number, 70% of the revenue coming out of that market is through partners, agencies, and 30% is direct. When we open an office, they both grow, but the direct tends to grow a little bit faster and the mix will shift a bit over time. And I think over time, France and LatAm will get to 50/50-ish is my guess. But, yeah, I'm excited about both of those. We get a lot of business out of Paris and a lot of business out of Latin America. I think we can turn up the volume in both those markets.

Kate Bueker

*Chief Financial Officer, HubSpot, Inc.*

A

And on the mix of products in new versus installed base selling, domestic versus internationally, they're actually pretty similar, which was a bit surprising to me at the beginning, but they track each other quite closely.

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

Jennifer Swanson Lowe

*Analyst, UBS Securities LLC*

Q

Great. I actually wanted to ask a question to Kate about just [ph] repricing (00:48:50) through the operating margin guidance and the ASC 606 impacts. And I think you had said that looking at 2018, there was about 1 point of core expansion and then 3 points benefit for ASC 606. Looking at 2019, it sounded like there's sort of 2 points of core with the 1 point of offset from ASC 606. And so just sort of focusing on that cash basis, the point of expansion last year versus the 2 points, assuming I understood that correctly, next year, how should we sort of think about that, because clearly, there's still a lot of investment going into the business? Are you sort of managing around the optics of the ASC 606 number and that's how we should be thinking about it? Or – I guess I'm just trying to piece through – it sounds like a bit less incremental cash investment once you pick through the pieces there?

Kate Bueker

*Chief Financial Officer, HubSpot, Inc.*

A

Yeah. I would say – so two things. One, you have the dynamics of 606 correct. So when we adopted the 606 standard, we chose not to go back and restate our historical results, which means that when you look at 2018, there's about \$16 million of commissions expense that we would have under the old standard expensed through the P&L that we capitalized and we'll amortize over a period of two to three years. In 2019, we will continue to capitalize commissions expense, but we'll start to see some of the expense from 2018 flow through the P&L. So net versus like a status quo, there was some benefit, but there's a headwind to margins year-over-year. We aren't managing around 606 per se. We actually look at the financial framework that we've laid out around growth and profitability and we invest to make sure that we're aligned to that framework over the long-term.

Jennifer Swanson Lowe

*Analyst, UBS Securities LLC*

Q

Okay. That's helpful. Thank you.

**Operator:** Your next question comes from Michael Turrin from Deutsche Bank.

Michael Turrin

*Analyst, Deutsche Bank Securities, Inc.*

Q

Hey. Great. Good afternoon. Thanks. I was hoping we could spend a minute on the upmarket opportunity and some of your observations around how having the broader suite of Enterprise products could be influencing that opportunity set, as well as whether that's also adding the potential for you to maybe hold on to some of the existing customers even longer? Thanks.

Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

A

I can take that, Michael. Thank you. I think the upmarket opportunity is interesting. I just kind of want to caution, when I say upmarket, I'm really talking about what most people will call mid-market, company between 200 to 2,000 employees. There's a lot of them out there and they're buying HubSpot. They're really seeing the value in it. And at INBOUND, we announced some new features in Marketing Hub that they liked. There's more new features coming there. We come with a Sales Hub Enterprise, which is a good product, and that Service Hub Enterprise. So we're expecting that segment, the 200 to 2,000. We're expecting it to perform well and to get some really nice traction over time. We're closing some nice deals there, but we're not doing the traditional, hey, let's go upmarket and compete with Oracle and SAP and Salesforce and Adobe, and a lot of those larger companies. We think the opportunity for HubSpot is in that mid-market to build a big, big, big company in the middle where those companies are underserved and we want to bring really sophisticated, powerful technology to them and make it simple for them to adopt and grow their business.

Michael Turrin

*Analyst, Deutsche Bank Securities, Inc.*

Q

Yes, understood. That's great. Thanks, guys.

**Operator:** Your next question comes from Derrick Wood from Cowen and Company.

J. Derrick Wood

*Analyst, Cowen and Company*

Q

Great. Thanks. Kate, as you, I guess, dovetailing on that, as you guys focus more on selling your Enterprise versions and going up into the mid-market, are you finding any shift in invoicing structure? And I guess, specifically, are more deals being invoiced annually? And if so, how should we think about the impact on overall deferred revenue growth?

Kate Bueker

*Chief Financial Officer, HubSpot, Inc.*

A

Yeah. We haven't seen a material shift in the composition of our installed base of customers around contract or payment terms. I think that frankly stems from the fact that as we're going upmarket, we are also going down-market and so there is a balancing act that's happening.

J. Derrick Wood

*Analyst, Cowen and Company*

Q

Okay. And then curious on your guidance for Q1, it implies about 2% sequential growth. And if you look historically it's typically been a decent amount higher than this. Are there some puts and takes you're considering for Q1 this year that may look different than past years?

Kate Bueker

*Chief Financial Officer, HubSpot, Inc.*

A

Yeah. I think there's probably a couple of things to talk about. Obviously, we're feeling good about our guidance coming off of a strong Q4. And we've taken a very similar approach to guidance as we have in the past. A couple of things from Q4 to Q1, one is currency, which we've talked about at length in the prepared remarks, but there's a headwind from Q4 to Q1 on the currency side. The other thing I've noted is what's happening in the services business. We talked about Q4 as being a particularly strong quarter for our – not our Service Hub, but our services business and we do not expect that to repeat in Q1.

J. Derrick Wood

*Analyst, Cowen and Company*

Q

Okay. Thank you.

**Operator:** Your next question comes from Stan Zlotzky from Morgan Stanley.

Hamza Fodderwala

*Analyst, Morgan Stanley & Co. LLC*

Q

Hi. This is Hamza Fodderwala in for Stan Zlotzky. Thank you for taking my question. Just a couple of quick ones from me. As you move into larger customers, as you talked about earlier, are you seeing any material changes or elongation in your overall sales cycles?

Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

A

I can take it. I think what you're seeing inside of HubSpot is up in that 200 to 2,000 segment, it's probably getting a hair longer, but 2 to 20 segment, it's probably getting a hair shorter, and overall, it's staying pretty similar.

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

Eric Lemus

*Analyst, SunTrust Robinson Humphrey, Inc.*

Q

It is Eric Lemus on for Terry. Thanks for taking the question. Brian, I wanted to touch on something you said in your prepared remarks and on an earlier question, talking about handling the workflow and reporting on the entire experience. So as the product suite start to progress and you gain more customers, more in that Enterprise market, how important is to have a deeper reporting or analytics types tool? And then, as you look at the overall roadmap, how would you prioritize reporting and analytics in the future?

Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

A

Eric, I think it's very important. In fact, we just had a meeting about that this morning. We were talking all about reporting [ph] and the (00:55:30) analytics. I would say we're good at it. I think there's an opportunity to get great at it and have a lot of value for our customer. We've got a good sized team working on it and we hope to make a bunch of progress in 2019 on it. I'm glad you asked about that.

**Operator:** Our next question comes from Kirk Materne from Evercore.

Peter Levine

*Analyst, Evercore Group LLC*

Q

Great. Thanks. This is Peter Levine in for Kirk. Just one quick one follow-up here. You talked about the initiatives in your channel partner. Can you maybe share with us any updates on any notable partners you've signed that are outside of your traditional marketing agency network? And then for Kate, if you can, can you tell us the percentage of revenue contribution that come from channel partners? Thanks.

Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

A

I would say the mix has been shifting over time and it used to, obviously, 100% marketing agencies; website designers, SEO consultants, folks like that. More recently, we've signed up a lot of – there's a whole slew of companies out there that all they do is implement CRM system. So we signed up a bunch of those folks. I think we've signed up a bunch of folks who implement G Suite and Microsoft Office, folks like that, a little more technical. And let's see, and then we've signed up a lot of ISV partners, partners that are building – integrated into our API and building extensions on HubSpot that are pretty interesting.

So, yeah, the partner profile's changed. Like HubSpot, we said a few years ago on calls like this, we're shifting from an apps company to a suite company, and we're very much a suite company today, and the partner channel's evolved alongside us. And they're probably half-step behind our direct org, but they're right there and doing quite well.

**Operator:** There are no further questions.

Kate Bueker

*Chief Financial Officer, HubSpot, Inc.*

A

Just to answer your second question, about 40% of our revenue comes from partners.

Charles Tupper MacGlashing

*Senior Director of Investor Relations & Corporate Treasurer, HubSpot, Inc.*

A

Yeah, which is flat with where it was in the third quarter.

Brian Patrick Halligan

*Co-founder, Chief Executive Officer & Director, HubSpot, Inc.*

All right. Thanks, everybody, for joining the call. Talk to you soon.

**Operator:** This concludes today's conference call. You may now disconnect.

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