HubSpot Inc

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Mark Murphy: Good morning, everyone. I'm Mark Murphy, head of Software Research with J.P. Morgan. Thank you so much for joining us.

It is great to be here with Kate Bueker, who is CFO of HubSpot. First off, Kate, I want to just thank you so kindly for taking time out of your schedule to be here.

Kate Bueker: Thank you very much for having me.

Mark: Do you want to begin by, maybe, giving us a 30-second version of HubSpot or intro to yourself, just for anyone who might not be familiar.

Kate: Yes. Thanks very much for that. Nice to see all of you here. My name is Kate Bueker. I'm the CFO at HubSpot.

We are a software company that is focused very much on small and medium-sized businesses. Our goal is to really give them everything that they need to grow their business. We have a customer platform that spans marketing, sales, service, and, of course, a smart CRM that allows our customers to have a full understanding of their customer's journey.

Mark: There are many things about HubSpot that have stood out for us over many, many, many years now. One very important piece of it has been the architectural cohesion and just the pace of innovation of the company.

We loved this quote from one of your partners recently, "HubSpot is a dream team of innovators," and said that "It makes deliberate choices to largely build its own products in-house." What do you see, Kate, as any recent examples of innovations that you think are creating a difference out there for HubSpot?

Kate: Thank you. I don't know who this partner is, but I definitely would like to thank them, too. HubSpot has a long history of organic innovation. We started as a marketing application. We

decided to enter or broaden the capabilities into sales and CRM.

We made a deliberate choice to build that ourselves. We did the same when we further expanded the suite of solutions into service. We think that's really important value for us, because our customers are SMBs.

They don't have a team of IT professionals who can stitch everything together, and they count on us to deliver a foundational value proposition that is easy to use, fast time to value, and a unified view of data about their customer across the every interaction that they have with their customers.

That has been true from day one. I would say it's like even more important now in a world of AI where understanding the full context of customer interaction and having a real single source of all of that data is super important for AI to be effective.

I'm actually really excited that you asked this question, because we have been very focused on driving AI innovation. We recently had a spring spotlight, our first in-person spring spotlight, where we talked about a lot of the new innovation that is coming out of HubSpot.

There were a couple of agent announcements that happened as part of spring spotlight that I think are particularly important to that are really delivering value for HubSpot. Maybe before I dive into sort of the agent...Well, I'll just go there. The first one is customer agent.

We talked a lot about customer agent on our recent earnings call. We have about 2500 customers who are using our customer agent. They are using customer agent to resolve inbound support tickets as the primary use case. We could talk a little bit about some of the other uses for the customer agent a bit later.

The average resolution rate across that set of customers is over 50 percent, and we have some customers that are resolving up to 80 percent of their inbound queries via AI, using our customer agent. We talked about this organic platform approach.

One of the advantages that that platform delivers in the context of a customer agent or AI announcement is that that customer agent has seen the context of all the interactions with HubSpot or HubSpot's customer.

Our customers are using the agent, not just to resolve support tickets. They can use the agent to

resolve sales questions to resolve marketing questions, because they have that full end-to-end view. The other favorite agent that I have that got announced at the spring spotlight is our Knowledge Base Agent.

One of our customers...I would say Knowledge Agent is really the first, call it, agent-to-agent orchestration that we are seeing live in the software that we are developing. What we have found with customers of the customer agent is that if they have very well-documented Knowledge Bases, their resolution rates tend to be higher.

What customers tend to do is they implement customer agent, takes honestly 15 minutes to get up and running, and the customer agent will start to resolve tickets. There's this learning process that happens, where if the ticket comes to a human agent, the human agent will answer the ticket. You can then take that answer and use it to augment the Knowledge Base.

That process for our pilot customers was largely manual, but what Knowledge Agent does is actually do that for you. Knowledge agent can watch what tickets are getting resolved by humans, can watch how the humans are resolving those answers, and then can write Knowledge Base articles to fill in the gaps and help drive higher resolution rates for the customer agent.

Mark: I like that because I picture what probably typically happens is when it goes to the human agent, they'll fix something. They're not going to take the time to go into the knowledge base and say, "If you ever see this happen, here's how you reset the router or whatever's happening."

Kate: Yeah.

Mark: We should be watching. Customer agent and Knowledge Base Agent are standout innovations. If I zoom out a little bit, Kate, and think about this, you're saying architectural cohesion becomes even more important in AI, but you're doing tuck-in M&A.

How do you think about keeping...how do you keep a cohesive, integrated feel of the product while you're doing some cohesive M&A, excuse me, some tuck-in M&A?

Kate: It's a really good question. I'm sure you have noticed our pace of M&A has increased a bit over the last 12 to 18 months. We've done about five acquisitions over the last 18 months.

The philosophy around those acquisitions is very similar, which is how can we accelerate innovation in the product with preserving...let's say it in the positive way, while preserving the real

important ease of use of the customer interaction with our platform?

We look for teams and technology that can move the road map forward in a tangible way, but that can be integrated into the overall platform, and don't have an impact on the experience of the end customer. Maybe I'll give you a recent example. We've done a couple of M&A recently, that help to drive forward our AI road map in Frame and Dashworks.

The Frame acquisition is one where they had a technology or they have a technology that is able to digest, for lack of a better description...this is your finance person telling you what it's doing, but digest unstructured data and be able to combine that with the structured data that we see in HubSpot CRM, to create helpful use cases for our customers.

Maybe I'll give a couple of examples. The Frame technology can watch sale's email chats and identify where there is an opportunity to create a contact or a company within the CRM and go ahead and do it.

That takes time from the rep that would otherwise have to be entering things into the CRM, and it does it for them. The agent, one of the things in sales is to watch for a certain set of characteristics in the conversations that you have with prospects. It's like, do they have the budget? Do they have the authority to buy?

What is their timeline for decision-making? And so you can have the Frame technology be watching for these signals in the sales conversations, and use the information to inform like coaching conversations with sales managers, as one use case, or sales forecasting accuracy as another case.

Again, now we'll have to get back to the basic question here, but it's another opportunity for us to integrate a technology into the platform that helps drive end user value higher without challenging the overall interaction or experience with the platform.

Mark: That's a great example. By the way, very well done for a finance person.

Kate: Thank you. It's a low bar.

Mark: You could do a lot worse. So thinking back, Kate, on the course of the last two to three years. There is always something happening out there in the environment. In the second half of 2022, we started sensing there was this slowdown happening across the software landscape. We

published this report called "Winter is Coming".

We had 400 cautious data points. People thought we were a little crazy then, but it led into what we call the software recession, right? It was driven by basically a higher cost of capital. When I look at what happened for growth rates in front office software as a service...

We aggregate everything from Salesforce, to ZoomInfo, to Twilio, and LinkedIn. We look at a bunch of these companies. They've dropped into the mid single digits. That's how bad it has been. HubSpot has kept chugging along close to 20 percent. Maybe it's between 18 and 22, but depending on which metric.

We look at it and say structural share gains. It's just happening every year. What do you think is allowing that to continue now for HubSpot?

Kate: I think it's a great question. By the way, I'm a "Game of Thrones" fan, so I'm a fan of your title as well.

Mark: [laughs]

Mark: You got it. You got the reference.

Kate: Yes, I am. I guess at the highest level, it's really all about the value of the platform. I would say, to some extent, also the way we have always approached pricing and packaging.

If you just think about the last, call it 2022 through today, one of the trends that has remained very clear is the success that we have had on multi-hub adoption and platform consolidation. That has been very consistent.

I think about the customer mindset over that period of time as being one that transitioned from a real sharp need to drive digital transformation and fast, to one where they were very focused on making sure that they were getting the value out of the software that they owned, and rationalizing what was tens of software onto a core set that could really deliver the value that they were looking for.

The investments that HubSpot has made to really build that organic platform that is easy to use, that delivers fast time to value, that is something that has really paid off in this period of economic challenge. We have a really strong playbook against that backdrop that is about that

uncomplicated, easy-to-adopt, clear ROI platform.

We've approached packaging and pricing in a way, over the history of the company, that is not about extracting the last dime from our customers. So there is a real TCO advantage that helps during periods of value focus.

Mark: Very well said. It feels as though there were many of these very longer-range initiatives that you've had around that core ethos that they've come together very well year after year.

I do want to ask you as well about one of the possible challenges and one of the changes out there, which is that, we think back to the beginning and the idea behind inbound is basically, you write great content on a blog, it pulls prospects into your website, they read about it, and you cultivate and you nurture that relationship and it grows from there.

Recently, Google came along with the AI snippets or AI overviews, and the problem is it's going to summarize the information in your blog. It's going to put it right there in the search. So you go to the website and you say, I got what I needed, and then you don't you don't click through, and you don't go to the website.

HubSpot was transparent enough to say that, at one point, there was a 75 percent drop in traffic to your website after it occurred. That really happened middle of 2024 in my mind, so it's kind of recent. Why don't you think, Kate, that that throws a little bit of a wrench into the inbound mechanism, and then how have you been overcoming it?

Kate: This is a very good question. There is sort of two parts of the question, which is how is HubSpot adjusting or adapting to the new paradigm, and then there is a question of how is HubSpot helping our customers to adapt to the new paradigm? So maybe I'll start with the, what is HubSpot doing?

Inbound marketing was the roots of the company. It was the inbound methodology that we taught to our customers, that was all about creating content to draw people in to offset what we said was the shift away from this spammy outbound way of trying to get customers. That was the foundation of HubSpot. We were and are an amazing inbound engine internally.

That said, the team in marketing is very, very forward-thinking, and has been preparing for a shift like this for a bunch of years. Maybe I'll just go back to the stats that you quoted. The 75 percent reduction in blog traffic that was to our English language...I can't even speak.

Our English language blog that represents something is about 10 percent of our overall demand, so just a small percentage of the overall pie.

The team for, I would say, the last five years has recognized that the over dependence on blog traffic to draw customers in was not a sustainable model in a world that we're talking about, and so we've been making changes in investments to diversify our top of funnel demand for a number of years.

I forget its eight. I'm going to look at Ryan. Is it eight YouTube channels that we have? It's like 20 million-plus in monthly viewers of our YouTube channels. We bought a company in 2021 called The Hustle. They had a daily newsletter on business topics focused at that sort of SMB level.

We continue to grow that newsletter. We more recently bought mindstream, which is a exclusively AI-focused daily newsletter. We're growing both of those, and they are terrific sources of high-quality leads. We have a podcast network that has millions of listeners every month. We have actively diversified our sources of top-of-funnel demand for a number of years now.

We have blogs, we have newsletters, we have podcasts, we have YouTube, on top of the paid search that we do, and also the brand advertising. Call it that one. The trend that you are calling out, where search traffic is foundationally changing, it's a real thing.

[inaudible] talked about it at inbound last year. Search engines are not delivering blue links that people are clicking on and going to your websites. AI is delivering answers, and that means the way that you create content to create demand has to also change. In a world of SEO, your playbook was really to create very broad coverage of search terms via content.

That worked really well. We were great at it, and we taught our customers how to do that really well. In a world of AI, that is not the strategy that works for you. The world of AI is about less content with deeper content, higher-quality content.

We've actually cleaned up a lot of our content, and we've very much changed the way that we are producing content, and optimizing for LLMs, not optimizing for search engines.

It feels very much like we're at that chapter two of the inbound playbook, where the job we have now is not just to do it ourselves, but also to educate our customers on how to do that better.

Mark: By the way, it's not lost on me. For sure, I recall being in Inbound probably five years ago, and HubSpot, it's always the best state of the union every year, I think, on what's happening in marketing and more broadly with the web. You were talking up short-form video and all these changes way way back then. It's good to see that they were ahead of it.

How do you think, Kate, it's going to translate to marketing hub? When we look back on that, it was 1,5 billion ARR about a year ago. It was growing 13 percent. What do you think is going to determine whether that marketing hub can hang on to double-digit growth for the near term?

Kate: I think it's all about reeducating, or it's about educating our customers on the new way to market. Moments when the landscape is foundationally changing, they're both scary moments but also real moments of opportunity. It's about teaching our customers how they can thrive in a post-search world.

One thing, while we're on this topic, that I would recommend is our CMO, whose name is Kipp Bodnar, has a podcast, of course, that is called Marketing Against the Grain, where he and another one of our senior leaders in marketing spend a lot of time talking about how do companies, how do our customers have to reinvent the way that they're marketing in order to meet the moment?

Mark: That'll be a good one for us to go and check out. Let's switch gears a little, Kate, and talk about Sales Hub. Our opinion is it's been the single biggest success story for HubSpot of probably the last close to half a decade. When you go back and look at this, when the pandemic hit, it was a 160 million in ARR.

You've had all these strange years in volatility. It reached 725 million a year ago. That one is a 5X during probably a pretty challenging period. This partner got our attention on it. This is recent discussion.

" Perception of the legacy providers is eroding because it's not a cohesive experience." They then said, this quote is, "You have a whole new generation of people who never get exposed to legacy providers." They get started for free in HubSpot. They bring this with them. They go to a Series A. Eventually, they're at some enterprise. Now, they're bringing Sales Hub with them.

From your perspective, what is fueling...I would say the success of Sales Hub has been above that, really, of the other hubs. You could make an argument that it has been. What do you think is fueling it?

Kate: I think there are a few things. Thank you very much for the high compliments for Sales Hub. I forget the quote now, but it's like success feels instant, but it's years in the making. I can't remember what it was.

I think it's a combination of long-term product innovation, and go to market, and brand awareness. I'm going to dive into the each of the pieces there.

If you just think about Sales Hub, it was the first hub that we built post marketing. The team that built Sales Hub had this view from the start that they wanted to create a product that was really super simple and easy to use for the sales rep themselves.

The foundational culture of Sales Hub was always centered at that sales rep and making that ease of use be the primary mission of the hub. That's super important because one of the hardest things in life is to get the sales team to do something that they don't want to do.

[laughter]

Kate: If you give them a product that they like using, that's easy to use, they will use it. The data gets good. It makes it a lot easier to manage the visibility into pipeline. Forecast and sales management gets a lot better.

That ease of use and sales-rep-centric model for Sales Hub has remained through the life. It has been years and years of innovation in Sales Hub to build the product in a way that made it appropriate for larger and larger teams.

I'm now approaching my seven-year anniversary at HubSpot. In my tenure, we've relaunched Sales Hub at least twice, if not three times. Because we've made meaningful, value-enhancing changes to Sales Hub, that made us feel good about standing up on stage and announcing that we're relaunching Sales Hub. The product has gotten, over time, better and better and better.

The product got better and was super easy to use at a point in time where our customers were forced to make a transition to sell digitally. It was really a product that met a moment in a timely way.

The other thing that I would say, though, is it has to get married with a go-to-market team that can sell the product. We run HubSpot on HubSpot. Our sales team lives in HubSpot every day. They

know how to use it. It makes it a lot easier for them to sell the product, too.

You had a product that was fit for the moment with a sales team that understood how to use the product and could sell it really well. That was a powerful combination.

Mark: A lot coming together at the right time. I'd be remiss if I didn't ask you about the macro demand environment. We eventually reached a point coming into this earning season where we felt that investors have become too pessimistic.

We showed a bunch of survey data that was illustrating that what was happening in this environment is actually less severe, Kate, than how that data looked during the COVID lockdowns, if you can remember that five years ago, and when we went into that software recession in late '22.

I'd love to hear just how you're perceiving the macro demand environment because of just the volatility of all the tariff headlines. It does feel like consumer confidence has taken a hit relative to entering the year.

Kate: You clearly read all the same things that we do. The external sentiment has been incredibly volatile. This week is great. Last week, who knows? Next week, you tell me. The way we described it on our earnings call last week is uncertainty is the only stability that we see at this point.

That said, we try to be very clear. Our business trends have not moved. Every day, I look at...We have a macro dashboard that has a host of metrics on it that looks across a bunch of leading indicators from traffic, pipeline, and short cycle. Those are all holding firm. It is very uncertain, but the business results continue to perform well.

Mark: You take a daily look at pretty granular data, and it's holding firm.

Operationally, in recognition of how volatile the environment is, and it can change with a tweet and it changed a lot with the meetings in Switzerland over the weekend, are you doing anything different at this juncture operationally just to reflect that there is more volatility even if you don't see it on that daily refresh dashboard?

For instance, would you tap the brakes a little on hiring? Would you run some pricing and packaging plays, anything along those lines?

Kate: To me, the key internally is to continue to preserve some flexibility in how you're managing your business. We have recently pulled back on hiring. We continue to grow headcount. We continue to grow headcount in an outsized way in R&D and then continuing to fuel capacity on our go-to-market side.

That said, outside of those areas, we're being picky about both what positions we hire, where we hire them, and how fast we hire them. We think that gives us the right degree of flexibility today, and it's something that we'll continue to pay attention to and monitor throughout the next couple of quarters.

Mark: Very encouraging to hear that you've got that operational discipline and the situational awareness to understand what's happening. Really appreciate you outlining a lot of these fundamental drivers and the longer-term outlook as well. Thank you, Kate, so much for taking the time.

Kate: Thank you very much.

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