

# HubSpot, Inc. NYSE:HUBS

## FQ1 2021 Earnings Call Transcripts

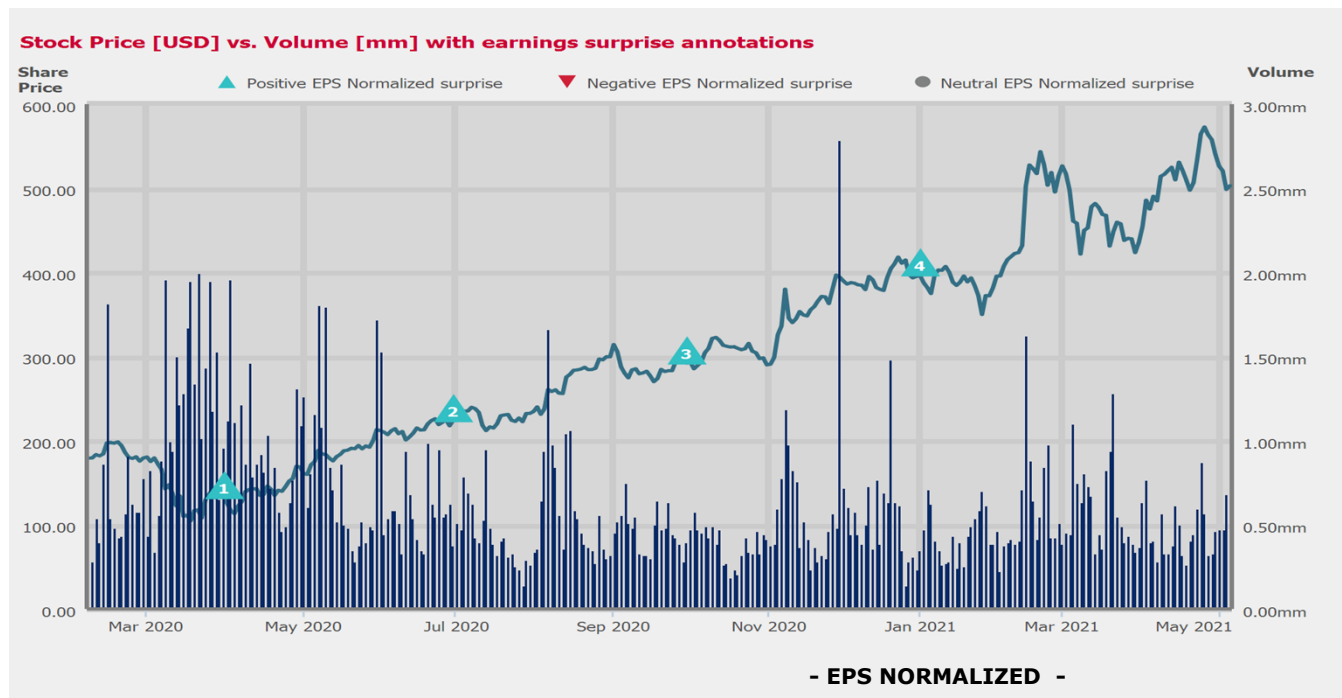
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S&P Global Market Intelligence Estimates

	-FQ4 2020-	-FQ1 2021-	-FY 2020-	-FY 2021-
	CONSENSUS	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.23	0.29	1.15	1.58
Revenue (mm)	236.67	263.90	867.71	1167.84

Currency: USD

Consensus as of May-03-2021 1:42 AM GMT



	CONSENSUS	ACTUAL	SURPRISE
FQ1 2020	0.23	0.35	▲1 52.17 %
FQ2 2020	0.24	0.34	▲2 41.67 %
FQ3 2020	0.13	0.28	▲3 115.38 %
FQ4 2020	0.23	0.40	▲4 73.91 %

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# Call Participants

## EXECUTIVES

**Charles MacGlashing**

*Corporate Treasure & Senior Director of IR*

**Dharmesh Shah**

*Co-Founder, CTO & Director*

**Kathryn Bueker**

*CFO & Treasurer*

**Yamini Rangan**

*Chief Customer Officer*

**Hoi-Fung Wong**

*Guggenheim Securities, LLC, Research Division*

**Jeffrey Parker Lane**

*Stifel, Nicolaus & Company, Incorporated, Research Division*

**Mark Ronald Murphy**

*JPMorgan Chase & Co, Research Division*

## ANALYSTS

**Alex Zukin**

**Alexander Henderson**

*Needham & Company, LLC, Research Division*

**Andrew Michael Sherman**

*Cowen and Company, LLC, Research Division*

**Arjun Rohit Bhatia**

*William Blair & Company L.L.C., Research Division*

**Bradley Hartwell Sills**

*BofA Securities, Research Division*

**Brian Christopher Peterson**

*Raymond James & Associates, Inc., Research Division*

**Christopher David Merwin**

*Goldman Sachs Group, Inc., Research Division*

**David E. Hynes**

*Canaccord Genuity Corp., Research Division*

**Michael Turits**

*KeyBanc Capital Markets Inc., Research Division*

**Michael H. Berg**

*Mizuho Securities USA LLC, Research Division*

**Michael James Turrin**

*Wells Fargo Securities, LLC, Research Division*

**Samad Saleem Samana**

*Jefferies LLC, Research Division*

**Stan Zlotsky**

*Morgan Stanley, Research Division*

**Stewart Kirk Materne**

*Evercore ISI Institutional Equities, Research Division*

**Terrell Frederick Tillman**

*Truist Securities, Inc., Research Division*

# Presentation

## Operator

Good day, and thank you for standing by. Welcome to the HubSpot Q1 '21 Earnings Call. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Chuck MacGlashing, Head of Investor Relations. Thank you. Please go ahead.

## Charles MacGlashing

*Corporate Treasure & Senior Director of IR*

Thanks, operator. Good afternoon, and welcome to HubSpot's First Quarter 2021 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 Dharmesh Shah, our Co-Founder and Chief Technology Officer; Yamini Rangan, our Chief Customer Officer; 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, operational expenditures, expected growth and business outlook, including our financial guidance for the second fiscal quarter and full year 2021.

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 first quarter 2021 earnings press release in the Investor Relations section of our website.

Now it's my pleasure to turn over the call to HubSpot's Co-Founder and Chief Technology Officer, Dharmesh Shah.

## Dharmesh Shah

*Co-Founder, CTO & Director*

Thanks, Chuck, and greetings, everyone. Thank you for joining us today as we review HubSpot's first quarter 2021 earnings results. Before we jump in, I'd like to give you a quick update on Brian. He's in good spirits and is well on his way to a full recovery. And while we're all looking forward to having him back, Yamini continues to lead day-to-day operations. Under her leadership, the team remains energized and well positioned to continue helping both HubSpot and our customers grow better.

Now on to the results, which have been remarkable. As we round a full year of living and working in the midst of a pandemic, we've continued to see very strong growth across the business. Both revenue and customer growth accelerated from Q4. This has been driven in part by a significant demand for digital transformation. More and more companies are shifting to a digitally-powered, if not digital-first, customer experience. It just so happens that we've been evangelizing this transformation since our founding nearly 15 years ago. As Brian said a few earnings calls ago, it feels like our vision matches the moment we're in. We've seen an acceleration in companies adapting to doing business online. This has made CRM not just important but indispensable. Digital first can't happen in one part of your customer journey and not another, and a strong comprehensive CRM platform is the thing that ties it all together.

Our ambition is to become the #1 CRM platform for scaling companies, and we're working toward that goal in two key ways: one, we're bringing high-end features only available to larger enterprises down to mid-market companies; and two, we're bringing a human-friendly product and purchasing experience traditionally seen in small and mid-market businesses up to larger enterprises. HubSpot CRM platform is crafted in-house, not cobbled together with acquisitions. That's why it's powerful and easy to use instead of being clunky and expensive like many traditional enterprise platforms. This is at the heart of what makes HubSpot different.

We're continuing to invest significantly in the platform and recently introduced the HubSpot CRM suite, which is designed to help our customers unlock the full power of our CRM platform. The CRM suite replaces the growth suite bundle and now includes CMS Hub and our new Operations Hub. This gives customers access to all of our starter, professional and enterprise products at a price point that delivers tremendous value. This is a win for our customers and moves us further towards being the #1 CRM platform for scaling companies. I'm really excited about the progress we've made in the past year. But I'm even more excited about the path ahead. With 2021 already off to a strong start, we're in a great position to keep helping our customers create delightful end-to-end experiences for their customers and ultimately grow better.

With that, I'll hand it over to Yamini.

**Yamini Rangan**  
*Chief Customer Officer*

Thanks so much, Dharmesh. Hey, everyone. I'm excited to share a business update and touch upon our go-to-market as well as our product innovation with you all. As you just heard, we've continued to see tremendous performance across the business with an acceleration of Q1 revenue growth to 37% year-over-year in constant currency and customer growth of 45% year-over-year. We set records in net new customer additions and revenue retentions in the quarter and are operating from a broad position of strength.

Our products and geographies continued to perform well in Q1. But I want to focus on 2 particular areas of note in our go-to-market, segmentation and partner alignment. One of the key pillars of our go-to-market strategy is our customer segmentation approach. We want HubSpot to be easy to buy, easy to use and easy to love for the customer segments we serve and are optimizing how we sell to and support our customers.

Historically, we've had great product and go-to-market fit in serving the needs of companies with 20 to 200 employees. Our goal is to expand the focus to drive increased efficiency in the 2- to 20-employee segment and improved sales productivity in the 200- to 2,000-employee segment. At the low end, we're investing in automation and product-led growth, which frees up our sales team to focus on larger deals. And at the high end, we are investing in product and sales enablement to cater to the needs of larger companies.

We are seeing strong customer additions as a result of the simplification and automation at the low end, balanced by strong ASP driven at the high end. These investments are translating into multi-hub deals, full platform deals and larger deals across the board. We're still in early days of implementing the strategy, but we feel really good about the traction we've seen thus far.

Another key pillar of our go-to-market strategy is investing in our partner ecosystem. As we expand our platform, we're seeing the types of partners we have in our ecosystem continue to diversify. That diversification of our partners will drive growth for us as we work to serve the needs of scaling companies, and we are already starting to see that opportunity come to fruition. According to a new white paper from IDC, the HubSpot ecosystem, made up of application and solution partners, is forecasted to grow faster than HubSpot as the ecosystem revenue grows from nearly \$5 billion in 2020 to over \$12 billion in 2024. This represents a broad-based opportunity for HubSpot and our partners moving forward.

Now I want to switch gears a little bit to talk about another important pillar of our business, our product. We recently expanded our suite of tools with the launch of Operations Hub. This new hub is designed to

transform the role of operations professionals and empower them to become strategic drivers of revenue and growth. Through our research and in talking to customers, we've heard very clearly that operations professionals often have to do duplicative and reactive work. This is because they operate in functional silos and lack access to clean data and automated processes.

Our operations teams have essentially become reactive firefighters. We want to help transform them into proactive and strategic friction fighters. Operations Hub breaks down silos between functional business units and provides the foundation for revenue operations teams to work across a single source of truth. It helps our customers connect their tech stack, clean the data and automate their processes. It keeps them fast and flexible as they scale. And most importantly, it keeps their customer experience friction-free so they can run better to grow better.

And as we've previously shared, HubSpot's growth will be driven by a balance of continued investment in our existing hubs, while also investing in new hubs to address our customers' adjacent front office needs. We know that revenue operations professionals are key decision-makers for CRM. And with the launch of Operations Hub, we've expanded our offering to an entirely new persona while also making it easier than ever for companies to build their entire customer experience on the HubSpot CRM platform.

In the first 10 days after the launch, more than 500 customers purchased Operations Hub. We're incredibly excited about the momentum we have seen from customers since launch, and the feedback we've heard from partners thus far and feel strongly that Operations Hub will play an important part in HubSpot becoming the CRM platform of choice for scaling companies.

With that, let me turn it over to Kate to walk through our financial results.

**Kathryn Bueker**  
*CFO & Treasurer*

Thanks, Yamini. Let's turn to our first quarter financial results and our guidance for the second quarter and full year of 2021. First quarter revenue were 37% year-over-year in constant currency and 41% as reported. Q1 subscription revenue grew 41% year-over-year, while services and other revenue increased 43%, both on an as reported basis. If you exclude the impact of nonrecurring Hustle revenue in the quarter, services and other revenue would have grown 33% in Q1.

As Yamini indicated, we continue to see broad strength across all of our hubs, peers and geographies. Q1 revenue retention set another all-time high, driven by record customer dollar retention and particular strength in addition upgrade and seat expansion activities. Customers continue to adopt HubSpot as a platform, and over 55% of our customers are getting value out of 2 or more hubs today.

Domestic revenue grew 33% in Q1, while international revenue growth was 42% year-over-year in constant currency and 51% as reported. International revenue represented 45% of total revenue in Q1, up 3 points year-over-year. We added a record 9,900 net customers in the quarter, bringing our total customer count to nearly 114,000, up 45% year-over-year. Average subscription revenue per customer of nearly \$9,900 was up 1 point sequentially, but down 1 point year-over-year.

Deferred revenue as of the end of March was \$339 million, a 40% increase year-over-year. Calculated billings was \$304 million in Q1, growing 43% year-over-year in constant currency and 47% as reported. This acceleration in constant currency billings growth was driven by a very strong business performance in the quarter in addition to an easier overall comparison as a result of the challenging business environment in March of 2020.

The remainder of my comments will refer to non-GAAP measures. First quarter gross margin was 81%, down slightly year-over-year. Subscription gross margin was 84%, while services gross margin was 8%. If you exclude the impact of nonrecurring Hustle revenue and associated gross profit, services gross margin was near breakeven in the quarter, consistent with our long-term services margin target.

First quarter operating margin was 7%, relatively flat as compared to the same period a year ago. The revenue overperformance in the quarter was largely offset by an increase in revenue-related costs, added expense from the Hustle acquisition as well as incremental R&D costs associated with investments in our

application infrastructure. As I've discussed over the last couple of quarters, we plan to continue to invest aggressively across the business to meet the market demand we're seeing for our products and drive innovation to fuel long-term growth.

At the end of the first quarter, we had 4,551 employees, up 27% year-over-year. Net income in the first quarter was \$16 million or \$0.31 per fully diluted share. CapEx, including capitalized software development costs, was \$11 million or 4% of revenue in Q1. Free cash flow in the first quarter was \$61 million or 22% of revenue. We continue to expect CapEx as a percentage of revenue to be about 5% in 2021 and now expect free cash flow to be between \$155 million and \$160 million, with another seasonally strong free cash flow quarter in Q4. Finally, our cash and marketable securities totaled \$1.3 billion at the end of March.

And with that, let's dive into guidance for the second quarter and full year of 2021. For the second quarter, total revenue is expected to be in the range of \$293 million to \$297 million, up 45% year-over-year at the midpoint. Non-GAAP operating income is expected to be between \$19 million and \$21 million. Non-GAAP diluted net income per share is expected to be between \$0.30 and \$0.32. This assumes 50.9 million fully diluted shares outstanding.

And for the full year of 2021, total revenue is now expected to be in the range of \$1.237 billion to \$1.247 billion, up 41% year-over-year at the midpoint. Non-GAAP operating income is now expected to be between \$104 million and \$106 million. Non-GAAP diluted net income per share is now expected to be between \$1.61 and \$1.65. This assumes 50.8 million fully diluted shares outstanding.

As you adjust your models, keep in mind the following. At current spot rates, we're forecasting an FX tailwind to as reported revenue of 6 points in Q2 and still expect a 3-point tailwind for the full year.

And with that, I'll hand things back over to Dharmesh for his closing remarks.

**Dharmesh Shah**

*Co-Founder, CTO & Director*

Thanks, Kate. We're grateful to all of our customers and partners for their support, especially over the past year with the challenges of a global pandemic. It has impacted the lives and livelihoods of millions all over the world. Our hearts especially go out to the people of India. They are fighting a humanitarian crisis with a sharp increase in the number of COVID cases. We wish all those impacted around the world brighter days ahead.

I also want to extend my thanks to the HubSpot team. I'm so proud of the work they have done over the past year to help our customers and partners. HubSpot's 15th anniversary is coming up in a few weeks, but it still feels like our business is in the early innings as we continue to pursue our mission of helping millions of organizations grow better.

Thank you for your time. Operator, please open up the call for some questions.

# Question and Answer

## Operator

[Operator Instructions]

Your first question comes from Brian Peterson from Raymond James.

### **Brian Christopher Peterson**

*Raymond James & Associates, Inc., Research Division*

Congrats on the really strong results. So just to start. I know everyone's thoughts and prayers are with Brian. It's great to hear that he's doing better. Your business sounds like it's in really good hands and some impressive results this quarter. But is there anything you can share in terms of the timetable for his return?

### **Dharmesh Shah**

*Co-Founder, CTO & Director*

Thanks, Brian, now for the well wishes. So Brian is doing well. He's in good humor. The team and I are in touch with him regularly. And we talk about things outside of just our favorite Netflix shows at the time. In terms of a date for the return, we don't have anything definitive in mind. We have -- Brian is going to take the time that he needs to heal, and we look forward to having him back sometime later this year.

### **Brian Christopher Peterson**

*Raymond James & Associates, Inc., Research Division*

Great. Well, it's great to hear that he's joking with you guys and he's in good spirits. And maybe a follow-up just on the demand environment. The strength you're seeing this quarter, is that a function of just the ongoing shift towards digital transformation for SMEs? Or anything else that you might be seeing in the market?

### **Yamini Rangan**

*Chief Customer Officer*

Yes. Thanks a lot, Brian. I'll take the question. The demand environment is solid. We saw an improvement in the demand patterns in the last couple of quarters of last year, and we're pleased to see that sustained during Q1. So we're seeing continued tailwind.

And I'd say, to your point on digital transformation, it's ongoing and it's certainly accelerating within our customer base as they're focused on lot of the digital-first efforts.

We think we're still in the very early days in the arc of modern CRM, and we think our customers are going to continue to lean in there. I would say, in addition to that, our value proposition has got much stronger. Our TAM has gotten much bigger over the last few years as we've gone from marketing our company to a CRM platform. The product investments we've made are paying off, and we have an ideal platform to help small and mid-market companies digitize their front office. So our go-to-market is in lockstep with the product expansion, and we're seeing very strong execution. So we feel really good about the way things are lining up.

## Operator

Your next question comes from Samad Samana from Jefferies.

### **Samad Saleem Samana**

*Jefferies LLC, Research Division*

First, great to see a 40% plus growth return at this scale for the first time since 2016, when that's what you were doing basically on an annual basis. So congrats on the strong start to the year. Maybe this one could be for either Yamini or Dharmesh. But when I think about Operations Hub, can you talk a little



bit about the vision for Operations Hub? And why this was the next logical hub for you guys to come to market with? And maybe what the early feedback from customers and partners is on use cases? And just maybe how you think about that impacting the TAM as well? And then I have 1 follow-up for Kate.

**Dharmesh Shah**

*Co-Founder, CTO & Director*

Thanks for your questions, Samad. I'll start out, and Yamini can chime in later. So when HubSpot looks at creating a new hub, we try to look for opportunities where the role and the persona that we're targeting is very well defined, and that those people have very well-defined pain points. In the case of Operations Hub, the people that we're focused on are sales ops, marketing ops and this kind of newly-emerging revenue ops role. So those are the people.

And the 3 pain points are very distinct. Pain point #1 is every mid-market company going through growth is using more and more applications within their infrastructure and having to deal with that kind of integration pain. Number two is all of those teams have either inherent or implemented these kind of fragmented, disconnected data silos, so they're contending with that issue. And #3, there's so much that's happening within the organization that's just manual, lots of manual work and kind of have to throw humans at the problem. So those are 3 kind of areas of pain.

And what we want to do with Operations Hub, so if you think about kind of the evolution of that role, they kind of started off as ostriches, and they had their heads buried into the systems and fragmented data silos. It's gotten a little bit better. They've kind of lifted their heads up now, and they're more like emus now. So they kind of look around, not quite there yet. What we want to do with Operations Hub is take them from emus and elevate them to eagles, where they have much more visibility, much more velocity. And so I'm very excited about the opportunity behind Operations Hub because these are not kind of problems that just a few customers have. Most of our customers have all 3 of these pain points, so I think the opportunity is big. I'll let Yamini [ hop on ].

**Yamini Rangan**

*Chief Customer Officer*

Yes, yes, I completely agree with you, Dharmesh. And I would say, Samad, in terms of how we're thinking about the opportunity, I think it's certainly a good way in which we will bundle this. As Dharmesh mentioned, Operations Hub really supercharges CRM. And so the first opportunity for us is to put it into our CRM suite, which is exactly what we have done. And Operations Hub, which brings together [ data soft systems ], so it's also going to make our CRM suite much more stickier.

We also think there is an immediate cross-sell opportunity. We have a growing install base of customers and the initial reaction from both our customers as well as partners has been really positive. And we think both small as well as mid-market customers are going to really adopt and drive the solution. And on the addressable opportunity, I don't think there's like a number we've been to, but I do think it's a very large multibillion opportunity to consider marketing operations not only opens up the traditional \$15 billion CRM market, but also data analysis and integration. So we're kind of very excited about how incremental this opportunity is and how this opens it up for us.

**Samad Saleem Samana**

*Jefferies LLC, Research Division*

Great. And then, Kate, this was another impressive quarter, where both net sub adds was really, really robust. And yet, ASRPC increased again quarter-over-quarter. We don't really see that very often with HubSpot's model just the way it works. And so would love to dig in further what's driving that between net expense and at existing customers versus maybe larger initial lands? Or is there something else that maybe we're not even considering that we should factor in?

**Kathryn Bueker**

*CFO & Treasurer*

Yes. Thanks, Samad, for noticing. We were certainly very happy with the 9,900 net customer additions in the quarter, particularly combined with another quarter of sequential growth of ASRPC. The answer to your question is, frankly, it's a bit of both. Q1 was another quarter where we had a really balanced set of new customer additions across starter and professional and enterprise.

And as you heard from Yamini in her prepared remarks, increasingly, we are seeing new customers in that professional enterprise come on as multiproduct customers, and we are also seeing ourselves landing bigger deals. So ASPs of new customers are healthy. We also both highlighted another record retention quarter in Q1, which certainly indicates a strong amount of upsell, which is another tailwind that we're seeing to ASRPC. So both of the things that you're highlighting are contributing to what trends we're seeing on those KPIs.

**Samad Saleem Samana**

*Jefferies LLC, Research Division*

Very helpful. And congrats on the quarter. And wishing Brian good health and a speedy recovery wherever he's listening from right now.

**Operator**

Your next question comes from Alex Zukin from Wolfe Research.

**Alex Zukin**

And I'll echo my well wishes to Brian and the rest of the team. I've got a quick just general question and then a follow-up for Kate. The first one, maybe just -- clearly, you guys saw a really nice acceleration in domestic growth and international. Can you talk about any geographies or products, in particular, that are driving the strength here in the U.S. versus internationally? Is it different? Is it the same? Would love to understand that a little bit more.

**Yamini Rangan**

*Chief Customer Officer*

Yes. And thanks a lot, Alex, for the question. I'll take this. We are really happy with the momentum that we saw, and it's kind of broad-based across all of the geographies. U.S. is large. It's seeing growth. We really like the results there and went from 27% to 33% growth. At the same time, all of our international theaters did really well. The flywheel is spinning across all of these.

And then if you take a step back, we are still very much in early innings and early kind of market penetration in most of the markets that we're operating in, and our TAM is really large. The value proposition is strong and resonating across these markets. Unit economics was pretty strong. The cost to acquire customer relative to the lifetime value is really solid in these international markets, and so we have continued to invest. And so we're really pleased with the balanced performance that we saw across all of the geos.

**Alex Zukin**

That's awesome. And then Kate, maybe one for you. With respect to, clearly, another just wonderful quarter around retention. Is it fair to say you've got now better visibility into kind of a new normal, kind of dollar-based net retention metric that you can share going forward? And how should we think about as we start lapping some of the tougher comps, the linearity -- or not the linearity, but the sequential step-up in kind of billings trends just so we don't get too far ahead of ourselves in modeling?

**Kathryn Bueker**

*CFO & Treasurer*

Yes. Maybe I'll start with the retention question. Alex, thanks. Yes, definitely good to see another really strong retention quarter. We set another record. I think as you've seen, we tend to share more detail around some of the KPIs at things like Analyst Day, and so that might be a good opportunity to reset with more specific expectations.

What I will say is this. Customer dollar retention was, again, really the key foundation to the overall strength for retention in the quarter. Last year, we saw a dip in customer dollar retention that started in March; again, occurred in Q2. And then in the back half of the year, what we saw was a really pronounced pickup to customer dollar retention. And that strength really continued into Q1. It -- frankly, what we're discovering is it's pretty simple. Our customers are actually using the product more. And as a result, they're retaining better.

And then on top of the customer dollar retention, we are seeing really strong install base selling across really a diverse set of drivers. In my prepared remarks, I called out a particular strength in the upgrades, both from Starter to Pro, but also from Pro to Enterprise in the quarter were really strong. And then we're additionally seeing real benefits from the multi-hub adoption in the customer base as well as from some of the seat expansion that we're starting to see as our sales customers get bigger. So lots of good stuff going on, on the retention side.

As it relates to billings. Like, as you know, billings is always a noisy metric. I think that we've consistently said we're not going to guide to billings, and we've tried to point you to really looking at billings growth as something that tracks revenue growth in constant currency. Q2 is going to be a strange quarter from a growth comparison. That's true for revenue. It's also going to be true for billings. In general, I would just expect that billings was going to largely track revenue with maybe a bit more volatility around FX and some product mix.

### **Operator**

Your next question comes from Stan Zlotzky from Morgan Stanley.

### **Stan Zlotzky**

*Morgan Stanley, Research Division*

Perfect. Congratulations on a very strong quarter and wishing for a speedy recovery and return to Brian.

A couple of questions from my end. I wanted to get Dharmesh involved because we don't get to hear him very often on calls. So we're excited to have him on. On the Operations Hub, how are you thinking about, when you guys were initially putting it together, between balancing the low-code capabilities that are inherent in the product with the need to make the product really approachable to some of the smaller companies within your customer base, given the fact that they do have limited developer resources?

### **Dharmesh Shah**

*Co-Founder, CTO & Director*

First of all, thanks for your confidence. So Operations Hub is squarely in that kind of low-code, no-code category. And HubSpot's kind of driving passion has always been to take functionality that's historically been in kind of mega enterprises and democratize it and make it available for our kind of smaller and mid-market customers. So Operations Hub, as an example, our data syncing engine allows you to say, okay, we have this particular field and this system, [ the map ] of this field and this system, and here's how I'll tell you I want to update it. And without writing any code, it lets you kind of express and declare what you want the outcome to be. And so that, I think, is at the heart of what HubSpot is doing is to make these things that historically have been kind of hard to do or required dev teams to be able to have mere mortal operations experts that know the business be able to kind of model their business and run these automated processes without having to write a lot of code.

### **Stan Zlotzky**

*Morgan Stanley, Research Division*

That's certainly really exciting, and I'm sure that's the reason why you're seeing some strong customer uptake just 10 days after launch.

And maybe a quick follow-up for Kate. Going back to ASRPC. It was really encouraging to see that go up sequentially quarter-on-quarter, along with the fact that you guys put up record net adds in the quarter, which kind of suggests to me that you're seeing pretty strong momentum in the Enterprise segment. What do you actually -- maybe qualitatively, what are you seeing up there in the upper end of the market? And

how much of your revamp within the Marketing Hub and Sales Hub Enterprise products is really driving the momentum that you're seeing there?

**Kathryn Bueker**

*CFO & Treasurer*

Stan, I'm going to let Yamini start that one, and maybe I will fill in any details that she misses.

**Yamini Rangan**

*Chief Customer Officer*

Yes. Thanks a lot, Stan. Yes, I think you're right. I think we've powered our enterprise tier. And if you really take a step back, the enterprise tier over the past couple of years has gotten really, really strong. So as most of you know, Marketing Hub Enterprise, we launched a year ago. That went really well. It resonated with customers. Account-based marketing, revenue attributions reporting and AI-powered AB testing, that -- those are all like really powerful features that our customers have asked for that's resonating really well.

In terms of the Sales Hub, we relaunched that as inbound with custom objects. Now a lot of customers have been asking for custom objects for a while, and so that was obviously really a powerful new feature. And then CPQ tools as well as sales acceleration tools. More recently, in Q1, we added conversation intelligence. And that has also supercharged our Sales Hub Enterprise. So a ton of momentum based on the investments we've been making in the product for a couple of years now.

And then I would say, Stan, that in addition to it, the go-to-market side is now in lockstep with product as we optimize and fine-tune our approach to different segments. And we've always been really good, very well optimized in terms of the 20- to 200-employee space. And what we're doing right now is we're doubling down on the 200- to 2,000-employee segments. We're fine-tuning that approach. We are investing in sales enablement and sales process. And it's not necessarily that we're moving upmarket, but what we're doing is we are in the segment, we are optimizing the segment to get higher percentage of wins.

So in terms of the enterprise momentum, it's kind of simple. Products got better, execution got better, is well aligned and that puts us into the next year.

**Operator**

Your next question comes from Mark Murphy from JPMorgan. .

**Mark Ronald Murphy**

*JPMorgan Chase & Co, Research Division*

First, Brian, in case you're listening, I have enjoyed your haikus, and I've also enjoyed your playlists while you were recovering. So I wanted to just thank you for all the positive energy, and it's been quite an inspiration, and we're looking forward to catching up with you soon.

Kate, I had a question for you. Are any of the current metrics running kind of clearly above trend where you can look at it and see that it's temporary? I mean, for example, I think we know you have an FX tailwind there. It's an easy comp. There's probably a tiny contribution from Hustle. But is there anything else you would look at and say, for instance, retention, I think Alex was asking you about, retention or any other metrics that maybe you would just say that there are -- you can kind of tell they're running a little bit above trend temporarily?

**Kathryn Bueker**

*CFO & Treasurer*

It really feels like we're seeing a strength in the business that has some durability to it. I think you're calling out a couple of things that are relatively smaller that are temporary in FX and the sort of 1 quarter impact of some of the Hustle ad revenue, but those are relatively small. The product is certainly sitting the current market need, and we're seeing very positive trends across the board.

**Mark Ronald Murphy**

*JPMorgan Chase & Co, Research Division*

Okay. Great. And then a quick one, I guess, for Dharmesh or Yamini. I've heard all the descriptions of what the Operations Hub is going to do. Just -- could you just clarify the product itself, is it a business rules or workflow engine? Is it like a data integration framework? Is it a ticketing system? Is it like a data quality fabric? Just anything that can help make that product a little more tangible to us.

**Dharmesh Shah**

*Co-Founder, CTO & Director*

Sure. I'll take this one. If you think about kind of 3 broad areas of functionality, for which there are products in other categories, especially on the enterprise and the various kind of data synchronization on how do you manage the data better and model it better, there's automation, how do I kind of do automated processes against that data, and then there's reporting and intelligence. And what Operations Hub does is overlaps. Imagine if I were on the whiteboard, channeling my inner Brian, drawing a Venn diagram, Operations Hub sits at the intersection of those 3 things, that says we want to get the data unified, we want to be able to automate the processes, and we want to be able to draw the data out in meaningful ways and be able to make intelligent business decisions. That's the kind of broad base.

**Operator**

Your next question comes from DJ Hynes from Canaccord Genuity.

**David E. Hynes**

*Canaccord Genuity Corp., Research Division*

Congrats on the stellar results, and I'll echo all the well wishes for Brian. I was hoping you could talk about the new pricing and packaging changes you've made with the CRM suite. I guess specifically, how much of the decision to move further in this direction was driven by learnings from the Starter Growth Suite pricing changes that I guess you made as part of your COVID relief measures last year versus maybe something else that you're seeing out there in the market?

**Yamini Rangan**

*Chief Customer Officer*

Thanks, DJ. I'll take this one. If you step back, as we mentioned in our prepared remarks, our goal is to be the #1 CRM for scaling companies. And interestingly, as we looked at our pricing page and packaging page, we realized we actually didn't offer that, and we needed a bundling strategy that is very much aligned with our product vision and expanding footprint.

And maybe just to recap, last year, we offered a growth suite and that was specific to Marketing, Sales and Service Hubs. And we wanted something that our customers that are interested in adopting the broad HubSpot platform, it's easy for them to do so. And so the CRM suite not only includes the OG hubs, the Marketing, Sales and Service Hubs, but also includes the Operations and CMS Hub. And across the board, we're seeing more customers wanting to adopt a full suite of products, and we want to make it very easy for them to be able to buy it and leverage it and adopt it.

And to your point, like what have we learned? I think last year, when we introduced the Starter Growth Suite, one of the biggest lessons we learned was that simplicity drives velocity. So we're going to double down on simplicity across. And I think we also want to make it very easy for our customers who want to digitize their front office to buy and use our crafted beautiful solutions. So that's the whole impediment.

**Operator**

Your next question comes from Brad Sills from BofA Securities.

**Bradley Hartwell Sills**

*BofA Securities, Research Division*

And I'll echo the sentiment for Brian. We wish him well and hope a speedy recovery for Brian. I wanted to ask another kind of follow-up question, if you will, to the Operations Hub, please. I mean you can see a myriad of use cases here. It's applicable to sales, marketing, service, even CMS. Where do you see the most impact initially? And then perhaps over time, where in the stack could you see Operations Hub provide that catalyst for perhaps more heavier attach in kind of the core modules?

**Yamini Rangan**

*Chief Customer Officer*

Yes, Brad, thanks a lot for that question. I think if you think about the attach for Operations Hub, it's actually going to be across the board, right? I think the first thing is you're going to see it be part of our CRM bundle and add a lot of value in terms of driving data synchronization as well as workflows. And you're going to see it in a lot of the cross-sell opportunities. I mean a simple example where maybe you need to calculate the commissions and your rep closes a certain deal, and that's part of your Sales Hub. Now you can actually pull information about that deal, the product items, the custom objects from multiple data sources and be able to calculate commissions. And that's an example of how that can be an extension of Sales Hub.

The same thing happens in terms of CMS and CRM. If you're powering that, you're going to be able to manual -- take some of the manual tasks and be able to automate it, whether you want to showcase certain things on your website, you can pretty easily automate it. So I think it's going to be across our suite and expanding portfolio. It's just going moving to [indiscernible] for power all of our suite. So we're pretty pumped about the initial customer reaction.

**Operator**

Your next question comes from Arjun Bhatia from William Blair.

**Arjun Rohit Bhatia**

*William Blair & Company L.L.C., Research Division*

Yes. Great quarter. Can you just talk about the progress that you've made with Service Hub over the last year? I know it's still relatively less mature than Sales Hub and Marketing Hub. But are you starting to see that Service Hub beginning to drive more net new business? Or is it still largely going to be attached to other hubs or part of the suite?

**Dharmesh Shah**

*Co-Founder, CTO & Director*

Yes. Thanks for the question. So Service Hub has been growing really well. It's actually further along in its kind of evolution and in its progress as a business than Sales Hub was at a similar point in time. Having said that, right now, most of the sales are still part of the overall suite. We think over the course of the next 1 year, 1.5 years, 2 years, that it will actually have -- it will be another door into the HubSpot platform. So we'll get independent Service Hub deals that draw new customers to the platform. We think the opportunity is certainly there, it's exciting and the path to get there is actually relatively clear for us. So we're excited about it.

**Operator**

Your next question comes from Ryan MacDonald from Needham & Company.

**Alexander Henderson**

*Needham & Company, LLC, Research Division*

This is Alex on for Ryan. It seems like there's an increased level of focus momentum with Sales Hub and CRM, particularly in the mid and upper end of the target market. Are you [ seeing ] greenfield opportunities? Are you seeing improved win rates versus some legacy CRM platforms in the market?

**Yamini Rangan**

*Chief Customer Officer*

Thanks a lot for that question. I think we're seeing pretty strong win rates across all of the segments, not just 1 segment across the board. And I would say that there's plenty of greenfield opportunity left. As we go into our customer base, there's still a ton of homegrown solutions, point solutions and sometimes even like spreadsheets that we are kind of replacing. And we step back, we've taken a very different approach to CRM. And as Brian would say it, we kind of like zag when others are zigging, and we've taken a very different approach of crafting our solution. And that actually resonates with our customer base rather than maybe a cobble together approach that might be okay for the larger portions of the segment.

And within small and medium businesses, they don't want to pay the cobbling tax. They want simple consumer-like user interface with a scalable, powerful back end, and that's the approach that seems to be resonating really well.

And as I talk to decision-makers and figure out the themes of why we are winning, it really comes down to a few things. First off, it's quick time to value. It takes a relatively short amount of time, maybe weeks, to implement HubSpot and begin to get value. It doesn't take months or years. It is pretty easy to adopt. We've really focused on one of the hardest problems in CRM, which is adoption. And third, our pace of product innovation. Those are the reasons why we continue to win, and we're pretty happy with where we are in the landscape.

**Operator**

Your next question comes from Terry Tillman from Truist Securities.

**Terrell Frederick Tillman**

*Truist Securities, Inc., Research Division*

Congrats on the great quarter. And I'll also say I hope Brian makes it back soon. My question is going to relate to CMS Hub. It's been about a year since the launch of CMS Hub. Maybe you can talk about how the opportunity is evolving with CMS Hub. Also hearing from your partners about success selling it alongside just the modern CRM. What makes it so special by combining the CMS with the CRM?

**Dharmesh Shah**

*Co-Founder, CTO & Director*

I love this question. So it's been about a year since the CMS Hub launch. And if you look at the market, on the lower end, there are lots of tools that I think of as kind of website publishing tools, and they're great products for that lower end of the market. There are a handful of tools on the mega enterprise side where if you have -- if you're willing to spend thousands of dollars and hundreds of lives, you can solve some number of problems. In the middle, there's a HubSpot-shaped hole in the market. And here's why I think it's important, is that it's not just about delivering a website and publishing a website and some content, it's about creating a connected customer experience where the CMS actually talks to the CRM.

So I'll give you a quick example. So let's say you have your website up, you have customers and you want some portion of your website to only be visible to people that have bought a certain product and have also logged the support ticket in the last 60 days. Now that sounds like a relatively simple example, but to pull that off with the kind of classic CMS that's not connected to the CRM, it would take a long time, it would take developer talent. In the case of HubSpot, that data is already in the CRM. We already have the automation tools. We have this support system all connected. And so exposing that and kind of implementing that particular use case and thousands like it is something mere mortals can do without requiring developer talent. And I think that's the kind of sweet spot for HubSpot, is combine the CMS and CRM together, which has really never been done before.

**Operator**

Your next question comes from Parker Lane from Stifel.

**Jeffrey Parker Lane**

*Stifel, Nicolaus & Company, Incorporated, Research Division*

Dharmesh, you touched on it a little bit with the Operations Hub, but can you give us an update on the platform investments you're making? And what do you think the strategy looks like on a 3- to 5-year basis? And I guess to that point, what opportunities you have for monetization across the ecosystem?

**Dharmesh Shah**

*Co-Founder, CTO & Director*

Sure. Absolutely. So what we're focused on right now is we're trying to be the #1 CRM platform for scaling companies, and I'll underline the word platform there. What makes for a vibrant platform is you need a large pool of kind of developers and customers and partners kind of building and extending the functionality of HubSpot, kind of that's the goal. So right now, what we're focused on is kind of enlarging that ecosystem and making it more vibrant. We're spending a fair amount of time in the same way that the HubSpot core product is a joy to use, we want the HubSpot platform to be a joy to develop on and a joy to build on.

And so although there are monetization opportunities even today, we want to be patient with that. We want to kind of grow that ecosystem. We want to fuel that particular flywheel as much as we possibly can and defer the monetization discussions for a later date. They're definitely out there, and they're on our minds. But right now, the focus is just growing the ecosystem and delivering as much value as we can to that developer community and building around there.

**Operator**

Your next question comes from Chris Merwin from Goldman Sachs.

**Christopher David Merwin**

*Goldman Sachs Group, Inc., Research Division*

And let me offer my well wishes to Brian in his recovery. I wanted to ask one about Operations Hub as well. And specifically, is this a tool that ultimately is geared more towards your larger customers? It looks like the pricing in the website is for Starter and Pro. But I imagine this is something that, of course, your smaller customers as well as your larger customers could use for all sorts of different use cases. So just was hoping if you could talk a bit about the go-to-market strategy for growing this product and where you see kind of the initial fit within the customer segments, and what that could look like over time as well.

**Yamini Rangan**

*Chief Customer Officer*

Yes. Chris, thank you so much for that question. I think it's actually going to be a fit for all segments that we are operating, in small as well as mid-market customers. I think in the smaller end of the -- our customer base, they are most likely not using anything, which is why this is such an appealing opportunity for us. And they still need to be able to get data across multiple systems. They still need to be able to automate multiple manual processes. And so I think it's going to be interesting there.

And as you go a little bit upmarket into our mid-market segment, they currently may be using the few tools. Maybe they're using something like a Workato for business process automation or segment for connecting systems. And again, they're using for something -- they look for something simple, right? They want to be able to automate the processes and have something simple. And from a go-to-market perspective, we're going to focus it on, first, the bundling opportunity as well as the cross-sell opportunity over a period of time that can develop into being a front door itself. But we really think it's going to start with our current install base as well as the bundle opportunity.

**Operator**

Your next question comes from Ken Wong from Guggenheim Securities.

**Hoi-Fung Wong**

*Guggenheim Securities, LLC, Research Division*



Just one quick one for me. I realize it's a single data point with Q1 seeing customer adds jump up to 10,000 net. As we kind of look ahead with -- and also kind of factoring the fact that we're going to grow 40%, should we think about 10,000 as the right number of net adds going forward now?

**Kathryn Bueker**  
*CFO & Treasurer*

Ken, thanks for the question and for your optimism. We were -- as I said before, we were happy with the 9,900 net adds in the quarter. I think what we like is that we feel good about the fact that we have put that 3,000 to 4,000 new customer adds the quarter behind us, and it really feels like we can sustain something that is higher than that, probably in more in that 7,000 to 9,000 range than what you're indicating.

**Operator**

Your next question comes from Michael Turrin from Wells Fargo Securities .

**Michael James Turrin**  
*Wells Fargo Securities, LLC, Research Division*

I was hoping we could go back to the retention strength for a moment and see if there's any color you can add on a few different factors, the discounting we saw last year and whether conversion rates you're seeing there are holding consistent, as well as the Enterprise hubs and whether you're also holding on to customers longer. And maybe, Yamini, you can also talk more about what you're doing to improve productivity on the 200-plus segment. That comment was interesting.

**Kathryn Bueker**  
*CFO & Treasurer*

Yes. Thanks, Michael. In terms of the impact of the customer plays that we ran last year, really in March, April and May, predominantly. You might remember that those plays were designed to be very short term in nature. And so the sort of renewal of those discount customers has happened for the most part in the back half of 2020. And so what we're seeing now is just a more normal course process for renewal at this point. So not a real impact on the retention statistic associated with those customers.

In terms of your question around are customers sticking around with us. I think the general answer is yes. We have seen very strong customer dollar retention, which is the primary indicator of whether customers are really staying with HubSpot for a longer period of time. Q1 was yet another quarter where we had a record customer dollar retention.

**Yamini Rangan**  
*Chief Customer Officer*

And yes, Michael, in terms of your question around the investments in sales productivity. That's really where we have doubled down over the last 18 months. We've always been in that segment. Now we're optimizing. The kinds of investments we're making are a lot of training and enablement and ensuring that even in the remote world as new reps join, we are focusing on their time to ramp. We are focusing on the discipline within the sales process. And we're also making sure that when our reps work, they work with our customer success team that is talking to our customers every day as well as partners, we're talking to our customers every day. And so a lot of real nuts and bolts productivity improvement measures that we're investing in.

**Operator**

Your next question comes from Michael Turits from KeyBanc Capital Markets.

**Michael Turits**  
*KeyBanc Capital Markets Inc., Research Division*

Best to Brian, of course, and great quarter. I wanted to come back to where Brian Peterson started on macro. And I know you said that the demand continued from last half into this quarter. But has there

been any shift in what customers want to invest in and do as we went from them just reacting to work from home last year to now we have worked from home, plus back to the office and potentially a longer investment framework? So any changes we've moved into '21 and what they're doing?

**Yamini Rangan**

*Chief Customer Officer*

Yes. I can start on this one, and then I'll let Dharmesh or Kate chime in if there's other points. I'd say in terms of where our customers are focused on, their priority is just looking at their entire customer-facing go-to-market movement, right? So all the way from -- if they don't have a digital presence, getting started with a digital presence. If they do have a digital presence, making sure that the entire customer experience, all the way from website to marketing to sales, is completely digitized.

And a lot of the work that maybe needs to happen is kind of modernizing CRM. It's not -- the shift of going from just all kinds of marketing to digital marketing, the shift going to inside sales, the shift to having a very clean tech approach for customer service, that is the big shift and we see customers in all stages of maturity, and they're kind of leaning in. That's where we see the prioritization as well as the demand.

**Operator**

Your next question comes from Kirk Materne from Evercore ISI.

**Stewart Kirk Materne**

*Evercore ISI Institutional Equities, Research Division*

Yes. Glad to hear Brian is doing well, and he's still very much in charge of the hold music before the earnings call. So I'm glad to hear his influence on that front. Maybe Yamini, could you talk a little bit more about the partnering opportunity? For a long time, businesses that focused on the SMB area didn't -- or the midsized area didn't attract a whole lot of partners to that. There was just never enough work for them. It seems as you've expanded your product platform, you're now big enough, you have enough influence with your customers that the partners are coming in. And I was just kind of curious how that adds up to them influencing your pipeline, your close rates, obviously, you're landing with more multiproduct deals at the outset. So I was just wondering if you could add a little bit more color around how things are going on the partnering side.

**Yamini Rangan**

*Chief Customer Officer*

Yes. Thanks, Kirk. Brian definitely controls a lot of our music interest here. So it still continues. And yes, in terms of our partners, historically, we had a lot of smaller marketing agencies, and there were a set of services that they were providing. But the partner channel is really diversifying and kind of like building on the expertise. As you heard me say in the opening remarks, the partner opportunity over the next few years is really huge, nearly \$12 billion by 2024. And if you look at our product portfolio expanding, we would see there's tremendous opportunity for our partners to drive breadth of services to our customers, more integrations, more complex implementations and more breadth of services. And so this year, we've really focused our attention to our partner channel on a couple of different fronts.

One, making sure that they're supporting in them in their diversification and building up their expertise because when they do really well, our customers get tremendous value. They engage with customers, they get so much value. So it's a win for customers, win for partners and win for HubSpot. And then we're also investing heavily to make sure that the direct team and the partner team are working well together.

Traditionally, it's always been, hey, can you bring us in earlier when you're seeing the right kinds of opportunities. And our direct team is now engaged. They're bringing them in earlier. We're seeing a lot of traction. And when that happens, There's a lot of information sharing about what's right for the customer that happens between the direct team and the partner team. And so a lot of goodness in terms of how the partners are engaging with our customers as well as with our teams internally.

**Operator**

Your next question comes from Siti Panigrahi from Mizuho.

**Michael H. Berg**

*Mizuho Securities USA LLC, Research Division*

This is Michael Berg on for Siti. I wanted to say my congrats on a great quarter and send my good wishes to Brian as well. I wanted to have one more follow-up on the Starter Suite cohort that started in the pandemic last year. What sort of retention metrics, expansion metrics, how is that produced relative to prior cohorts? And now it's been a year out and how can you see that moving forward?

**Kathryn Bueker**

*CFO & Treasurer*

Yes, thanks for the question. As we've talked about over the last few earnings calls, we paid very close attention to those cohorts of Starter Growth Suite customers on a variety of fronts. And in particular, we were looking at are we attracting the same or similar sized customers to our starter product? And the answer to that question, as we had talked about, is yes. Are they upgrading at similar rates or in line with expectations? The good news there was that the answer was yes. It continues to be a very strong tool for us in terms of net customer adds. This is the first couple of months where we see these big Starter Growth Suite cohorts come up for renewal. And the good news is that the renewal rates of these initial cohorts have been very healthy.

**Operator**

Your next question comes from Derrick Wood from Cowen & Company.

**Andrew Michael Sherman**

*Cowen and Company, LLC, Research Division*

It's Andrew on for Derrick. And congrats on the quarter, and best to Brian. For Yamini, you've talked a lot on the call about investing in more in enterprise and sales productivity tools. But do you feel a need to build up more sales rep capacity and drive more revenue through a direct sales motion?

**Yamini Rangan**

*Chief Customer Officer*

Yes, thanks a lot for the question. It's balanced, right? You've got to do both. We have continued to hire across the different quarters, and we'll continue to focus on improving the productivity. And it's not just within our corporate segment, it is across all segments. We look at the 1,000 to 2,000 segment. And we have investments in the 1 to 20, where we are automating, driving product-led growth, where we have investments in the broader segment. Think of it as like multiple engines, and each of the engines are kind of getting optimized and fine-tuned. And it includes hiring, but it also includes productivity-enhancing initiatives. So it's pretty balanced across both.

**Operator**

That was our last question. At this time, I will hand it back to Yamini Rangan, Chief Customer Officer, for any last comment.

**Yamini Rangan**

*Chief Customer Officer*

Well, thanks, everyone, for joining us on the call. I do hope that you're all safe and healthy, and we'll talk to you next quarter.

**Operator**

This concludes today's conference call. Thank you for participating. You may now disconnect.

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