Q3 2024 Earnings Call

Company Participants

- Dharmesh Shah, Co-Founder, CTO
- Kate Bueker, Chief Financial Officer
- Ryan Burkart, Senior Director of Investor Relations
- Yamini Rangan, Chief Executive Officer

Other Participants

- Alex Zukin, Analyst, Wolfe Research
- Brad Sills, Analyst, Bank of America
- Brent Bracelin, Analyst, Piper Sandler
- Brian Peterson, Analyst, Raymond James
- Elizabeth Porter, Analyst, Morgan Stanley
- Gabriela Borges, Analyst, Goldman Sachs
- Joshua Reilly, Analyst, Needham & Company
- Keith Bachman, Analyst, BMO Capital Markets
- Ken Wong, Analyst, Oppenheimer & Co. Inc.
- Kirk Materne, Analyst, Evercore ISI
- Mark Murphy, Analyst, J.P. Morgan
- Michael Turrin, Analyst, Wells Fargo Securities
- Nick Altmann, Analyst, Scotiabank
- Parker Lane, Analyst, Stifel
- Rishi Jaluria, Analyst, RBC Capital Markets
- Samad Samana, Analyst, Jefferies
- Tyler Radke, Analyst, Citi

Presentation

Operator

Good afternoon, and welcome to the HubSpot's Third Quarter 2024 Earnings Call. My name is Liz, and I will be your operator today. At this time, all participant lines are in listen-only mode, and there will be an opportunity for questions and answers after management's prepared remarks. (Operator Instructions).

I would now like to hand the conference over to Senior Director of Investor Relations, Ryan Burkart. Please go ahead.

Ryan Burkart {BIO 20522635 <GO>}

Thanks, operator. Good afternoon, and welcome to HubSpot's third quarter 2024 earnings conference call. Today, we'll be discussing the results announced in the press release that was issued after the market closed. With me on the call this afternoon is Yamini Rangan, our Chief Executive Officer; Dharmesh Shah, our Co-Founder and CTO; and Kate Bueker, our Chief Financial Officer.

Before we start, I'd like to draw your attention to the safe harbor statement included in today's press release. During this call, we'll make statements related to our business that may be considered forward-looking within the meaning of Section 27A of the Securities Exchange Act of 1933 as amended, and Section 21E of the Securities Exchange Act of 1934 as amended. All statements other than statements of historical fact are forward-looking statements, including those regarding management's expectations of future financial and operational performance and operational expenditures, expected growth, FX movement and business outlook, including our financial guidance for the fourth fiscal quarter and full year 2024.

Forward-looking statements reflect our views only as of today, and except as required by law, we undertake no obligation to update or revise these forward-looking statements. Please refer to the cautionary language in today's press release and our Form 10-Q, which will be filed with the SEC this afternoon, for a discussion of the risks and uncertainties that could cause actual results to differ materially from expectations.

During the course of today's call, we'll refer to certain 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 such measures can be found within our third quarter of fiscal year 2024 earnings press release in the Investor Relations section of our website.

Now, it's my pleasure to turn the call over to HubSpot's Chief Executive Officer, Yamini Rangan. Yamini?

Yamini Rangan {BIO 20733463 <GO>}

Thank you, Ryan. And welcome, everyone, to the call. I'll start by discussing our Q3 2024 results and the key trends driving our momentum. Then I'll give an update on the product launches at INBOUND and the feedback from our customers. I'll wrap by highlighting how we are setting ourselves apart as a leading customer platform for scaling companies. Let's dive in.

Q3 was another strong quarter for HubSpot with revenue growing 20% year-over-year in constant currency. We delivered another quarter of significant operating margin growth with over 200 basis points of margin expansion year-over-year, driving our operating margin to 19%. Total customers grew to 238,000 customers globally, driven by 10,000 net customer additions in the quarter. I am thrilled to see customers continuing to consolidate on HubSpot as their customer platform, driven by our focus on customers and our pace of product innovation.

In the upmarket segment, we continue to see strong momentum in large deals and multi-hub wins, trends that have remained consistent throughout this year. Two main factors are driving larger deals. First, our product market fit has improved significantly in upmarket. And second, our platform's ease of use and ability to deliver quick results resonate with scaling companies. Discerning upmarket buyers want lower cost, high value and great adoption in a matter of weeks. We deliver on all of these, making HubSpot an easy choice for them.

Multi-hub wins are driven by customers looking to consolidate their tech stack and the [ph] level of innovation in our hubs like Content Hub and Service Hub. In Q3, more than 50% of our new business in Pro-plus tiers came from customers using three or more hubs. Additionally, over 40% of our installed base of customers now use all three core hubs, Marketing, Sales and Service, highlighting the value our customers find in HubSpot's unified customer platform.

It has been a great year for Content Hub with rapid growth driven by AI innovation. We added video capabilities to our popular Content Remix feature, and launched Content Agent that helps create and personalize content. Customers are quickly adopting these AI features to create landing pages, videos and blog posts, and they're seeing immediate value. For example, Franchise Brokers Association, our customer who connects great leaders with franchise opportunities, increased content production by 250% and improved organic lead generation by 216% using tools like our Blog Writer and Content Remix. The level of innovation with AI features in Content Hub has accelerated growth, and the attach rate to Marketing Hub is strong at nearly 50%.

In Service Hub, we introduced new features to better support larger customers, including a Customer Agent that helps answer customer questions, a new Customer Success Workspace to help teams improve retention, and enhancements to the Help Desk. These innovations are driving higher attach and upgrade rates. Customers appreciate having tickets and conversations in one workspace, which is making them more productive. With the level of innovation and recent launches targeted at customers with larger service teams, we have seen customers with 100-plus Service Hub seats grow 60% year-over-year.

Overall, I am thrilled with the progress we are making across product innovation and go-to-market execution to drive upmarket momentum.

In the lower end of our segment, we've continued to drive strong customer growth by improving our product and pricing. Our pricing strategy is working. We lowered the seat price to make it easy for customers to get started, and we removed seat minimums to make it easy for customers to upgrade and grow with HubSpot. We made significant progress in driving higher volumes of customers, which is now offsetting expected ASP decline. We've also improved our free and starter tiers to increase conversion rates. We added personalized upgrade prompts throughout the customer journey to encourage more customers to move from free to starter and drive conversion rates. In addition, we relaunched the starter tier in July, which has improved customer experience. All of these changes have helped us drive net customer growth in the segment.

Now the highlight of Q3 was, of course, our annual INBOUND Conference, where we launched a significant set of AI innovations that were very well-received by our customers and partners.

The event was a huge success, attracting over 12,000 in-person attendees and over 40,000 online. The conference and the campaigns following have generated nearly 1 billion impressions, creating tremendous momentum as we closed out Q3.

While INBOUND showcased over 200 new innovations, the two standout moments were the launches of Breeze and Breeze Intelligence. Here is a quick recap of what we launched and the customer feedback so far. At INBOUND, we launched Breeze, which is HubSpot's AI that powers the entire platform, including Copilot, Agents, new features and an agent marketplace. Our strategy is to embed AI into every hub and across the entire platform, and democratize AI for scaling companies.

Since the launch, we have seen a notable increase in AI awareness, adoption and usage. AI app awareness within HubSpot grew by 13% quarter-over-quarter, with two-thirds of Enterprise and half of Pro customers engaging with AI features. Copilot, our AI assistant, has resonated well, particularly with starter customers who use it to summarize CRM data and objects, rewrite text and generate insights from their customer data. Copilot is now in public beta, and we are seeing repeat usage with 43% of users, which is a strong start.

We also launched four agents at INBOUND: Social, Content, Prospecting, and Customer. Though still in beta, customers are already seeing value. For example, Kaplan Early Learning Company is using our Customer Agent to enable 25% to 30% of their customers to self-serve, reducing average ticket response time by 30%. Morehouse College is using our Content Agent to create blogs with best practices, which has resulted in 30% increase in page views and 27% more time spent on their site; exactly the kind of results content marketers are looking to drive with AI today.

And we know AI is only as good as the data that powers it, which is why we also launched Breeze Intelligence to provide our customers with the best possible data about their customers. To recap, Breeze Intelligence does three things. It enriches company and contact data with over 200 million data points, provides buyer intent signals to prioritize prospects, and when those prospects visit their websites, shortens forms to increase conversion, all out of the box in HubSpot.

While this is still in beta, it has been ungated now for all customers and there is clear enthusiasm. Customers are using it for lead scoring to see if the company is in their ideal customer profile, lead routing to send leads to the right reps, segmentation and personalization to ensure the right messaging gets to the right person. It's early days, but the trends from our September cohort are strong with high activation and repeat usage rates.

And finally, let's talk about our recent acquisition of Cacheflow, and how we are advancing our commerce vision. Everything we do at HubSpot is in service of one clear goal, solving for the customer. In 2023, we launched Commerce Hub based on the belief that for businesses to grow, they not only need customer data, but also need transaction data; what they bought, when they paid, how long they have until renewal. We've made progress by offering simple billing and payment with Commerce Hub, processing more than $1 billion in GMV with strong year-over-year growth in enrollment.

By acquiring Cacheflow, we're doubling down to provide subscription management and robust configuration, pricing and quoting, CPQ, tools right in HubSpot. And that means our customers will be able to close deals faster and increase revenue while having their customer and transaction data in one place. Sarika and Brian, the founders of Cacheflow, have decades of experience in this space and have built a high-performing team focused on removing the friction when a prospect decides to purchase.

One of HubSpot's competitive advantages is having a crafted product, and that is a promise we intend to keep with acquisitions.

To wrap up, we doubled down on product innovation, and we are leading with AI and data. We understand what it takes to help SMBs grow; a platform that is easy, fast and unified. And that is exactly why our customers are consolidating on HubSpot as their platform of choice. With our relentless focus on innovation and solid momentum in Q3, I'm more confident than ever in HubSpot's durable growth. A huge thank you to all HubSpotters around the world for staying focused on our customers every single day.

With that, I'll turn the call over to Kate to take you through Q3 results in more detail. Kate?

Kate Bueker {BIO 20654481 <GO>}

Thanks, Yamini. Let's turn to our third quarter 2024 financial results. Q3 revenue grew 20% year-over-year in both constant currency and on an as-reported basis. Subscription revenue grew 20% year-over-year, while services and other revenue increased 28% on an as-reported basis. Q3 domestic revenue grew 20% year-over-year. International revenue growth was 21% in constant currency and 20% as-reported, now representing 47% of total revenue.

We added over 10,000 net-new customers in Q3, ending the quarter with a total of 238,000 customers, growing 23% year-over-year. Average subscription revenue per customer was $11,200, down 2% year-over-year in both constant currency and on an as-reported basis. We saw a healthy balance of low-end customer additions across starter and professional tiers this quarter, driven by the seats pricing model change. As a result, we continue to see a headwind to ASRPC from more customers getting started at lower initial price points. More multi-hub and larger deals are offsetting these lower ASPs, and ASRPC growth, excluding our starter tier, is in the mid single-digits.

We continue to see healthy customer dollar retention rates in the high '80s in Q3. Net revenue retention held flat sequentially, driven by continued improvements in downgrades and early positive momentum in seat upgrades, offset by continued headwinds across our other upgrade motions. Calculated billings were $681 million in Q3, growing 20% year-over-year in constant currency and 24% on an as-reported basis. The significant weakening of the US dollar at the end of the quarter and its impact on deferred revenue resulted in an overall 4-point FX tailwind to as-reported billings growth.

The remainder of my comments will refer to non-GAAP measures. Q3 operating margin was 19%, up 2 points compared to the year-ago period. This reflects our continued progress in driving efficiencies in our go-to-market and product infrastructure, as well as a $7 million catch-up benefit related to R&D credits. Net income was $117 million in Q3, or $2.18 per fully diluted share. Free cash flow was $129 million in Q3 or 19% of revenue. Finally, our cash and marketable securities totaled $2.1 billion at the end of September.

Before I dive into guidance, I wanted to touch quickly on the macro environment. We continue to operate in a value-conscious buying environment, consistent with what we've seen throughout 2024. Our Q4 guidance assumes this will persist through the end of the year. With that, let's review our guidance for the fourth quarter and full year of 2024.

For the fourth quarter, total as-reported revenue is expected to be in the range of $672 million to $674 million, up 16% year-over-year at the midpoint. We expect foreign exchange to be a 1-point tailwind to as-reported revenue growth in the quarter. Non-GAAP operating profit is expected to be between $128 million and $129 million. Non-GAAP diluted net income per share is expected to be between $2.18 and $2.20. This assumes 53.8 million fully diluted shares outstanding.

And for the full year of 2024, total as-reported revenue is now expected to be in the range of $2.597 billion to $2.599 billion, up 20% year-over-year. We continue to expect foreign exchange to be roughly neutral to as-reported revenue growth for the full year. Non-GAAP operating profit is now expected to be between $455 million and $456 million. Non-GAAP diluted net income per share is now expected to be between $7.98 and $8. This assumes 53.4 million fully diluted shares outstanding.

As you adjust your models, please keep in mind the following. We now expect CapEx as a percentage of revenue to be roughly 5%, and free cash flow to be about $420 million for the full year of 2024.

And finally, on November 1, we successfully closed our acquisition of Cacheflow, a leading B2B subscription billing and CPQ company. We expect a de minimis impact to revenue in Q4 from the acquisition and a slight headwind to expenses. Like Yamini, I'm excited about the value Cacheflow will create for our Commerce Hub customers by making it easy for them to send quotes, close deals and get paid.

With that, operator, let's please open up the call for questions.

Questions And Answers

Operator

Thank you. (Operator Instructions).

First question today is from Mark Murphy at J.P. Morgan.

Q - Mark Murphy {BIO 18840231 <GO>}

Thank you so much, and congratulations to all the HubSpotters on the phenomenal results. Kate, I wanted to ask you how might you describe the investment HubSpot is making into AI?

Just, for instance, do you have any model training expenses that are feathering into the R&D line? That seems like it's upticking as a percentage of revenue. And might you have some inference flowing through the cost of goods sold as you commercialize the models? Or just anything that would help us understand the amount of R&D, you know, going into your AI initiatives.

And then for Yamini, are you seeing that daily usage or engagement pick up or develop faster with the Breeze products that are in beta right now?

A - Kate Bueker {BIO 20654481 <GO>}

Thanks, Mark, for the question. Maybe I'll start, and then I'll hand it over to Yamini for the usage part of the question. AI is a top priority investment area for us, and you do see some impact, although still modest, on our cost of goods sold from the AI investments. I think you would, if you looked back in time, recognize that our philosophy for a long time has been to try to invest in an outsized way in our R&D organization so that we can continue to drive the innovation flywheel that will fuel long-term growth for us. And, you know, so we have continued to do that over the last few years, and one of the big areas of investment, certainly, is AI.

A - Yamini Rangan {BIO 20733463 <GO>}

Yeah. And Mark, thank you again for the question. I will double down on what Kate said. Innovation and AI first innovation, in particular, are top priority for the company and will continue to be a top priority going forward. We are a platform company, and we will be the app and agent platform to help our customers innovate and grow. And our overall strategy to embed AI into every hub and across the entire platform is really working.

I'm very pleased with the progress that we are making. I look at our AI strategy, and I'm looking at three indicators. The first is, is AI awareness within our customer base and prospect base increasing? Second, are we beginning to see repeat usage? And third, is that driving consistent value? And I'm pleased that we're making progress on all three.

As I just shared, when we launched Breeze at INBOUND, we did it so it can be consistent, it can be easy, our customers can recognize features and begin to adopt it. And we saw AI awareness go up by 13% in just one quarter. And so I think the Breeze branding as well as how customers are getting aware of the features within the product is working.

And if I look at our Enterprise and Pro customers in particular, I'm really pleased with the repeat usage. And that's every day, every week, you know, every couple of weeks, and we're beginning to see repeat usage trend in the right direction. And then in terms of overall value, I would continue to highlight that content use cases, service use cases and even sales guided selling use cases are beginning to add consistent value.

So overall, really pleased with the AI momentum, really pleased with what we are seeing in terms of usage and value post INBOUND.

Operator

Our next question comes from Rishi Jaluria at RBC Capital Markets.

Q - Rishi Jaluria {BIO 18886209 <GO>}

Hi, wonderful. Thanks so much for taking my question (inaudible) the continued momentum in the business. Maybe I want to continue by talking about some of the investments in AI. Clearly seeing some early traction with Breeze and really exciting to see that. When we think about maybe some of your offerings around agents and agentic AI, Yamini, can you maybe, you know, help us consider how is the future of how customers interact with and work with HubSpot in both a Copilot and agentic AI world going to look like? And ultimately, if you can help those customers become meaningfully more successful and more productive at-bat, how do you think that maybe impacts your own pricing power or pricing model with those customers? Thank you.

A - Yamini Rangan {BIO 20733463 <GO>}

Yeah. Multiple questions there. I'm going to get started, and then Dharmesh, you know, who lives, breathes agent, can also, you know, share his thoughts. I'd say that we're living in an exciting world. You know, there is just a transformative technology that's happening. Copilot, we just launched our Copilot, which helps any front office, marketer, salesperson, service person, you know, do better work. And agents work for them, right? Whether it is in, you know, Content or, you know, Customer.

So at INBOUND, we launched both. Copilot that we launched is seeing very good and very early traction with all of our customers because it's just easy. It just allows them to tap into HubSpot at a very broad level, use natural language to be able to ask questions, summarize, you know, a CRM object, summarize insights, and that's gaining traction. And we launched four agents, Content, Prospecting, Customer, and Social, and now they're all kind of moving into beta and beginning to see really consistent results. So we think the future, you know, is all about Copilot and agents driving value with structured and unstructured data within, you know, the customer platform.

I'll say one quick thing about, you know, the pricing question that you asked. We will stay very, very consistent with our pricing philosophy; add value before we think about monetizing value. That has really worked for us throughout our history. We are very, very, you know, focused on driving that value and we'll continue to do that. In terms of agents, when agents begin to deliver consistent value, we'll likely have a different axis for agents, whether it is, you know, credits or tokens or something that is consumption-based. But right now, we're really focused on delivering value.

Dharmesh?

A - Dharmesh Shah {BIO 1868048 <GO>}

Yeah, a couple of points to add to that would be, one is we're taking a very -- kind of as we do with all things, very platform-based approach to agents as well, which is we're building the underlying platform to allow our customers and partners to build these agent applications that leverage our unified data store. We have all the information in one singular cohesive place. And what we've found is that, that kind of data access makes lots of very interesting agent use cases possible.

The thing that's happening now in terms of like in the moment is that -- the other part of our kind of agent approach is that we have an open model in terms of which large language models and which AI tool sets we use. What this allows us to do is to say as the industry is evolving, there is no one model to rule them all. We can move across models based on what the best tool is for a given use case. I mean, this is differentiated from how others are approaching it. And just, you know, recently, we saw OpenAI launch the o1 model, which has much better reasoning. It's a breakthrough in terms of large language models, and we're able to capitalize on those kinds of innovations that are happening in the kind of AI ecosystem as a result of this kind of open approach to large language models and AI tools.

Operator

Our next question comes from Samad Samana with Jefferies.

Q - Samad Samana {BIO 17883999 <GO>}

Hi, good evening. Thanks for taking my questions. I'll echo the congrats from my peers. Kate, I want to talk about the smallest line item that you guys report, which is the professional services revenue. And I know it's small today, but you're seeing the gross profit dollars there inflect, and I suspect it's because payments is a high-margin business. I'm curious how you're -- what's driving the inflection, if that's the case? And how do you see Cacheflow maybe strategically fitting into that? Could you maybe double-click on that, and how we think about the revenue model for that company?

A - Kate Bueker {BIO 20654481 <GO>}

Yeah. Thanks, Samad, for the question. Maybe I'll just start with a reminder that you're right and -- you're exactly right in how you asked the question, which is that services and other revenue line item is actually very small as a percentage of our overall revenue, at 2%. The largest part of that number continues to be services. And we primarily think about services as an enabler of our software business. As you know, we have been increasingly leaning in with partners to provide customer onboarding and ongoing customer services. And so the services portion of that revenue line item has been a headwind over the last couple of years. On the positive side, we have seen year-over-year growth that is largely being driven by the momentum we're seeing on the commerce business, right? So we talked about the growth that we are seeing in monthly transacting customers and GMV at INBOUND, and that is what's driving that in the positive direction.

Now in terms of margin, it is a combination of things. We have done a lot of work to drive efficiencies within our support and services organizations, and that is the primary needle-mover for the margins of that line item.

A - Yamini Rangan {BIO 20733463 <GO>}

And then, Samad, I think you also asked about our recent acquisition of Cacheflow. I'm really excited about this because it accelerates the vision that we have for our customer platform, not just making it easy for sellers to sell, which is what our core platform does, but also making it easy for buyers to buy. And in order to do that, you got to have both customer data and transaction data in one unified system, and that is exactly what we can do with Cacheflow.

And, you know, as Kate just mentioned, we've had a year of pretty strong momentum with Commerce Hub. You can see that because of the product innovation that we have driven, helping our customers bring their own payment processors and providing flexibility for invoicing and billing. But at the same time, when we have asked our customers what more can we be doing, they ask us for more sophisticated subscription management capabilities, more sophisticated CPQ functionality. I'd say like those two are the most frequently asked requests from our customers in terms of where they want to see us go, and Cacheflow is doing exactly that.

Now, you know, when we started talking to Sarika and Brian, who are the founders of Cacheflow, they're just -- you know, have the same DNA as us. They've been thinking about this problem. They want to make it easy. In fact, half of the customers they currently have are HubSpot customers. So they not only understand the need of our customers, but they have been thinking about this problem for, you know, our customers. And so we're really excited to bring the whole team on board. And we're going to take the same approach like we take with all acquisitions. We'll, you know, keep it very true in terms of having a crafted product, we'll natively build new functionality so we deliver a seamless experience, and we'll accelerate our product vision.

Operator

Our next question comes from Kirk Materne with Evercore ISI.

Q - Kirk Materne {BIO 5771115 <GO>}

Yeah, thanks very much, and I'll add my congrats. Kate, I was wondering -- you know, as you spoke about the NRR trends this quarter, you mentioned that there were some headwinds on other upgrade motions. Is there anything more you can add there? Is it specific hubs, or is it just sort of the macro remaining -- I realize it's really consistent with what you guys have talked about, but I was just curious if there's anything either hub-specific or geographic that you could call out on that. Thanks.

A - Kate Bueker {BIO 20654481 <GO>}

Yeah. Thanks for the question, Kirk. It's, I would say, much the same as the last few quarters as it relates to net revenue retention. You know, I think the positive aspects of net revenue retention remain a really strong foundation of customer dollar retention. We see that holding very well in the high '80s. Downgrades have been stable now or stabilized for a number of quarters. And so both of those things are positive. And as I mentioned in the prepared remarks, we are also seeing some green shoots on the seat upgrade motion, largely as a result of the pricing model change. All the other upgrade motions continue to have pressure. That's additional upgrades, it's cross-sell, it's discount upgrades. It's really -- and contacts. It's across the board there.

So nothing specific to call out. You know, you didn't ask the question, but, you know, I would expect that we will see largely the same in Q4.

Operator

Our next question comes from Alex Zukin with Wolfe Research.

Q - Alex Zukin {BIO 18006605 <GO>}

Hey, guys. I echo the congratulations on another very solid quarter. Maybe I'm going to try my best to ask a multi-part question here. The impact that you're seeing from what I would characterize as kind of one of the most clear AI propositions that you talked about at INBOUND, is that -- what is that doing to sales cycles? Is it making them -- is it driving more of them? Is it making them longer, but bigger? And how do we think about into, you know, the big selling quarter, Q4, last year it was a big quarter for you guys, I would almost characterize as a kind of a budget flush quarter, how do we think about that into this quarter? I realize, you know, not much kind of change in the macro at this point in time, but how are you thinking about that and anticipating that for Q4 and beyond?

A - Yamini Rangan {BIO 20733463 <GO>}

Alex, thanks for the question. I would say that if last year, AI was a buzzword and there was a level of hesitancy on how AI needs to get adopted, this year our customers tell us that AI is real. There's real value, there's real use cases, there's real growth opportunities. And if anything that they took away from INBOUND, it was that they got to get going on it.

And so following INBOUND, into the conversations in late Q3 and Q4, there's just been a lot of, you know, momentum that has been driven through our Breeze and Breeze Intelligence launches. And specifically, the approach that we have taken is to embed AI into every hub. So, you know, if you're sitting here as a customer thinking about next year's growth, well, you want a better content marketing platform. You want, you know, better guided selling solutions. You want better, you know, service capabilities that leverage AI. And so all of those conversations are happening now.

Tangibly, it's doing two things. One, it is increasing the attach rate of Content Hub, Service Hub to our core hubs. And you can see this consistently through the year as our customers have really, you know, embraced content use cases. Content Hub has seen pretty significant growth and a 50% attach rate to Marketing Hub, and it's similar in terms of the multi-hub momentum within Service Hub. So all of those are positive going into Q4. Q4 is a big quarter. December is a big month. And we have all of the pipeline. Now it really comes down to execution, and we are laser-focused on executing.

Operator

Our next question comes from Brad Sills with Bank of America.

Q - Brad Sills {BIO 15854296 <GO>}

Oh, great. Thank you so much. I wanted to ask a question around the strength you're seeing in these multi-hub wins. It really seems like a standout this quarter. And you called out, you know, Content and Service Hub in particular is seeing traction. Would love a little bit of color. Is that, you know, customers that are kind of landing with, you know, a multi-hub footprint? Are you seeing more of that kind of cross-sell, you know, activity that's occurring more recently? You know, and why now, I guess, would be the question. Why -- what is it about, you know, the products or maybe it's the environment that you're starting to see even more momentum. I know it's been strong in the past, but it sounds like it's an area where you're seeing, you know, some real uptick. Thank you.

A - Yamini Rangan {BIO 20733463 <GO>}

That is a great question, and the answer is all of the above. And what I mean by that is we are seeing multi-hub both in terms of new customers that we're winning, and we are seeing multi-hub that is driven in the installed base as customers adopt one and go for more. And the most prevalent combinations are Marketing Hub, Sales Hub. We just land with, you know, Marketing Hub, Sales Hub. And the second most prevalent multi-hub lands are Marketing Hub, Sales Hub and Service Hub.

And I think, you know, the consistent, you know, themes that we have seen here are driven by a couple of things. The first one is that our customers are consolidating. You know, they're consolidating, and they're looking at HubSpot as the platform that provides insights across their entire, you know, front office, right? That is exactly what is happening, and we've seen this trend continue throughout this year.

The second is the level of innovation. And, you know, sometimes it is not just about the strategy, it's about alignment to the strategy and executing the strategy. We've had a strategy of going from app to suite to platform. And as part of that strategy, we have really picked up the pace of innovation across not just the front, you know, end hubs like Marketing and Sales, but across every single hub, and the level of innovation drives multi-hub. You know, Content Hub, Service Hub, great examples of that.

So the answer is the environment is more conducive for consolidation, and the level of innovation that we are driving makes us that choice and is driving multi-hub momentum.

Operator

Our next question comes from Michael Turrin with Wells Fargo Securities.

Q - Michael Turrin {BIO 20079094 <GO>}

Hey, great. Thanks. Appreciate you taking the question. Some useful color on the net retention characteristics throughout the prepared remarks. Just in helping us think through what could catalyze a return to that broader upgrade motion, can appreciate the environment currently, but just whenever that surfaces, the team has been layering a lot of new innovation into the product portfolio. So just wondering if there are specific hubs, new features, functionality you're hearing customer interest around post INBOUND that could eventually, whenever we get to that point, catalyze that return to upsell and appreciation for some of the advanced functionality you've been adding.

A - Kate Bueker {BIO 20654481 <GO>}

Yeah, maybe I'll take that one. And I guess what I would do, Michael, is maybe call you back to some of the conversation that we had at the Analyst Day. You know, there's some strong foundation that we see in net revenue retention. You know, we talked -- and I've already talked about it on this call that customer dollar retention, you know, is really firm and strong in the high '80s. You know, the higher multi-hub customer and the platform adoption that Yamini is talking about really just translates into higher usage of the product and stronger customer retention. So that's a nice tailwind for us. Downgrades continues to stabilize, as I said. And so that's also a nice tailwind. And then the change to or the move to the new seats-based pricing model should also be a tailwind as we transition the existing installed base and as more and more of our customer base gets started on the new seats-based pricing model.

On the other hand, you know, as you know, we continue to see some headwinds and pressure on the upgrade motions. We've been operating in what we would call a value-conscious buying environment for a while. It is unpredictable out there as -- if today is not another example. And so it's hard to say when that is going to change, but really that is going to -- that is an ingredient required for us to really see net revenue retention expand from here.

Operator

Our next question comes from Elizabeth Porter with Morgan Stanley.

Q - Elizabeth Porter {BIO 18911007 <GO>}

Great. Thank you so much. I wanted to follow up on the upgrade rate from starters. And I'm hoping if you could just double-click on the comment around early reads from the new pricing model potentially benefiting that pace. Understanding it's probably a small part today, but just in the future, how should we just think about the opportunity given the high volume of starter customers that have really been added over the last few years?

A - Kate Bueker {BIO 20654481 <GO>}

Yeah. Thanks, Elizabeth. The upgrade rate from starter into professional has really stayed relatively stable here for a pretty long period of time. The shift to the seats-based pricing model does two things. One, it lowers the barrier of entry to get started, not only on starter, but also on professional. And so what you saw this quarter was a little bit more of a balance in our new customer adds or net customer adds across professional as well as starter. And then over time, we do believe that we will see an increase in the upgrade rate, but it's still early for us to give, you know, lots of concrete data points there.

Operator

Our next question comes from Tyler Radke with Citi.

Q - Tyler Radke {BIO 20483599 <GO>}

Thank you for taking the question. This quarter, it seemed like you raised the full-year revenue guidance by more than you beat. We didn't see that the last two quarters. I guess, first, was there any FX considerations we should be taking into account there? And if not, maybe just unpack kind of the drivers of the increased confidence. Was it kind of just better visibility in terms of this pricing rollout, more stable macro view? Anything you'd just add in terms of what's driving the stronger raise relative to what we've seen in the last two quarters.

A - Kate Bueker {BIO 20654481 <GO>}

Yeah. Before I walk through the math, Tyler, just a comment on the assumptions around the environment moving into Q4. I tried to share in my prepared remarks a bit of color here, but our assumption is that it's going to be very much the same environment moving into Q4. We've been operating through the year in an environment where we've seen more decision-makers involved in deals and higher bar to action. We think that's going to continue, and that's embedded in the guidance that we've shared with you.

But if I walk you through the specific pieces here, we beat the midpoint of our Q3 guidance by $24 million, and we're flowing that through to the full year. We're also raising the full-year guidance by an additional $3 million. And that's really just a reflection of incremental FX benefits that we expect to see in Q4. So on a constant-currency basis, our outlook for Q4 is unchanged to our prior guidance with a growth of 15%. And we feel -- as Yamini told you earlier in the call, we feel good about our pipeline, and we're just laser-focused on executing the big quarter in Q4.

Operator

Our next question comes from Gabriela Borges with Goldman Sachs.

Q - Gabriela Borges {BIO 16951057 <GO>}

Hi, good afternoon. Thanks for taking the question. Yamini, I wanted to ask you about the competitive dynamic in the mid-market at some of your larger new customer adds? And more specifically, when you have competitors who perhaps respond with more aggressive pricing concessions when they see the success you're having, what approach or what framework do you give to your sales folks to help kind of navigate that conversation, given how much focus you put on the value of the HubSpot product suite and the engagement of the customers that you do land? Thank you.

A - Yamini Rangan {BIO 20733463 <GO>}

Hey, Gabriela. Good to hear from you. And it's a great question. I think you answered the question, which is we focus on value. I think that the environment is -- you know, is competitive and has always been competitive. And we don't compete on price. We compete on value. And so the playbooks, the conversations that we have with our customers all focus on the total cost of ownership. And there, we have distinct advantage. You know, you don't need a big consulting project with, you know, large S-size [ph]. You don't need 10 developers inside. You don't need a huge army of admins that are inside. And so we talk about that and there's like tangible, you know, total cost benefits there.

Then we talk about value. And very specifically, in this environment and in any environment, our customers care about getting value quickly. It is fast time to value in a matter of weeks, not months, not years. And so we have tangible proof that we can drive the value in a matter of weeks. And, you know, when I talk to customers, I ask them a simple question. In the previous times that they have, you know, CRM, how many of their salespeople use CRM in a year? And if the answer is, you know, anything like 20%, 30%, which is what is typical, then we talk about how we can drive adoption. Because the ultimate value that they get is getting adoption to be in the high '80s and '90s, which we can consistently do.

And so while the environment is, you know, competitive, we win on being easy to use, we win on being fast, you know, time to value, delivering fast time to value and having a very unified crafted experience that helps our customers grow.

Operator

Our next question comes from Joshua Reilly with Needham.

Q - Joshua Reilly {BIO 20513000 <GO>}

Thanks for taking my question. With the Cacheflow acquisition, that gets you kind of into this, what I would characterize somewhat competitive space for SMB subscription billing and invoicing. But it seems that you -- I think, you know, you're going to have an edge with your platform strategy there versus competitors that are primarily point solutions. How do you kind of leverage that edge to grow that within the broader hub for Commerce Hub? Thank you.

A - Yamini Rangan {BIO 20733463 <GO>}

I love the question, and you're exactly right. It is a platform advantage, right? Almost everything comes down to our customers keep telling us, it's not about individual products and point solutions. It's about having a unified platform with customer and transaction data, and Cacheflow allows us to do that. And if you look at what Cacheflow will enable us, from creating an easy proposal, making changes to the proposal, getting the proposal signed, completing the payment and doing it in a super seamless way and getting all of that information in a seamless manner so that the next set of customer conversations are armed with those insights, that is really our vision for Commerce and it's going to help us enable that. And ultimately, we just want a single platform that's easy for sellers to sell and buyers to buy, and we're pretty excited about how we can accelerate that vision.

Operator

Our next question comes from Ken Wong with Oppenheimer.

Q - Ken Wong {BIO 22952314 <GO>}

Great. Thanks for taking my question. Kate, I wanted to maybe dive into the customer adds. I think in the past, you guys touched on 9,000 to 10,000. You did 10,000 this year, but also talked up really strong conversions and seat license tailwinds as well as relaunching the kind of starter in July. How should we think about what that pacing could look like going forward?

A - Kate Bueker {BIO 20654481 <GO>}

Yeah, Ken, thanks for that one. We were actually very happy with the 10,000 customer additions we delivered in Q3. It was right in line with the range that we shared on our last call of 9,000 to 10,000. As I mentioned in my prepared remarks, there was a balanced mix in those customer adds across our professional and starter additions in the quarter. We've talked about the fact that that was largely enabled by the new seats pricing model and the elimination of seat minimums.

The other thing we talked about last quarter was that we were starting to lap some very large starter cohorts from the back half of 2023. And although those cohorts were renewing at a similar rate, the nominal number of customers that were leaving the platform were higher. And we continued to see that this quarter. That said, the gross starter additions were really strong in Q3.

So all of that said, I believe that at least in the near term, we should consider -- we should continue to look at that 9,000 to 10,000 as the right range for net adds.

Operator

Our next question comes from Parker Lane with Stifel.

Q - Parker Lane {BIO 20490953 <GO>}

Yeah, hi. Thanks for taking the question. Yamini, when we look at the new AI solutions and especially agency hub [ph], I'd love to hear more about the partner enablement programs and campaigns you have in place there, and just what your overall vision is for the role that those partners will play in developing business-specific agents going forward.

A - Yamini Rangan {BIO 20733463 <GO>}

Hey, Parker. I love that question. I think partners are very excited about the AI vision, and I think they have a huge role to play. I mean, if you step back and look at our AI strategy, it is to embed it into every hub. It is to embed it into every -- you know, across our entire platform, and to provide a platform for partners to be able to build agents on top as well. And obviously, the first set of agents are the ones that we are developing and bringing to market like the four that we launched at INBOUND. But, you know, the vision for us is to be able to allow partners to be able to build on top as well.

The enablement, you know, from a partner perspective has been going strong. At INBOUND, we had executive briefing sessions on where AI is going, where our product roadmap is going, and that certainly got our partners excited. And now, you know, we have like incentivized them, motivated them and hopefully inspired them to offer a set of, you know, AI services and to be able to bring what we are offering to our customers. And so I feel really good in terms of the feedback from partners post INBOUND as well as how we are executing overall in our AI strategy.

Operator

Our next question comes from Brent Bracelin with Piper Sandler.

Q - Brent Bracelin {BIO 2447337 <GO>}

Thank you. Good afternoon. You know, Kate, I wanted to kind of go back to the growth algorithm here. If I look at Street expectations for next year, pretty wide variance of 12.5% to 18% growth. I get you're kind of reiterating this 15% growth rate for Q4, but that only includes a partial comp with Clear. But what's the right kind of normalized growth profile puts and takes, as we should think about the right growth rate for next year?

A - Kate Bueker {BIO 20654481 <GO>}

Yeah. Thanks for the question. You know, look, it's obviously really early for us to start talking about 2025. We're in the middle of our financial planning process internally. And, you know, as always, we will provide you with guidance for 2025 when we report our results in February. So I'm not going to talk specifically about 2025. But I can talk a little bit about that growth algorithm, which we spent some time on at the Analyst Day. And over time -- this is sort of a longer-term look, but over time, we think that there are a number of levers that we have to drive growth.

The first is that, you know, we're still early. We have very low market share in a really big market. And so our ability to continue to drive new customer acquisition over time is strong. The second is that we are the customer platform of choice for scaling companies, and we expect that the trend that we're seeing toward bigger deals, toward more multi-hub deals is just going to continue. The third thing is, and we've talked about this before, you know, we are transitioning our customer base onto our new seats-based pricing model. That should be a multiyear tailwind to us and should help us drive higher net revenue retention over time. And finally, we continue to innovate aggressively. In particular, you know, we spent a lot of time talking about, you know, AI innovation, data innovation, commerce innovation, and all of these things are, you know, elements that can fuel long-term growth over time. And so I'm, you know, confident in our ability to drive durable growth over a long period of time here.

All that said, like we have to execute very well in Q4. There is a lot of uncertainty still out there in the market, and, you know, we will come back with a more clear view of 2025 in February.

Operator

Our next question comes from Brian Peterson with Raymond James.

Q - Brian Peterson {BIO 17563421 <GO>}

Thanks, and congrats on the strong results. Wanted to hit on your appetite for M&A. You've been more active there over the last year or so with Clearbit and Cacheflow. How are you thinking about the balance of organic versus inorganic investments? And are there some hub adjacencies that look particularly interesting to you? Thanks, guys.

A - Yamini Rangan {BIO 20733463 <GO>}

Hey, that's a great question. And I think our approach to M&A has remained consistent. We take a very Apple-esque approach to M&A. And our approach is to look for great technology, great talent that can accelerate our customer platform vision. And we want to do that in a way where we do not disrupt the great customer experience that we offer. And so we've gotten very comfortable with executing, you know, this type of an M&A playbook.

We look for, you know, great talent that can accelerate innovation in very specific parts of our platform. You mentioned Clearbit, PieSync, Cacheflow, these are all examples of that. We look for great culture adds that can, you know, come and build something incredible. We want to natively build everything into HubSpot so that we offer a crafted platform. And we want to ensure that it drives financial results in the mid to long term.

That is the playbook. You have seen us execute the playbook with PieSync, with Clearbit, and we intend to do the same thing with Cacheflow. And we'll continue doing these types of acquisitions as it accelerates our vision.

Operator

Our next question comes from Nick Altmann with Scotiabank.

Q - Nick Altmann {BIO 19844907 <GO>}

Awesome. Thanks, guys. Just a quick one, but I think you guys said there was 60% growth in 100-plus deals for Service Hub customers, which is pretty interesting. But can you maybe just unpack how much of that is driven by larger lands or cross-selling some of those larger customers versus perhaps a little bit of better seat expansion or stabilization in Service Hub? Thanks.

A - Yamini Rangan {BIO 20733463 <GO>}

Yeah, that's a great question. Look, I'm very excited about the innovation that's happening in Service Hub. And I think the product team and the go-to-market teams have made excellent progress over the last 18 months. It's not one thing. It's the fact that we have consistently innovated in Service Hub.

Last year, there was a lot of Pro features that we launched within the market. And this year, there were, you know, I'd say two big unlocks. The first is leveraging AI within support, our Customer Agent. I talked a little bit about the success that we're seeing with Customer Agent that is helping our customers, you know, do faster self-serve with better knowledge bases, and then more importantly, also helps handle some portion of the ticket, typically between 20% to 40%. And that has been great.

I think the second part is that as we talk to a lot of our customers and prospects, we heard from them the need for having both support as well as customer success in one place. And therefore, earlier this year, as part of the Spotlight, we launched a workspace for both customer success and for support, so it can drive retention and improvement. And then, you know, there's a steady drumbeat of offering better SLA management, better routing, more granular permission management, all of these are the ones that upmarket customers have been asking us for in Service Hub.

And look, I think if you step back, we did this with Sales Hub. You know, we started with a set of features. We consistently had a drumbeat of improving the product until it got to be a front door. We're doing the same thing with Service Hub. And I really feel good about, you know, where we are going with Service Hub. And therefore, we see it both in terms of new lands as well as expansion within our customer base.

Operator

We have time for one more question. This question comes from Adam Holets with BMO.

Q - Keith Bachman {BIO 3018411 <GO>}

Hi, thank you very much. It's Keith Bachman here. I wanted to ask a question also on growth, and I'll break it into a couple of different parts. One, you talked about customer growth was 23%. Is there any growth metrics you can give us on what was seat growth or at a minimum, was seat growth faster or slower than the customer growth? And the second is, how should we think about that seat growth or customer -- you know, versus customer growth as we sort of tune our models for '25? And part of that is -- what I'm thinking about is as we get into it, ASRPC is being impacted by growth of lower-end seats. As you anniversary the pricing model changes, does that continue on, that ASRPC will grow -- will have a negative growth rate, or do you anniversary it and all the innovation can flow through so that we could think about ASRPC perhaps beginning to growth -- to grow next year? Thank you.

A - Kate Bueker {BIO 20654481 <GO>}

Yeah. Hi, Keith. I know there's sort of a lot of moving pieces in the growth equation and the ASRPC equation. I would just take a step back and reflect a little bit on the seats pricing model change that we made. And, you know, we made the change to lower the barrier to entry for customers to get started and then to upgrade and grow with HubSpot. And one of the ways is that they purchase what they need upfront and then they grow over time. And the assumption was that we would see higher net revenue retention from those customers. And I think the highlight of the seats model change so far has been that that sort of assumption that we had has truly played out.

And so we have seen in those early cohorts that the, you know, customers who join on the seats model have higher upgrade rates and are upgrading and adding seats, you know, and have a higher net revenue retention. By definition, that means that it's growing faster than our sort of overall growth, but we have not shared the specific data point around that.

Operator

Thank you. This concludes the HubSpot third quarter 2024 earnings call. Thank you to everyone who was able to join us today. You may now disconnect your lines.