

# HubSpot Reports Q4 and Full Year 2021 Results

February 10, 2022

HubSpot, Inc. (NYSE: HUBS), the customer relationship management (CRM) platform for scaling companies, today announced financial results for the fourth quarter and full year ended December 31, 2021.

### **Financial Highlights:**

### Revenue

Fourth Quarter 2021:

- Total revenue was \$369.3 million, up 47% compared to Q4'20.
- Subscription revenue was \$358.7 million, up 47% compared to Q4'20.
- Professional services and other revenue was \$10.7 million, up 38% compared to Q4'20.

## Full Year 2021:

- Total revenue was \$1.30 billion, up 47% compared to 2020.
- Subscription revenue was \$1.26 billion, up 48% compared to 2020.
- Professional services and other revenue was \$42.3 million, up 41% compared to 2020.

## **Operating Income (Loss)**

Fourth Quarter 2021:

- GAAP operating margin was (2.2%), compared to (3.0%) in Q4'20.
- Non-GAAP operating margin was 10.3%, compared to 9.8% in Q4'20.
- GAAP operating loss was (\$8.2) million, compared to (\$7.6) million in Q4'20.
- Non-GAAP operating income was \$38.2 million, compared to \$24.6 million in Q4'20.

Full Year 2021:

- GAAP operating margin was (4.2%), compared to (5.8%) in 2020.
- Non-GAAP operating margin was 9.0%, compared to 8.5% in 2020.
- GAAP operating loss was (\$54.8) million, compared to (\$50.8) million in 2020.
- Non-GAAP operating income was \$117.6 million, compared to \$74.9 million in 2020.

### Net Income (Loss)

Fourth Quarter 2021:

- GAAP net loss was (\$16.4) million, or (\$0.35) per basic and diluted share, compared to (\$15.4) million, or (\$0.34) per basic and diluted share in Q4'20.
- Non-GAAP net income was \$29.6 million, or \$0.63 per basic and \$0.58 per diluted share, compared to \$20.1 million, or \$0.44 per basic and \$0.40 per diluted share in Q4'20.
- Weighted average basic and diluted shares outstanding for GAAP net loss per share was 47.3 million, compared to 46.0 million basic and diluted shares in Q4'20.
- Weighted average basic and diluted shares outstanding for non-GAAP net income per share was 47.3 million and 50.9 million respectively, compared to 46.0 million and 49.9 million, respectively in Q4'20.

Full Year 2021:

- GAAP net loss was (\$77.8) million, or (\$1.66) per basic and diluted share, compared to (\$85.0) million, or (\$1.90) per basic and diluted share in 2020.
- Non-GAAP net income was \$92.5 million, or \$1.97 per basic and \$1.82 per diluted share, compared to

\$64.5 million, or \$1.44 per basic and \$1.32 per diluted share in 2020.

- Weighted average basic and diluted shares outstanding for GAAP net loss per share was 46.9 million, compared to 44.8 million basic and diluted shares in 2020.
- Weighted average basic and diluted shares outstanding for non-GAAP net income per share was 46.9 million and 50.7 million respectively, compared to 44.8 million and 48.7 million, respectively in 2020.

# **Balance Sheet and Cash Flow**

- The company's cash, cash equivalents, and short-term and long-term investments balance was \$1.37 billion as of December 31, 2021.
- During the fourth quarter, the company generated \$97.2 million of operating cash flow, excluding the \$2.0 million used for the repayment of our convertible notes, compared to \$61.3 million during Q4'20, which excluded the \$0.4 million used for the repayment of our convertible notes.
- During the fourth quarter, the company generated \$78.3 million of free cash flow, compared to \$45.8 million during Q4'20.
- The company generated \$265.2 million of operating cash flow during 2021, excluding the \$26.4 million used for the repayment of our convertible notes, compared to \$138.0 million during 2020, which excluded the \$49.0 million used for the repayment of our convertible notes.
- The company generated \$203.3 million of free cash flow during 2021, compared to \$79.1 million during 2020.

## **Additional Recent Business Highlights**

- Grew Customers to 135,442 at December 31, 2021, up 30% from December 31, 2020.
- Average Subscription Revenue Per Customer was \$10,875 during the fourth quarter of 2021, up 11% compared to the fourth quarter of 2020.

"I am incredibly proud of how the HubSpot team was able to adapt and execute in 2021 to deliver a truly exceptional year," said Yamini Rangan, Chief Executive Officer at HubSpot. "We went into 2021 with the goal of becoming the #1 CRM platform for scaling companies, and we made significant progress by staying focused on our key strategic priorities. 2022 will be a year of sustained focus and consistency as we continue to invest in those priorities."

# **Business Outlook**

Based on information available as of February 10, 2022, HubSpot is issuing guidance for the first quarter of 2022 and full year 2022 as indicated below.

# First Quarter 2022:

- Total revenue is expected to be in the range of \$381 million to \$383 million.
- Non-GAAP operating income is expected to be in the range of \$30 million to \$31 million.
- Non-GAAP net income per common share is expected to be in the range of \$0.46 to \$0.48. This assumes approximately 51.3 million weighted average diluted shares outstanding.

### Full Year 2022:

- Total revenue is expected to be in the range of \$1.72 billion to \$1.73 billion.
- Non-GAAP operating income is expected to be in the range of \$155 million to \$157 million.
- Non-GAAP net income per common share is expected to be in the range of \$2.34 to \$2.42. This assumes approximately 51.5 million weighted average diluted shares outstanding.

### **Use of Non-GAAP Financial Measures**

In our earnings press releases, conference calls, slide presentations, and webcasts, we may use or discuss non-GAAP financial measures, as defined by Regulation G. The GAAP financial measure most directly comparable to each non-GAAP financial measure used or discussed, and a reconciliation of the differences between each non-GAAP financial measure and the comparable GAAP financial measure, are included in this press release after the consolidated financial statements. Our earnings press releases containing such non-GAAP reconciliations can be found in the Investors section of our website <u>ir.hubspot.com</u>.

## **Conference Call Information**

HubSpot will host a conference call on Thursday February 10, 2022 at 4:30 p.m. Eastern Time (ET) to discuss the company's fourth quarter and full year 2021 financial results and its business outlook. To register for this conference call, please use this dial in registration link or visit HubSpot's Investor Relations website at <u>ir.hubSpot.com</u>. After registering, a confirmation email will be sent, including dial-in details and a unique code for entry. Participants who wish to register for the conference call webcast please use <u>this link</u>.

Following the conference call, a replay will be available at (800) 770-2030 (domestic) or (647) 362-9199 (international). The replay passcode is 41811. An archived webcast of this conference call will also be available on HubSpot's Investor Relations website at <u>ir.hubspot.com</u>.

The company has used, and intends to continue to use, the investor relations portion of its website as a means of disclosing material non-public information and for complying with disclosure obligations under Regulation FD.

## **About HubSpot**

HubSpot is a leading CRM platform that provides software and support to help companies grow better. The platform includes marketing, sales, service, operations, and website management products that start free and scale to meet our customers' needs at any stage of growth. Today, over 135,000 customers across more than 120 countries use HubSpot's powerful and easy-to-use tools and integrations to attract, engage, and delight customers. Learn more at <u>www.hubspot.com</u>.

### **Cautionary Language Concerning Forward-Looking Statements**

This press release includes certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding management's expectations of future financial and operational performance and operational expenditures, expected growth, and business outlook, including our financial guidance for the first fiscal guarter of and full year 2022; and statements regarding our positioning for future growth and market leadership; statements regarding expected market trends, future priorities and related investments, and opportunities. These forward-looking statements include, but are not limited to, plans, objectives, expectations and intentions and other statements contained in this press release that are not historical facts and statements identified by words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" or words of similar meaning. These forward-looking statements reflect our current views about our plans, intentions, expectations, strategies and prospects, which are based on the information currently available to us and on assumptions we have made. Although we believe that our plans, intentions, expectations, strategies and prospects as reflected in or suggested by those forward-looking statements are reasonable, we can give no assurance that the plans, intentions, expectations or strategies will be attained or achieved. Furthermore, actual results may differ materially from those described in the forward-looking statements and will be affected by a variety of risks and factors that are beyond our control including, without limitation, risks associated with our history of losses; our ability to retain existing customers and add new customers; the continued growth of the market for a CRM platform; our ability to differentiate our platform from competing products and technologies; our ability to manage our growth effectively to maintain our high level of service; our ability to maintain and expand relationships with our solutions partners; our ability to successfully recruit and retain highly-qualified personnel; the price volatility of our common stock; the impact of COVID-19 on our business, the broader economy, our workforce and operations, and our ability to forecast our future financial performance as a result of COVID-19; and other risks set forth under the caption "Risk Factors" in our SEC filings. We assume no obligation to update any forward-looking statements contained in this document as a result of new information, future events or otherwise.

### **Consolidated Balance Sheets**

(in thousands)

(in thousands)	D	ecember 31,	D	ecember 31,
		2021		2020
Assets				
Current assets:				
Cash and cash equivalents	\$	377,013	\$	378,123
Short-term investments		820,962		873,073
Accounts receivable		157,362		126,433
Deferred commission expense		59,849		44,576
Prepaid expenses and other current assets		38,388		34,716
Total current assets		1,453,574		1,456,921
Long-term investments		174,895		30,697
Property and equipment, net		96,134		101,123
Capitalized software development costs, net		39,858		24,943
Right-of-use assets		280,828		275,893
Deferred commission expense, net of current portion		42,681		28,296
Other assets		29,244		13,893
Intangible assets, net		10,565		10,282
Goodwill		47,075		31,318
Total assets	\$	2,174,854	\$	1,973,366
Liabilities and stockholders' equity				
Current liabilities:				
Accounts payable	\$	2,773	\$	13,540
Accrued compensation costs		63,836		44,054
Accrued expenses and other current liabilities		74,457		37,184
Convertible senior notes		19,630		7,837
Operating lease liabilities		26,364		30,020

Deferred revenue	430,414	312,866
Total current liabilities	617,474	445,501
Operating lease liabilities, net of current portion	283,873	279,664
Deferred revenue, net of current portion	4,473	3,636
Other long-term liabilities	12,134	10,811
Convertible senior notes, net of current portion	383,101	471,099
Total liabilities	1,301,055	1,210,711
Stockholders' equity:		
Common stock	47	46
Additional paid-in capital	1,436,089	1,241,167
Accumulated other comprehensive (loss) income	(1,339)	4,603
Accumulated deficit	(560,998)	(483,161)
Total stockholders' equity	873,799	762,655
Total liabilities and stockholders' equity	\$ 2,174,854 \$	1,973,366

#### Consolidated Statements of Operations

	For the T	hree Mont <u>hs</u>	Endeo	I December 31,	Year Ended December 31			
	20	21		2020		2021		2020
Revenues:								
Subscription	\$	358,657	\$	244,323	\$	1,258,319	\$	853,025
Professional services and other		10,652		7,742		42,339		30,001
Total revenue		369,309		252,065		1,300,658		883,026
Cost of revenues:	<u>.</u>							
Subscription		58,599		37,369		211,132		130,685
Professional services and other		13,040		9,925		47,725		36,274
Total cost of revenues		71,639		47,294		258,857		166,959
Gross profit		297,670		204,771	_	1,041,801		716,067
Operating expenses:								
Research and development		82,997		55,564		301,970		205,589
Sales and marketing		180,845		127,851		649,681		452,081
General and administrative		42,065		28,997		144,949		109,225
Total operating expenses		305,907		212,412		1,096,600		766,895
Loss from operations		(8,237)		(7,641)		(54,799)		(50,828
Other expense:								
Interest income		126		623		1,173		7,773
Interest expense		(5,905)		(7,226)		(30,282)		(37,049
Other (expense) income		(974 <u>)</u>		441		10,090	_	(711
Total other expense		(6,753)		(6,162 <u>)</u>		(19,019)	_	(29,987
Loss before income tax expense		(14,990)	-	(13,803)		(73,818)		(80,815
Income tax expense		(1,380)		(1,613)		(4,019 <u>)</u>		(4,216

Net loss	\$ (16,370 <u>)</u> \$	<u>(15,416)</u> \$	(77,837 <u>)</u> \$	(85,031 <u>)</u>
Net loss per share, basic and diluted	\$ (0.35) \$	(0.34) \$	(1.66) \$	(1.90)
Weighted average common shares used ir computing basic and diluted net loss per sh	47,304	45,983	46,891	44,757

### **Consolidated Statements of Cash Flows**

(in thousands)

	For the Three Month 31		ed December	Year Ended December 31,		
	2021	',	2020	2021	2020	
Operating Activities:						
Net loss	(16,370)	\$	(15,416) \$	6 (77,837)\$	(85,031	
Adjustments to reconcile net loss to net cash and cash equivalents provided						
by operating activities						
Depreciation and amortization	11,970		9,993	45,159	37,060	
Stock-based compensation	45,914		31,466	166,761	121,488	
Loss on early extinguishment of 2022 Convertible Notes	68		14	4,892	10,507	
Repayment of 2022 Convertible Notes attributable to the debt discount	(1,971)		(373)	(26,428)	(49,048)	
Gain on strategic investments	(2)		_	(11,741)	_	
Gain on termination of operating leases	—		—	(4,276)	_	
Loss on disposal of fixed assets	—		—	6,468	_	
Benefit from deferred income taxes	(1,548)		(1,449)	(2,869)	(2,185)	
Amortization of debt discount and issuance costs	5,393		6,702	23,507	24,890	
Amortization (accretion) of bond discount	1,332		59	4,275	(3,657)	
Unrealized currency translation	701		(831)	1,304	(952)	
Changes in assets and liabilities						
Accounts receivable	(31,859)		(29,592)	(34,107)	(29,971)	
Prepaid expenses and other assets	6,072		5,570	(1,077)	(17,026)	
Deferred commission expense	(8,189)		(7,937)	(32,560)	(19,288)	
Right-of-use assets	4,470		8,824	31,418	31,406	
Accounts payable	1,343		627	(10,608)	3,697	
Accrued expenses and other liabilities	20,025		12,240	58,209	26,020	
Operating lease liabilities	(3,056)		(10,105)	(29,478)	(31,621)	
Deferred revenue	60,891		51,133_	127,716	72,624	
Net cash and cash equivalents provided by operating activities	95,184		60,925	238,728	88,913	
Investing Activities:						
Purchases of investments	(447,431)		(139,915)	(1,484,762)	(1,517,357)	
Maturities of investments	446,722		338,961	1,387,498	1,352,231	
Sale of investments	_		_	_	10,932	
Equity method investment				(3,100)	_	
Acquisition of a business, net of cash acquired	_		_	(16,810)	_	
Purchases of property and equipment	(11,327)		(9,521)	(28,726)	(37,274)	
Proceeds from sale of strategic investments	12,620			12,620		
Capitalization of software development costs	(7,501)		(5,955)	(33,139)	(21,599)	
Purchases of strategic investments	(2,887)		(500 <u>)</u>	(13,089 <u>)</u>	(2,500)	
Net cash and cash equivalents (used in) provided by investing activities	(9,804)		183,070	(179,508)	(215,567)	
Financing Activities:						
Proceeds from issuance of 2025 Convertible Notes, net of issuance costs paid of \$9.9 million				_	450,123	

Proceeds from settlement of Convertible Note Hedges related to the 2022 Convertible Notes	e 8,25	56	1,062	8,985	363,554
Payments for settlement of Warrants related to the 2022 Convertible Notes				_	(327,543)
Repayment of 2022 Convertible Notes attributable to the principal	(9,09	97)	(1,627)	(89,525)	(235,993)
Payments for Capped Call Options related to the 2025 Convertible Notes			_	_	(50,600)
Employee taxes paid related to the net share settlement of stock-based awards	(5,7	11)	(2,787)	(17,439)	(7,424)
Proceeds related to the issuance of common stock under stock plans	12,38	86	8,115	46,510	30,371
Repayments of finance lease obligations					(28 <u>)</u>
Net cash and cash equivalents provided by (used in) financing activities	5,83	34	4,763	(51,469)	222,460
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(2,53	35)	4,470	(8,861)	6,831
Net increase in cash, cash equivalents and restricted cash	88,67	<b>'</b> 9	253,228	(1,110)	102,637
Cash, cash equivalents and restricted cash, beginning of period	291,36	63	127,924	381,152	278,515
Cash, cash equivalents and restricted cash, end of period	\$ 380,04	2 \$	381,152\$	380,042 \$	381,152

### Reconciliation of non-GAAP operating income and operating margin

### (in thousands, except percentages)

	Thre	e Months End	led De	ecember 31,	_Ye	ear Ended [	Dece	cember 31,	
		2021	2020			2021	_	2020	
GAAP operating loss	\$	(8,237)	\$	(7,641)	\$	(54,799)	\$	(50,828)	
Stock-based compensation		45,914		31,466		166,761		121,488	
Amortization of acquired intangible asset	s	318		159		1,326		2,419	
Acquisition related expenses		170		640		2,087		1,832	
Gain on termination of operating leases		_		_		(4,276)		_	
Loss on disposal of fixed assets	_			<u> </u>		6,468			
Non-GAAP operating income	\$	38,165	\$	24,624	\$	117,567	\$	74,911	
GAAP operating margin		(2.2 %)		(3.0 %)	)	(4.2 %	)	(5.8 %)	
Non-GAAP operating margin		10.3 %		9.8 %	9.0 %			8.5 %	

#### Reconciliation of non-GAAP net income

(in thousands, except per share amounts)

Three Months Ended December 31,	Year Ended December 31,
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	2021	2020	2021	2020
GAAP net loss	\$ (16,370)	(15,416) \$	(77,837)\$	(85,031)
Stock-based compensation	45,914	31,466	166,761	121,488
Amortization of acquired intangibles assets	318	159	1,326	2,419
Acquisition related expenses	170	640	2,087	1,832
Gain on termination of operating leases	_	_	(4,276)	_

Loss on disposal of fixed assets	_		_	6,468	_
Non-cash interest expense for amortization of debt discount and debt issuance costs	5,393		6,702	23,507	24,890
(Gain on) impairment of strategic investments	(2)		_	(11,741)	250
Loss on early extinguishment of 2022 Convertible Notes	68		14	4,892	10,507
Loss on equity method investment	150		_	371	_
Income tax effects of non-GAAP items	 (6,024)		(3,423)	 (19,096)	(11,898)
Non-GAAP net income	\$ 29,617	_	20,142	\$ 92,462	64,457 
Non-GAAP net income per share:					
Basic	\$ 0.63	\$	0.44	\$ 1.97	5 1.44
Diluted	\$ 0.58	\$	0.40	\$ 1.82	5 1.32
Shares used in non-GAAP per share calculations					
Basic	47,304		45,983	46,891	44,757
Diluted	50,888		49,922	 50,694	48,739

### Reconciliation of non-GAAP expense and expense as a percentage of revenue

(in thousands, except percentages)

		Three Months Ended December 31,											
				2021			2020						
	COS, Subs- cription	S	COS, Prof. ervices & other	R&D	S&M	G&A	COS, Subs- cription	S	COS, Prof. ervices & other	R&D	S&M	G&A	
GAAP expense	\$ 58,599	\$	13,040	\$ 82,997	\$ 180,845	\$ 42,065	\$ 37,369	\$	9,925	\$ 55,564	\$ 127,851	\$ 28,997	
Stock -based compensation	(1,742)		(821)	(16,600)	(17,511)	(9,240)	(1,294)		(651)	(10,303)	(13,568)	(5,650)	
Amortization of acquired intangible assets	f (228)		_	_	(90)	_	(139)		_	_	(20)	_	

Acquisition related expenses	_	_	- (131)	-	(39)	_	_	(285)	_	(355)
Non-GAAP expense	\$ 56,629	\$ 12,219	\$ 66,266	\$ 163,244	\$ 32,786	\$ 35,936	\$ 9,274	\$ 44,976	\$ 114,263	\$ 22,992
GAAP expense as a percentage of revenue		ő 3.5	% 22.55	% 49.0	% 11.4 %	14.8%	3.9%	o 22.0 %	50.7%	o 11.5 %
Non-GAAP expense as a percentage of revenue		ó 3.3	% 17.94	% 44.2	% 8.9%	14.3%	3.7 %	o 17.8 %	45.3%	9.1%
			2021		Year Ended D	ecember 31,		2020		
	COS, Subs- cription	COS, Prof. services & other	R&D	S&M	G&A	COS, Subs- cription	COS, Prof. services & other	R&D	S&M	G&A
GAAP expense	\$ 211,132	\$ 47,725	\$301,970	\$649,681	\$ 144,949	\$ 130,685	\$ 36,274	\$205,589	\$452,081	\$ 109,225
Stock -based compensation	(6,297)	(3,092)	(61,614)	(67,413)	(28,345)	(4,408)	(2,536)	(39,366)	(50,552)	(24,626)
Amortization of acquired intangible assets	(937)	_	_	(389)	_	(2,340)	_	_	(79)	_
Acquisition related	_	_	(1,152)	(367)	(568)	_		(1,287)	_	(545)

expenses

Gain on termination of operating leases	395	275	1,346	1,839	421	_	_	_	_	_
Loss on disposal of fixed assets	(600)	(415)	(2,036)	(2,781)	(636)	_	_	_	_	_
Non-GAAP expense	\$203,693	\$ 44,493	\$238,514	\$ 580,570	\$ 115,821	\$ 123,937	\$ 33,738	\$164,936	\$401,450	\$ 84,054
GAAP expense as a percentage of revenue		6 3.7%	o 23.2 <i>%</i>	50.0%	o 11.1 %	14.8 %	6 4.1%	o 23.3%	51.2%	12.4 %
Non-GAAP expense as a percentage of revenue		6 <u>3.4</u> %	o 18.3 %	o 44.6 %	o 8.9 %	14.0 %	6 3.8%	o 18.7 %	5 45.5 %	9.5%

### Reconciliation of non-GAAP subscription margin

(in thousands, except percentages)

	Thre	Three Months Ended December 31,			Year Ended December 31			mber 31,
		2021		2020		2021		2020
GAAP subscription margin	\$	300,058	\$	206,954	\$	1,047,187	\$	722,340
Stock -based compensation		1,742		1,294		6,297		4,408
Amortization of acquired intangible assets		228		139		937		2,340
Gain on termination of operating leases		_		_		(395)		_
Loss on disposal of fixed assets	_		_			600		
Non-GAAP subscription margin	\$	302,028	\$	208,387	\$	1,054,626	\$	729,088
GAAP subscription margin percentage		83.7 %	)	84.7 %	, 0	83.2 %	6	84.7 %
Non-GAAP subscription margin percentage	;	84.2 %	)	85.3 %	, o	83.8 %	6	85.5 %

#### Reconciliation of free cash flow

(in thousands)				
	Three Months End	led December 31,	Year Ended	December 31,
	2021	2020	2021	2020
		_	-	

GAAP net cash and cash equivalents provided by operating activities	\$ 95,184 \$	60,925 \$	238,728 \$	88,913
Purchases of property and equipment	(11,327)	(9,521)	(28,726)	(37,274)
Capitalization of software development costs	(7,501)	(5,955)	(33,139)	(21,599)
Repayment of 2022 Convertible Notes attributable to the debt discount	1,971	373	26,428	49,048
Free cash flow	\$ 78,327 \$	45,822 \$	203,291 \$	79,088

### Reconciliation of operating cash flow

(in thousands)								
	Three Months Ended December 31,			Year Ended December 31,				
		2021	=	2020		2021	= 	2020
GAAP net cash and cash equivalents provided by operating activities	\$	95,184	\$	60,925	\$	238,728	\$	88,913
Repayment of 2022 Convertible Notes attributable to the debt discount		1,971		373		26,428		49,048
Operating cash flow, excluding repayment of convertible debt	\$	97,155	\$	61,298	\$	265,156	\$	137,961

#### Reconciliation of forecasted non-GAAP operating income

(in thousands, except percentages)

(in thousands, except percentages)	Three Months Ended March 31, 2022	Year Ended December 31, 2022
GAAP operating income range	(\$16,530)-(\$15,530)	(\$146,011)-(\$142,011)
Stock-based compensation	46,118	297,365
Amortization of acquired intangible assets	412	1,646
Non-GAAP operating income range	\$30,000-\$31,000	\$153,000-\$157,000

### Reconciliation of forecasted non-GAAP net income and non-GAAP net income per share

(in thousands, except per share amounts)

	Three Months Ended March 31, 2022	Year Ended December 31, 2022
GAAP net loss range	(\$20,007)-(\$18,757)	(\$158,775)- (\$153,775)
Stock-based compensation	46,118	297,365
Amortization of acquired intangible assets	412	1,646
Non-cash interest expense for amortization of debt issuance costs	972	2,808
Income tax effects of non-GAAP items	(\$4,095)-(\$4,345)	(\$22,444)-(\$23,444)
Non-GAAP net income range	\$23,400-\$24,400	\$120,600-\$124,600

GAAP net income per basic and diluted share	(\$0.42)-(\$0.39)	(\$3.28)-(\$3.18)
Non-GAAP net income per diluted share	\$0.46-\$0.48	\$2.34-\$2.42
Weighted average common shares used in computing GAAP basic and diluted net loss per share:	47,604	48,372

HubSpot's estimates of stock-based compensation, amortization of acquired intangible assets, non-cash interest expense for amortization of debt issuance costs, and income tax effects of non-GAAP items assume, among other things, the occurrence of no additional acquisitions, and no further revisions to stock-based compensation and related expenses.

## **Non-GAAP Financial Measures**

We report our financial results in accordance with accounting principles generally accepted in the United States of America, or GAAP. However, management believes that, in order to properly understand our short-term and long-term financial and operational trends, investors may wish to consider the impact of certain non-cash or non-recurring items when used as a supplement to financial performance measures in accordance with GAAP. These items result from facts and circumstances that vary in frequency and impact on continuing operations. In this release, HubSpot's non-GAAP operating income, operating margin, subscription margin, expense, expense as a percentage of revenue, net income, operating and free cash flow are not presented in accordance with GAAP and are not intended to be used in lieu of GAAP presentations of results of operations. Free cash flow is defined as cash and cash equivalents provided by or used in operating activities less purchases of property and equipment and capitalization of software development costs, plus repayments of convertible notes attributable to debt discount. We believe information regarding free cash flow provides useful information to investors in understanding and evaluating the strength of liquidity and available cash and the exclusion of repayments of convertible notes attributable to debt discount from operating cash flow provides a comparable framework for assessing how our business performed when compared to prior periods and also aligns the non-GAAP treatment of our debt discount that is amortized as non-cash interest expense.

Management believes that these non-GAAP financial measures provide additional means of evaluating periodover-period operating performance. Specifically, these non-GAAP financial measures provide management with additional means to understand and evaluate the operating results and trends in our ongoing business by eliminating certain non-cash expenses and other items that management believes might otherwise make comparisons of our ongoing business with prior periods more difficult, obscure trends in ongoing operations, or reduce management's ability to make useful forecasts. In addition, management understands that some investors and financial analysts find this information helpful in analyzing our financial and operational performance and comparing this performance to our peers and competitors. However, these non-GAAP financial measures have limitations as an analytical tool and are not intended to be an alternative to financial measures prepared in accordance with GAAP. In addition, it should be noted that these non-GAAP financial measures may be different from non-GAAP measures used by other companies. We intend to provide these non-GAAP financial measures as part of our future earnings discussions and, therefore, the inclusion of these non-GAAP financial measures will provide consistency in our financial reporting. Management may, however, utilize other measures to illustrate performance in the future. Investors are encouraged to review the reconciliation of these non-GAAP measures to their most directly comparable GAAP financial measures. A reconciliation of our non-GAAP financial measures to their most directly comparable GAAP measures has been provided in the financial statement tables included above in this press release.

These non-GAAP measures exclude stock-based compensation, amortization of acquired intangible assets, acquisition related expenses, non-cash interest expense for the amortization of debt discount debt issuance costs, loss on early extinguishment of 2022 Convertible Notes, gain or loss on strategic investments, gain or loss on equity method investment, gain or loss on disposal of fixed assets, and account for the income tax effects of the exclusion of these non-GAAP items. We believe investors may want to incorporate the effects of these items in order to compare our financial performance with that of other companies and between time periods:

- A. Stock-based compensation is a non-cash expense accounted for in accordance with FASB ASC Topic 718. We believe that the exclusion of stock-based compensation expense allows for financial results that are more indicative of our operational performance and provide for a useful comparison of our operating results to prior periods and to our peer companies because stock-based compensation expense varies from period to period and company to company due to such things as differing valuation methodologies and changes in stock price.
- B. Expense for the amortization of acquired intangible assets, excluding backlog acquired intangible assets amortized as contra revenue, is excluded from non-GAAP expense and income measures as HubSpot views amortization of these assets as arising from pre-acquisition activities determined at the time of an acquisition. While these intangible assets are evaluated for impairment regularly, amortization of the cost of purchased intangibles is a non-cash expense that is not typically affected by operations during any particular period. Valuation and subsequent amortization of intangible assets can also be inconsistent in amount and frequency because they can significantly vary based on the timing and size of acquisitions and the inherently subjective nature of the degree to which a purchase price is allocated to intangible assets. We believe that the exclusion of this amortization expense provides for a useful comparison of our operating results to prior periods, for which we have historically excluded amortization. It is important to note that although we exclude amortization of acquired intangible assets from our non-GAAP expense and income measures, revenue generated from such intangibles is included within our non-GAAP income measures. The use of these intangible assets contributed to our revenues earned during the periods presented and will contribute to future periods as well.
- C. Acquisition related expenses, such as transaction costs and retention payments, are expenses that are not necessarily reflective of operational performance during a period. We believe that the exclusion of these expenses provides for a useful comparison of our operating results to prior periods and to our peer companies, which commonly exclude these expenses.
- D. In May 2017, the Company issued \$400 million of convertible notes due in 2022 with a coupon interest rate of 0.25%. In June 2020, the Company issued \$460 million of convertible notes due in 2025 with a coupon interest rate of 0.375%. The imputed interest rates of the convertible senior notes were approximately 6.87% and 5.71%, respectively. This is a result of the debt discount recorded for the conversion feature that is required to be separately accounted for as equity, and debt issuance costs, which reduce the carrying value of the convertible debt instrument. The debt discount is amortized as interest expense together with the issuance costs of the debt. The expense for the amortization of debt discount and debt issuance costs is a non-cash item, and we believe the exclusion of this non-cash interest expense provides for a useful comparison of our operating results to prior periods and to our peer companies.

In the quarter ended December 31, 2021, the Company settled \$2.8 million of the principal balance of the 2022 Notes in cash and in the year ended December 31, 2021, the Company settled \$106.5 million of the principal balance of the 2022 Notes in cash. In connection with these settlements, the Company recorded a \$70 thousand and \$4.9 million loss on early extinguishment of debt in the quarter and year ended December 31, 2021. The loss represents the difference between the fair value and carrying value of the debt extinguished. The amount of this charge may be inconsistent in size and varies depending on the timing of the repurchase of debt. In connection with the debt extinguishment, approximately \$2.0 million and \$26.4 million of the repayment of convertible notes that is attributable to debt discount was classified as cash used in operating activities in the quarter and year ended December 31, 2021. The Company has repaid, and will continue to repay early conversions of these notes until the maturity of these notes in June 2022 and 2025. These activities are not considered reflective of our recurring core business operating results. As such, we believe the exclusion of these expenses and payments provides for a useful comparison of our operating results to prior periods and to our peer companies.

E. Strategic investments consist of non-controlling equity investments in privately held companies. The recognition of gains or losses can vary significantly across periods and we do not view them to be indicative of our fundamental operating activities and believe the exclusion of gains or losses provides for a useful

comparison of our operating results to prior periods and to our peer companies.

- F. We made a contribution to the Black Economic Development Fund (the "investee") managed by the Local Initiatives Support Corporation and have committed to make additional capital contributions. We account for this investment under the equity method of accounting. The proportionate share of our equity method investee's net earnings have been excluded in order to provide a comparable view of our operating results to prior periods and to our peer companies. We believe this activity is not reflective of our recurring core business operating results.
- G. Gain on termination of operating leases results from early lease terminations and related improvement reimbursements from landlords being recorded as income. Loss on fixed assets result from the disposal of property and equipment associated with early lease terminations. As we generally fulfill our obligations for the full lease term and use these assets for their full useful lives, we believe these activities are not considered reflective of our recurring core business operating results. As such, we believe the exclusion of these transactions provides for a useful comparison of our operating results to prior periods and to our peer companies.
- H. The effects of income taxes on non-GAAP items reflect a fixed long-term projected tax rate of 20% to provide better consistency across reporting periods. To determine this long-term non-GAAP tax rate, we exclude the impact of other non-GAAP adjustments and take into account other factors such as our current operating structure and existing tax positions in various jurisdictions. We will periodically reevaluate this tax rate, as necessary, for significant events such as relevant tax law changes and material changes in our forecasted geographic earnings mix.

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HubSpot (NYSE: HUBS) is the customer platform that helps businesses connect and grow better. HubSpot delivers seamless connection for customer-facing teams with a unified platform that includes AI-powered engagement hubs, a Smart CRM, and a connected ecosystem with over 1,500 <u>App</u> <u>Marketplace</u> integrations, a community network, and educational content. Learn more at <u>www.hubspot.com</u>.

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