



HubSpot, Inc.

Fourth Quarter and Full Year 2021 Earnings Conference Call

February 10, 2022

C O R P O R A T E P A R T I C I P A N T S

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C O N F E R E N C E C A L L P A R T I C I P A N T S

Stan Zlotsky, *Morgan Stanley*

Samad Samana, *Jefferies*

Mark Murphy, *JPMorgan*

Brad Sills, *Bank of America*

Arjun Bhatia, *William Blair*

Michael Turits, *KeyBanc Capital Markets*

Ken Wong, *Guggenheim Securities*

Gabriela Borges, *Goldman Sachs*

Josh Reilly, *Needham and Company*

Rishi Jaluria, *RBC Capital Markets*

Parker Lane, *Stifel*

Matt Diamond, *Mizuho*

Brent Bracelin, *Piper Sandler*

Michael Turrin, *Wells Fargo*

Brian Peterson, *Raymond James*

Ryan Krieger, *Wolfe Research*

Keith Bachman, *BMO Capital Markets*

Conor, *Truist Securities*

PRESENTATION

Operator

Good afternoon, everyone, and welcome to the HubSpot Q4 2021 Earnings Conference Call.

Just a quick reminder, today's call is being recorded. At the end of today's prepared remarks, we will have a formal question-and-answer session.

Now, at this time, I'll turn the call over to the Head of Investor Relations, Mr. Chuck MacGlashing. Please go ahead, sir.

Charles MacGlashing

Thanks, Operator. Good afternoon, and welcome to HubSpot's Fourth Quarter and Full Year 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 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, leadership transitions, and business outlook, including our financial guidance for the first fiscal quarter and full year 2022.

Forward-looking statements reflect our views only as of today and, except as is 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 was filed with the SEC on November 3, 2021, 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 fourth quarter and Fiscal Year 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 Chief Executive Officer, Yamini Rangan. Yamini?

Yamini Rangan

Thank you so much, Chuck, and welcome, everyone. Thank you for joining us as we review HubSpot's fourth quarter and full year 2021 results.

Last year was one of immense change, and I'm incredibly proud of how the HubSpot team was able to adapt and execute to meet the needs of our customers. Going into 2021, our goal was to be the number one CRM platform for scaling companies. We made significant progress towards that goal, and you can see that in our results.

We've continued to see broad-based trends across the business, with revenue growing 47% year-over-year in constant currency in the fourth quarter. We closed out 2021 with more than 135,000 customers globally, nearly \$1.5 billion in ARR, and we generated more than \$200 million of free cash flow. We also recently hit the exciting milestone of having more than 1,000 apps available in our marketplace. We know that customers who use integrations are more successful, and so having a robust ecosystem is essential to delivering on our platform vision.

Now, I want to take a step back and look at the macro trends that drove our sustained growth in 2021.

Since HubSpot's inception, we've evangelized the shift towards digital transformation. That shift accelerated as small and medium businesses around the world have had to quickly pivot to doing business online. In this world of rapid digital transformation, providing a remarkable customer experience has gone from being a competitive advantage to being a necessity. Now, more than ever, businesses need a modern and powerful CRM that helps them create those experiences, and HubSpot is becoming a CRM provider of choice for these SMBs as they navigate this journey.

We did two things exceptionally well in 2021. We drove product innovation and we aligned our product and go-to-market functions for tight execution.

First, let's talk about product innovation. We both innovated on our anchor hubs and expanded our CRM platform with new product offerings. Operations Hub, which we launched in April, is one of those new products. This new hub meets the needs of Operations Teams struggling to get clean data, automate that data, report on that data, and drive insights to help their businesses grow. Through Operations Hub, Revenue Operations Teams have access to more than 100 native integrations that bring even more data into HubSpot to make it very powerful. Operations Hub supercharges the HubSpot CRM and drives more value, and we are seeing that in the numbers. We surpassed more than 15,000 customers using Operations Hub in Q4, and are seeing strong demand among both existing customers and new customers adopting it as part of our CRM suite.

We also introduced a new lever for growth with payments and commerce, and believe that commerce-enabled CRM can drive growth for our customers. I'm really thrilled to share that HubSpot Payments is now available to all U.S. customers, with our target segment being companies with fewer than 100 employees. Customer feedback is validating our hypothesis that a commerce solution is much more powerful when it's natively built inside of a CRM. We know that native payments are vitally important for SMBs to grow their businesses online, particularly when it comes to having commerce context embedded in CRM. This actually ensures that all front office teams have visibility into their interactions with the customer. While it's very early days, we're encouraged by the momentum we're seeing with our Payments offering.

In addition to launching new products, we've continued to invest in our anchor hubs of marketing, sales and service. We extended our lead in CRM and drove sustained growth with new enterprise-level features platform-wide. Getting insights across the entire front office is still a huge challenge for many scaling companies. They're forced to use siloed disparate systems that don't give them the visibility they need to grow their business. The improvements we made in 2021 are helping to solve those challenges, particularly when customers adopt multiple hubs. Multi-hub adoption now accounts for 60% of our customer base, compared to 34% in 2017, which is a powerful indicator that our customers are seeing value in adopting HubSpot across multiple parts of their business.

Take a look at ResellerRatings, a user-generated content platform for retail brands. Like many scaling companies, they were bogged down with a disparate stack of multiple front office tools that did not provide visibility across the business. So, their Marketing and Sales Teams consolidated all of their work on HubSpot and saw a 25% increase in traffic, a 30% increase in contract value, and a 75% decrease in customer churn rate. This is exactly what we expect to see when customers adopt our CRM suite. ResellerRatings is creating better experience for their customers and scaling with HubSpot.

Now, let's shift gears to talk about the alignment between product and go-to-market, and how that drove great execution in 2021.

Our sweet spot, historically, has been the 20 to 200 employee segment. Last year, we set out to optimize the customer experience across all three key segments in which we operate. At the lower end, we're providing a full suite that is easy to use and easy to buy, and we are driving better experience through touchless and chat-assisted sales. We're making it seamless for customers to adopt our product, and we see that within our suite momentum. At the higher end of the market, we've continued to invest significantly in internal enablement initiatives that are driving higher sales productivity. We're also working to strengthen the alignment between inside sales and our solutions partners, and we're seeing momentum there. The process rigor that we have is enabling our Sales Team to better communicate the value of HubSpot and win higher value, higher ASP, upmarket deals that contributed to the strong results we saw across the year.

As I look back on our accomplishments in 2021, we made remarkable progress on our path to becoming the CRM platform of choice for scaling companies. Small and medium businesses need great front office solutions that can provide insights to drive growth. That increased need, coupled with our product innovation and go-to-market execution, gives us a solid foundation for strong growth in 2022.

Looking to this year, we're going to stay focused on the four strategic priorities that I outlined at the Analyst Day.

Our first priority is to deliver a world-class front office platform by continuing to invest in new and existing hubs, as well as driving extensibility of that platform.

Our second strategic priority is to strengthen our segmentation approach across product and go-to-market. We will continue to deliver consumer-grade experiences with powerful enterprise-grade features. That will translate into a focus on driving broad suite adoption at the starter tier, while enabling customers to gain more value from professional and enterprise tiers.

Our third strategic priority is to invest in payments and commerce. We will be laser-focused on driving full adoption through the entire customer journey, from payment discovery to transaction. We will also look to increase the volume that merchants transact in the product.

Finally, our priority is to build a sustainable company. We'll do that by hiring and developing diverse talent, adopting and reporting on environmentally sustainable practices, and investing in data privacy solutions that build customer trust.

I am really excited about the opportunity ahead and the investments we are making in 2022 to execute towards that opportunity.

With that, I'll hand it over to Kate to discuss our financial results. Kate?

Kate Bueker

Thanks, Yamini.

Let's turn to our fourth quarter and full year 2021 financial results.

Fourth quarter revenue grew 47% year-over-year, both in constant currency and on an as-reported basis. Q4 subscription revenue grew 47% year-over-year, while services and other revenue increased 38%, both on an as-reported basis. Full year 2021 revenue grew 45% year-over-year in constant currency and 47% as reported. Full year subscription revenue grew 48% year-over-year, while services and other revenue increased 41%, again, both on an as-reported basis.

The combination of our strong product innovation and internal alignment enabled us to deliver strong 2021 financial results. We were particularly pleased with the healthy CRM suite and install base selling in Q4, that fueled a nice close-out to the year.

We saw net revenue retention rates that trended nicely above 110% for both Q4 and the full year. Customer dollar retention continued to be an important foundation for our overall strong retention performance this quarter. Net revenue retention continued to benefit from multiple upgrade drivers, with particular strength in cross-sell activity in Q4.

Domestic revenue grew 42% year-over-year in Q4, while international revenue growth was 54% in constant currency and 53% as reported. International revenue as a percentage of total revenue increased two points year-over-year to 46% in Q4.

We added 7,300 net new customers in the quarter, bringing our total customer count to 135,000, up 30% year-over-year. Average subscription revenue per customer grew 11% year-over-year to \$10,875, as we saw a continued positive mix shift towards our professional and enterprise tiers, along with strong install base selling.

Deferred revenue as of the end of December was \$435 million, a 37% increase year-over-year.

Calculated billings was \$428 million in Q4, growing 43% year-on-year in constant currency and 38% as reported. Constant currency revenue growth in Q4 exceeded constant currency billings growth, primarily as a result of the strong install base selling mix in the quarter and modestly lower overall billing duration.

The remainder of my comments will refer to non-GAAP measures.

Fourth quarter gross margin was 81%, down slightly year-over-year. Subscription gross margin was 84% in Q4, while services and other gross margin was negative 15%. Full year gross margin was 81%, down a point year-over-year. Subscription gross margin was 84%, while services and other gross margin was negative 5%.

Fourth quarter operating margin was 10% and full year operating margin was 9%, both up slightly, compared to 2020.

At the end of the fourth quarter, we had nearly 5,900 employees, up 40% year-over-year.

Throughout 2021, we invested in the strategic priorities that Yamini outlined and are well positioned to continue to meet the strong customer demand for our products and drive innovation to fuel growth in 2022, and beyond.

Net income in the fourth quarter was \$30 million, or \$0.58 per fully diluted share. Net income for the full year was \$92 million, or \$1.82 per fully diluted share.

Capex, including capitalized software development costs, was \$19 million, or 5% of revenue, in Q4, and \$62 million, or 5% of revenue, for the full year.

Free cash flow in the quarter was \$78 million, or 21% of revenue, and \$203 million, or 16% of revenue, for the full year.

Finally, our cash and marketable securities totaled \$1.4 billion at the end of December.

With that, let's dive into guidance for the first quarter and full year of 2022.

For the first quarter, total as-reported revenue is expected to be in the range of \$381 million to \$383 million, up 36% year-over-year at the midpoint. We expect FX to be approximately a four-point headwind to as-reported revenue growth in the first quarter. Non-GAAP operating income is expected to be between \$30 million and \$31 million. Non-GAAP diluted net income per share is expected to be between \$0.46 and \$0.48. This assumes 51.3 million fully diluted shares outstanding.

For the full year of 2022, total as-reported revenue is expected to be in the range of \$1.72 billion to \$1.73 billion, up 33% year-over-year at the midpoint. We expect FX to be approximately a three-point headwind to as-reported revenue growth for the full year 2022. Non-GAAP operating income is expected to be between \$153 million and \$157 million. Non-GAAP diluted net income per share is expected to be between \$2.34 and \$2.42. This assumes 51.5 million fully diluted shares outstanding.

As you adjust your models, keep in the mind the following:

Given we will have some unusual revenue growth comparisons again in 2022, I thought it would be helpful to provide some color on the cadence of growth throughout the year. We anticipate as-reported revenue growth of 34% year-over-year in the first half of 2022, followed by 32% in the second half of the year.

At the beginning of 2022, we adopted the new convertible debt accounting standard. Under this new standard, our fully diluted share count assumes a full share settlement of our notes, which adds approximately 1 million shares to our Q1 fully diluted share count and 850,000 shares to our full year fully diluted share count. This change is embedded in our guidance.

We expect capex as a percentage of revenue to be roughly 6%, and free cash flow to be about \$240 million for the full year of 2022, with seasonally stronger free cash flow in Q1 and Q4.

With that, I'll hand things back over to Yamini for her closing remarks.

Yamini Rangan

Thank you so much, Kate.

I want to close out today by circling back on our commitments to building a diverse and inclusive workplace. Just last month, HubSpot was named the Number Two Best Place to Work on Glassdoor, and we have similarly been recognized for our inclusive culture in multiple categories on Comparably. Having a strong team is essential to growing the Company and becoming the number one CRM platform for scaling companies. I am so thankful to the entire HubSpot team for making this such an amazing place to

work, and I'm excited about the investments we are continuing to make to ensure that all of our employees feel included and inspired.

With that, Operator, please open up the call for some questions.

Operator

Thank you very much, Ms. Rangan.

We'll take our first question this afternoon from Stan Zlotsky at Morgan Stanley.

Stan Zlotsky

Perfect. Thank you so much, guys, and congratulations on a very strong quarter and a very strong end to the year.

Kate, maybe just one question for you. Could you just unpack the delta again between the Q4 reported billings and the Q4 constant currency billings for us, please?

Kate Bueker

Yes, sure thing. Thanks for the question, and thanks for the comments.

We reported constant currency billings of 43%. Our constant currency revenue growth was 47%, as you know. There are two things that contribute to the difference. The first is that we again this quarter had a very strong focus on install base selling, and what tends to happen when we sell into our install base is we co-term those deals with their existing contracts. So, the months upfront associated with those deals are relatively shorter. Then, the second thing is that there was a modest decrease overall in duration, and those two things together actually more than accounted for the difference between constant currency revenue and constant currency billing.

Stan Zlotsky

Got it. Thank you very much.

Operator

Thank you, and we'll take our next question now from Samad Samana with Jefferies.

Samad Samana

Everybody, just a great year to all the Company's employees. Even with transitions and everything, you didn't miss a beat, Yamini, and congrats on that.

Maybe, if I think about the quarter—and, Kate, I appreciate the growth cadence—I think one of the things I'd like to ask about is the cross-sell, up-sell motion. As the cohort just settled into this kind of 7,000 plus net adds, how should we think about how much of it is cross-selling additional modules into the base versus up-selling these cohorts into higher tier SKUs, and what's driving that? Because, even as though cohorts have stabilized, you've still seen really robust billings growth and revenue growth.

Kate Bueker

Yes, it's an interesting question. I think that, as we've talked about retention over the last couple of quarters, I think the good news is that it's coming—the increase in retention is coming from a lot of different places. We always start with sort of the foundation of customer dollar retention stepping up, but when we talk about the difference in customer dollar retention and net revenue retention, what I say consistently is that that upgrade motion is being driven by a variety of factors, right? So, the upgrade in additions has been a notable driver of that change. The increase in seats has been a notable driver. Then, finally, and I think this was really the highlight for Q4 for me, the cross-sell activity, particularly around Operations Hub, was notable in Q4.

Samad Samana

Great, appreciate that, Kate. Thank you.

Operator

We'll go next now to Mark Murphy with JPMorgan.

Mark Murphy

Yes, thank you very much, and I'll add my congratulations.

Yamini, some of your partners had mentioned a very strong pipeline. I think the largest pipeline in company history, that they were seeing. I noticed your preliminary 2022 guidance, it's actually—I believe it's six points faster than the preliminary guidance that you gave last year, but there's kind of an investor narrative around pull-forward of IT spending kind of in the last couple years. Could you just help us understand what are customers prioritizing incrementally here for 2022, in terms of maybe movement from marketing to sales, or maybe going up to enterprise SKUs or custom objects, or something else that's underpinning that?

Yamini Rangan

Yes, thanks a lot, Mark, for the question, and appreciate your feedback.

Yes, we are entering this year with a very solid pipeline. If I were to step back and think about all of the combination of reasons why we have a solid pipeline getting into this year, it's, I think, three specific things.

First off, stepping way back, at the beginning of the pandemic, customers were looking for digital solutions to help them get connected to their customers. That's the inbound marketing, the inside sales, the omnichannel support, and HubSpot was a perfect solution for that. I think now, as we are slowly getting out of the pandemic, small/medium businesses are looking to grow, and they're looking to increase front office productivity.

When I talk to customers, they are continuing to lean in on technology investments. They are looking to get marketing marketing/sales service on the same platform, so that there is clear visibility in terms of customer trends that can drive the growth.

Then, I think the third factor is that we have a very unique value proposition at this time and it resonates really well for the markets that we serve. Our platform is crafted, it's easy to buy, it's easy to use, and is exactly what meets the needs of our customers.

So, I think the combination of these factors lead to a solid demand environment, and that's what we're seeing in the pipeline.

Mark Murphy

Thank you very much.

Operator

Thank you, and next we'll go to Brad Sills with Bank of America.

Brad Sills

Oh, great, thanks, guys, and congratulations for me, as well, on a real nice end to the year.

Maybe one for you, Yamini. We see a pretty challenging hiring environment across software. You guys are guiding to 36% constant currency growth for the year, so, obviously, a lot of growth there. How are you finding the hiring environment, any commentary on that effort as you look to the year and hiring? Thank you.

Yamini Rangan

Thanks a lot, Brad, and thank you for that question. Look, I think that talent, overall, in general, and SaaS talent, in particular, has been in high demand for a little while. It's really hard to remember a time where that has not been the case. But, having said that, I look at the foundational factors that HubSpot has for us to be able to hire and retain great talent, and it starts with our culture.

We talk a lot about how products and culture are equally important and how we continue to evolve both product and culture. That has continued to be the case for a very long time at HubSpot, and we've invested in it. Just like product, we use Net Promoter Score as a way to look at our product quality, the same thing comes with culture, and the way we measure that is both ENPS, Employee Net Promoter Score, internally, and it is our rating on things like Glassdoor. We just got awarded Number Two Best Place to Work on Glassdoor, and that shows the strength in terms of the culture.

The second part of the foundation is really providing for flexibility. We made a choice very early on during the pandemic on hybrid work. That means we've provided a lot of flexibility and we have made hybrid work for our team, and that flexibility rules.

So, the combination of culture, as well as the foundation for flexibility, has really helped us hire and retain top talent, even in this market. So, I feel very good going into this year.

Brad Sills

Thanks so much, Yamini.

Operator

Next, we'll hear from Arjun Bhatia with William Blair.

Arjun Bhatia

Perfect. Thank you for taking my question, and congrats on a great quarter.

Yamini, you both mentioned Operations Hub as a major driver of the growth this quarter, especially the cross-sell activity. I'm just curious if you've seen any pent-up demand for the enterprise edition that you released late in the year last year; and then I'd be curious to hear what you're seeing in terms of market and competitive dynamics there, because there are some pure plays in the rev-ops market, so is this more greenfield or do you see other vendors playing in these deals where you are seeing success with your Ops Hub product?

Yamini Rangan

Great question, Arjun. Thank you so much for that. Well, we're very pleased with the momentum within Operations Hub. As you heard me talk about, we now have 15,000 customers on Operations Hub, and that's going from about 10,000 customers in October. I would also very pleased to see that 40% of Operations Hub new bookings in Q4 came from the enterprise tier that we recently launched. So, that's clearly resonating, and there is momentum and adoption of that enterprise tier.

Just to step back on Operations Hub, that hub is slightly different from all other hubs. We think of like marketing and sales at the front door. Operations Hub is like the supercharger. You know, you go to a nice restaurant and you have a great meal. There's the main course, but then there's a sauce that makes the whole meal just tastier. This hub is like that for us. It just makes the whole CRM platform sing in terms of the value. So, it's very solid and it's resonating, we saw a lot of the momentum in Q4.

Now, you asked about the enterprise edition. We launched it and—you know, the enterprise edition is all about reporting and driving insights, so that our customers who are adopting the entire CRM suite can see a lot of those insights and continue to grow. Datasets is a very key feature there. We're definitely seeing datasets, as well as the advanced reporting within the enterprise edition, drive momentum.

So, overall, look, we're very pleased with how the launch, overall, went and the momentum that we're seeing within Operations Hub.

Arjun Bhatia

Perfect, that's great to hear. Thank you, Yamini.

Operator

Thank you, and we'll to next now to Michael Turits with KeyBanc.

Michael Turits

Hey, congrats on the quarter.

Kate, on the net adds, it was 7,000, which is about where you and everyone expect them to be. Do you feel like that is stable, or what the trends are for it, and from a—you commented on gross dollar churn, but on a customer churn basis, are we through that churn of the 2020 starter customers and is customer churn starting to stabilize?

Kate Bueker

Yes, thanks for the question. We have one more difficult quarter of comparison in the first quarter around that starter growth suite, but I will say we've seen some consistency around that 7,000 plus, in terms of new customer adds quarter in and quarter out. We feel good about that continuing into 2022. I think the

balance there is, obviously, ASRPC. We've seen that trend up a bit over the course of 2021, it grew 11% in Q4. Going into 2022, we feel like—we've been saying high-single-digits. We feel now comfortable that we think ASRPC can grow in that low-double-digits in 2022.

Michael Turits

That's great, thanks, Kate.

Operator

Thank you, and next we'll go now to Ken Wong with Guggenheim Securities.

Ken Wong

Great, thank you for taking my question. I think this one is probably for Dharmesh. Obviously, data restrictions have been impacting marketing ROI. We even heard Facebook Management express a need to rebuild their ad infrastructure to improve targeting. Are you guys hearing that from your customer base? Anything that maybe is resonating across kind of that marketing world that we should be thinking as far as data restrictions and potential tailwinds for your business?

Dharmesh Shah

Yes, a couple of things. Thanks for the question. First off, on the privacy front, we've seen this movement towards increased focus on privacy. For all of our 15 years now, HubSpot's kind of grew up with this kind of inbound marketing philosophy which is very kind of consumer-friendly and privacy-focused. So, on that front, we've seen kind of neutral to positive as the regulations have shifted and there's increased scrutiny around privacy.

The other thing I'd kind of note is that the companies that are most impacted by these kind of shifts in regulation are the ones that have a large network with a large advertising base, where you're a massive consumer mobile application with tens of millions of users. HubSpot doesn't fall into that camp, so we haven't really seen much impact on our business. Our customers are similar, they're in the kind of B2B considered purchase side of things, so the regulation shifts haven't really impacted them measurably, either.

The other thing that's happening, as you noted, is this kind of focus on the E.U. to U.S. kind of data transfer regulations. We've been watching that closely. We haven't seen any impact on our business yet. Operationally, we did make a change last year, where we launched a feature called Hublitz (phon), which it allows us to take all of HubSpot and host it in different geographies, and we use that new feature to be able to offer our customers the option to host in the E.U., if they choose to do so.

But, overall, we're watching the headlines, like everyone else, but no real meaningful impact on the business.

Ken Wong

Great, thank you so much.

Operator

Thank you, and next we'll go to Gabriela Borges with Goldman Sachs.

Gabriela Borges

Good afternoon, and thanks for taking my question. I wanted to follow-up on the commentary on customer adds being stable, and also a little bit of depth of TAM question, which is, Kate, could you describe for us a little bit, the customers that are joining the HubSpot platform today as new customers, that were not compelled to upgrade or digitally transform in 2019, 2020, 2021, how do you describe those customers, and how do you get comfortable with the depth of the TAM that you're targeting as it pertains to customer adds and the runway ahead of you? Thank you.

Kate Bueker

Thank you so much, Gabriela, for the question. What we see is customers on different parts of the journey. We certainly saw in 2020, 2021 a whole wave of customers that were thinking about digital first and thinking about being digital-ready, and they all needed to be able to connect with their customers, and we saw that wave. I think what we're seeing now is just the continued digitization of the front office. Specifically, customers still have very disparate systems, their front office tools and the tech stack is really fragmented, and it's like trying to stitch all of these pieces together to get the kind of visibility that they need. We're seeing customers that continue to have growth as a priority and they don't have the visibility across the whole marketing/sales/service end. If you look at these customers, they look at the tech stack, they look at how they need to drive front office productivity, and they're like, "Okay, we need something that is just this beautiful, seamless customer experience, that we can deliver, to be able to drive growth." So, that's, maybe, a slight shift, but in both cases, I think we have invested from a product innovation perspective over the last 12 to 18 months, and our value proposition of quick time to value, easy to adopt and easy to drive the consolidation of the tech stack, that just works. So, that's what we're seeing overall.

Gabriela Borges

I appreciate the color. Congrats.

Operator

Next, we go now to Ryan MacDonald with Needham and Company.

Josh Reilly

Hey, guys, this is Josh on for Ryan. Congrats on the strong quarter and year.

I wanted to get some color on what Payments use cases seem to be resonating more materially with customers. Would it be like the touchless B2B sales motion or the optimization around the quote-to-cash process, or what's—maybe get some more detail there. Thanks.

Yamini Rangan

Hey, Josh, yes, thanks a lot for the question. First off, we're very excited about Payments going GA, but it's very, very early days. If we step back, we want to help our B2B customers deliver a great consumer-grade buying experience, whether they want to sell online or they want to sell via reps. That's what we're focused on. At this early stage of a new product introduction, I'm looking for a couple of things. I'm looking for product market fit and the validation of our early hypothesis, and that's exactly what we are hearing from early customer feedback.

We went in with a couple of big hypotheses. One is that embedding Payments into CRM will spur B2B e-commerce, and it will (audio interference), and we're seeing that, we're seeing that in the use cases, a

number of examples of that use case. We have a management consulting customer that's connecting family offices to businesses. They had this entire outsourced Finance Team that was creating invoices, sending invoices, tracking those, tracking checks. All of these are like manual. With HubSpot Payments, they are just sending online. They are just seamlessly getting their customers without any touch into their service. That's the example of the use case, and so that selling online use case is definitely resonating. The second big hypothesis that we have is commerce context in CRM is going to add a ton of value for our customers, and that's also resonating, and that's a set of use cases that we're seeing.

So, early feedback has been really good. We'll continue to be very focused on the target market fit, as well as making sure that the customer experience, all the way from discovery of payment to starting an application, completing an application and finishing the transaction. That entire process is just beautiful and consumer-like. So, that's what we're going to be focused on. We're happy with the feedback that we're getting early on.

Operator

Thank you. We go next now to Rishi Jaluria with RBC Capital Markets.

Rishi Jaluria

Wonderful. Thanks so much for taking my questions, and nice to see continued strength in the business.

I just wanted to double-click on the operating margin guidance. You're guiding to effectively flat operating margins in 2022, which is great to see, but maybe just wanted to kind of get a sense for how you're thinking about where your investment priorities are; and maybe alongside that, as we in the back half of the year, hopefully, start to reopen up offices, start to get back to in-person conferences, maybe even get sales people back on the road and in-person doing meetings, how you think about the return of some of those costs as you put out that guidance. Thank you.

Kate Bueker

Yes, sure. Why don't I take that one? I think you've heard from Yamini throughout this call that we feel really good about the long-term opportunity that's sitting in front of us. We're focused on making sure that we are investing to drive that long-term durable growth, right, and there are a few areas in 2022 that we're focused on making those investments. They're going to line up pretty closely with the strategic priorities that Yamini talked about in her prepared remarks.

The first one would be product and engineering. We're going to continue to invest in our R&D organization to drive innovation. We think it's important to both plant the seeds and continue innovation across our portfolio. We feel really good about the return we're getting there. You saw a lot of new product and features in 2021.

On the go-to-market side, we are definitely leaning into our segmentation, and that is investing in automation at the low end, it's investing in that sort of value and all of the surround-sound components more upmarket.

Then, finally, we're investing, really, across the business in systems and process, to make sure we're laying the foundation to scale over time.

To answer your specific question around what happens as we open back up, we are assuming that, along with regulation, local regulation, that we will start to become a more sort of mobile in-office, or at least highly flexible workforce. We are less T&E dependent than many other enterprise-oriented companies,

and so there is a bit of a headwind to our margin in 2022 as a result of that, but it's not the same that you would see at many other places.

Rishi Jaluria

Got it, that's helpful. Thank you.

Operator

Thank you. Next, we go to Parker Lane with Stifel.

Parker Lane

Yes, hi, and thanks for taking my question. In the last two years, you've released a lot of new tools, whether it content management, operations-focused, service-focused use cases. How is the type of partner that you're attracting to the ecosystem changed with the release of these tools, and what's the Company's strategy around acquiring new partners, getting them ramped up and making sure they're going to be successful, given that these are a little bit different use cases than the marketing and sales-focused partners you've worked with in the past? Thanks.

Yamini Rangan

Thanks a lot. I love a good partner question. I love the partner ecosystem. I'll tell you, the partner ecosystem has really come along with us. Almost 18 months ago, we went to the partners and we said we have a clear strategy for the partner ecosystem, which is we want to scale selling and servicing with partners. Why? Because, then, partners get involved, our customers get onboarded the right way, they get a lot more value and, therefore, they stay longer with us. It's good for our customers and, therefore, it's good for HubSpot.

So, what we've done is—if you step back, we had a lot of these marketing agencies that were working on (inaudible) basis and over the last couple of years we have invested in training enablement, joint selling, so that they not only do that, but are able to meet the entire breadth of the product portfolio and the services needs there. So, now we have partners that do more complex CRM implementation, much more integration, deal with complex use cases as we go upmarket, and there's just nice development and momentum of partners who can provide the full set of services.

In 2022, we're investing in that cold selling. We have a common interface, so that we know exactly the conversations they're jointly having with customers, and we're continuing to invest in terms of partner enablement, but also getting our direct sales team talking with the partners a lot more. I'm really happy with where the partner ecosystem is kind of going, based on a lot of the investments we have made.

Parker Lane

Very helpful, Yamini. Thanks again.

Operator

Thank you, and next we go to Siti Panigrahi with Mizuho.

Matt Diamond

Hey, guys, this is Matt on for Siti. Yamini, I'm very curious about your Payments business, the assumptions around that embedded into 2022 guidance. You've spoken very eloquently about digital transformation this year. It sounds like there's a lot of impetus for customers to upgrade. I'd love to hear your thinking around Payments could be a driver for your guidance in 2022.

Kate Bueker

Yes, thanks for the question. It's Kate, I think I'll jump in on that one. I think we are very excited about the long-term future for Payments, but I do want to make sure that you heard Yamini, that we are early. The Payments offering was in beta for Q4. It's gone GA, which is an incredible milestone, in Q1. That said, we do not—we did not embed any material revenue or COGS associated with Payments in our '22 guidance. We didn't see meaningful results in Q4 and we don't expect it to be a meaningful revenue driver in 2022.

Matt Diamond

Excellent. Thanks so much.

Operator

Thank you, and next we'll go to Brent Bracelin with Piper Sandler.

Brent Bracelin

Thanks for taking my question here. I wanted to go back to average subscription revenue per customer. We haven't seen double-digit growth here for five, six years, and now you're suggesting that that could be sustainable into next year. So, a question here, why now? Is this just the multi-product strategy is maturing and it's now resonating? Just trying to understand the change there, because it does sound like it's material, you're increasingly confident in the cross-sell. Just would love a little more color on kind of the why now and what gives you confidence it's sustainable. Thanks.

Kate Bueker

Yes, thank you. Maybe I'll start, and then if I miss anything, Yamini can add some perspective.

I think you have heard from us that we have been driving innovation at that upmarket tier. We've also been driving innovation at the low end. That is more product and automated set of innovations. Both of those things help drive the overall growth of HubSpot. They are going to ebb and flow from one quarter to the next quarter, and they will have a bunch of—there will be some balance. You saw a real strength in that starter tier throughout 2020. What you've seen over 2021, and what we're expecting to continue into 2022, is a lot of the benefit of some of the innovation that we've been doing at that upmarket, right? So, it's a combination of the mix of customers over the last quarters being at that pro and enterprise level, along with the install base selling motion that we're getting success with in cross-sell and seat expansion, etc.

Brent Bracelin

Super-helpful color. Thank you.

Operator

Thank you, and next we go to Michael Turrin with Wells Fargo.

Michael Turrin

Hey, there. Thanks. Good afternoon. Obviously, a great job with the 2021 results. I wanted to start there, but was hoping to spend some time on just segmentation and the move upmarket. We've heard some encouraging signs from your partners, echoing what Yamini is saying just around better alignment, but also larger customers than that historical sweet spot showing up asking for hubs and more formal processes, and I just want to explore what's happening behind the scenes there and how much of this, from your perspective, is tied to internal effort, some of the partner efforts that you've embarked on, and, obviously, having a more comprehensive product set helps, too, but just would love to just explore that in more context, given there's just a lot of good things happening with the growth drivers here currently?

Yamini Rangan

Yes, thanks a lot for the question, Michael, and you exactly laid it right, we definitely see it from a product perspective, from a go-to-market perspective, as well as partner alignment, but if you step back, for the past year, we've been talking about our focus in terms of really all of our segments. Especially the 200 to 2,000 segment, which we call the upmarket segment, we're really focusing both from a product, as well as the go-to-market perspective.

On the product side, you saw a lot of the investments that we did last year. The bets that we are making are paying off. On the sales hub side, a ton of innovation, all the way from conversation intelligence to more advanced forecasting to CPQ. All of those add a tremendous amount of power at that enterprise tier. You saw the same thing with the marketing hub. Almost every hub, we've really invested, and the pace of acceleration—the pace of innovation is actually showing up.

On the go-to-market side, one of the things that we say internally at HubSpot is that you can have great strategy, but just alignment across product and go-to-market is even more important than strategy. Over the last 18 months, we've again focused on that alignment, and when we say "alignment" within go-to-market, it's like when we pour innovation to the enterprise tier, then there is an aligned sales motion, where our sales reps, with the partner ecosystem, are talking to our customers about the value that we are getting was just very powerful right?

So, I think it's that coordinated effort across product, go-to-market and partners that drives that upmarket momentum, and we're going to continue to invest on that.

Michael Turrin

Thank you.

Operator

Next, we'll go to Brian Peterson at Raymond James.

Brian Peterson

Congrats on the really strong quarter, and thanks for taking my question, just one for me on the international strength. That's been above 50% growth in constant currency for three quarters in a row now, so just curious, anything that's driving that, that may be different than the domestic results, and how should we think about the level of investment internationally? Thank you.

Yamini Rangan

Thanks a lot, Brian, for the question. Look, it's consistent both in terms of North America, as well as international, and, in fact, in Q4, they both accelerated in terms of constant currency growth.

I'd say, if you step back, what is common across North America and international is just the need for just a beautiful front office platform. That is the demand that we see both in terms of North America, as well as the international segment, and we just meet the needs right now. We talked a lot about the product innovation, we've talked a lot about the improvements that we've had both on the product side and the go-to-market side, and I think we're firing kind of on all cylinders across the pillars.

In terms of international, I'd say a couple of things. First off, it is a little bit of an earlier stage in some of the countries that we operate in. Customers are a bit earlier in digital transformation and, therefore, our market penetration was low and, therefore, there's momentum there. Then, the second thing I'd say is that we have continued to invest in terms of product localization, customer-facing resources, and there's really good LTV to CAC and good turn on that LTV to CAC that we see in international markets.

So, overall, we continue to invest in both of the markets and we like the balance in terms of the performance both internationally, as well as in North America.

Brian Peterson

Good to hear. Thanks, Yamini.

Operator

Next, we'll hear from Ryan Krieger with Wolfe Research.

Male Speaker

Hey, there. This is (inaudible) for Alex. Thanks for taking the question. Kate, can you please unpack the subscription dollar retention rate in the quarter? How does that directly compare to previous Q3, and is that a number that settles here, is there a pathway for it to grow? How should we think about that going forward?

Kate Bueker

We've talked about net revenue—we spent a bunch of time at the Analyst Day talking about what is going on with our retention rate. We look at retention internally in two different ways. We look at our gross retention and we call it customer dollar retention, and that has, over the last 12 to 18 months, moved up pretty meaningfully. When you look at it relative to Q3, it's generally in the same ballpark, right, we saw a step-up, and that has stayed very healthy.

What is driving that is a couple of things. One is that our customers are just using our product more. Yamini talked about the sort of front office answer that HubSpot provides. We are just seeing our customers use more and different parts of the product. The other thing that is benefiting our customer dollar retention is that we're signing longer contracts with our customers, and that sort of just helps with the overall retention.

In terms of—then, there's an upgrade between our gross retention and our net retention. That also has improved over the last 12 to 18 months. What we've said, as a target in mind, is 110% ten plus for net revenue retention. The upgrade drivers are pretty diverse. I've talked a little bit about them already on this call. It's edition upgrades, it's expansions of seats, it's cross-selling and adopting multiple hubs, and we think that 110% plus is the right target for you thinking about for the foreseeable future.

Male Speaker

Got it. Thank you.

Operator

Thank you, and next we go to Adam Holitz (phon) with BMO.

Keith Bachman

Hi, it's Keith Bachman from BMO, if you can hear me. I'm just going to launch into my question. The question is this, Kate, for you. You've talked about the customer adds being consistent, but just wondering if the context of that is a different mix. What I mean by that is, within the customer adds that you're getting on a quarterly basis, is it a richer mix of customers or is it the same mix of customers? As you're attracting larger enterprise, it seemed to me that it's a richer mix of customers, but just like to hear a clarification of that as we're thinking about the customer adds during 2022. Along with that, if you could just comment on how we should be thinking about Operations Hub attach rates and growth rates in 2022, again, with the backdrop, it seems to us that you're getting a larger share of larger customers, and so just would like to hear your context of how Operations Hub may do within the color of the 2022 guidance. Thank you.

Kate Bueker

Yes, why don't I start with the customer add question, and, Yamini, I might hand it to you for the Operations Hub context.

It's an interesting question. I think I would answer it by kind of turning back the clock to the beginning of the pandemic, and 2020 was a year where we launched our starter growth suite at \$50, and that was a big change for us, and what we saw was just a step-function increase in the adds at that starter tier. Having now lapped that for a couple of quarters, what we're seeing is a bit more of a balance, right, in terms of the composition of the new customer adds across the starter tier and with the professional and enterprise, and that mix is actually one of the drivers of the increase in ASRPC that we're seeing.

Keith Bachman

Right.

Kate Bueker

So, I do expect that composition in 2022 will look more like 2021, than it will the start of the pandemic and that really concentrated starter adds that we saw in 2020.

Keith Bachman

Okay.

Yamini Rangan

I'll take the Operations Hub. I talked a little bit about the Operations Hub and the value of Operations Hub, it's really supercharging the other hubs. I think the broader point, in terms of the mix that we see, is just more multi-hub. We talked about it in the prepared remarks, 60% of our customer base being multi-hub.

Now, having introduced products, like Operations Hub and CMS, and also adding more value to our anchor hubs, like and marketing and sales, we just see a lot more of two-hub or three-hub (inaudible), and that goes to show the overall value that our customers are getting from HubSpot, and so that's how I think about it for last year, as well as going into 2022.

Keith Bachman

Okay, great. Thank you.

Operator

Next, we'll go to Terry Tillman at Truist Securities.

Conor

Hey, team, this is Conor on for Terry, and thanks for squeezing me in. We've touched a little bit on this before, but just a bigger picture view. As your product portfolio ramps up and more products are to come online, have your conversations with customers shifted in terms of seeing the value of adopting multiple hubs, and what are some ways you're really seeing customers leaning into the connectedness of the platform and the vision that you set forth?

Yamini Rangan

Yes, that's a great question. We've been talking about the overall pace of innovation and also the value the customers get. If I step back and—I've been talking to a lot of customers in Q4, sort of January. There are a couple of really big challenges for small and medium businesses right now.

There's just a huge challenge of trying to (inaudible) system, that just don't work well. Small and medium businesses don't have the time, they don't have the budget, they don't have the technical teams that are sitting around, unlike maybe some of the larger companies, and that's a huge challenge.

The second part of the challenge is that they want to clear visibility across the entire customer journey, but marketing and sales are still in silos and they don't get that type of visibility to drive the growth that they need,

HubSpot solves both of these challenges and we become an easy and clear platform choice, and that's why customers are adopting more hubs, on average, and getting more value per hub. When I talk to customers, they're like "Look, we don't even know when one of your hubs stops and the other one starts." It's seamless and it's a just a beautiful customer experience. Plus, we have added a lot to our overall ecosystem, which is the 1,000 integrations that we talked about. This makes us an easier platform choice for small/medium businesses. This is exactly what we want. We want to be the number one CRM platform for scaling businesses, and I think it really meets the needs of customers within the segment. We feel very good about it.

Conor

Great, thank you.

Operator

Thank you. Ladies and gentlemen, that will conclude our question-and-answer session for today. Ms. Rangan, I'd like to turn the conference back to you for any closing or additional comment.

Yamini Rangan

Thank you, everyone, it was great talking to you, look forward to connecting back in a quarter. Thanks a lot.

Operator

Thank you. Ladies and gentlemen, that will conclude today's HubSpot Q4 2021 Earnings Conference Call. I'd like to thank you all for joining us and wish you all a great evening. Good-bye.