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<<Richard Davis, Analyst, Canaccord Genuity Group Inc.>>

All right. Great. We'll just go and kick this off. My name is Richard Davis, and it's my pleasure to introduce the not only great Brian, but Charles. Charles in charge, so to speak.

<<Brian Halligan, Chief Executive Officer and Co-Founder>>

Go, get a mic.

<<Richard Davis, Analyst, Canaccord Genuity Group Inc.>>

Get a mic, if you want it. I don't care. Up to you. Okay, that's fine. I'll just start with the questions anyway. Don't worry about it. All right. So Brian, we've known each other for a long time. So let's just talk about the horrible year the Red Sox are having. Not really, but anyway, it's depressing. That's it, mic drop. We're done.

Let's dig into product evolution right upfront. So you started as kind of a better way to get prospect's attention, and this was called INBOUND or content marketing. But as we all know, you can't clap with one hand, so you guys expanded into selling or sales force automation, as we want to call it or whatever, and then recently into customer support.

So do you vision INBOUND marketing as kind of the foundational effort in a bigger platform play? Or did you have that idea when you started the company? Did you think, oh, we can just grow this business just on INBOUND or as you've added new features and functionality, how did you think about that evolution? And you've said, I think that you said maybe, I can't remember, sales might be bigger than INBOUND or something at some point. Why didn't you start with the big one first?

<<Brian Halligan, Chief Executive Officer and Co-Founder>>

Okay. It's a really good question, didn't expect that. Everyone in the room familiar with HubSpot? No. Okay.

<<Richard Davis, Analyst, Canaccord Genuity Group Inc.>>

You can do it quick, very quickly.

<<Brian Halligan, Chief Executive Officer and Co-Founder>>

Okay. So we started 13 years ago here in Boston and the original like kind of gap we saw in the market was, it's hard to remember 13 years ago, but 13 years ago, there were a lot of changes

going on in the way people were kind of consuming information and whatnot, like we used to read The Boston Globe every morning and we're starting to read blogs. We used to listen to the radio, and now we listen to podcasts. We used to watch TV, and now we use Netflix. That was kind of going on. So kind of wholesale changes. We're starting to live in Google. We're starting to live in social media sites.

It's like wholesale shift in media was happening. At the same time, humans were getting very good at blocking marketing out. Caller ID was a thing in 2013. Ad blocker was coming out. Spam protection was coming out. It was increasingly hard to kind of market to people. People were moving where they were and they were very good at blocking out the old playbook. And so the original idea behind HubSpot was, oh, there's a new way to like get more visitors and leads to your company. And what you want to do is match the way you go to market with the way humans actually shop and buy.

So instead of doing cold calls, instead of doing spamming, instead of doing advertising, create your own media company, create your own blog and pull people in that way. Get very good at search engine optimization, pull people through that way. Get very good at social media and pull people that way. And so the original thesis behind HubSpot was a new way to market to match the new way that people shopped and bought. And that's the company we built. It was – we called it inbound marketing contrasted with outbound marketing, and we built the marketing application. That was kind of the first act in HubSpot. That act was basically eight years long.

Then we saw a new way – a new kind of arbitrage opportunity that became our second act. And the arbitrage opportunity that we saw really was the shift in human behavior again that what seemed to be differentiating the companies that were growing very fast and the companies that weren't wasn't necessarily that they had a better product all the time, but was they had a better end-to-end customer experience. And you can kind of see this in the economy today. Like in any given category, there used to be two, three, four vendors. Like whether you're in the razor blade industry or the enterprise software industry, there just weren't that many competition. But the barrier to enter any given industry has dropped dramatically, like it's very easy to start a software company these days. It's very easy to start a razor blade company.

And so there's like infinite competition in every category. And it's very hard to gain a product competitive advantage in any given industry because, for example, in the software industry, you've got AWS and you've got open-source software. Everything is software-as-a-service, just easy to start and easy to go. Same thing with hardware, they can go to China and make a razor blade very, very quickly and whatnot.

And so the differentiation to me seems a shift to – it's not the best product that wins or may win in the short term, it's the best end-to-end customer experience that won. And so we said, well, how do we get after that? We said, well, we need to help people craft that end-to-end experience from the very beginning, that first stranger that visits your website, all the way to the delight moment around the product and referring to other people.

And so we moved from being a marketing application company to kind of a front-office suite company and moved from being a company that helped you generate leads to move to a

company that helps you craft a delightful, gorgeous end-to-end experience with customers. And we're kind of halfway through that phase now. I call it we went from the app to a full suite. We're kind of halfway through the suite phase. Our second half is going, I think, really, really well.

The next phase in HubSpot is more a – some people call it platform or ecosystem phase. And the suite phase is more software, more applications. The ecosystem phase is developing, adding more value to our customers in different ways. So one way we add value to our customers is we let you buy our applications or you can plug in third-party applications into HubSpot. Maybe you want to plug in SurveyMonkey into HubSpot or you want to plug in your Slack Instance, you name it. And there's hundreds of application providers that have built integration to HubSpot. That's one way we look at platform.

Another way we look at platform is, boy, we need some help getting HubSpot up and running. We need to build a new website. We need to build a new workflow into whatever it would be. We need a third-party to help us. So we built an agency program to help them do that. The agency program is going well, but can be a lot better and bigger. And so the agencies can help you with your marketing, your sales, your service.

There's more opportunities for us in the platform level where we could build, for example, a marketplace around templates. So you're building a website, you want to grab different templates for different things, maybe it's a workflow template, maybe it's a landing page template, an e-mail template. There's a big industries out there that just build templates. We should have eventually our own vibrant, large template asset marketplace. There may be an opportunity to be build a gig marketplace. There's all sorts of platform opportunities ahead of us.

And so I kind of think of HubSpot in this horizon framework where today's horizon is get our three major applications working better and faster and more functionally and get the growth team working better. That's kind of horizon 1. Horizon 2 is expanding our suite and adding more hub stores to suite and adding more value to our customers. And horizon 3 is this idea of an ecosystem or platform around HubSpot. And we're investing in all, just at different levels.

<<Richard Davis, Analyst, Canaccord Genuity Group Inc.>>

Got it.

<<Brian Halligan, Chief Executive Officer and Co-Founder>>

So I think of HubSpot very much as we're 13 years in. But what's in our head on in terms of the value we can provide to customers, we're just – there's just a lot more work to do and still very early in the journey.

<<Richard Davis, Analyst, Canaccord Genuity Group Inc.>>

Speaking of hubs, which of these hubs makes sense for a new hub; e-commerce hub, accounting hub, HR hub? Any of those? Any? All? And exactly what time will they be launched and what is the actual financial numbers?

<<Charles MacGlashing, Treasurer and Director-Investor Relations>>

We can tell you guys, but we're not...

<<Brian Halligan, Chief Executive Officer and Co-Founder>>

It depends on the time horizon you're looking at. There will be more hubs like two years, three years from now, there'll be more hubs. There will unlikely be, I'm just safe, unlikely we will build an accounting hub in the next two or three years.

<<Richard Davis, Analyst, Canaccord Genuity Group Inc.>>

Not on the product road map.

<<Brian Halligan, Chief Executive Officer and Co-Founder>>

So that was complicated, that accounting stuff.

<<Richard Davis, Analyst, Canaccord Genuity Group Inc.>>

All right. Let's see. Okay. So that's part one of the questions. Let's drill down on kind of some of the why things are happening. You and I both know and some people in the audience also know there are far more gravestones in the SMB market than victory trophies. Even so, we've written about and you've talked about kind of the experience as a differentiator in a world of almost too much choice.

Now if you think about it, the experience has two axis, right? It's user experience of the software itself and user experience in purchasing and onboarding, and those are two different parts of the equation and especially with your pricing. So can you – you've kind of talked a little bit about the user experience. Let's talk about the ease of friction – the frictionless or the low-friction entry model and how that works for you guys because I think that's equally important.

<<Brian Halligan, Chief Executive Officer and Co-Founder>>

Okay. Let's start with the graveyard comment, I think that's really interesting comment. Around here in Boston, there's a couple of gravestones around, one for Constant Contact and one for Endurance. And frankly, when you look at when those companies were founded, they were founded, I think, in the late '90s. There wasn't a proper playbook for how to build an SMB business. It was really hard to build an SMB business back then. But since then, there is a newer – there's a playbook that works and HubSpot's running that playbook, Shopify's running that playbook, Square is running that playbook.

I think actually we're going to have a wave of SMB companies who are going to do really, really well. And the playbook is quite different than the playbook those companies used. And the first part of the playbook is just keep that cost to acquire a customer low. And what blows up your cost to acquire a customer is if you're doing TV ads or radio ads or massive Google AdWords spend, they just don't scale. And you look at Constant Contact, for example, like they started doing radio and then TV and stuff like that and just like Google AdWords spend.

And like for Google AdWords, if you want to spend \$10,000 to buy e-mail marketing as a term, at \$10,000, you're spending \$1 per lead. But if you went up from \$10,000 to \$1 million, it doesn't scale. You're paying a lot more than that. And so Shopify, HubSpot, Square, we don't play that game. We all have new unique go-to-market models. Most of us are playing the freemium game. Most of us are playing some sort of variety of – some sort of virality game and a different way to acquire customers that stays low at scale. And so we've kept our cost to acquire a customer pretty much the same for the last X years. And by the way, to Endurance and Constant Contact, to their defense, those playbooks didn't really exist back then. Software was hard to use. It was hard to do freemium, like I don't bemoan them.

On the flip side of it, the other part of the playbook that seems to work is if you're selling in, and we sell to kind of mid-market, but let's just say we're selling to little tiny companies, the churn rate in this SMB market is higher than it would be in the enterprise market. And the trick that Square and – Square just missed, but Square and Shopify, HubSpot, the trick we all have is, yes, you're going to lose some customers. So you start the year with 100 customers and let's say you lose 20 of them, the 80 that you have left come up with new products and cross-sell them and fill that dividend. And neither Endurance nor Constant Contact were built as a second act.

And so that's part of the second act play is not only does it make sense for value for our customers, but it fills that gap in. So I'm personally bullish on the SMB – I mean so much money was made by all of you in enterprise software over the last 20 years. I think a lot of money is going to be made in the SMB software space over the next 20 years because it's the playbook now that works.

<<Richard Davis, Analyst, Canaccord Genuity Group Inc.>>

Yes. I think you're right. On the freemium model, how do you decide what's in the free part of the product versus what's in the paid part of the product because I hear from investors that they – one of the comments that I hear from investors on the financial metrics is that they worry that average customer spend has kind of declined since freemium has been introduced on a trend line basis and so they fret about that. Even though the CAC may be the same, they're trying to square those two things to some degree.

<<Brian Halligan, Chief Executive Officer and Co-Founder>>

That's interesting. What we're trying to do – well, I would just say on a go-to-market side, like in the history of go-to-market models, so you've got, let's just say, Oracle on one end with like 1,000 field offices with 1,042-long sales reps out there; an outside sales model very high cost to acquire. If you take Salesforce.com, now is outside but traditionally was Inside Sales, much

lower cost to acquire, scaled in a different way. I'm not going to say HubSpot because we're not there yet. But I'm going to stick Atlassian in that last bucket where, boy, there's no sales reps, and they do million dollar deals without a sales rep, right, and they're a freemium model and it's very low friction and whatnot.

I think if you want to know what the future of software looks like, go to Atlassian. I think at the end state, go there. We're kind of in between, I think where Salesforce is and Atlassian is and we're trying to move towards Atlassian, not Salesforce. And so we came out with – and even if you look at the software industry was, you would ask for a demo, that was how you sold software and then it was trial. You look at all the new high flyers, they're all freemium. And if you look at the new high flyers, it's not just freemium and some crappy things, the paywall is pretty far back, like you get the meat.

And I think, for us, that works particularly well because what we want to do is get – let's say, you lead Canaccord and you're starting the next Canaccord. We don't want you to go buy something else to have to rip and replace. We want to get you and your five friends on HubSpot first. And so we give you a decent free product and then we debate a lot and A/B test the crap out of where to put those paywalls. It's a huge topic of conversation that's ongoing and how far and whatnot. And we tend to take a very long-term view of everything in HubSpot, but one of them is that paywall. So we give you a pretty good meaty freemium experience because there's some virality to that product and then we try to move you up the thing.

And I would say in terms of our life cycle of freemium, free product into our Starter layer, into our Pro and to Enterprise, how good are we at moving people up, like I would give us a C. There's still tremendous amount of opportunity if you optimize that, like Atlassian's an A, we're a C.

<<Charles MacGlashing, Treasurer and Director-Investor Relations>>

I think one other thing, too, that gives investors comfort is that while CAC has come down and LTV has come down, unit economics have actually expanded since the IPO. We know we traditionally talked about a four to five LTV-to-CAC and it's now in the five-plus range. And from an ASRPC perspective, while Starter and freemium have depressed those numbers, and in some cases, ASRPC on a blended basis has fallen, if you strip out the Starter impact and the mix impact, we're actually seeing ASRPC for marketing for sales actually grow year-over-year excluding those.

<<Richard Davis, Analyst, Canaccord Genuity Group Inc.>>

It sounds like one of the – this is a sub-question because you talked about it in the hole in the bucket or the top 20 and then also the whole point about what Atlassian has done, the – and it sounds like – and you've talked about, I guess, but just the customer success and upsell has to be like critical because I mean that's like free money, I mean, because like in terms of you go, if you either reduced churn or sell someone a dollar of stuff, you never had any of the front end expense in that. So it feels like I bet your – is your sales organization changing more so, that group is bigger and then the front-end folks are, on a relative basis, smaller or not?

<Brian Halligan, Chief Executive Officer and Co-Founder>>

Both sides of the sales organization are growing. I would say that cross-sell business has gone exceptionally well and the ability to sell the full suite upfront has gone exceptionally well and we're really happy with that. We're not great at everything, like we're not great at that growth part yet, but I would actually give us a very high grade on our ability to move from selling one product to selling the whole suite. I wouldn't say we nailed it, but we're really good at that.

<<Richard Davis, Analyst, Canaccord Genuity Group Inc.>>

Yes. And you guys really have found that kind of Goldilocks sweet spot in the middle, but no large company would consider a big purchase without seeing a competitor. What's the largest customer you've signed? And then I mean could you – I mean you don't particularly pursue it, but could you do a 10,000-seat or 50,000-seat deployment and would you do it kind of thing?

<Brian Halligan, Chief Executive Officer and Co-Founder>>

Yes. So our largest customers are around \$1 million a year and like – and there's a bunch around that level. It's not something I even track, like I don't know if we close a customer or when they go over that. I think we'll have more of those over time. I think we'll see bigger sales deployments over time that will drive up the number of seats. There are things that will – so like if I were to grade the layers, like our Pro layer inside of HubSpot, the middle layer, A. Our Starter layer, boy, lots of work, lots left to do, lots of opportunity left there.

Enterprise, solid, but lots of work left to do. I think you'll see on that Enterprise layer some functionality that comes out over the last year that will open up more of those larger deployments of seats. And there's things we're working on kind of underneath the covers, like I think of HubSpot as very good at managing the data that you use in our HubSpot applications and like we're very HubSpot-centric, I wouldn't say we're closed, but we're HubSpot-centric. Where we're headed is we want to manage the data inside of HubSpot from all of your applications in the front office, whether you name the different application you're using, we want them in all to plug into HubSpot and we want to move from kind of a CRM company to more a CDP company, customer data platform. And then we want to get much better at reporting on all of that information, HubSpot reporting on your whole business. So we want to become more strategic. And underneath the covers, lots of work going on to enable that kind of thing.

<<Charles MacGlashing, Treasurer and Director-Investor Relations>>

And just a quick clarification. There's actually a customer larger than that customer, which happens to be us, so HubSpot runs on HubSpot across marketing, sales and service so...

<<Richard Davis, Analyst, Canaccord Genuity Group Inc.>>

What percentage of revenues are yourself?

<<Charles MacGlashing, Treasurer and Director-Investor Relations>>

We give ourselves a pretty good deal.

<<Brian Halligan, Chief Executive Officer and Co-Founder>>

30%. That's kind of interesting. I wonder how we would be paying.

<<Richard Davis, Analyst, Canaccord Genuity Group Inc.>>

I think you guys hired the dude or whatever that does the marketing – architecture thing where you need a microscope to light up the logos. I don't think you guys have ever seen it, you can look it up and it's like all of the marketing companies, and it's like epic. It's epic. And you pointed out it's never been easier to start a company so there's like thousands of these marketing companies. I mean just like doodads, like I saw one company that just tells route drivers how to drive the most efficiently is like a company and stuff like that over there, et cetera.

My point is just like how – so those are all ostensibly kind of competitors, but also the sub-question is at this stage, in Salesforce's life, they started to really accelerate their M&A activity. Now of course, they're reaccelerating at the last couple of days, but whatever. So my point is how do you think about – would you – could you buy those kinds of things? I know everything is la-la land valuations I think, but how do you think about: a, the competitive environment; b, gosh, darn, you have 8,000 guys you could of them, but what makes sense and how do you think about that, inorganically in other words?

<<Brian Halligan, Chief Executive Officer and Co-Founder>>

Rich, you're pointing out a very interesting phenomena in our industry like when we started HubSpot, a marketing software industry was very much out of vogue. We had a hard time raising our Series A actually. And for a lot of reasons, it's in vogue, I guess. But there were 15 marketing software companies in the world in 2006. Now we hired a guy who has – he's got a very strange hobby, he counts the number of marketing software companies in the world. It's a very odd hobby, yes, and he puts together this graphic.

And he's been doing it for five years or six years and he used to call it the Martech top 500, and there were 500 martechs. Now there's literally like 6,000. Now I look – and the reason we hired him is he runs our platform strategy and so the whole idea is how do we turn those 6,000 little tiny app companies into partners of HubSpot and plug it. And we're making tremendous progress on that. So I don't look at them as competitors.

In terms of M&A, we are starting to look at – we have been looking at M&A deals. And we'll do deals. We're just fussy and picky about we do a deal with. The first thing we want is – it's just like whatever we buy needs to fit in really well and not ruin the awesome Apple-like user experience we have and not make databases thinking in a crappy way behind the scenes. I think the reason HubSpot wins in deals against Salesforce.com is they have a bunch of applications behind the scenes, a bunch of different databases, a bunch of different UIs, it's just complicated

for an SMB to get their arms around. So part of the reason we win is we've got a really clean UI and one database underneath. And so we're careful about that. We got to get that right.

Second thing we want to get right is culture fit. We've talked to a lot of companies that do a lot of M&A, and the leading cause of death of a deal after the deal gets done seems to be just some sort of the cultures didn't mesh, and we have a unique culture, I would say. We want to make sure that works. And the third is just terms. Like we have looked at some companies and you guys think the public market valuations are high. Privates are insane. We think much – you're better off staying private. The expectations are really high. And so we don't want to do something stupid. And so you'll see us do deals, but we want to do good ones.

<<Richard Davis, Analyst, Canaccord Genuity Group Inc.>>

Yes. I mean you have \$1 billion on the balance sheet in cash, right, so you could probably get \$10 million in revenues out of that. No problem. You guys in the audience have any questions because have two or three or four more if you want, but I'd love to hear everything from the fans out there. All right. Let's see. So agency partners, right? So you talked a bit about that and you and I both know it's like a little bit like herding cats, and there's – it's like asking how does Asia feel? Well, there's happy people in Asia, there are sad people in Asia and I always hear these random like channel checks and they go, oh, I talked to an angry agency guy; and the next guy, oh, I talked to a happy agency guy. Walk me through how you manage through that. And is there a power curve in that, there must be I would think, 80-20 kind of thing and all that. But just talk to us about that because that's really important to your CAC story.

<<Brian Halligan, Chief Executive Officer and Co-Founder>>

Sure. One of the – so historically, Intuit was the only software company that really penetrated the SMB in a meaningful way. And people talked about them a lot. The other thing was Autodesk actually. Now they sell in big companies, but historically, they pulled off SMB. Both of those companies have something in common and both of those companies have their CACs low. They had an awesome channel to market. Autodesk uses accountants to go to market and they did return the accountants into software resellers, brilliant move.

And Intuit turned – sorry, the other way around. How did I get that messed up. Intuit turned accountants into software resellers and Autodesk turned architects into software resellers. And if you look underneath the covers, that's a big part of their success. HubSpot's got the exact same playbook. We turned website designers and marketing agencies into software resellers. And that's gone really well, and it gives our customers the ability to buy in two ways: you can buy directly from HubSpot and do it yourself. You can buy through one of these thousands of agencies that are partners of ours and they'll do it for you.

Those marketing agencies is – you're right, it's a power law: about 20% of the agencies do 80% of the business and vice versa. The 20% that are scaling – those agencies have done a nice job of moving from selling our marketing product to selling a full suite. Almost all of them are nailing that now. And so we made a lot of progress on that. I'm not sure I'm that worried about the other 80%. They're really tiny businesses, genetically they may not be – yes. What I would say about

that agency program is it's going to continue grow. We're making a bunch of investments in it. It's going really well. It's performing really well.

There's another agency model coming online where we're signing up more IT companies, people who implement CRMs, G Suite and there's millions of companies out there that basically just implement software. And we started a program to attract them and turn them into HubSpot resellers. It's new, but it's going – I just looked at the numbers yesterday, it's going really well. So I'm feeling more bullish today about our partner program than I have actually in quite some time. And I know over the next year, there's a bunch of enhancements to the program that are going to make it more attractive to become a HubSpot customer and more attractive – once you're a HubSpot customer, you'll be more delighted.

Having said that, a lot of investors do, do channel checks on us and it's a good way to find out information about HubSpot. Not every HubSpot partner is always going to be elated. And – not every HubSpot employee, by the way. And what we tried to do with the agency program, it's a little bit like if you're Uber or a Lyft like it's a marketplace and you want to keep that thing balanced. You don't want to have too many agencies out there. You want to get that marketplace so that the direct sales organization and the agency program are cooperating. So it's a little more complicated and a little more thought needs to go into it. And we're super plan-ful about it and there's a bunch of cool stuff that's going to come out in the next year. Having said that, I think there will always be people who complain.

<<Richard Davis, Analyst, Canaccord Genuity Group Inc.>>

Got it. Okay. Cool. Well, I think we're up to the end of our time. I'll let everyone kind of go to the next thing, but thank you so much. It's always a pleasure.

<<Brian Halligan, Chief Executive Officer and Co-Founder>>

Thanks.