



## HubSpot Inc

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**Mark Murphy:** Good morning, everyone. Thank you so much for joining us. I am Mark Murphy, Software Analyst with JP Morgan. I am very pleased to be hosting HubSpot CEO Brian Halligan, CFO Kate Bueker. I believe Treasurer Chuck MacGlashing is lurking in the shadows, in the background somewhere. Hello to you as well, Chuck.

The plan here is, I'm going to kick it off with a handful of questions, but we can also take questions from the audience. The way you would do that would be by clicking the Q&A button that you would probably see at the bottom of your screen there, and then you would type in your question.

We believe you can do that anonymously, and then I will be able to pose those questions to Kate and Brian. Again, Kate, Brian, and Chuck, thank you for joining us. Maybe we could begin with just the very quick version of yourselves and HubSpot for the benefit of anyone in the audience who might not be familiar.

**Brian Halligan:** I can start. Nice to see you all. Brian Halligan. I'm the company-founder and CEO at HubSpot. We started the company 14 years ago. The basic thesis behind the company was that humans were changing the way they shop for products, made decisions, bought products online, particularly B2B businesses were changing that. There was a shift underfoot.

Instead of using old-school, outbound marketing techniques, so cold calling, spamming people, doing trade shows and doing advertising, we imagined a new way to do marketing.

We called it inbound marketing, to try to match the way you go to the market with the day people actually shopped and bought, pulling people in from Google organically, from social media, through the blogger-sphere, etc. etc.

When we had that aha, we said, "Gee, this is hard to do. You have to buy search engine

optimization software, social media management software. You have to buy a content management system. You have to buy blogging software, eventually, a CRM and marketing automation." Just super complicated.

We said, "Let's build a modern platform called HubSpot to enable people to transform the way they go to market to match the way people actually buy these days." That was 14 years ago. The good thing about humans is they continue to change the way they shop and buy. They probably haven't changed as fast they have in the last four or five weeks, in fact.

Our value prop has continued to evolve. We started as a marketing product. We've added sales and service products and a CRM product. We're a full front office platform to help people grow online.

**Mark:** The last four to five weeks have been interesting, Brian. HubSpot created this inbound marketing movement, this whole category many years ago, now. Clearly, that's become a big global phenomenon. We're pretty much at a point where every marketing automation company talks about inbound and how they've adopted it, as well.

Can you help us understand what inning this whole inbound movement is in? How is this concept of inbound evolving as it matures over time?

**Brian:** I still think it's pretty early, second, third inning of the inbound changes that are going on, I would say. There's a quote I saw. There's an analyst out there named Benedict Evans that I like. He's got a really good newsletter. I'll probably butcher it. He said, "Nothing changes in a decade and then you get a decade worth of changes in a month." That seems to be what's going on now.

The inbound revolution, the inbound movement seems to have sped up. The future has been moved in over the last few weeks, but it still feels early. There's still a lot of old-school marketing, selling, and servicing going on and a mindset that's still rooted in 10, 15 years ago that needs to change. It's still pretty early in the game.

**Mark:** Brian, when we took HubSpot public many years ago, it was a marketing platform, first and foremost. You've been evolving steadily over time into more of a complete front office platform. Today, you have marketing. You have sales. You have service. You have those three core pillars. You have other hubs that you've been introducing and continue to introduce.

How has that shift into more of a platform changed the conversation with customers? Has it

elevated your standing with those customers in a strategic way as compared to being limited to one area?

**Brian:** It has. I think our first few years, four years, in business we helped people turn total strangers on the Internet into visitors to your website. Then, we moved into the business of helping you turn those visitors into leads. Then, helping you move those leads into qualified leads and customers. Then we moved into helping you delight those customers and keep them around for a long time.

It's just the value we provide to a company has mushroomed over time. I think that the timing is good because you're not going to throw your website out. [laughs] You're not going to throw your accounting system out. You may think twice about your lead generation system, but if you're running your front-office on HubSpot, we're your CRM, it's a core, core piece of technology.

It's how you run your company. That's how people think about HubSpot. We are that platform that they run their front office on. The value's gone through the roof over time. Products improved, the footprints improved, and I'm really glad we did that.

**Mark:** Kate, how do you think it changes the financial profile of the business, this movement into more pillars, more of a full front-office platform? HubSpot likes to talk about the growth stack, does it change the growth rate? Does it change profitability? Does it change retention in your view?

**Kate Bueker:** Yeah. I guess one of the ways that we see the impact on our financials is, as we're delivering more value to our customers, we see more and more of them adopting multiple of the hubs. We've talked about the steady increase that we've seen in the multi-product customers on the stack. There are a bunch of benefits there. We've talked about the retention benefits associated.

There a natural logic there that says if our customers are using more of the platform, more engaged with HubSpot, they're likely to be stickier. It also, frankly, provides a nice cross-sell, up-sell motion for our install base that we didn't have before which is a good financial win for us.

The one place where we were most surprised as it relates to the change from single product to multiple products was just the sheer volume of customers who are actually adopting the platform upfront. We've seen that over the last year, but we've also seen that in particular over the last four to five weeks. Some of it is very purposeful.

We dramatically lowered the price of our starter gross suite to make it easy, both for our existing customers to stay on the platform, and also for new customers to start with HubSpot in this economic challenge. That is another way that we see the financial impact.

**Mark:** To be clear, you actually have more of the multi-product adoption happening upfront in the last four to five weeks because of those changes?

**Kate:** We have a lot of starter multi-product adoption. That is a big driver of our new customer acquisition over the last couple of months.

**Mark:** Kate, have you shared with us, or are you able directionally, qualitatively, to share how you're allocating R&D across those three pillars? I know those aren't the only three hubs, but directional changes, where the emphasis is being placed on innovation?

**Kate:** Maybe I'll start, Brian, and you can jump in here. As we just take a step back and think about investments for HubSpot overall, one of the key themes that you have seen over the last, frankly, three or four years, is a continued increase in investment in R&D. If you turn the clock back to 2016, R&D spending as a percentage of revenue was something like 15 percent.

We ended 2019 with R&D as a percentage of revenue, 19. Probably still going to go up a little bit from there, over the near-term anyway. We continue to believe that investing in R&D and driving that innovation engine is critical for the long-term growth of the company, so I would just start there.

In terms of where we put the R&D spending, we run a process every year around planning that starts at the highest level, very strategic. We look at where do we want to be in three, five years? What are the big themes? What are the big steps that we need to make to get there?

The product and engineering team takes those high-level learnings and creates their compass for the next 12 to 18 months that marks the key areas of investment over that period of time. There is a process that happens every year to allocate that investment really grounded in the core strategy of the business.

**Brian:** I'd add to that, Mark. I would say a couple things in terms of where we allocate the R&D dollars. Somebody recently described in our engineering organization that HubSpot is a little bit like chipotle. The thing about chipotle is you show up and you look at the menu. Whether you

order a burrito, a taco, a salad, or a chimichanga, it's all the same stuff in the product.

They just wrap it and cook in a different way. We have an awesome burrito stand at HubSpot. Underneath HubSpot are these shared services. There's web pages, there's email, there's social, there's chat, there's a whole bunch of these shared services. The hubs, the applications themselves, are just wrapping those in unique ways.

A lot of our R&D goes into the ingredients down underneath, and less than you might think in the actual hubs themselves. One of our core competitive advantages that seems to be getting stronger over time, is as we look at the alternatives in the marketplace, they're complicated. It's hard to pull this stuff off to have a great customer experience and all that technology come together.

You end up having to buy a lot of different products that don't really work very well together and stitch them together, or you go to a vendor that's really built their product through a bunch of acquisitions. If you're a normal company, it's hard. You have to learn all these different user interfaces, you have to figure out how to sync all these databases. It's bare.

Our patient approach, building from the ground up, has served us very well.

**Mark:** I love the analogy, and I want to come back to that. I want to ask you about the beans and the rice investments underneath the chalupa. I think of that as being project main sale. I'll try to come back to that in a moment. Actually, what you just said, I wanted to ask you about as well, because Brian, we've loved your vision of easy to use and powerful at the same time.

I'm stealing your words here, that you've explained the history of software, it can be powerful or it can be easy to use. You have to pick one or the other. You haven't been able to achieve both. We do get that feedback from your customers, from your partners. Powerful, easy to use at the same time.

What we don't understand is, how do you do that? How do you make something powerful but you don't have feature bloat or the user interface doesn't become confusing?

**Brian:** By the way, I want to give props to the person I first heard that from, this gentleman named George Hu, that's the COO in Twilio. He refers to this phenomenon as the tyranny of or. You can either have it really easy to use or really powerful. It's the tyranny you can have both. For a number of reasons, we've been able to break that tyranny of or.

Part of it is we didn't acquire a bunch of companies and glued this stuff together. It's all one system. The other part is it's a burrito stand. It's all mixed in below. The other is a large, opinionated bet on user research and design. We have an outsized bet on user research and design here, and it's a real strength of ours. It's an obsession with Net Promoter Score.

Net Promoter Scores have been going through the roof these days. It all comes together. It's a nice little soup we have. Our product team is really on fire these days. Here's what I would say about that tyranny of or. We have always been easy. This year, we're getting the end of the power. We made a big announcement in January of Marketing Hub Enterprise 2..

That took our always easy marketing product and added a bunch of really sophisticated, powerful features that we did in a very elegant way. I'll give you an example. There is a feature that every company wanted us to build called attribution reporting. We've lost on that feature. We have a historical competitor, Marketo. That was the one thing they beat us up on. It's a very hard thing.

It's basically you're a company, you're JP Morgan, you're trying to get customers, and you're doing all kinds of different marketing activities and selling activities all over the globe. You're trying to figure out what the heck actually works and what led to those customers, really closing the loop on that, and attributing your marketing activities. The product team took it on.

They looked at it in a very first principles approach, and they absolutely nailed it. They nailed it because of that investment in user research and design and the burrito stand. It all just comes together. That was January. Then you probably saw, Mark, in early April, we announced the new content management system, CMS Hub Enterprise.

Our content management system has always been easy. Now it's much more powerful. This is going to be the year of always easy, and now much more powerful.

**Mark:** That's how you do that. Easier said than done. I wanted to go back. There was an investor call we hosted back in March. It was with one of your diamond-tier partners across the pond. He said -- here are a couple quotes -- he's stunned by how good the product is. Very easy to switch between marketing, sales, and service, yet don't feel like they're just bolting stuff on.

We were listening to this. I thought it's a good reminder that you've really not been acquisitive. Very minimally. You've made analogies to the Apple's ecosystem where you have an iPhone, you have an iPad, and a Mac. They're all working in concert.

Can you walk us through how that vision relates back to HubSpot? Then Kate, are there financial model benefits that are worth touching on on that if we didn't cover that already?

**Brian:** Actually, I had an executive in Salesforce say, "Oh, you're just using the Salesforce playbook." Actually, we're not. We're using the Apple playbook. It's hard to copy Apple because they're pretty closed. From all the information we can get, we're trying to follow their playbook. They very much have the burrito stand underneath, whether all of their devices, that great operating system.

They weave that together in different devices, and they continue to add features. Now Apple does acquisitions. They do lots. Tons of little acqui-hires, little pieces of technology, weaves them together, great talent, and builds an unbelievable user experience. That's our touchdown. We're trying to play that game. For now, it's working really well.

I don't think that means we'll never do an acquisition, but I think we'll have to be very thoughtful about the acquisition, because we don't want to dilute our core competitive advantage of just real ease of use, real elegance. All the stuff works together so nicely, very similar to Apple. We'll think long and hard before we bolt on something to HubSpot.

**Mark:** That's extremely helpful. I'm starting to get a couple questions in the Q&A. I want to encourage more people as well to ask questions in Q&A. I'm going to try to get to that in about five or six minutes. We'll come back to it. I do want to ask you though, in the interim, the INBOUND Conference, I always tell people it's like favorite event of the year.

I love being in Boston at that time, the amount of energy and passion. At the beginning, I said you're doing something right if you can get 5,000 people to your conference. Of course, now, it's way over 20,000. I am curious, though, coming up mid-August in Boston, I looked a week or two back. It was still going to be physical. We're wondering, does it go virtual? Are you still holding out some hope?

If it is virtual, can you drive the same kind of bookings out of it with the same level of efficiency? Is there going to be a little bit of a difference this year?

**Kate:** I'll start. We have not made a formal announcement about INBOUND yet, but we are working to finalize the plan for this year. I would say stay tuned, coming soon to a theater near you. We're working hard to make sure that it's a good event. We're respectful of the situation.

**Brian:** If we did, just in theory, did it virtually, I think what you'd see is we were expecting north of 25,000 live this year. I suspect if we did it virtually we'd have a number much, much larger than that. Of course, it would be a little less engaged but we would be able to reach more people. There'll be a trade-off there.

I don't think it will be a disaster in terms of a conversion event for prospective customers and existing customers, if that's what you're asking.

**Mark:** If it helps, we're way up at this JP Morgan TMC Conference in terms of attendance doing it virtually. I'm sure you've seen that at some of the other tech events. That makes sense to us. Brian and Kate, I think the question du jour here really is this unemployment environment, I would've bet I would never see something quite like this. You, as well.

**Brian:** [laughs]

**Mark:** You've got this SMB customer base. 33 million people in the US filed for unemployment in a span of seven weeks. I know the continuing claims number is a little lower, but it's an incredible number. Let me just ask you this. At a high level, what runs through your mind as you're observing this? What do you think is the right way to be responding to that environment?

**Brian:** I can take that, Kate. The first thing that runs through my mind is empathy. I'm empathetic to all those people who are out of work. It's not just out of work. You look at the food bank lines. It's really sad. That's my first reaction to it. In terms of HubSpot, we're certainly being impacted by it.

I've been describing in the last couple weeks of March, first week in April, we just had a 200-mile-an-hour headwind on the business. Last three weeks in April, that headwind probably went down to 125 miles an hour. A bit of a tailwind emerged, maybe a hundred-mile-an-hour tailwind.

The tailwind is really a combination of people who are positively impacted by COVID-19, whether you're a temperature scanner, an online MBA, or a myriad of companies that need to do online marketing and online selling. That's a bit of a tailwind.

Just a realization, I think, across all companies that if you're doing offline marketing, gosh, not a great time [laughs] for offline marketing, really good time for online marketing. Not a great time for outbound marketing, really good time for inbound marketing. Not a great time for outside selling,



really good time for inside selling.

This is weird, but people have a little bit more time. They're at home. They're like, "We've been running on spreadsheets. Let's get our act together, finally put that CRM in place, get automation set up, and let's do it right." There's a little tailwind there that we're starting to enjoy.

When you first see the numbers, and you think about who's impacted, you might think, "HubSpot's SMB. They're going to get crushed by this." We're definitely impacted, but we're more M than S. We're more mid-market. I segment it as 2 to 20 employees as one segment, 20 to 200 employees, 200 to 2,000 employees. The vast majority of our business is that 20 to 200.

That's not a little tiny business that blows through the wind. They're certainly impacted. The other thing I would say is the industries hardest hit, restaurants, hospitality, airlines, cruise lines, those weren't industries that we were big in. They're relatively small. We're mostly B2B, and we're mostly mid-market.

We've definitely been impacted. We're slowed by it, but we're not catching the teeth of it. We're catching the side of it in terms of impact.

**Mark:** It's still a net headwind, it sounds like, if I run your math there.

**Brian:** It is.

**Mark:** It's not the kind of headwind it was.

**Kate:** This is CEO math, just for the record.

[laughter]

**Kate:** It's not a CFO math.

**Mark:** We'll...

[crosstalk]

**Kate:** I think the conclusion is the same.

**Mark:** I think I got negative 25, but I...

[laughter]

[crosstalk]

**Brian:** Sorry, Kate. I'm rambling.

**Kate:** No. [laughs]

**Brian:** It's going to be interesting what happens because there is a bit of tailwind going on. OK, here is one thing I would say about HubSpot. Maybe the best 9 weeks of the 14 years of HubSpot were the first 9 weeks of this year. We were way over plan, we had new products coming out, we were on [inaudible] . We were on it, and then this thing hit.

It hit, huge headwind, then there is this mix of tailwind and headwind. We're not back to where we were the first nine weeks of the year, we're not. There is a tailwind there and there is a headwind. The headwind's an interesting headwind. There is a certain amount of cancellations going on. Not as bad as we expected, but we're almost encouraging people to downgrade.

We made our starter suite of products much less expensive, so we encourage people, just downgrade and weather the storm on our starter suite, and then you can upgrade later. We also gave a lot of flexibility to our frontline employees to give 90 to 180-day discounts to people. We're a little bit artificially increasing downgrades for the next 90-180 days.

As all those customers come up to the other side, we see an artificial increase in upgrades. We're in an interesting moment where there is a bit of a headwind. Some that that headwind will turn into a bit tailwind in Q3 and Q4.

**Mark:** Well said. Kate, is there anything else to add on SMB exposure? As Brian said, the airlines, the cruise lines, the major hotels, they're not going to be the HubSpot customers, or they're not SMBs. We do get questions on, well, what about a chain of restaurants?

What about a chain of yoga studios or something like that? How is that overall exposure? Is there anything else about it that you think we might not understand?

**Kate:** I guess I would just add a couple of facts. The examples that you're giving, in general, are

B2C companies. Brian said it, but it's worth reemphasizing. We are primarily B2B focused, not B2C focused.

The other thing just in terms of color is if you looked at the impacted and the severely impacted industries and summed them up, we are comfortably in the single digits in terms of the exposure there. Single-digit percentage of the install base.

**Mark:** Very helpful. I think we're down to about seven or eight minutes. Let me take a couple of questions that have come in. This is a quick one. What percentage of revenue is coming in from Asia this year?

**Brian:** Kate, you want to take that?

**Kate:** Yeah. I'm not sure that we actually ever share that. The international business is just over 40 percent of our revenue. Of that, EMEA is a larger component than Asia is. If you looked at our business in Asia-Pac, the largest geography there is Australia-New Zealand, which frankly has been probably a bit less impacted than some of the other areas in that part of the world.

That's probably the color I would share there.

**Mark:** The next one we had gotten, what percentage of customers are currently using the CMS, either as an add-on or as the new standalone hub? I imagine it's too early for that new hub. Is there a specific sales motion to go up-sell existing customers to the enterprise tier?

**Brian:** Let's take it a step back and talk about the CMS. CMS is content management system, for folks who aren't steeped in all the lingo. From the very early days of HubSpot, we had a content management system, but it was, I would just call, lightly funded all along. It was an add-on. About a year ago, we started talking to customers who used it and seeing how they used it.

We started talking to people about how they can create an unbelievably disruptive customer experience. The website's just part of it. We said, "Let's double down on the content management system," so we doubled down on some of the ingredients there on the burrito stand. We rewrapped it into its own hub. We turned that add-on into CMS Hub Pro.

We created a new SKU CMS Hub Enterprise. We basically promoted it from an afterthought to a major hub on the level of marketing and sales and service. We think it makes sense to be its own hub because marketing hub is the decision maker. It's the CMO or the head of marketing. Sales

hub is the head of sales. Service hub is the head of service.

There's typically this different group inside of marketing, and sometimes it lives in IT, that makes the decision on the website. We said, "Let's pull that together and make it separate."

[sneezes] Excuse me.

**Mark:** Bless you.

**Brian:** So far, so good. It's been doing really, really well in the first month it's been out there, so feeling good about it.

**Mark:** Good to hear. What do you see currently in terms of churn rates and up-sell rates, especially in small to mid-market customers?

**Kate:** Maybe I'll...

**Mark:** I'm reading from the Q&A.

**Kate:** start. What we shared on the call, I think will ground people in what we normally share, which is our net revenue retention is in and around 100 percent for the business. We saw that in January and February, which frankly, is great. Q1 tends to be, seasonally, a little bit less strong than Q4, for example. We are in and around that 100 percent. Great.

March hits, and that revenue retention went from 100 to 90. Low 90s is what we shared on the call. We've seen further headwinds going into Q2. We expect that Q2 net revenue retention will be lower than that. The difference between March and what we're seeing in Q2 is the composition of where that headwind is coming from.

At those last two weeks of March really was almost half and half incremental cancellations and incremental downgrades. Given the customer actions that we have taken, we've really seen that shift in Q2. The incremental pressure that we're seeing on the retention is coming much more in the form of increased downgrades than it is coming in the form of incremental turn.

What we share on the call is that it's more like 70/30 downgrades/cancel than what we saw in the back half of March.

**Mark:** Relating to that, the next question I see on here, how much of the pricing discounts being offered are voluntary versus the customer asking?

**Kate:** It depends on the time frame. What happens is, you saw this bow wave of people at the very early stages that was this real inbound interest, where it's like, "I need some help. I need some help right now." There was a lot of reactive conversations that were happening in the very beginning.

That has shifted. We're doing much more of a proactive set of conversations with our customers over time. We have a strong team of customer success, representatives who are actively engaged with our customer base on a regular basis. It is a normal part of the cadence, that they would have these conversations with the customers. They are enhancing that conversation in a proactive way now.

**Mark:** Extremely helpful and very logical. Brian, we probably have about one minute left. Let me just ask you, what is happening at the top of the funnel for the free tier, which could maybe help you drive some future growth. I think you've been pivoting to a low-touch model for quite some time. Are you seeing that benefit in this environment?

**Brian:** We are. What we're trying to do in the crisis is not waste it. One of our big plays we've run -- Kate alluded to it -- is we have a starter layer of products. You can buy that whole starter layer for \$50 per month. Typically, that was like a hundred and...I forget. It's a large discount on it.

That product's capturing a lot of people who are having a tough time with COVID-19 and want to downgrade. It's capturing a huge number of people who are coming into the business for the first time, so our customer account's going up with that.

We think we'll be like a coiled spring, and when this is over, we're going to have a lot of starter customers. We're getting pretty good moving those starter customers up into the pro and enterprise SKU. Liking where we're sitting on that. The low-touch model's working. It's working down there in the starter SKU.

**Mark:** I want to thank you very kindly for the time. I have this very odd craving for [inaudible] .

[laughter]

**Mark:** I don't know why. I just think I need to run out and grab one. Thank you so much for

joining us. Always a pleasure. We'll talk soon.

**Brian:** Thanks, Mark. Good to see you.

**Kate:** Thank you.

**Mark:** Take care.



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