S&P Global
Market Intelligence

HubSpot, Inc. NYSE:HUBS

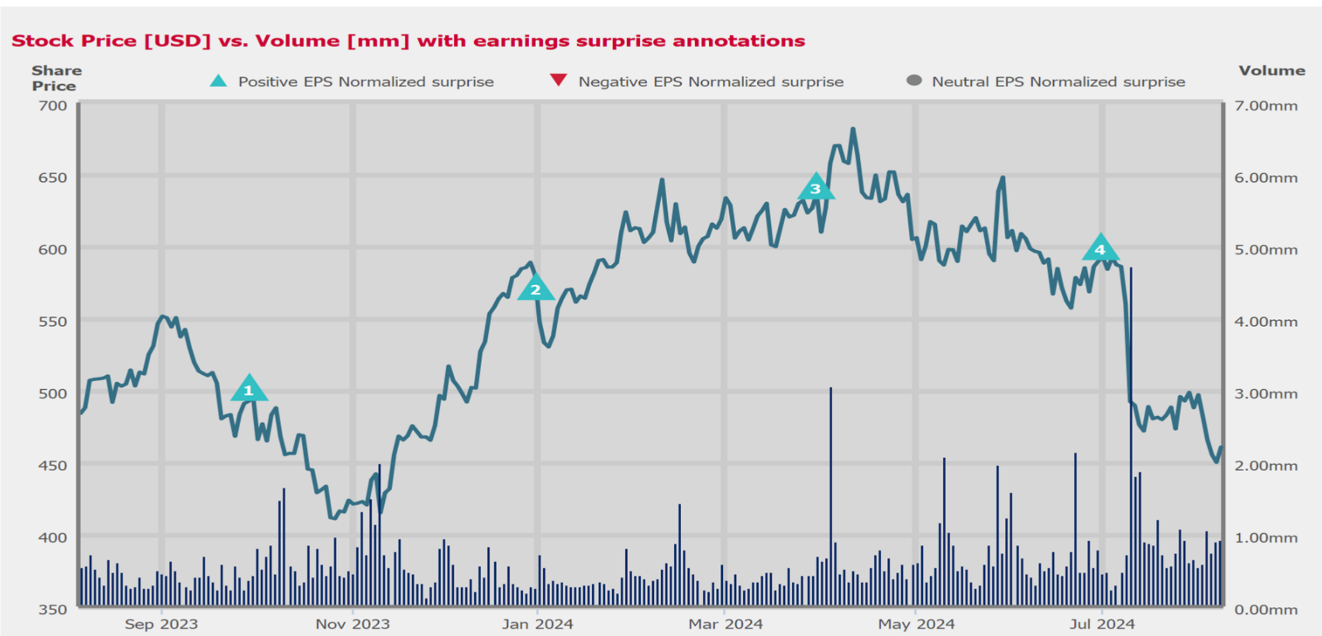
FQ2 2024 Earnings Call Transcripts

Wednesday, August 7, 2024 8:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2024-			-FQ3 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.64	1.94	▲18.29	1.90	7.37	NA
Revenue (mm)	619.33	637.23	▲2.89	646.70	2559.68	NA

Currency: USD
Consensus as of Aug-07-2024 9:31 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2023	1.24	1.59	▲1 28.23 %
FQ4 2023	1.55	1.76	▲2 13.55 %
FQ1 2024	1.50	1.68	▲3 12.00 %
FQ2 2024	1.64	1.94	▲4 18.29 %

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Co-Founder, CTO & Director

Kathryn A. Bueker
CFO & Treasurer

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Presentation

Operator

Good afternoon, and welcome to the HubSpot Q2 2024 Earnings Call. My name is Harry, and I will be your operator today. [Operator Instructions].

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

Ryan Burkart

Thanks, operator. Good afternoon, and welcome to HubSpot's Second 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 third 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 second 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
CEO, President and Director

Thank you, Ryan, and welcome to everyone on the call. Today, I'll share our Q2 2024 results, discuss trends driving our momentum and highlight early wins from our spring spotlight product launches. I'll also reiterate our strategy and playbook for winning both in the short and long term. Let's dive in.

Q2 was a solid quarter for HubSpot with revenue growing 21% year-over-year in constant currency. We delivered another quarter of operating margin growth with 270 basis points of margin expansion year-over-year, driving our operating margin to 17%. I'm really happy with the operating leverage we are continuing to deliver wild driving growth.

Total customers grew to 228,000 customers globally, driven by over 11,200 net customer additions in the quarter. I'm thrilled to see customers consolidating on HubSpot, the consistent focus on innovation and execution demonstrated by our teams and momentum we have in becoming the customer platform of choice for scaling companies.

Our started year continues to fuel volume on the low end of the market, driven by product and pricing improvements. We have removed friction and have made it easy for customers to get started with HubSpot. It streamlined the checkout process, so customers can now make clear decisions about the functionality and seats they need. But most importantly, we're delivering compelling value for business owners focused on driving growth and meeting better visibility on customer trends in this environment. As a result, we're seeing strength in free sign-ups and starter ads.

In up markets, our Q2 results were driven by multi-hub and large deal momentum. We saw more customers start with or expand into multiple hubs, resulting in larger deals. Over 45% of new business in our polls tiers came from customers using 3 or more hubs. Within customers adopting multiple hubs, we saw 3 popular combinations. Marketing and sales hubs our main front doors, marketing sales and Service Hubs, innovation in Service Hub is driving momentum and marketing sales from Content Hub after content Hub launch in April. The higher mix of multi-hub deals and the momentum we have with upmarket customers led to larger wins in Q2.

Upmarket customers want to simplify and consolidate their tech stack and our focused investments to serve their needs and our pace of innovation make off their top choice. Okay. Let's talk about our pricing model changes that we introduced in early March and how it's progressing. As a reminder, we lowered the price point to get started with HubSpot removed seat minimums to reduce friction to upgrade and created a core seat for customers who want to edit CRM records.

We did this to make HubSpot easy to buy and easy to grow with. When we made these changes, we expected it to lead to lower initial ASP, higher volume of customers and more upgrades and expansion over time. In Q2, we continue to make progress on driving higher volume to offset the ASP declines and expect this to happen in the next few months as we focus on enablement. We continue to see solid expansion trends with a multipoint increase in net revenue retention rate at month 3 for customers on the new pricing model as they buy exactly what they and expand when they need more.

Overall, we continue to have high conviction that the pricing change is the right decision for our customers and therefore, for HubSpot. To round out Q2, let's talk about the innovation we drove with our Spring spotlight product launches and how they're driving momentum.

In April, as part of our first spring spotlight, we introduced major updates to service up and launched Content Hub. The Service Hub update was a big unlock. It now supports both customer support and customer success teams on a single unified platform. We saw the number of wins with 100-plus service seats grew 55% year-over-year and 30% year-to-date.

In addition, we saw a 200% increase in portals closing ticket in help desk since the relaunch. In terms of Content Hub, our goal is to provide an AI-powered content marketing solution that can help marketeers create and manage content.

And the response has been fantastic. The attach rate for Content Hub to Marketing Hub has tripled since the launch and is now nearly 50% for new marketing hub wins. This high attach rate is being driven by innovative AI features like content remix, AI blogs and brand voice. Brands like Tripadvisor, The World Wide Fund for Nature and Morehouse College, are all using HubSpot content solutions to grow.

Overall, we're thrilled to see our product innovation drive value for our customers. Okay. On to the macro environment. We're seeing the same trends as last year and Q1, slower decision-making, more decision-makers involved and scrutiny on business case and value before spending. When decisions are made by committees, that often includes CEOs, CFOs, CROs, and many times require Board or BCP firm approval. The bar for buying continues to be high. We also see companies consolidating on fewer platforms that can help them grow. We're executing on our clear and proven playbook to drive growth in this environment. Let me step back and connect the dots on our playbook, where we are seeing momentum this year and how this sets us up for both short and long-term success. Our playbook for executing in any macro is clear. We solve our customers help them grow by providing an AI-powered customer platform and drive the pace innovation that can make it easy for customers to stay ahead. HubSpot Excel when we know exactly who we are serving, and we have never been more clear.

We are determined to delight growth professionals in marketing sales and service at scaling companies and to help them grow. This focus on solving for our customers and deep listening have resulted in clear momentum in customer acquisition. More importantly, it has led to strong retention with customer dollar retention consistently in the high 80s. As a company, we're doubling down our focus on our customers and are energized about helping them grow. The way we help them grow is by providing an AI-powered customer platform, which includes best-in-class engagement hubs Smart CRM, which unifies customer data and teams and a connected ecosystem with app and solution partners.

This platform strategy is working as more customers consolidate on HubSpot to lower cost and drive growth. In June, we crossed over 1 million active app integrations installed by Pro+ customers with more than 35% of them using 10 or more active app integration. Customers are bringing more data together within HubSpot and driving more insights from that data. In addition, we made a choice to embed AI in all of our hubs and within our smart CRM, and this strategy is beginning to work.

The early traction with Content Cub and the step change attach rate of Content Hub to Marketing Hub is just one example of the strategy working. According to our customer Sandler, HubSpot AI has been a game changer for our marketing and sales teams, helping both groups create personalization at scale with messaging, actionable insights and increasing new prospect engagement with our brand by 25%. Customers have an appetite to drive more growth powered by AI, and that's where we are focusing our efforts.

In addition, we expanded support for sensitive data, which moved into beta in Q2. HubSpot's sensitive data solution makes it easy for customers to protect sensitive personal information to support their compliance with regulations like GDPR. This expands our opportunity to serve more customers in industries like health care, financial services and insurance, and makes it easy for customers to manage complex compliance processes.

Early adoption looks promising, existing enterprise customers are using new features to manage sensitive data, and we're seeing higher conversion rates and average selling prices with new customers. Our pace of innovation and focused execution have been crucial to our success now and will help us grow in the long term. Reflecting on our results and progress our strategy is working. I hope that it is abundantly clear we run our business for the long term and are focused on solving for our customers, innovating our platform and prioritizing strong execution. This has been and will continue to be our priority. And that is what will continue to set us apart to drive durable growth and create long-term shareholder value.

With that, I'll turn the call over to Kate to take you through our Q2 financial results. Kate?

Kathryn A. Bueker
CFO & Treasurer

Thanks, Yamini. Let's turn to our second quarter 2024 financial results. Q2 revenue grew 21% year-over-year in constant currency and 20% on an as-reported basis. Subscription revenue grew 20% year-over-year, while services and other revenue increased 18% on an as-reported basis. Q2 domestic revenue grew 20% year-over-year. International revenue growth was 22% in constant currency and 21% as reported, now representing 47% of total revenue.

We added over 11,200 net customers in Q2 ending the quarter with a total customer count of 228,000, growing 23% year-over-year. Again, this quarter, the strength in customer additions was driven by momentum at the low end. Average subscription revenue per customer was $11,200, down 2% year-over-year in both constant currency and on an as-reported basis. ASRPC continues to be driven by several offsetting factors, a positive impact from an increasing number of professional and enterprise customers adopting multiple hubs, offset by the headwind from the continued strong volume of lower ASP starter customers we've acquired over the last year. Gross retention held nicely in the high 80s and net revenue retention was stable at 102%. While we continue to see strong customer dollar retention and downgrade trends, customer upgrade rates remain challenged, similar to Q1. We expect this behavior to continue in the back half of the year with net revenue retention holding around current levels. Calculated billings were $648 million in Q2, growing 20% year-over-year in both constant currency and on an as-reported basis. The remainder of my comments we'll refer to non-GAAP measures.

Q2 operating margin was 17%, up 3 points compared to the year ago period, driven by the continued impact of our go-to-market efficiency and infrastructure optimization efforts. Net income was $104 million in Q2 or $1.94 per fully diluted share. Free cash flow was $92 million in Q2 or 14% of revenue. Finally, our cash and marketable securities totaled $1.9 billion at the end of June.

With that, let's review our guidance for the third quarter and full year of 2024. As Yamini shared, we continue to operate in a challenging and volatile external environment. And our guidance assumes that the difficult demand environment persists through the back half of the year, but does not get materially worse.

For the third quarter, total as reported revenue is expected to be in the range of $646 million to $647 million, up 16% year-over-year at the midpoint. We expect foreign exchange to be a slight headwind to as reported revenue growth in the quarter. Non-GAAP operating profit is expected to be between $107 million and $108 million. Non-GAAP diluted net income per share is expected to be between $1.89 and $1.91. This assumes 53.5 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 $2.567 billion to $2.573 billion, up 18% year-over-year at the midpoint. We now expect foreign exchange to have a neutral impact to as reported revenue growth for the full year. Non-GAAP operating profit is now expected to be between $437 million and $441 million.

Non-GAAP diluted net income per share is now expected to be between $7.64 and $7.70. 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 4% to 5%, and free cash flow to be about $380 million for the full year of 2024 with seasonally stronger free cash flow in Q4.

And with that, I will hand things back over to Yamini for her closing remarks.

Yamini Rangan
CEO, President and Director

Thank you so much, Kate. To close out, we have a large opportunity ahead of us, and we are well on our way to becoming the #1 customer platform for scaling companies. Our pace of innovation is high and our focus on driving usage and value with our customer platform and AI is clear. I look forward to seeing many of you at our Analyst Day at INBOUND on September 18 and sharing the

progress we've made this year and the confidence we have in building an enduring company. I want to thank our customers, partners and investors for their continued support, and a huge, huge thank you to all HubSpotters around the world for staying focused on solving for our customers every single day.
With that, operator, let's please open up the call for questions.

Question and Answer

Operator

[Operator Instructions] And our first question today is from the line of Samad Samana of Jefferies.

Samad Saleem Samana
Jefferies LLC, Research Division

It's great to see the growth sustain and stabilize above 20%. One of the things that we are particularly curious about is where growth has changed the most in the portfolio over the last 6 months. So i.e., like how did the growth rates across the main hubs look and have they all slowed in an equal manner. Is there a particular hub where new business growth has reaccelerated or is doing better than expected? Just curious if we can maybe peel that back a little bit.

Yamini Rangan
CEO, President and Director

I appreciate your support as always. I'd say the answer starts with our strategy of becoming a customer platform for our scaling companies. And when we sit on that strategy, we said that we're going to build best-in-class engagement hub. But most importantly, we're going to build a platform that unifies data insights across all of those hubs. And if I were to point to one thing that you're seeing in the last few quarters, it is the multi-hub momentum.

And I said this during the prepared remarks, there are more common combinations of multi-hub wins that we're seeing, starting with our front doors of marketing sales, followed by sales marketing and service. And then certainly, this past quarter, we saw more content hub attached to the primary hubs. And maybe if I step back and approach this from a customer perspective, our customers acquired a bunch of point solutions, and they are struggling to integrate all of those data points into actionable insights and to control the cost. And they're looking for much better ways to be able to get all of that information into a single platform, and we are that platform of choice.

We're able to connect all of the data across marketing, across sales, across service into a single platform. And the power of HubSpot is not just in a specific hub. It's really in the insights that we deliver across multiple hubs in the platform. And so if there is a story to take away, there's really that multiple hubs is gaining momentum across the past few quarters.

Operator

Our next question today is from the line of Mark Murphy of JPMorgan.

Mark Ronald Murphy
JPMorgan Chase & Co, Research Division

I'll add my congrats on very nice execution in a difficult environment. And just continuing on that point that you just made, Yamini, I was wondering if you can update on that phenomenon in terms of traction with your payments product. Since it became 1 of your primary colors. I'm wondering how the customer activity is evolving there beyond simple payment processing and moving into what you just described, the ability to produce the quote, build the line and CRM kind of track it across the whole HubSpot platform maybe kicking off other actions. Is that behavior that you see evolving? And then related to that, just wondering if there is any way you could characterize the payment volume or kind of monetization you're seeing in payments?

Yamini Rangan
CEO, President and Director

Mark, thanks a lot for that question. I think the way to think about it is exactly the way you posed the question, which is it is part of that connected platform. Everything comes down to that. When we got started in the payments journey, we had a very key hypothesis in terms of the value that we can add to customers. We're bringing commerce data, transaction data, payments data into the CRM is going to be valuable for our customers, and we are certainly seeing that play out in terms of the payments journey.

As you know, last year, we expanded payments to be able to support other processes and bring for our customers to bring their own processes like stripe. And that has had the impact of opening up our opportunity and having more customers, more international customers come on to our payments platform. And certainly, from a functionality perspective, we have continued to drive innovation. The bigger area of focus for us this year has been driving product-led growth for our payments.

And you can see this within our navigation, you can see it within our product. You can access payments directly from our navigation bar now, and that has continued to improve the discoverability of payments. In terms of payment volume, we've seen really good payments volume. We have seen the monthly transacting customers grow into the thousands, and we're very pleased with the momentum there. And the other thing that we have seen is that when customers transact with HubSpot, the percentage of the revenue that they're flowing through HubSpot is much higher than what we had expected.

Now all of this is good, but I would continue to remind that this is a longer-term bet and we are -- while we feel really good with the progress, it is a strategic bet, and we are willing to be very strategically patient as we continue to see the progress within that. But again, it would come back to the value of our customer platform within each of our hubs as well as commerce.

Operator

Our next question today is from the line of Brad Sills of Bank of America Merrill Lynch.

Bradley Hartwell Sills
BofA Securities, Research Division

Great. And great to see the progress with the multi-hub deals. I guess I wanted to go back to a comment that was made earlier in the call that the upgrade environment is challenging. I guess and that's been the reason behind some of the delays here in -- that's macro related in some of the larger deals. I guess on that note, is it also due to the fact that you're seeing these multi-hub deals, more multi-department deals, more strategic kind of deals that could also be requiring more board-level approval, more multi-departmental sign-off that's also causing this delay? In other words, how much of this is macro that's causing some of the delays you're seeing versus the fact that HubSpot is now becoming more of a platform company that is seeing multi-home deals.

Yamini Rangan
CEO, President and Director

Brad, thanks a lot for the question. So in terms of the macro environment, very consistent with what we saw in Q1. And what we described as customer trends is slower decision-making, committee buying and high scrutiny of budgets, certainly requiring Board and other approvals. That does lead to lengthening of the deal cycle, and we talked about that. Now the counter play for that is that as we talk to customers, they want to consolidate on fewer platforms and HubSpot is becoming that platform. So in fact, we see that there's a lot more value that we can add by providing an organic customer platform. And so that actually speeds up the deal.

So there's like counterbalancing impact of what we see from the macro to the trend that we see in terms of consolidating to fewer platforms. So I would say that those 2 play off each other. Broadly, when we talk to customers, even when they are not ready to make a decision, it's mostly not now for HubSpot and not necessarily a no, and they always come back a few quarters or even a few months after and see the value of consolidating on HubSpot.

Operator

Our next question is from the line of Alex Zukin of Wolfe Research.

Aleksandr J. Zukin
Wolfe Research, LLC

Congrats on solid execution in a difficult environment. I want to ask a 2-parter because it occurs to me that just on the margin side, that sequential margin improvement that you guys saw some of the best, I think, you've ever posted. And particularly, if I look at the sales and marketing line, so maybe just walk through kind of where that leverage is coming from, where it can go? And then separately, if you look at your cash position today, $2 billion or so with really, really strong free cash flow generation. As you think more about that consolidation of tools and stack, and maybe, Yamini, your viewpoint given the private market environment and the plethora of assets available there, kind of how does spot look at this opportunity set to continue to broaden that value proposition?

Kathryn A. Bueker
CFO & Treasurer

Maybe I'll start, Yamini, with the margin question, and then you can dive in. Thanks, Alex. Although I will note the sharp violations the 1 question rule. We were very pleased with the margin performance that we had in Q2. Operating margins did come in a little bit better than we had expected. Revenue came in a little bit better, including some help from FX. And then we had a little -- a modest shift down of expenses from Q2 into the back half of the year. That said, the primary drivers of the year-over-year leverage were really 2 things. One was improvement on the gross margin side. So our team has had some really nice wins optimizing our core product infrastructure, and you're starting to see the impact there. And as you've noted, we are also continuing to make some progress here on driving go-to-market efficiency. I would note particular strength there in services and support.

Yamini Rangan
CEO, President and Director

Yes. And in terms of our strong balance sheet position as well as how we plan to use it. Look, it really comes down to our philosophy that we want to build and beautifully crafted customer platform for customers. Now the traditional playbook has been acquiring your way to growth, we think that is detrimental for customers' growth. and we have always prioritized customers experience and customer growth.

So as we look at potential ways in which we can continue to expand platform, we'll do so organically. We'll certainly look at technology and talent that will allow us to move faster on product innovation, but we will also make sure that we are doing that without disrupting our customers experience and making sure it is really seamless. So we've certainly done things like Clearbit as well as [indiscernible]. But in both cases, we have really spent the time to integrated back into the customer platform to deliver on the promise of customer experience. And so you can expect us to continue to do that.

Operator

Our next question is from the line of Brent Bracelin of Piper Sandler.

Brent Alan Bracelin
Piper Sandler & Co., Research Division

I wanted to go back and touch base around the Generative AI journey here. I think it was about a year ago, you guys first started talking about and integrating AI into the platform. I know early on, we had fears that, that might be a drag on margins as you take on additional costs. But if I look at margins, gross margins, they've actually in the past year.

So what have you learned as you've integrated AI into the platform the opportunity for HubSpot to leverage AI? And what parts of the AI strategy are you confident that it's going to work in other parts of the AI opportunities do you think there's less optimism?

Yamini Rangan
CEO, President and Director

It's a great question. It has been a year plus, and I think we started launching our AI innovation in March last year. And our strategy has been twofold. The first one is that we would embed AI into our hubs and into the whole platform that is, we're not going to charge a separate cost for AI or build a separate SKU.

And the rationale behind that strategic choice was to remove friction for our customers to introduce as much innovation to their day-to-day work and then drive adoption. And if you look at that strategy, it is working. And the best point that I can kind of like say that, that strategy is working is Content Hub. So as you know, we just -- we launched Content Hub as part of spotlight. And if you look at the features that are driving adoption as well as the higher attach rate of Content Hub, it's all AI features.

Content Remix our reps, our partners love actually showcasing content remix to our customers. And when customers see Content Remix they immediately get like excited and they're beginning to adopt because you can take one piece of content, maybe a written blog and convert that into videos into social poles into e-mails and it does so beautifully and save customers a ton of time. And so we're finding that our strategy of embedding into the Hub and platform is working well.

The second bet that we said is we want to add a ton of value before we begin to monetize value separately. And that is also playing out. Part of what we want to see is repeat usage of customers, and we are definitely seeing traction in enterprise and pro tiers, which is where we have driven adoption.

But we're also going to be very principled about making sure that the value is repeat value before we begin to monetize. And so I think those are things that are working. Look, if I maybe take a step back and say, how is AI developing. There's just a it's kind of developing the same way Internet did starts with the networking infrastructure layer, it starts with large language models, and it takes a while for application innovation to take place, and we are very quick in terms of innovation, but strategically patient in terms of seeing this technology transformation take shape for our customers.

Dharmesh Shah
Co-Founder, CTO & Director

Just 1 quick note to add since we're talking about margins, developments we see in the AI industry overall is this continuous and relatively dramatic reduction in the cost for these flagship models, right? So we've seen OpenAI has kind of led the field. Cloud team out with a comparable flagship model that's close to GPT. They are Open Source models now. And OpenAI just announced another 30% to 50% reduction in price. So we're seeing dramatic increase -- decreases in the cost of actually rolling out these AI features. So we're not anticipating any impact to margin in the near term.

Operator

Our next question today is from the line of Gabriela Borges of Goldman Sachs.

Gabriela Borges
Goldman Sachs Group, Inc., Research Division

Yamini, I wanted to follow up on the prepared remarks around HubSpot achieving HIPAA compliance. Help us understand how meaningful this milestone is. Is there a way to think about what percentage of deals perhaps you wouldn't be invited to because you didn't have HIPAA compliance or how much this expands the TAM opportunity for you because you now have access to those customers and health current financials? Any color that would be helpful.

Yamini Rangan
CEO, President and Director

Yes, Gabriela, thank you so much for that question. And yes, we are pretty excited about this fairly big milestone our partners are super excited, our customers are excited about this. And maybe just to take a step back, what we announced in Q2 is that we're making it easy for customers to protect sensitive personal information to be able to support compliance with regulations like GDPR and HIPAA.

And what that means is that we will now support audit logging, authentication features, account security recommendations, all of those things that customers need. But more importantly, it is going to help us open up our TAM and be even better at addressing the needs of customers in verticals like health care, financial services and insurance. And this is a super exciting longer-term opportunity, and we think that it's really going to make HubSpot great solution for those verticals and customers with those kinds of use cases.

And in terms of Q2, the momentum out of the gate and the customer interest has been very good to see. Majority of the activations are from our enterprise customers, which is really not surprising because they have the most sophisticated needs in terms of managing sensitive data. We have seen healthy pickup, both in terms of ASP as well as conversion rates in terms of those areas. And so there's a lot more to come, but it certainly makes us an even better fit in larger portions of the market. n.

Operator

Our next question today is from the line of Elizabeth Porter of Morgan Stanley.

Elizabeth Porter

I wanted to ask about the net new customer adds in the quarter. When we back out clear bit from last quarter, it does look like adds improved sequentially and it sounds like we're starting to see some of the benefit from higher new logos under the new pricing model. So my question is, how should we think about the unlocked volume of new customers under the new pricing model? And any change to the initial view for the roughly 10,000 adds per quarter through the year?

Yamini Rangan
CEO, President and Director

Yes. Thanks, Elizabeth. We are encouraged by another quarter of really strong customer additions. And you heard from me in the prepared remarks that the strength was really again driven by another healthy quarter of additions really at that low end, which is a trend that we've been seeing now for, call it, 4 to 6 quarters. We have been said before, I mean, you've heard it from me before, net customer addition is not an input metric for us. It is an output metric. And it's a trend that moves around from quarter-to-quarter.

Given the volume is really at that low end, if you think about in any given quarter, we typically would be running multiple experiments within the Star customer base. And the experiments would be from things like optimizing purchase flows, optimizing activation, there may be pricing and packaging plays. There may be funnel demand kind of plays in any quarter. And so it's hard to kind of tease out 1 impact from another, just given how many different things could be going on.

In particular, it's hard to tease out the impact of the new pricing model. What I would highlight is that for Q2, we did see a nice step-up in Pro customer additions, which I would be able to associate or I would assume would associate more directly with the seats model.

Now all that said, as I think about the back half of the year, we will start to have a number of pretty large cohorts from a year ago that are going to come up for renewal in the next couple of quarters. And sort of given the combination of those large cohorts that are coming up for renewal and the fact that you've heard from both of Yamini and myself, that we continue to see macro weakness, particularly in small business, my expectation for net adds in the back half of the year is 9,000 to 10,000 per quarter.

Operator

The next question today is from the line of Terry Tillman of Truist.

Dominique Calampiano

This is Dominique Calampiano on for Terry. So just looking at some of the significant currency moves recently. I'm just curious as to whether your foreign exchange outlook has changed at all? And if you're thinking about any additional hedging strategies?

Kathryn A. Bueker
CFO & Treasurer

Yes. Thanks so much for the question. You are absolutely right. Currency has been incredibly volatile here over the last period of time. We tried to provide some guidance or some perspective in our guidance at this time last quarter, we were expecting a bit of a tailwind to the full year from currency -- or I'm sorry, a bit of a headwind to the year from currency, and we are basically neutral for the year. In terms of hedging, you'll see in our 10-Q, we have started to do cash flow hedging that has some very modest impact on overall revenue.

Operator

The next question is from the line of Parker Lane of Stifel.

Jeffrey Parker Lane
Stifel, Nicolaus & Company, Incorporated, Research Division

Yamini, you cited a bunch of really healthy metrics on the service side of the business, including the 100-plus seat customer cohort being up 55%. I was wondering if you could talk about maybe 2 or 3 of the features that came out as part of the relaunch that are most appealing to those larger customers. And if the composition of the competitors has changed at all given the number of features you brought to the table?

Yamini Rangan
CEO, President and Director

Yes. Thank you, Parker, for that question. I am excited about the innovation within Service Hub, and I'm also very excited to see customer adoption. There were probably three big things that happened with the spotlight and Service Hub relaunch in April. The first is that for the first time, we are actually serving the customer success persona within our customers. And that brings together customer success and support team. We know customer success leaders right now care a lot about retention.

And that is why we launched a new workspace specifically for customer success managers to be able to track and manage their book of business, and that's certainly very welcome by our customers. The second is that we did a complete overhaul of help desk, which now has new and unified ticket and conversation interface. And with the new unified help desk interface, we have seen a 200% increase in the portals, closing tickets in help desk and an increase in the number of portals that are closing 20-plus tickets. So it's showing that we are kind of continuing to drive the usage there.

And then I would say, maybe the last thing is that it's not 1 specific enterprise feature, but it's a whole set of features that we have launched like advanced SLAs, more robust routing, better support management, all of which is aimed at serving our upmarket customers who just need much more sophisticated needs for their support teams. And as you rightly pointed out, that is leading to 100-plus Service Hub seats. But I will also tie this back to my earlier comment about platform. The momentum that we see in Service Hub is not just a Hub-specific momentum. It is really the value of having service sales and marketing teams work together and have the single unified view of their customer that is what we are really pleased about.

Operator

The next question is from the line of Ken Wong of Oppenheimer.

Hoi-Fung Wong
Oppenheimer & Co. Inc., Research Division

Just wanted to circle up on a dynamic you guys called out last quarter where you guys saw a shift towards lower quality leads. Just wondering if that's normalized back to partner source leads? Or is that still an issue you guys are running into?

Yamini Rangan
CEO, President and Director

Yen,thank you so much. Yes, it is normalized back. It's really in a healthy place right now. And maybe just to step back, in Q1, we shared that we saw a mix shift at the top of the funnel from partner sourced and qualified leads to more of rep source leads that tend to take more time. And we're definitely seeing good progress on the partner as well as the QL side.

And maybe just a little bit more context. There are a couple of ways in which we engage with partners. The first is actually co-selling, where the partner team and the HubSpot sales teams work closely together, and that core selling motion has been doing really well and has been consistently up in the first half of this year, it was up by 71%. The partner sourcing is the other motion where partners actually bring more deals, and this is where we saw a bit of a weakness in Q1.

But as soon as we saw that in early Q2, we rolled out clear enablement plays to both partners as well as partner development resources within HubSpot, and we've been laser-focused in terms of execution. And based on all of that, we have seen that mix shift back to what we normally would see and what we are happy with. So I feel pretty good about the trends going into second half as well as the mix of demand as we go back into the second half of the year.

Operator

The next question is from the line of Brian C. Peterson of Raymond James.

Johnathan M. McCary
Raymond James & Associates, Inc., Research Division

This is Johnathan McCary on for Brian. Maybe kind of related to that last question, but I'm curious after a few months now into a pricing model, how would you say the sales reps have adjusted to that? Was there any sort of learning curve there still in process? Or was that a relatively seamless transition from the team?

Yamini Rangan
CEO, President and Director

Yes. Thanks a lot. I think there is a learning curve and our sales teams as well as the partner teams are settling into that seat motion. And as we have said, the changes that we launched as part of this pricing change was to lower the price point to get started with HubSpot remove the seat minimum so that our customers can upgrade to Pro and Enterprise without any friction and then create a core feed for customers.

And all of that, we expected ASP to go down and the volume of customer wins to go up and then better upgrades over time. And as you pointed out, this is a slightly different motion for our sales reps. It is a higher velocity motion. So we've been really focused on enabling our reps on the steps that they can take, the qualification that they do and how they can progress the deals quickly. And we're beginning to see the overall volume offset the ASP. And so we're pleased with the progress, but it's taking a little bit of time, and I'm really happy with how our sales teams have responded to the change in motion. But overall, it's progressing as we wanted to.

Operator

The next question is from the line of Michael Turrin of Wells Fargo.

Michael H. Berg
Wells Fargo Securities, LLC, Research Division

This is Michael Berg on for Michael Turrin. I wanted to ask on the new pricing model is slightly different than the enter. One of the points you referred to several times on this call is starter upgrade motion playing out over time. I'm just curious how and what you are seeing today in that motion? And if that has picked up any meaningful amount since the new pricing model has been launched.

Kathryn A. Bueker

CFO & Treasurer

Yes. Thank you so much for the question. We obviously pay a lot of attention to our starter upgrade rates. And I think the good news is that starter cohorts continue to upgrade really a healthy rates pretty consistent with what we've been seeing over the last few years, even with the healthier volumes that we have seen over the last few quarters.

Operator

Our next question today is from the line of Tyler Radke of Citigroup.

Tyler Maverick Radke
Citigroup Inc., Research Division

Maybe this one for Kate. Can you just help unpack the moving pieces in the full year revenue guide? Obviously, it sounds like currency was a factor that flipped a little bit more positively. But is there any type of incremental softness as it relates to macro or the pricing model in the guide if we just sort of compare your prior guide with the currency and the next -- the quarterly beat as well.

Kathryn A. Bueker
CFO & Treasurer

Yes. I mean, what I would tell you is like we're very pleased with the results in Q2. You heard both Yamini and I say on -- in our prepared remarks that we're seeing the macro weakness persist, been hearing similar sentiments from peer companies who've already announced. And our guidance assumes that the difficult demand environment continues in the back half of the year, but it also does not assume that it gets materially worse, right? As we look to set guidance. We took a step back and look at the range of scenarios as part of that process, consistent with what we already -- we always do. And I know that there has been concerns more recently of broader economic challenges, but we have a lot of confidence in achieving the guidance that we look forward.

Operator

Our next question today is from the line of Arjun Bhatia of William Blair.

Arjun Rohit Bhatia
William Blair & Company L.L.C., Research Division

Yamini, maybe one for you, going back to AI a little bit. Can you just help understand where you might see in the product portfolio, AI adoption first or where you are seeing it first? And then more specifically on Service Hub. I also wanted to ask what capabilities you're baking in there? And if there is kind of this shift to self-service from your customers, do you need to change your seat-based pricing model at all in Service Hub or is that anything that you're contemplating?

Yamini Rangan
CEO, President and Director

Okay. Multi-parter. I'll take the kind of the first part of the question, which is where we've seen adoption momentum and then take the Service Hub separately. So if I look at our customers, marketing teams have been the leading adopters of AI. And specifically, content use cases have the highest adoption with 65% of our AI users already leveraging content features. I talked a lot about Content Hub. One of the reasons why we doubled down on content hub is that we know that content is important to attract customers, but everything in terms of the -- how you create content and how you distribute content has changed. And that was kind of the strategy in terms of Content Hub.

So in terms of AI, we are seeing repeat usage for generating audio from blog, language translation, text editing, writing e-mail summary. So a lot of the content use cases are the ones that our customers are meaning in. And maybe the more important indicator is that it's just becoming built into their daily workflow. So that's area #1. I do think service is the next use case, customers are getting pretty comfortable with leveraging AI for improving resolution times as well as driving self-serve via chatbot. We've seen a 40% repeat usage rate in portals that have activated AI chatbot. And when they are using AI chatbot consistently, we're seeing 30-plus percent resolution rate improvement. So these all are early indicators that there is value and service has a lot more room in terms of continuing to drive value. I don't know, Dharmesh, if you have a comment on Service Hub as well.

Dharmesh Shah
Co-Founder, CTO & Director

Yes. Just a quick note on the kind of question around seats possible seats pressure. The way we think of it is we rolled Generative AI across the entire engineering team last year. And we think different roles will be impacted differently by Generative AI. And we saw a 20% measurable improvement in productivity across the engineering team. And we don't think that reduces the number of engineers that we're going to want. We have a long multi-decade road map and vision is what we want to do there.

On the service side, lots of service orgs are currently kind of managed towards kind of optimizing how many people are necessary to manage a fixed number of customer interactions, how many tickets can we handle and those kinds of things. And as you heard, Yamini note, we're moving this kind of persona shift towards customer success. So we think how this plays out over the long term is that we're not going to be optimizing for customer interactions. We're going to say, can we have more interactions that are more valuable and kind of lift the overall productivity and value that these customer teams provide. And so our thinking long term is that, yes, it may reduce the overall headcount, but we think as we add value that we will kind of share our fair share of that value. So we're simply focused on driving more value with AI, making our customers more productive. We think over the fullness of time, that will still play out nicely.

Operator

The next question is from the line of Siti Panigrahi of Mizuho.

Sitikantha Panigrahi
Mizuho Securities USA LLC, Research Division

And going back to the seat-based pricing changes, you previously talked about this new model being net neutral to ARR for the year. So wondering if you could provide update there? And what are you seeing in terms of the volume versus price dynamics in Q2 and until August. And is this still a net neutral ARR impact still the expectation?

Kathryn A. Bueker
CFO & Treasurer

Yes. We are still expecting that the seat model change will be neutral to growth for 2024. As you heard from Yamini, we continue to make progress with the new sales motion, and we're expecting another sequential improvement there in Q3. The other thing we're seeing is really solid expansion trends. We talked about a multi-point increase in our net revenue retention at month 3 from customers that are on the new model as a result of the fact that they're just purchasing what they need when they get started and they're upgrading in real time. And that gives us added confidence in that 6 to 8-point increase in net revenue retention for seat-based customers that we shared last quarter.

Operator

Our next question is from the line of Kirk Materne of Evercore ISI.

Kirk Materne
Evercore ISI Institutional Equities, Research Division

Kate, it was actually a very nuance change, but you did pick up CapEx a little bit from 4% to 5%. I'm just curious, is there anything, is that AI related? I mean, I realize it's a very small absolute number, but I'm just kind of curious how we should read that if there's anything directionally to read into that as we start thinking about 25% as well.

Kathryn A. Bueker
CFO & Treasurer

Yes. No, I appreciate the question. The largest part of our CapEx is actually capitalized software. And there's a couple of things that are driving that tick up from what you noticed this quarter that 4% to 5%. One is that we have been investing in an outsized way in our product and engineering organization. And so that would, in itself, lead to an increase. The other thing that we're seeing is that the share of time that engineering teams and product teams are spending on developing new features and functionality is actually increasing. And it's that combination that's driving that little increase in CapEx. .

Operator

The next question is from the line of Eamon Coughlin of Barclays.

Eamon Robert Coughlin
Barclays Bank PLC, Research Division

In 2Q, can you just maybe touch on the contribution to net retention from pricing seats of tiering and cross-sell? And has this changed for 2Q? And then could this change as the price change rolls through the existing base?

Kathryn A. Bueker
CFO & Treasurer

Yes. Thanks for the question. Maybe I'm going to take a step back and maybe talk about net revenue retention in general. The -- just like as a reminder, net revenue retention for the quarter was flat at 102. And we saw really a consistent set of trends that we're influencing net revenue retention for Q2. The first is that we continue to see really strong gross retention in the high 80s.

Second, we've been seeing a stabilization over the last few quarters here on downgrades. And we saw that continue into Q2, particularly with season contacts. And then finally, we have been seeing a challenge with our upgrade motions, and we continue to see challenge in the quarter with expansion motion. Even though we've seen those early positive signs with the new seat-based pricing model that you talked about.

So net-net, we think net new ARR or net revenue retention is going to remain around 102 give or take a point in the back half of the year and that it's really an external environment improvement and the maturing of that seat-based model that's going to take a few more quarters before we would start seeing something trend up.

Operator

The next question is from the line of Taylor McGinnis of UBS.

Taylor Anne McGinnis
UBS Investment Bank, Research Division

Since there is some rounding in the constant currency growth rates and numbers, Kate, are you able to offer a little bit more color on how the second half 2024 constant currency revenue growth guide now compares to the implied second half 2024 constant currency revenue growth guide given last quarter? Because I guess you use like some of the rounded numbers, it would suggest it might be a little lower. So if that's true, can you maybe comment on what might be driving that extra conservatism on the back of what looked like to be a really solid 3Q. And if you are seeing anything at the start of 3Q and the July month, that might be driving some of that.

Kathryn A. Bueker
CFO & Treasurer

Yes. No, I appreciate the question. Let me see if I can clarify a little bit here. your math is roughly right. Our updated full year guidance is up by $15 million at the midpoint. And this includes a bit more than $10 million of FX benefit in the back half of the year. So based on the latest forecast knowing that FX has been highly volatile. And when you take a step back and sort of I'll reiterate some of the comments that we made in both prepared remarks and an earlier question, the external environment remains challenging.

There is a high degree of uncertainty in the macro and foreign exchange market has been incredibly volatile. And so as we always do, we run a bunch of different scenarios as we evaluated our back half guidance. And we always want to put forward a set of guidance that we feel really confident in our ability to achieve. And I think that's what we did again this quarter.

Operator

And the final question in the queue today is from the line of Jackson Ader of KeyCorp.

Jackson Edmund Ader
KeyBanc Capital Markets Inc., Research Division

My question is on, I think we've lapped the initial pilot program on the seat-based model from Australia and New Zealand. And so I'm just curious what the behavior is when some of these customers that might have signed annual contracts, what their behavior is upon renewal after that first year.

Kathryn A. Bueker
CFO & Treasurer

I mean, look, I think that what we have shared over the last quarter on the pilot program in ANZ still holds which is we see a strong and healthy customer base because people are buying what they want. They're upgrading as they need it. And we see net revenue retention that at month 12 is 6 to 8 points higher than what we see under the legacy model.

Operator

Thank you. This will conclude the HubSpot Q2 2024 Earnings Call. Thank you to everyone who is able to join us today. You may now disconnect your lines.