Moderator: …delighted to have HubSpot here. We have CFO Kate and Chuck MacGlashing. So maybe just to start out with, we get a lot of questions about the macroenvironment, the demand environment, it's just some companies in your sphere talk about Europe in kind of different ways. How do you feel about the demand environment right now and how does it feel different or similar to either early this year or last year?

Kate: So the demand environment is obviously critical so we pay very close attention. I think the good news is we haven't seen any change in the demand environment. We continue to see both in the US and abroad a very strong demand for our products.

Chuck: I don't know. I mean there were some people that I think called a few things out in Q2. It seems like there's been a bit of a different message in Q3. And so, the case point, like we pay attention, no major changes that we call out.

Moderator: And what about the competitive environment?

Kate: I think, and Brian likes to say it like this has been a competitive market for a very long time. We sort of think about our business in three segments. We have sort of the small business segment, let's call it companies that are 2 to 25-ish employees, we have a mid-market that is 25 to 200, and then we call enterprise companies that have 250 to 2000. And the competitors are different, but each of the segments is competitive.

At the high end we continue to see the same people that we've always seen. Salesforce is our biggest competitor and we continue to see them and most deals in that enterprise segment. At the low end there are always new entrants in that market and we feel like we compete very well down there. But it's a competitive world, but we feel good about our ability to win.

Moderator: So demand environment, great. Competitive environment unchanged. Talk about what happened in Q3 and kind of coming out of Q3 how you feel with respect to where you are with those initiatives.

Kate: So we spent a lot of time on the call talking about a couple of things that frankly missteps that we made over the course of 2019. I think the good news and the bad news is they're under our control. The one we spent a lot of time frankly talking about is hiring. And early on in the year, we got behind on hiring across the board. We clearly noticed it in Q1. We tried to do some things to fix it. They didn't necessarily work all that well.

And so, in Q2 we doubled down again on the focus there and we did a couple of things. One is we frankly just increased the capacity in our recruiting organization. And the second thing is we really changed the way that that organization operated, to be very data-driven, very metrics driven. We track a pipeline very much how we do track a pipeline on the sales side. And we've seen over the course of Q3 a real turnaround on that front. You saw our hiring trajectory increase in Q3 to 24% year-over-year from 20 in Q1 and Q2. And we think we'll be in a position to be back on track to our original hiring plan by the end of the year, which is great.

Well, we are also cognizant of the issue and are doing the things internally to make sure that we don't put ourselves in the same position in 2020. So we have a very concrete Q1 hiring plan that has already rolled out across the teams and with the recruiting team and we're executing against that and we feel good about that. The bad news there is that it creates some pressure on margins, which we all have also talked about on our Q3 call. I think it's the right thing for the long-term growth of the business, but it will create some pressure in the short-term on our operating profit.

Moderator: And so on that point, maybe talk to what you said with respect to margins on the Q3 call going out to the next year or whatever comments you made. And then subsequent to that you guys also did some M&A. So what's the right way for just people to just generally think about it?

Chuck: I mean I think if like to case point, if we back up, we talked about the intention is to catch up in Q2. That didn't happen. We reaccelerated to 24% growth in Q3 which was good news. October closed quite strong from a hiring perspective. And the commentary on the call was that ultimately we feel good about the trajectory of hiring, in some cases even better than we did coming out of Q2. We'll be caught up by year end.

And so, the incremental expense that comes with that in that capacity is going to pressure profitability in the short-term. And then when you add to that our PieSync acquisition, which I think you'll probably ask about at some point, that comes with incremental OPEX, but no revenue. And so, I think that's largely what's changed since we originally talked about our profitability profile of not delivering any leverage coming out of our Analyst Day in September.

Moderator: And so, I'll give you one pushback, which is, I think a year ago you put out a growth margin framework.

Kate: Yep.

Chuck: Two, two years.

Moderator: Two years ago you put out a growth margin framework. It doesn't appear that we're going to be in those ranges because some of these issues. How do we think about it? What's the takeaway?

Kate: That framework I think is really still the right grounding point for people. If you look at the performance that we have delivered over the last couple of years, we have delivered much more leverage than would have been implied by that framework. And the framework frankly is meant to be a long-term framework. So over a little bit of a longer term, I think you will see us deliver against that. I don't think you should expect that is going to happen linearly.

Chuck: When you think about the line items, too, Alex, gross margins are firmly within our long-term target of 81 to 83. R&D has moved up from the low to mid-teens to the mid to high teens, which is where we'd like to keep it. GNA I believe is 11%, so kind of line of sight to 10 and it's really S&M that is the key variable for the way that we think about leverage. And, to the point we've made, we got behind in the first part of the year, delivered more leverage than the model would've called for. We're catching back up. There'll be some pressure as a result, but I think we still feel quite comfortable about that framework and our ability to deliver leverage through those bands of growth.

Moderator: You talked a little bit about margins. Let's shift the topic to growth. What do you feel like are the more – I'll ask you this question because I like to say what are the most exciting, are you most excited about from a growth perspective? You're the CFO, you're going to tamp down expectations, but what…

Kate: Wait till you hear him.

Moderator: …are the growth – what are the growth tailwinds that investors should think about and what should people that are going to buy your stock today or tomorrow be excited about for next year from a growth profile perspective?

Kate: Do you want me to start or you want to start?

Chuck: I'll start. I mean I think I'm most excited about the diversity to the drivers of growth. Like if you rewind back three to four years ago, we were a single app marketing application company with three flavors with an inside sales team and a partner channel that sort of turn deals over a 30 to 40 day time horizon. You fast forward to today and we've diversified our go-to-market such that two-thirds of the net new business that we generate today is a function of people that start on a free version of our product and then upgrade into a paid version of the product, so I think that's quite exciting.

We have a marketing hub business that while our most mature product, we still feel as though there are needle moving features and functionalities that we can drop into that particular hub up market that that will matter for customers for years to come. And so, we're quite excited about the roadmap in 2020 and ultimately what that's going to mean for growth.

Our sales hub business is, we called that out on our Analyst Day, $100 million business, growing about 100% on a look back basis. And quite frankly, like that's been really the result of strong growth out of the professional edition to that product. As you know, we introduced an enterprise version of that product last year and we have plenty of feature and functionality requests from our customers around advanced reporting and attribution customization; a bunch of different areas there that we're working on that give us confidence that the product roadmap is going to matter and continue to drive strong growth there.

And listen like the service on product has been great out of the gate. It's on a trajectory that is surpassing our sales hub products, $14 to $15 million in ARR as of September. And what I'd say there is like it's done that as a good product. But we have aspirations for it to be a great product over the next 12 to 18 months and there are things around our ticketing system, our knowledge based feedback areas of that application that feel to us like it's going to put us in a position to really grow that hub quite strongly. _____.

Kate: I guess I've got to echo Chuck's point. We think there's a lot of opportunity within the existing hubs. We feel like we've addressed some of our operational issues and that should help throughout 2020. And then I think over the longer term we have other innovation, whether it's more hubs or innovation on the platform that we think can provide incremental length of growth.

Moderator: And then if we think about the ability to grow within your existing customer base versus net new, you guys have been putting up some really good kind of net retention stats that have been kind of at or above 100% now for a couple of quarters it feels like. What's the right way to think about the base, going in and selling into the base with some of those products versus net new in terms of the…

Chuck: I mean I think what you've seen is that we've seen a bit of an ebb and flow in terms of the amount of new business that we sell and the amount of install base that we're selling into. And it won't surprise you that when we're introducing new products, particularly at the low end, over the last year to 18 months, we've seen a nice uptick from an edition perspective. And then as those products and those additions mature within the base, we tend to see more install based selling, particularly in the back half of the year.

And so, like the goal is to have a net revenue retention level that is at or around 100% with the ability for it to move up over time. But we're also quite mindful of the fact that there's still a lot of greenfield opportunity out there. Our mission statement is to help millions of organizations grow better. We have 68,000 paying customers, 400,000 or so free CRM users, and so we still feel like there's a lot of opportunity to go after a lot of net new.

Kate: I agree. And actually it's one of the places that I've been most sort of surprised in the transition from more of an enterprise company to an SMB focus company. The amount of…

Moderator: More outcome. More of an SMB focused company to an enterprise focus company.

Kate: No. So I came from Akamai. It was a very enterprise-focused company and the vast majority of new bookings were install base. I think there's a set of capability and assets in new customer acquisition that exist in HubSpot that are pretty unique.

Moderator: Got it. And so, if we take, kind of bridging some of those comments to the shape of growth next year, given some of the later hiring trajectory and given some of the FX math, maybe walk us through just how do you think that kind of matriculates into the model; that efficacy productivity from a bookings perspective and then where do you see that FX impact being actually a tailwind to the numbers next year?

Kate: I just dream of a day when FX is going to be a tailwind to my revenue growth number, but I'm not sure we're there yet. So we talked about the fact that we've been able to reaccelerate hiring throughout Q3 into Q four into Q1. There's obviously a lag from hiring to productivity and that will happen over the course of the first half of the year. And then it will take a bit of time to translate bookings into revenue. So I think there's a bit of a lag in terms of the impact on the top line growth into 2020. Unfortunately there's not a bit of a lag on the cost side of the equation, so there's the quarterization[sic] next year is likely to be a little bit – require a little bit of interpretation. That said, I think over the long-term we're making all the right choices.

Moderator: I thought the results of some sort of an FX kind of, not adjustment, there's some potential upside from FX kind of tapering off or did I mishear that.

Kate: We had a big headwind from FX in 2019 and it was more acute in the first half of the year than it was in the second half of the year, although it got worse for us as the year went on. We had a full three points of headwind in Q1 and Q2. Q3 and Q4 looks more like two-ish going into next year. You will still have some, given where the exchange rate sit today, you'll still have some headwind in the first half of the year. It should normalize to sort of be equal in the back half unless things change. But who knows.

Chuck: Basically if spot rates hold we're looking at about a point of headwind to 2020 growth and with no headwind in the fourth quarter, just given the math rate.

Moderator: So just the last point on this. In terms of the lag to bookings of the productivity of six months, should there be a little bit of greater seasonality in terms of second half billings versus first half billings as a result of that bookings, I would say trajectory?

Kate: I think all else being equal, you would be right. There's obviously a lot of factors that go into bookings outside of just the pure sort of sales capacity. Demand is clearly one of those. New product introduction, clearly another. And so, yeah.

Moderator: PieSync. It's a fairly decent size acquisition for you guys. Maybe just walk through what are you most excited about there and how you see that impacting next year?

Chuck: Yeah, maybe I'll start. So we just closed up the acquisition a couple of weeks ago, actually the day before we reported key three results and a $26 million acquisition really with no revenue, but some OPEX as we've talked about that'll begin to flow through the model under the fourth quarter into 2020.

But listen, I think we're quite excited about what it is. So what PieSync is, is it's a data synchronization engine that essentially moves information between third party applications. And that matters for us because of the investments that we've been making around our third party ecosystem of applications in our attempt to move more towards a platform.

And so, 94% of our customers use at least one third party integration through our APIs. The average customer actually uses more like four to five applications. And one of the big pain points for them is that when you're using these third party applications, getting the data to move back and forth between HubSpot in real time and synchronize it is a big problem. And traditionally they've used essentially like single direction iPaaS platforms to move data back and forth, which of course takes a lot of manual effort.

And so it's early. It's a relatively small company, but it's a really hard technology, too, and just a technology that we didn't have a lot of institutional knowledge around. And I think it fits squarely with where we're taking HubSpot from a platform perspective and solves a big pain point for our customers.

Moderator: And then more broadly, I mean we talked a little bit about new hubs, new products. What's the right way for investors to think about your approach to organic versus an organic innovation, particularly as we think about the opportunity to layer in a lot of new hubs?

Kate: Yeah. So one of the things that we get feedback consistently from our customers is that the sort of ease of use of HubSpot as a product is a critical selling point. It's easy to get started. Whether you're using the marketing hub, the sales hub or the service hub, that single user interface, a single customer view make onboarding new people to the platform easier. It makes the skills much more transferable across the end customer. And so, we're very cognizant not to upset that balance.

And so, what you've seen historically is that most of the innovation at the company is done organically with really an eye to preserve that sort of single user interface. I think PieSync was nice for us in the sense that it brought in a really difficult technology to build in a way that frankly doesn't disrupt that user experience at all. So that was a nice aspect to that acquisition.

That said, I think as we continue to grow and as we recognize that there are opportunities to deliver value to our customers outside of the sort of core suite that we have today, we will need to evaluate whether we can deliver that value faster and better through acquisition versus through internal build. And we will certainly introduce new hubs that are developed internally, but I believe over time we will also introduce new hubs that are enabled through M&A.

Moderator: I'll open it up to the audience. Let's see if anybody has any questions.

Q: _____. Can you say from like an integration perspective or code or technology, like what needs to happen in order for that to be successful as intended?

Kate: So today we are continuing to operate PieSync independently. You can buy it on our marketplace. Over time we are going to integrate the technology onto the HubSpot technology stack, but it's in a way that doesn't disrupt the customer experience. And I think you will see that capability materialize in our existing suite of products.

Q: Going back to the first question in terms of the investments you're making in sales and marketing and _____ pressure this year, is that more of a timing thing that you would have had more revenue throughout the course of the year or they're really like upsized investments you're making in sales and marketing in terms of infrastructure, recruiting? Like that really pressure…

Chuck: Yeah, I mean I don't think we were entirely explicit on the Q3 call to say how much it impacted. I think Brian said that it was his belief that there was an impact a bit in Q3, more so in Q4, just given the nature of the fact that we were caught up on reps that were productive through the first half of the year. Like you hire in the first half, you hope to have them productive in the back half. And so, that's basically the phenomenon that we're experiencing here where a little bit of an impact to Q3, more in Q4.

And then to Alex's question, yeah, it's unclear to us as to ultimately what it means for growth in the first quarter just given that we're going to have capacity in place, but it tends to be a seasonally weaker demand quarter for us than environment quarter, like it is for a lot of businesses. Like you see the inflection into yearend and then things tail off post the holidays, so we'll have to see.

Moderator: So maybe a good time to touch on the Mainsail initiative and what drove that initiative and how you see that really changing the way that you take products to market.

Kate: So, unfortunately I've talked about the fact that we had an incident or an outage at the end of Q1 a number of times over the last six months. The company really internalized the impact that that outage had on our customers and tried to foundationally change the way that we approached the way that we did development in order to minimize the chance that something like that outage would happen again. And there were a number of – through that became – we sort of like to use nautical references internally and so we called it the Mainsail. And the components of the Mainsail include security, reliability, speed of the application, and the usability of the application for end users.

And so, we took the hundred plus engineering teams that work across the product and we put them under the Mainsail initiative and they needed to reach certain thresholds of performance against all of the Mainsail components in order to sort of come out and start to do really new feature development and release. And I think it had two positive impacts. One, I think there were some underlying, I don't know, dust, like under your bed that you cleaned up and the overall performance of the product is materially better today than it was six months ago. We start to see that in our NPS scores that are sort of coming up week-over-week.

The other thing that I think it did is really changed the mindset of our engineering teams around how they do new development work so that when they're releasing product, it is already fast. It is already easy and logical in terms of the workflows for the end customer. And so, it was certainly, I think a bit of a slowdown in terms of new feature releases in 2019, but I think it can translate into an acceleration of how we innovate in 2020 and beyond.

Chuck: The only things I would add is what we've said on the call was 50% of our teams have moved up to those thresholds and have begun to ship new features and work on new feature development. We have line of sight to the vast majority of teams being out of Mainsail exiting the year. But I think a point worth making is that it's not as if like we put people into this Mainsail initiative, they reach these thresholds, and then it's just back to new feature development and we lose all of the learnings that came with Mainsail.

Ultimately this is hopefully going be, for HubSpot anyway, a new way to sort of think about the way that we build and ship product going forward. And to the extent that teams and their performance drop back to a certain level, they'll go back into the Mainsail and focus on areas before they're able to come back out and build new features. And so, I think that's an important point that we don't want to lose as a company and to Kate's point end up in another situation where we have a major product outage.

Moderator: Maybe just a one question that actually just came to my mind was around you've talked about hiring, but I think you're also still in the market for a new head of sales and leader for the company. So a) does that create – you're going into your biggest quarter. Is that risky? Is that something you're worried about? Is that something that we should be thinking about and cognizant of from a conservatism perspective in your guidance? And b) what are you looking for, when do you expect that to be filled, and how should we think about that for next year?

Kate: So there's been a real rally of the troops around the filling the gap from the absence of a sales leader and Brian specifically has been acting in that capacity while we search for a new CCO. I think the comments that Brian made on the call for Q3 are that we believe we're very close. We've been very pleased with the quality of people interested in joining HubSpot in that role and hopefully we'll have something to announce soon.

Chuck: I mean I think the risk would be that somebody came in, in Q3 and wanted to change a bunch of stuff up, and to your point, the seasonally strongest quarter of the year and that's not happening. I would suspect that whoever we announce would come in and spend a fair amount of time listening and learning about sort of what's worked in areas of opportunity and sort of build on that in 2020, so.

Moderator: We have a quick, rapid fire question for the last one given we have a minute left. If you had to rank order the importance of that ____-like freemium messaging versus the opportunity for international expansion in terms of impacting your growth rate over the next three years.

Kate: I don’t think they’re unrelated to one another.
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Chuck: That _____ choose between our two kids.

Moderator: I know. I had the same thought.

Kate: I don’t think they’re independent questions. I actually think that the freemium model can be a tool that can help drive growth outside the United States in markets where we potentially would not be able to be successful in our historical model. So I think the two are related.

Moderator: Which geography is it?

Kate: More of the emerging markets.

Moderator: Chuck?

Chuck: That’s great, great answer.

Kate: Chuck doesn’t like to choose between _____

Moderator: Perfect. Thank you guys.

Chuck: Appreciate it, Al, thank you.

Kate: Thank you.

END