

HubSpot, Inc. [HUBS]

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Speaker: Hello everybody, good afternoon or late morning for those on the West coast. My name is Alex Zukin and I cover enterprise software here at RBC. I'm thrilled to be joined by the entire HubSpot team. So thank you all for joining Brian, Kate, Chuck. It's a pleasure to be here with you virtually.

Speaker: Pleasure to be with you, thanks for having us.

Speaker: Thanks, Alex.

Speaker: And I guess I will tell you well, I have my questions you guys have seen them and I'll scroll through them but I like that a little bit. But I will tell you my last call back that I had after your earnings call with Chuck was probably one of the best ones that I've ever had with HubSpot. I want to kind of go into the theme, which it seems like something really changed that you were not expecting to change throughout the course of this year. Where at first the pandemic was something that was creating a headwind for your business and now we've emerged and it's a tailwind for the business. So what do you think as you looked at all the data as you spoke to the customer, what happened, where are we and where are we going?

Speaker: I can take that. Well, I would actually say Alex we anticipated having a really good year this year. We did a lot of hard work in 2019 to prepare for this year. We knew the product was going to have a big year with a bunch of new releases and whatnot. And the year started out really nicely in January and February really were strong for us. Last December was too. COVID hit and it hit us hard. I mean it was a strong headwind for us on retention and new. And then we know it really just started to turn first week in June it turned and it kind of turned honestly kind of turned within a few days, it shifted. And it's been blowing nicely behind us for through we commented on earnings through October, business was good. And I give half the credit to a COVID tailwind and half the credit to we were really well positioned to take advantage of it. We had our sales up pointed in the right direction, our execution leading up to this year and getting ready for this year has been really solid sales execution's been good. And so I think our strong performance that you guys have seen the last couple quarters is half a function of a tailwind and have a function of we're really kind of hitting on all cylinders as a company these days.

Speaker: What led to the turn? When you structurally analyze the business and you've seen now that that turned progress is there anything that you can point to as kind of what has solidified as the driving force behind this tailwind? How long do you think it can last? Is it temporal? I get a lot of the questions that as we go from remote work to return to work, there's tough comps, there's tailwinds turns the headwinds. How do you feel again, driven by that structural term how do you feel about that durability?

Speaker: I feel like the durability of our value prop and execution is very good as I look into next year and I look at our go to market model and I look at our product pipeline and our value proposition, our competitive positioning. I feel really good about that better than I've ever felt about it. I think that's sustainable over multiple years. We've made some bets as a company in 2018 and '19 that are really paying off now. In terms of the tailwind, I mean, I don't know how long the tailwind lasts. I can say that ironically sales and marketing budgets have shrunk. If you look at sales and marketing budgets across our target market that's shrunk. That's been some interesting analysis to come out of it, but they certainly shifted.

Budgets have shifted from outside field sales to more inside sales and light touch sales and product led sales of course. They've shifted from outbound marketing, live conferences, trade shows, things like that, billboards in airports things like that to inbound. And everything's moved from offline to online. So all of those trends are trends that we've been calling for a long period of time and we thought they would happen over the next five, six years in a certain way. And they just have sped up. And I don't think the world's going back to you may not like this 'cause you're running a conference right now, I don't think the world's are rushing back to in-person conferences and outbound marketing and outside selling. I think some of the changes that have happened just sped progress up a little bit and I think some of that's here to stay but it's hard to say. I mean, predicting the future is a hard thing. I try to control and we, as a company, try to control what we can control. It's hard to control the economy or the progression of disease or whatnot. But what we can control is our value prop, our products, the level of delight of our customers, our competitive positioning, our lead generation our selling skills and those have all been improving a lot.

Speaker: So that makes sense. You're a pretty good predictor of the future based on where you started with inbound and what's coming true right now in the markets. I'll put you kind of on the spot again on this point, which is the evolution of the sales and marketing category that we've witnessed to the points you just made of the shifting priorities and shifting spending patterns even in a contrasting budget, the reprioritization of dollars to areas that elevate ultimately your value proposition. What plays are you running right now from a product perspective that you think either are underappreciated or that are going to put you into this position of strength and power to kind of tackle this durability question that we constantly discuss?

Speaker: Sure. I read something in our office recently that looked at publicly traded SAS companies and then cut them by more traditional go-to-market models, enterprise outside selling versus inside versus kind of product led. And that's kind of a spectrum from serve product led and it kind of bleeds together. And the new breed of companies are doing so so well out there. And I put HubSpot in that camp. They've all got a lightweight flywheel motion that's product led. They've all got an incredibly delightful end to end customer experience whether that's HubSpot or zoom or Datadog or you name it. There's been kind of a revolution in go to market models that are they've really just embrace the way people want to buy today. People want to try the product before they want to buy it. The buyers are making department level decisions or even enterprise level decisions in the centralized CIO is much less involved than they used to be in those decisions. And I think what's underestimated at a HubSpot is how hard we've leaned into making it delightful buying process. We moved from a relatively traditional inside sales model with an inbound sales motion, and we get all our leads through content marketing to we're a freemium company now, we're a product led model. And we got about a half our business is through content and HubSpot style inbound marketing. But the other half is really coming through our freemium motion and it works. It works really well. It sets the customers up for success more decentralized as the sale. It's very disruptive relative to very traditional CRM vendors that we've competed with that have been around a long, long time. So that may be underestimated. I think it's also underestimated how big our community is. The HubSpot fear is vast. It's not just us 4,000 HubSpoters, we have a similar number of partners and those partners can be broken out into implementers and resellers of our product like agency partners, CRM implementers and folks

like that. And there's another huge group of partners. There's 600 of them now. There are software partners that connect their application into HubSpot or build their application onto HubSpot. So there's more to HubSpot than HubSpot and there's large community and a group around us helping to propel us. I think that gives us a strong moat. And it gives us a competitive advantage over the long haul.

Speaker: Makes sense. One of the things that also at least, I was pretty focused. I've always been focused on it but as a retention the dynamics around your market when we were coming in the bear case on HubSpot was well they're SMB focus, it's marketing so marketing budgets get cut. SMBs get impacted retention spike, or churn spikes. And it actually to your point around prioritization initiatives it felt like coming out of the last quarter retention is actually counter-intuitively or intuitively improved. And so I want you to talk about how this crisis has kind of changed those maybe hardened the underlying structural positioning of the company around the kind of metrics like retention, like expansion, like sales cycle dynamism, like the ability to sell more into every one of those customers. Which of those aspects has surprised you or maybe not surprise you. And which ones do you think investors should be particularly focused on?

Speaker: That's a great question. So if you go from early June through October the retention rates have been really very strong for us. And they've been strong on kind of both sides on the customer dollar retention just retaining the existing customers really good. And then the upsell has been really good and I'm not shocked that's happening for numerous reasons. We've made huge baseline investments in product design, in usability, in user research and huge technology investments in HubSpot that we're just getting returns on them now. And this year is a good example. We've had a whole bunch of releases that have been impactful and our net promoter score of our customers. Or our net promoter score of our customers has been flat for like 130 years. And then a couple of years ago we said, all right, let's get serious about this. We as sellers and marketers, I think give ourselves too much credit for our ability to sell and market. Much of the convincing that happens to a new HubSpot prospect who becomes a customer. They go to g2.com and they look what everyone else says. They probably use HubSpot in their previous company. They have friends that use HubSpot. The convincing, yes, we're good at selling and marketing. We've got a good partner channel, but it's word of mouth. And it's very much a word of mouth driven industries, CRM industry. And our word of mouth has popped. Our net promoter score has gone up about 15 points over the last couple years. I mean, it just makes sense our customers are happy. They're referring more people. There's more products or they're buying more products and running more of their business on HubSpot. Like, it makes sense to me that those retention rates would start to move up. The other thing I would say about our retention rates is that I think a lot of people consider HubSpot selling to small businesses. We really don't, SMB is a loaded word. I kind of split the market up into there's some people who sell the really small businesses in like, there's a company here in Boston called Constant Contact, they used to sell into those small businesses. Went public, whatever endurance it's a long tough story on that. Square sells to small businesses. Shopify started selling to small businesses. And it's a lot of one person, two per person companies. GoDaddy spends a lot of time down there. That's not us. We don't really live down there. Intuit kind of lives down there coming up a little bit. We live in that like next tier up where it's from five to a couple thousand employees, a real company they have a dedicated marker, dedicated sales approach. They're growth oriented. So we

don't have like a lot of restaurants or entertainment or hospitality stuff that's been churning at a high rate. We're mostly B2B. And we're kind of mid-market. We're a little bit Alex like a very modern version in a front office version of what NetSuite. And NetSuite is a pretty good company. They went public, they sold all the Oracle and whatnot. And I think of HubSpot as a very modern version of that in a much bigger market, the front office being much bigger. That's kind of where we sit in the market. So it's less prone to be out of business reason for churning than folks might think.

Speaker: One more future oriented question. I want to run by you and then we'll dive into more tactical ones. And for all those on the call or on the call on the stream, please feel free to put in questions as well. I will try to get them in as much as I can. But one of the things Brian that I've been thinking about, if I look back at the last couple of years of SAS and what were the real, multiple expanders platform and AI or data, right? And analytics throw some of those in there. Right now it very much feels like the cutting edge is marketplaces and transactional revenue streams and payments, maybe a little bit of commerce. How do you see those three elements within the HubSpot business over the course of the next three to five years? Are there plays you can make there? Are those too far field for you? What's your thought on that?

Speaker: Sorry, give me the three again, market places, payments.

Speaker: Market places, payments, or other transactional type of revenue streams. And I don't remember what the third one I said but let's start with those two.

Speaker: We can start with those two. If I kind of step back and think about HubSpot, a lot of people say, oh, salesforce.com sort of took that Oracle business model and CRM disruptive in the cloud and jeez, they just follow there but and then all HubSpot you're just following the salesforce.com playbook. We're not doing that. It's going to sound counterintuitive but we're following the Apple playbook. We had our offsite this year in June and we have one investment banker come in and give us stories of companies that grew by M and A. And the serum industry is full of those Oracle, Salesforce and the Adobe folks are doing that. Even the Zendesk guys are starting to do that. And that's a tried and true playbook, it works pretty well a lot of people think we should do that. We had another banker come in and say, well, what companies haven't done that? And there's actually not a ton of examples. ServiceNow has largely done that in a pretty good way. We'll see if they keep doing that. Apple has done that. And the way we think about our product development process is very similar to Apple. We spent a lot of time at the platform level building what we call primary colors. And then we expose those primary colors in different ways through our applications, marketing and sales and service and our website product. And it's a very patient person's game. I mean, we could be going a lot faster if we're buying these hubs and whatnot but we've been patient. And we think some of that patience is starting to pay up because we think one thing that's unique that you see in some of these new companies that are doing well is they have a consumer like customer experience and a consumer like UI in their product. In this consumerization of enterprise software that's been talked about for a decade, it's here and there's a handful of us kind of doing it. And we're going to stick to our guns in that and keep building. And we think we're very good at building product. And so when I think of our Apple story and we're know Apple is much bigger, more impressive company quite frankly, than we are, but we aspire there. Like I think of the iPhone. The iPhone now I just bought a new iPhone. It's got a new

camera but it's basically the same phone, all the same features besides these little minor stuff that's updated. But when you bought an Apple iPhone three or a four, holy crap, between each version, it was like a new phone with all these amazing new capabilities. That's HubSpot, we're like version three or four. And so next year and the year after, it's going to be amazing capabilities. And amazing burns on the assets we built. Now, in terms of marketplaces, we have a decent marketplace now. We have this application marketplace that's going to get a lot of investment over the long arc of history that'll get a lot better. It would be a lot more robust. There's lots of opportunity there. It's not something we're looking to monetize in the short-term, but over in the longterm it certainly could be. And then payments, payments is something we're interested in. It's something over the long arc of history might come into HubSpot. And I think of it less in terms of just payments and more in terms of we want to solve the whole CRM problem. We want to enable our customers to build beautiful end to end experiences for their customers. And part of the crappy part of almost every experience is the end is the proposal and the quote and the purchase order and the payment is kind of a mess. And so at some point in the future we'd like to clean that up for our customers, enable them to make that better. If it so happens that payments is part of that and there's an additional revenue stream there, that could be interesting as well. It's something we've considered.

Speaker: Rev ops is another category that seemingly has attracted a significant amount of both dollars from a ventures perspective, both increasing, again part of the stack that's getting more prioritization. You've got the outreaches, the sales loft, you've got other parts of that stack with the seismics and the demand basis and the public company like ZoomInfo. How does that fit into your vision strategy portfolio over time in terms of easing and scaling that workflow for your customer base?

Speaker: Yeah, the risk of wearing the Apple analogy out. When I grew up it was sort of the Mac versus Windows. Maybe many of you were kind of grew up in the theater industry when that was the dynamic. I think that dynamic really kind of exists today where we're trying to be the Mac. And like, I look at Outreach and SalesLoft, I think they're very good companies and very well run. We offer like 90% of that functionality as part of HubSpot, like your ability to create a sequence, ability to do calendaring inside of HubSpot. All those kinds of sales acceleration tools. We build that inside of HubSpot. So you don't need to go and do a contract with a third party company and integrate the thing. And it's got a different UI and, aah, it's all kind of built in one super slick way. The demand base stuff is kind of interesting. That's one where we'll probably do basic capabilities. Like you can do account based marketing inside of HubSpot. So for example, if you're from RBC and you're in our database and you visit our website, it'll be customized, you'll get targeted in your advertising and stuff like that. And it really an account-based view of someone. Basic levels of that we'll do inside of HubSpot. The mandates just built a really slick integration into HubSpot. So you can use that for more advanced use cases. ZoomInfo is an area we likely won't get into we want to use data, we want to be careful about it. We just want to be very careful on the data sets. The data we want to use and create leverage with but we don't want to go over the line of privacy things. And so we have a nascent partnership with ZoomInfo that's pretty cool. We want to be careful how much of that data we mix in. We want to be the squeaky clean inbound player in the industry.

Speaker: Kate, let's talk margins, let's talk investment dollars to kind of satisfy the satiate the growth appetite that Brian has. And quite frankly a lot of your investors have over the long term. Talk about higher end, talk about where you are and talk about if you think about the margin we've probably overachieved a little bit on margin this year. How does that flow through over the next few years somatically talking about this category?

Speaker: Yeah, I think a lot of what you're going to see from us is again, a continuation of the themes and the plays that we've been running for a bit of time. This year was a bit strange as our workforce became remote like everyone else's. There are some natural savings. And what we tried to do is to reinvest those savings back into the business. And our target is always to reinvest as much as possible in our R and D teams so that we can continue to drive innovation in the product. I think what you're going to see in 2021 is that some of that cost will kind of come back into the business, not to the same degree that we saw before this year. But we'll see some of that and we're going to continue to see us invest for longterm growth.

Speaker: We still feel like it's kind of early. Like we look at HubSpot is still pretty early in its development and its capabilities. And the edges of what we see HubSpot can be are still pretty far away.

Speaker: That's awesome. So, one question again maybe going back to the beginning of tailwinds headwinds COVID vaccine. How do you see a vaccine kind of return to work world? Is that a tough comp headwind? Because some of the activity kind of goes back and maybe people need to spend incrementally less than they did last year. Or walkthrough how HubSpot performs in a hopefully soon as possible vaccine based demand environment.

Speaker: Brian, you want me to take that one?

Speaker: Yeah, sure.

Speaker: Okay, I guess, Alex, just to be clear, I don't know if you were talking about our own P&L or if you're talking about the top line revenue. I will start maybe with the-

Speaker: Top line revenue.

Speaker: Oh, okay. I mean, I think this is another question of predicting the future, right? I think that what you heard all of us say is we believe that there will be some move back to a more office centric culture. That said, it's not going to go all the way back to where it came from. How and when that happens is you're probably in as good of a position to predict as we are. But we do think the world has changed fundamentally and people understand that they can do a lot of stuff without having to be in the office. And that we never thought we would be able to do before 2020.

Speaker: Fair point, maybe Brian for you, what product right now, or products are you most excited about as you look over the next 12 months, what are you seeing? Where are you seeing kind of increased traction that's kind of giving you increased confidence?

Speaker: Our core bread and butter has been crushing it this year, marketing hub. We had a big release marketing hub last January and it's been great. I kind of think of our products is like if you separate HubSpot's marketing into small and medium and large businesses. And I think a product market fit. Our marketing hub product really is a perfect fit across all three segments. I think our sales hub product is a really good fit for small and medium, and we just

did a major release that that was really good. There's a lot more coming for those types of customers over the next year. So I think that'll kind of hop up over the next year. Our service hub product is newer, getting way better and doing well. I think you'll see that go from small to medium to large over the next couple of years. So it's a little bit like Clay Christianson's model of like you start small and you move up and we've been playing that game. And you see the marketing kind of moved up. Sales is in medium, going to go to large. And then the service probably small going to go to medium. And so I'm excited about all of them. I guess I'm particularly excited about the sales hub enterprise at sales hub product line. It's doing well, it's growing fast and it's a giant market and there's approximately a good Gillian salespeople out there. Every company on the planet needs a CRM system. And we're just getting started, just scratching the surface. And then the product is doing really well. And when I'm on sales calls with people, people see that we're very unique in the way we built it versus acquired it. And how it's kept that consumer like feel to it. It feels disruptive. I'm probably most excited about that. Sorry, I got the sun coming in.

Speaker: And then I would say the other element that there's been increased activity around and other element there's been increased activity around is this notion of CDP where we saw Twilio make the acquisition of segment. Salesforce have been talking about customer 360. Adobe has been partnering with SAP and Microsoft. What is the HubSpot approach to CDP? How important is it to kind of aggregate all of the data across all the contact points that companies have with their customers. Normalize it and fuse it back into their outreach. What's your take on CDP and where are you thinking to put that? Is that important part of a feature HubSpot platform or not?

Speaker: Yeah, it is. It's something we've been talking about for a long, long time. I think Segment is are pretty good company is sort of the first big mover in that space. And I applaud that acquisition. HubSpot already is a CDP effectively. I think it can be a lot better CDP. Like when I think of the evolution you'll see of HubSpot over the arc of the next couple of years is we're very good at getting all of the data that HubSpot collects. Through your website, through social, through search, through your sales reps, through your email marketing, all of it, we do all. All that happens inside of HubSpot is captured inside of HubSpot. We have all that data inside of HubSpot. You can take that data and you can create workflows and actions based on that data. And you can report on it. That works pretty well actually and that's worked for a long time. It's been a core part of our value prop. We're unique in the way we do that because we built hub site from scratch. So it's not like a whole bunch of other applications are grabbing this stuff. Like we have a lot of that data. And marketers and sellers take advantage of it. They watch that data, seller watches that data, watches signals in the data and uses that data to reach out to their account. The marketer uses that data to create segments and then workflow of activities. Kickoff ads, kicked up email marketing campaigns off that data. So we are effectively a CDP where over time you'll see us it's just gathering more data for more other applications in having that inside of HubSpot. Then our workflows you'll see get more powerful and extend well outside the boundaries of the HubSpot data and trigger activities across all of your applications and our reporting. Not just reporting on HubSpot but reporting writ large on all of your data across your front office. And so that's an art that's in process these days and it's going to get pretty cool over the next couple of years.

Speaker: Perfect. Guys, thank you so much for joining. This has been a really great virtual conversation and discussion around the future, the present and I'm excited to continue to watch and be there with you on the journey.

Speaker: All right, thanks Alex.

Speaker: We called our last earnings report our title is from good to great. And I can't emphasize enough what a pleasure it has been to watch the company kind of elevate as you've executed these plays particularly through this crisis. It's been quite an experience.

Speaker: Thank you sir.

Speaker: Thank you.

Speaker: Thank you guys.

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