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HubSpot, Inc.

First Quarter 2020 Earnings Conference Call

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CORPORATE PARTICIPANTS

Chuck MacGlashing, *Head of Investor Relations*

Brian Halligan, *Chief Executive Officer and Chairman*

Kate Bueker, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Stan Zlotsky, *Morgan Stanley*

Dylan Reider, *RBC Capital Markets*

Arjun Bhatia, *William Blair*

Samad Samana, *Jefferies*

Chris Merwin, *Goldman Sachs*

Michael Berg, *Mizuho*

Mark Murphy, *JPMorgan*

Ken Wong, *Guggenheim Securities*

Nick, *SunTrust Robinson Humphrey*

Tom Roderick, *Stifel*

Ryan MacDonald, *Needham*

Kevin Ruth, *Raymond James*

Parker, *Piper Sandler*

Kirk Materne, *Evercore ISI*

Jennifer Lowe, *UBS*

Koji Ikeda, *Oppenheimer*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the HubSpot Q1 2020 Earnings Conference Call.

At this time, all participants are in listen-only mode. After the speakers' presentation, there will be a question and answer session. To ask a question during the session, you will need to press star, one on your telephone. Please be advised that today's conference is being recorded. If you require any further assistance, please press star, zero.

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

Chuck MacGlashing

Thanks, Operator. Good afternoon, and welcome to HubSpot's First Quarter 2020 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 Brian Halligan, our Chief Executive Officer and Chairman, 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 and business outlook, including our financial guidance for the second fiscal quarter and full year 2020. Forward-looking statements reflect our view 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 2020 earnings press release in the Investor Relations section of our website.

Now, it's my pleasure to turn over the call to HubSpot's CEO and Chairman, Brian Halligan.

Brian Halligan

Thanks, Chuck. Good afternoon, folks. Thank you for joining us today.

We're on this call to talk about HubSpot's business, but I want to take a moment to recognize the toll this pandemic has taken on so many people around the globe, and closer to home right here in the HubSpot community. These are tough times. I hope all of you on the call are staying healthy and managing through this as well as you can.

Now, let's talk about HubSpot's first quarter earnings results. We came into this year with strong tailwinds. Constant currency revenue growth was 33% in Q1, and non-GAAP operating margins were just over 7%. Total customers grew 30% year-over-year, surpassing 78,000, while multi-product adoption continued to grow nicely, representing nearly 32,000 customers.

On the product front, we kicked off the year with an exciting relaunch of the Enterprise Tier Marketing Hub. Marketing Hub Enterprise has always been easy to use, but the relaunch made it more powerful than ever before, with better attribution reporting, account-based marketing, advanced chat targeting, and much more. We have an excellent offering that delivers great value to our enterprise segment now, and that's borne out by customer review. This product is number one in six separate enterprise categories from G2, the main tier-based software review set.

Now, those tailwinds, they continued through much of the first quarter. However, in the middle of March, they were met by strong headwinds, as the world felt the impact of the pandemic. Now, rather than fight against that wind, we're trying to move with it through a series of plays designed to help our customers and partners bridge the gap to better times. When the health crisis hit, our immediate focus turned to helping our customers and partners navigate this sudden economic downturn.

With that in mind, we expedited Q1 commissions to all solutions partners and we offered a six-month commission-free payment to Platinum, Diamond and Elite partners.

To help customers and prospects needing to rapidly move their go-to-market strategies online, we took several steps. We lifted email and calling limits, and added a collection of features, including meetings, Vox and one-to-one video into our free CRM.

We also reduced the price of our Starter Growth Suite by over 50% late in the quarter. We did this to alleviate the financial strain for our customers on the Starter product and to enable more companies under financial strain to get started with HubSpot. This resulted in a fivefold increase in the run rate of that offering at the end of the quarter.

Finally, we gave our team a lot of leeway to offer discounts and flexible payment terms to certain customers under more severe short-term financial strain.

The way I like to think about the pandemic for HubSpot is that it's like a big storm that blew into our business in the middle of March. The first few weeks, it was largely just a big 200-mile-an-hour headwind that hit the new business and retention side of our business at the same time, but over the last few weeks of April the winds have shifted. I'd say we have a 150-mile-an-hour headwind now, but that's coupled with a 100-mile-an-hour tailwind, as business has been picking up, and when I take a step back, that tailwind makes sense. The world is seeing a surge of companies with historically offline, old-school, go-to-market models lean into a new school, online go-to-market market model for the first time. The very platform we sell and methodology we teach was designed to help companies make this shift. These trends represent a long-term tailwind for HubSpot, and I think it's one that will outlast the near-term volatility that we're all experiencing in the current downturn.

We have not stopped building for the future. In April, we introduced a new product line, CMS Hub. Similar to Marketing Hub Enterprise, we wanted to combine the ease of use growing companies want with the power they need. The result was the Content Management System designed to help growing businesses overcome the notoriously painful experience of managing websites at scale. Many companies think they only have two options for managing their website, the basic CMS with very limited functionality or a technically complicated one with tons of administrative pain. CMS Hub is a better fit for growing companies that need features like dynamic content, adaptive testing and 24/7 security monitoring, and even some toolings that start to blur the gap between web sites and web apps, all without the heavy lifting. We've been really pleased to see the positive reception that CMS has had with our customers and our partners despite the macro-environment. In fact, given this rare moment in history, when humans are shifting into creating digital experiences that rival in-person ones, CMS might have come along at just the right time.

As I said before, these are indeed tough times. Having said that, HubSpot is in a good position to help our customers and the market at large weather the tough times and come out stronger on the other side. To that end, we're continuing to invest and innovate and we expect to be in an even stronger position when we come out the other side.

Now, before I hand it over, I want to share some news, that our long-time President and Chief Operating Officer, J.D. Sherman, has decided to leave HubSpot. J.D.'s been instrumental in driving HubSpot's global growth over the last eight years and has left an indelible imprint on our customers, partners and employees. J.D. will stay on until July 1 and will continue as an advisor until the end of the year. He will leave behind a well-oiled operating system and a world-class team that will serve us exceptionally well in the years to come. While I am sad to see him go, I'm proud of the work we've done and eager to see him become a great CEO wherever he lands. So, on behalf of HubSpot, the Board of Directors, our employees around the world, I want to say thank you, J.D. We've all grown better because of you.

Okay. With that, I'll turn it over to Kate now to take us through the financials and our guidance.

Kate Bueker

Thanks, Brian. Let's turn to our first quarter financial results and our guidance for the second quarter and full year 2020.

First quarter revenue grew 33% year-over-year in constant currency and 31% as reported. Q1 subscription revenue grew 33% year-over-year, while services revenue grew 2% year-over-year, both on an as reported basis. Domestic revenue grew 25% in Q1, while international revenue growth was 45% year-over-year in constant currency and 41% as reported. International revenue represented 42% of total revenue in Q1, up three points year-over-year. Deferred revenue as of the end of March was $242 million, a 25% increase year-over-year. Calculated billings was $207 million, up 30% year-over-year on an as reported basis and 32% in constant currency.

HubSpot ended the first quarter with 78,776 total customers, which was up 30% year-over-year. Customer net additions exceeded 5,000 for the first time, driven by strength at the low end of our product portfolio, particularly in our Starter Suite. Average subscription revenue per customer in Q1 was $10,018, up slightly both sequentially and year-over-year.

In addition to the proactive product changes Brian highlighted, we have also taken some important steps to help alleviate the near-term impact of COVID-19 for our customers and our partners. These include extending flexible payment terms, offering customer-friendly downgrade alternatives, and prepaying some partner commissions. As a result of these actions, and the challenged economic environment, we saw a headwind to revenue retention beginning in mid-March. To give you some additional color, we saw our net revenue retention rate fall from over 100% through the first two months of the year to the low 90s in March, with the majority of the decline coming from customer downgrades versus cancellations. As you would expect, we saw a larger uptick in churn from customers in our one to 25 employee segment, relative to our mid-market customers. Given the uncertain economic environment and the continued impact of our customer-friendly programs, we anticipate our retention rates will trend lower in Q2.

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

First quarter gross margin was 82%, flat year-over-year. Subscription gross margin was 85%, while services gross margin was minus 3%.

For the first quarter, operating margin was 7.3%, down slightly, compared to the same period last year. Operating margins in the quarter exceeded our expectations, as a result of strong revenue performance, higher software capitalization, and some expense savings related to COVID-19.

At the end of the first quarter, we had 3,578 employees, up 30% year-over-year. Like many businesses, in mid-March we moved quickly to shift our entire workforce to a remote working environment to protect our employees and our communities. Prior to the pandemic, remote was already our third largest office, and I believe our systems and employees have adapted well. As a reminder, we plan for a higher headcount growth in the first half of 2020, as a result of our strong hiring last fall. We continue to expect our headcount growth to begin to slow in the second half of the year. We plan to maintain high levels of investment in our R&D in order to deliver on our robust product roadmap, while slowing hiring and G&A, and targeted sales and marketing functions, to ensure continued financial flexibility.

Net income in the first quarter was $16.7 million, or $0.35 per diluted share.

Cap ex, including capitalized software development costs, was $60 million, or 8% of revenue, in the quarter, driven by the completion of our Dublin facility build-out and higher capitalized software development costs related to product innovation. We continue to expect cap ex as a percentage of revenue to be about 7% in 2020.

Free cash flow in the first quarter was $7 million, or 4% of revenue. Free cash flow was negatively impacted by our $11 million partner commissions prepayment and the extended payment terms we offered to impacted customers. Given these factors, we now expect free cash flow of approximately $30 million for 2020.

HubSpot ended the quarter with over $1 billion of cash and marketable securities and is well positioned to weather this economic downturn. As we look to the future, we remain committed to our disciplined approach to managing expenses, while continuing to invest for the long term.

With that, let's dive into guidance for the second quarter and full year of 2020.

For the second quarter, total revenue is expected to be in the range of $195 million to $196 million, up 20% year-over-year. Non-GAAP operating income is expected to be between $10.5 million and $11.5 million. Non-GAAP diluted net income per share is expected to be between $0.23 and $0.25. This assumes approximately 47.2 million fully diluted shares outstanding.

For the full year of 2020, total revenue is now expected to be in the range of $800 million to $810 million, up 19% year-over-year. Non-GAAP operating income is now expected to be between $40 million and $42 million. Non-GAAP diluted net income per share is now expected to be between $0.88 and $0.92. This assumes approximately 47.4 million fully diluted shares outstanding.

Our guidance reflects a view of the business that we are comfortable with given current economic conditions. Our outlook assumes a challenging economic environment through the second quarter and incorporates a wider range of outcomes for the second half of the year.

As you adjust your models, keep in the mind the following: We expect an increased foreign exchange headwind to as reported revenue. At current spot rates, we're now expecting a headwind of two points in both Q2 and the full year 2020.

With that, I'll hand the call back over to Brian for his closing remarks.

Brian Halligan

Thanks, Kate. Like many of you, I've spent a lot of time over the past couple of months thinking about resilience, and I'm privileged beyond bounds to be part of a business that can still operate, to be able to keep our team employed and our customers moving. I'm thankful for that every day. That feeling of gratitude also comes with a sense of drive and purpose. The only thing we can count on is that the world will look different on the other side of this, and when it does, I want our Company to have been part of helping as many businesses as possible bend not break. That's why we made the decisions we made over the last couple of months and it's why we continue to invest, and it's why I wake up every day with conviction. To our customers, our partners, our investors, and all the HubSpotters around the globe who are in this fight with us, thank you.

Operator, could we please open up the call for a few questions?

Operator

As a reminder, to ask a question, you will need to press star, one on your telephone. To withdraw your question, press the pound or hash key. Please stand by while we compile the Q&A roster.

Your first question comes from Stan Zlotsky from Morgan Stanley.

Stan Zlotsky

Perfect, thank you so much, guys, and I'm glad to see everybody is staying safe and healthy, and, J.D., you will certainly be missed.

Maybe just diving into the results, I think the biggest surprise that we're hearing thus far from investors is that you guys provided guidance for the full year. I don't think people were really expecting that. What gives you the confidence to provide that guidance, considering there's so many other companies who have pulled full year guidance? Then, I have a quick follow-up.

Brian Halligan

Kate, do you want to take that one?

Kate Bueker

Sure. So, yes, obviously, the current environment is a significant headwind for us. It's a significant headwind for everyone. It's, frankly, a bit unprecedented, and that was not lost on us as we were thinking through how to approach guidance and what scenarios we were running.

For Q2, we are assuming that the economic environment remains weak throughout the quarter. We took a bunch of actions early on to help our customers and our partners, and those will have impacts on our Q2 results specifically, and while Brian alluded to the fact that new businesses stabilized towards the end of April, we still expect continued pressure on the net new bookings from customer downgrades and, to a lesser extent, some cancellations.

As for the full year, we always consider a range of outcomes for our full year guidance, and in this environment, that range of outcomes is obviously wider than it has been in the past. I am not an economist. No one, frankly, knows when the recovery will happen and what it will look like. But, our guidance reflects a view of the business that we're comfortable with today, even if it takes a while for the recovery to start to materialize.

Stan Zlotsky

Okay, perfect, and then a follow-up for Brian. Equally surprising was the commentary that you're seeing actually a tailwind from the COVID impact, because it's really forcing some customers to abandon their old traditional ways of marketing and really move to digital marketing, with everything that's happening in the physical world. Where are you seeing that coming from, and, really, what's pushing customers to make that commitment now versus, hey, you know, let's wait it out, let's wait six months, until this thing's stabilized, and then try to reassess? Thank you.

Brian Halligan

Yes, thanks for the question, Stan. I'd just sort of take a step way back. It's sort of the tale of three cities here.

First, two-and-a-half months at HubSpot, we were just cranking, really cranking, about as cranking as I can recall HubSpot. Starting in mid-March, for about three weeks there, a mighty headwind in there, a 200-mile-an-hour headwind on the new business side, and big headwinds on the retention downgrade side. Around the second week of April, the last three/four weeks, kind of the third phase of the year, where the headwinds slowed a bit, the cancellations and the downgrades kind of got back into a new normal, and then a tailwind kind of kicked up, and the tailwind, Stan, is—there's sort of two pieces to that tailwind.

One of is what I talked about on the call, sort of businesses moving from offline marketing to online marketing—it's a terrible time to be doing offline marketing right now—moving from outbound to inbound, moving from outside sales to inside sales. Our value prop and our product matches really well on the way people are going to want to go to market these days.

The second tailwind, certain industries have benefited from the COVID-19, like e-learning and medicine, and things like that, and remember, it's like the second last day in April—and I have a habit of going through the list of orders we get every day, and there was one day, in particular, we had two big orders from Europe. One was from a company that did the remote MBA, you can get your MBA remote, which, as you can imagine, is serving here in pandemic environment, and the other one is a company that makes temperature scanners, again, a company that's really serving and they make sizeable orders on the same day. It kind of caught my eye that, you know, certainly some industries are falling off, but some industries are picking up.

I would describe HubSpot as, you know, in mid-March, just a giant headwind, a 200-mile-an-hour headwind, no tailwind. The last three weeks, though, the headwind has slowed down and the tailwind has picked up, so I'm feeling cautiously optimistic.

Stan Zlotsky

Perfect. Thank you so much.

Operator

Your next question comes from Alex Zukin from RBC Capital Markets.

Dylan Reider

Yes, it's Dylan Reider on for Alex. Could you speak a little bit to some of the customers where you are seeing heavier impacts, you know, the percent, any quantification that you can give around the percent of your customers that are in those industries, and just maybe some of the trends, and dig into some of the details that you've seen with regards to alleviating customers and providing them with some flexibility, as well as some of the trends around converting new prospects, as well? Thanks.

Brian Halligan

Great. I guess I would—what I want you all to think about HubSpot, we have three segments. We have two to 20 employees, 20 to 200 employees, 200 to 2,000 employees, so people bucketed the same as SMB. I kind of think about it as more M than S. Our biggest segment is that 20 to 200 segment. So, that's kind of one thing to keep in mind as you think about the small businesses and the impact.

In terms of industries, given what's going on, I've taking a new interest in what industries we're in and started to peel into it. We have very little exposure to some of the hardest hit industries, like restaurants and stores. Like, a very small percentage of our businesses are in kind of very small restaurants and stores. Airlines and cruises, on the larger end, very little exposure to that.

One of the things that's always been good about HubSpot is—people always ask me, "Well, what are your big verticals? What verticals are you in?" and I always kind of chuckle and say, "If you had a pie chart and looked at verticals for us," but the other section of the pie chart would be the biggest, and it's actually serving us pretty well in these tough times.

Dylan Reider

Got it, that's helpful, thank you. Then, earlier in the call, you guys spoke (inaudible) on multi-product customers. Could you maybe speak to some of the differences that you're seeing among your multi-product customers, and within your single-product customers, as well?

Brian Halligan

Kate, do you want to take that?

Kate Bueker

Sure. Our multi-product customer total ticked up again this quarter. We're close to 32,000 multi-product customers. We talked about in the past the core retention statistics for multi-product customers tend to be a little bit better than for our single-product customers, and we have seen that as it relates to the churn characteristic continuing in the last couple of months.

Dylan Reider

Got it, okay. Thank you.

Operator

The next question comes from Arjun Bhatia from William Blair.

Arjun Bhatia

Hi, guys. I hope you're doing well. A quick one for me. It sounded like—Brian, you alluded to the first two-and-a-half months of the year going extremely well. Can you maybe just flesh out a little bit what was driving the acceleration in those first two-and-a-half months? Then, the second part of the question is, as you look at April, is there any way to break down the trends between what's happening in Marketing Hub, which is not seat-based necessarily, versus Sales Hub and Service Hub, which are priced more on a per-seat basis?

Brian Halligan

Maybe I take the first one and you take the second one, Kate?

Kate Bueker

Sure.

Brian Halligan

Okay. I mean, a lot of you have been with us for a long period of time, and last year, I think the wrap on last year was, oh, it was sort of a lost year on the product side, that there were no new hubs and not a lot of fancy features. It's actually the exact opposite. It was probably our best product year we've ever had. We implemented this main sale methodology, that really has worked, and it was a little bit of let's take a step back so we could go faster two steps, and the product, the infrastructure is much better, the security is much better, the speed is much better, the usability is much better, and we're just starting to see that at the beginning of this year, we're getting the two steps forward, where we relaunched that Marketing Hub Enterprise product, which went very well, nice uptick on that, and that was really good. You probably just saw that we announced CMS Hub a couple weeks ago. Then, while we're announcing new hubs and releasing lots of new—kind of awesome functionality, actually—our Net Promoter Scores are as high as ever. We're starting to like get into Apple-like range in some of our Net Promotor Scores. We're breaking records every month on that. So, the Product Team was really cranking. I think another thing that helped us was the go-to-market organizations had a good planning session year and they caught up on hiring and was in much better shape coming into this year than last year.

I would say this is, obviously, disappointing, but I feel like we were really, really in good shape coming into this crisis, and I think we're going to come out of this crisis in really good shape. A lot of the plays we've run kind of set us up, so that when this thing's over, we're in really good stead to grow very fast.

Kate Bueker

Then, if we look at retention characteristics across the hubs, what you're seeing is that the trends are relatively consistent across the hubs in our portfolio. If you, again, sort of take a step back and look at retention in that first period of time that Brian talked about, late in March, what we saw really was an increase in both cancellations and downgrades over that period. It was maybe a little bit more downgrade-specific, but both components were pretty significant.

What we've seen going into April is that the trend is a little bit different. Retention statistics have fallen a little bit further than they were in March, but the composition of that is different, there's many more downgrades relative to cancellations. The seat right-sizing is one of those things that we're seeing, among others. Many of them are of downgrades are a result of the customer-friendly plays that we ticked off as we saw this unfold.

So, in Q2, we will see heavier downgrades versus cancellations. Hopefully, over time, a good portion of those customers will be able to grow back with us again.

Operator

Your next question comes from Samad Samana from Jefferies.

Samad Samana

Hi. I hope you're all doing well, and, Brian, I wish we did this over Zoom, so we could see Romeo in the background, as we're all at home, but it'll have to do over the phone.

My first question, just on the new bookings side, I'm curious how new bookings, how that shape has been from late March, now into early May, and for the customers that are still booking HubSpot, is there any characteristics that are shared, are they on the larger side, the smaller side? Any thoughts on your bookings would be helpful.

Brian Halligan

Kate, do you want to take that?

Kate Bueker

Sure. I think that Brian kind of alluded to this, you know, in March, like sort of shut down, and the first of the segments of the business that picked up was that sort of smaller customer base, so that kind of sub, you know, 2 to 20 segment of our business, and I think it was just, you know, they were sort of faster to action, whereas that mid-market segment of our population really was much more in a holding pattern, and it wasn't until, call it the back half of April where we started to see some movement in that part of our customer base.

I think the one thing that I would note, and you'll see it as we get into other areas, is a lot of the customers that we're adding are smaller. In terms of just sheer volume of new customer adds, we're seeing really healthy adds at that Starter component, and we are adding customers with some much more flexible payment terms than we are used to seeing.

Samad Samana

Great, and then, Kate, maybe a follow-up. I guess it's tough to tease out, if you guys hadn't proactively provided the flexible payment terms and the flexible ability to downgrade, but, I guess, how should we think about the inbound interest from customers wanting to downgrade versus what HubSpot proactively offered.

Kate Bueker

I think if we look—we've, obviously, been looking hard at this. If we look at the volume of downgrades that we see relative to, call it the normal course run rate, and we look at the one layer down, you know, underneath the kinds of downgrades, I would say probably a little more than half of the increased downgrades are associated with really the—directly associated with the proactive plays that we are running, and others are motions that would be more customer-driven.

Brian Halligan

Let me add a little to that, Kate. One of our strategies here, Samad, was we wanted to—we would far prefer someone downgrade than cancel, obviously, because we keep them in our system for longer. As this thing passes, they can upgrade down the road. So, we kind of—we made a decision to make it easier to downgrade, and we did that by, one, making our free CRM product richer. We added a whole bunch of cool new functionality in there, like one-to-one meetings and video and Vox, to really help people get started for free. If you bought the Starter Suite product, we made that far less expensive, easier to downgrade to, and then we gave a lot of room to our front line managers and contributors on the sales and service side to offer temporary discounts and downgrades to customers. We want to keep them in our system.

We had an initial wave of that. That was a pretty good size headwind there for three weeks. Downgrades are still higher than they would be normally, but it's quieted down a little bit relative to that last few weeks. It's a little bit of our strategy of we want to be like a coiled spring, so we come into this thing, we don't wait for the crisis, we try to provide a bunch of mechanisms to help our partners and customers weather it, and at the same time, when we come out of this, hopefully they've weathered it nicely and they grow with us, but we've also got a lot of other new customers in the system, new free CRM users, new Starter customers, and hopefully it'll position us really well when this thing's over.

Samad Samana

Great, thanks for the thorough answers, and impressive growth, all things considered. Take care, everybody.

Brian Halligan

Thanks, Samad.

Kate Bueker

Thank you.

Operator

Your next question comes from Chris Merwin from Goldman Sachs.

Chris Merwin

Great, thanks so much. I just wanted to ask about the new CMS Hub. I was just looking at the site and didn't see a starter price there, but you've obviously got Pro and Enterprise, so just thinking about who this is maybe geared toward and who some of those early adopters might be, are these your slightly larger customers? Just curious, anything you can say about the initial traction there. Thanks so much.

Brian Halligan

Sure. Let's talk a little bit about the CMS for a sec. We've had a Content Management System since very early days at HubSpot. It's always been an add-on product. It's always done okay. It's had investments. About a year ago, we said let's turn this add-on into a full base awesome hub, so we really ramped out investment over the last year. So, what we did, we turned this add-on, that was sort of lightly funded, into a full hub. The existing add-on now is CMS Hub Pro, really much better than that add-on one, and then we added a CMS Hub Enterprise product, that's really good, very excited about it.

Now, when I think about the CMS industry, it's actually a funny industry. You've got a choice. You can either buy a very light, very easy to use SaaS Content Management System, there's a few of those on the market, one or two of them are public, you probably know about them, or you can buy a very heavy, pretty hard to use, often times open source, Content Management System, where you're managing a lot of plug-ins, you've got a lot of security ware, you need a lot of developers. It's been like this (inaudible), you can have one or the other historically, and we just don't like that trade-off, we feel it was a false trade-off. So, what we've created is a Content Management System that has the ease of use as the rest of HubSpot's products, but layers in that real powering capability of some of the heavier products, and so far, so good. We're getting really good reception on the product, our partners and customers are buying it, and I think it's going to be a big, big business for us down the road.

Chris Merwin

Great, thank you, and maybe just one follow-up for Kate, just as it relates to that second half implied guidance. Anything you can say about some of the more specific assumptions you're making, I guess, maybe, in particular, as it relates to gross revenue retention? I think you called out what that might be in—or what it was in 1Q, but just thinking through what that might look like in the context of your guidance for the second half of the year. Thanks.

Kate Bueker

Sure. We obviously talked about March as being in the low 90's. We talked about Q2 as going down from there. I think we would assume that our retention statistics remain under pressure for a good part of the year, probably with Q2 being the low point and some modest improvement from there.

Chris Merwin

Perfect. Thank you.

Operator

Your next question comes from Siti Panigrahi from Mizuho.

Michael Berg

Hi. You've got Michael Berg here on for Siti. Just a quick question also on the Growth Starter Suite. You noted that it was five times what it was previously. What should we think of as a general rule of thumb for how much of the general Starter population is on the full suite now?

Brian Halligan

Kate?

Kate Bueker

Yes, it's a good question. Historically, what we have seen is that the strength of Starter adds has really been in that Marketing Starter product, and I think what you saw with the new price for the Growth Suite that we introduced in mid-month, is like a material shift toward the new customer adoption of the Growth Suite. I'm sure I'm going to get the numbers exactly wrong, but it edged sort of closer over the last month to being more of a 50/50 add across Suite and the Marketing Starter.

Michael Berg

Just for clarification, customers don't typically add just the Starter of sales or service, they do either marketing or the full suite at this juncture?

Kate Bueker

The Marketing Starter product has been a particularly popular product with a lot of real strong value, and that's where we've seen the highest volume of adds over the recent, you know, history.

Michael Berg

Okay, and then a quick follow-up on a similar note. When you're talking about the downgrades— obviously there's a significant price reduction now for the Growth Suite—do you see people who are downgrading, I mean, I guess for any hub, go to the full suite, or do they typically downgrade to the singular product?

Kate Bueker

Downgrades can take a bunch of forms. I think the one that you're thinking about is where you can have somebody who is on an Enterprise or a Professional edition downgrade their edition to, you know, from Enterprise to Professional or Professional to Starter. You can also have people reduce the sort of volume of seats or contacts. There are other ways of downgrading, as well. Like, we've been helping with some customers with sort of near-term price point relief. So, there's a variety of things that end up hitting that downgrade number.

Michael Berg

Okay, and then one last one on the same note. I think you've put some timeframe on the reduced price for the Growth Suite. Are you thinking about that as for the next 12 months or so, or until the retention rate—or how should we think about how long the reduced price will be—for both modeling purposes and for general, just a sense of how you'll be pricing those?

Brian Halligan

I can take that. We're talking about that now. It's gone really well. We're kind of finding a new piece of the supply and demand curve. We haven't made decisions on it, but we'll keep you posted.

Operator

Your next question comes from Mark Murphy from JPMorgan.

Mark Murphy

Yes, thank you. J.D., I just want to say thanks for everything, all the best, and I hope you get in some great bonefishing here over the summer.

Brian, I wanted to ask you, the comment about the headwind turning into a combo of a headwind and a tailwind in recent weeks, are you kind of interpreting that as the worst is behind us; and also if you could just clarify, are you conveying that bookings are getting all the way back to the original plan or does it feel like more of a partial step on the way to recovery?

Brian Halligan

Yes, more like a partial step, Mark. I kind of break it out in my head into new business coming in and then what's going on with the install base. Tailwinds, there's definitely a tailwind on the new business coming in. We were super-wary there for a few weeks, but it's coming back.

The thing that's interesting about it is our Marketing Department is on fire. Like, our content marketing and inbound marketing strategy and the premium strategy are really paying off, where the lead flow's been great, and the leads we get out of the free CRM have been great, and Academy has been on fire. So, it's been good, and new deal creation's been good, it's been good. That's kind of bounced back pretty well.

On the other side, on the customer side, the numbers are going to be a little funny to look at, because we made it pretty attractive to downgrade here, but the amount of downgrades and the attractiveness of those downgrades, and the pace of it, was really high there for three weeks. It's still higher than in a steady-state pre-COVID, but it's come down off the highs. I guess that's how I'd describe it.

Mark Murphy

Okay. Then, as a follow-up for Kate, I'm just curious, when do you see the trough in revenue growth? For instance, should we be looking at this kind of mid-teens growth in Q3, Q4 as a decent guess as of now?

Kate Bueker

Look, I think the true trough will reveal itself as the economy turns around, but I would say you should estimate that you would see declines over the next couple of quarters.

Mark Murphy

Understood. Thank you very much.

Operator

Your next question comes from Ken Wong from Guggenheim Securities.

Ken Wong

Great, thanks for taking my question. Brian, can you maybe talk about the appetite of your customers to attach new hubs in this particular environment? Is that something that you guys are still able to move forward or is that something we have wait maybe until we can clear this COVID fog?

Brian Halligan

I haven't noticed anything particularly strange there. I would say that, based on what I'm seeing, the CMS Hub attach has been pretty good. That new CMS Hub Enterprise product, people are buying it, and so there's the desire to do it. I think companies are—there's several things going on. One, they're coming to the conclusion that—they knew they needed to do inbound marketing, they knew they needed to do inside sales, they knew they needed to do online marketing, and they knew they needed to be great at it, and they were planning on doing it sometime in the next x years. They're having to do it now. It's just some urgency around that. Combined with a couple of these industries are really growing and they're budgets are increasing and they're moving with a little more urgency. So, that's kind of what we're seeing out in the market, Ken.

Ken Wong

Got it, thanks for that color, and, Kate, maybe quickly—I know you guys look at subscription as a better reflection of your business, but any thoughts on how the billings growth rate might look like in this type of an environment?

Kate Bueker

Yes, a couple thoughts there. We've always talked about billings growth as, you know, billings growth and revenue growth in constant currency should kind of track each other, and you saw that happen in Q1. I think one of the things that drives a wedge between the growth in billings and the growth in revenue in constant currency is either expansion or contraction of billing terms, of payment terms, and we are definitely seeing a reduction in billing terms, and so I would expect that in the next couple quarters you would see billings growth lag revenue growth in constant currency.

Ken Wong

Great, super-helpful. Thanks a lot, guys.

Operator

Your next question comes from Terry Tillman from SunTrust.

Nick

Hey, this is actually Nick on for Terry. Thanks for taking our question. I was just hoping you guys could dig a little deeper on the net customer add in the quarter. I know you said it was primarily driven by the Starter Suite, but just any other color you can provide there would be helpful. Thanks.

Brian Halligan

Kate, do you want to take that?

Kate Bueker

Yes, sure. So, Q1 was a record quarter for us for new customer additions. It was almost 5,300, it's the high-water mark for us, and it was really driven by that Starter product. We saw very strong additions in the Marketing Starter, we saw strong additions in the Starter Suite. We're continuing to see that happen through April, and so we're anticipating that we'll see another strong quarter of customer new adds in Q2. I think, with that, I'd just caution us to look at the ASRPC and think about what's going to happen there. Given the strong growth at that low end, we would expect to see that be under pressure in the next quarter.

Operator

Your next question comes from Tom Roderick from Stifel.

Tom Roderick

Hey, everybody. Thanks for taking my questions. Kate, can we just talk for a second about contract duration and maybe what the mix of your customers look like. I noticed on your website you've put a formal offer out there for, I think, what was a 20% discount for paying annually upfront. Could you give us a sense as to how many of your customers pay quarterly versus annually versus monthly, and then as we break that apart, for those customers that are down-ticking—I guess the thought behind the question is how soon do your sales reps get a chance to kind of get back in front of them and try to up-tick them again, once things get better.

Kate Bueker

Yes, why don't I take the first part and then Brian can handle the sort of sales aspect of it. You're asking a contract duration question. The reality is that most of our contracts are annual contracts, outside of that Starter tier. The difference is the billing terms. We have customers that pay us for the full annual contract upfront. We have some that pay us quarterly. We have some that pay us monthly, and those are typically those Starter customers.

What we saw was that marketing has always been this annual upfront payment. As we have gotten into the sales and service hubs, those were typically more quarterly payment term products, and as our mix has shifted from marketing into sales and service, we've seen that payment duration come down. That's why you've seen the billings growth in constant currency kind of lag the revenue growth in constant currency over the last, I don't know, year to 18 months.

We are proactively being more flexible with payment terms during this period of economic pressure, and so you're going to see that on not just the sales and service hubs, but also on the marketing hub in the near term.

Brian Halligan

Yes, and I would just add that's the same theory on payment terms as we're doing on discounting. If a customer comes to us that's impacted by COVID and saying, "Gosh, we're just going to have a heck of a time with cash flows in the next three months," we will give them a discount. We want to keep them in our system and we want to help them through it. I suspect that will be going on for the next three to six months, that we'll try to be generous there, and then down the road we'll revisit it, as their business improves and as the economy improves.

Tom Roderick

Yes, and, Brian, just on the thought of sort of not knowing if this is going to be a three-, six-, nine-month type of deal, in terms of how everybody's impacted, there is a real opportunity here for, obviously, HubSpot to put a good level of distance between some smaller competitors and really kind of step on the pedal. You grew headcount, I think, 30% this quarter. How are you thinking about your goals to continue to really invest aggressively? I don't know if you want to sort of lay out headcount goals for the year, or anything you're thinking about with kind of a pause on headcount in the near term, but just take us through your thinking on when to put your foot back on the pedal for investments in the business, particularly sort of sales and marketing and go-to-market headcount.

Brian Halligan

Sure. Like Kate was saying earlier, no one knows what's going to happen with the economy. We're planning for a U-shape recovery, and as part of that, we're continuing to hire. We want to hire so we're in really good shape on the other side of this thing. Most of our decisions have been made with that in mind. Maybe, you know, our foot is all the way down on the gas pedal on the sales and marketing and G&A side. Yes, a little bit, take it off the gas a little on hiring, but the foot is all the way down on the gas pedal on the R&D side. That R&D organization made great progress last year, and coming into this year, we're in really good shape. We feel like our vision of the value we can deliver for our customers, it's still early in its lifecycle, there's a lot more wood to chop there. So, we're going to continue to invest and hopefully we're in great shape when we're on the other side of this thing.

Operator

Your next question comes from Ryan MacDonald from Needham.

Ryan MacDonald

Hi, and thanks for taking my question. I don't want to get too far ahead of myself here, but in terms of the downgrades and sort of the favorable terms to help customers proactively downgrade and help them out, is there anything built into those terms that offers more favorable terms for them when they're ready to upgrade again?

Brian Halligan

Not really. The way we're structuring those is, if you come to us and say, "Hey, we're having a hard time," we say, "Okay, let's structure a deal for you, where we can discount you down x percent," and most of them are structured that that lasts for 90 days, and some are structured that it's more like 180 days, and at the end of that you come back to your price. If it's 90 days and someone comes back to us at the end of 90 days and they say, "Hey, we're really still struggling, give us another 90 days and we'll be in good shape," I'm quite sure we'll be flexible on that type of environment.

Ryan MacDonald

Excellent, and then just as follow-up, in terms of as you're looking—look through April and starting to see, I don't know, the impact, whether it's worsening or improving, are there any pockets, or surprising pockets of strength or weakness that have sort of either improved quicker than expected or have remained worse than expected for longer? Thanks.

Brian Halligan

Yes, and the way I would—like, if I think of the different segments, of that two to 20 versus the 20 to 200, 200 to 2,000, the two to 20 kind of moved very fast to react to all this stuff in mid-March, and they really froze their spending and a lot of them wanted to downgrade and cancel. The mid-market and corporate just kind of—they kind of froze, they didn't buy a lot more and they didn't downgrade or cancel at much of a rate. The way I would describe it, over the last three weeks, the small segment, the two to 20, they're starting to buy again and move faster, and try to react. They're still cancelling at a higher rate than they were prior to COVID, but that has certainly slowed down. In that mid-market and corporate for us, that 20 to 200, 200 to 2,000, they've kind of de-thawed or un-thawed a little bit and they're starting to move and starting to buy. There's some downgrading and some cancellation going on there, but it's not as heavy as it was in the small business side.

I would just remind everyone that—like, I look at those three segments, two to 20, 20 to 200, 200 to 2,000, the 20 to 200 is the heaviest segment for us, that's kind of our sweet spot and the largest chuck of our ARR.

Operator

Your next question comes from Brian Peterson from Raymond James.

Kevin Ruth

Hey, guys. Kevin here on for Brian. Thanks for taking my call. I'm curious what the uptake has been for some of the free tools you've made available to customers over the past several weeks, and should we view that more as a bridge here in the near term to help customers or do you think that could also serve as a potential expansion opportunity on the other side?

Brian Halligan

Yes, that's a really good question. We were just talking about that the other day. It's been well received. People are using some of those new features, the Vox, the videos, the collaboration features. So, stay tuned. We'll make decisions over the coming weeks as to whether we leave those down there or we put them back into the Starter. It's a good question.

Operator

Your next question comes from Brent Bracelin from Piper Sandler.

Parker

Hi, this is Parker on for Brent. We've not seen several companies discuss material changes to marketing budgets as a result of COVID. Relative to marketing, are the new features that you guys are kind of (inaudible), that can help offset some of the weaker marketing spends, and any color on how customer needs are kind of changing, and impacts to the land-and-expand model for the small business customers?

Brian Halligan

Yes, people are definitely buying our Marketing Hub now. They definitely slowed down for a few weeks, but they've started buying again. Our marketing product really fits the times, where we method this idea of doing inbound marketing versus outbound marketing. Inbound marketing is about creative content, getting found in Google and social media, and pulling people in in a very low-cost way, instead of spending tons of money on advertising on TV or billboards, or wherever you're advertising. Your success in inbound is much more about the width of your brain than the width of your wallet. So, our value prop, I think is very strong and fits the times. I mean, is it the same as it was before? Probably not. But, I think people are going to be buying our marketing product as a cure for what's going on, not the other way around.

Operator

Your next question comes from Kirk Materne from Evercore ISI.

Kirk Materne

Hi, thanks very much. Brian, I guess, are you seeing any differences with your customer base in terms of how they've reacted, you know, internationally versus the U.S., or even when you're looking at it on sort of a size range, it's pretty similar across different geographies, and maybe just how are you thinking about that going forward, if at all, if it's at all different? Thanks.

Brian Halligan

Yes, I'll kind of address the size. On international, it kind of hit the U.S., it kind of hit everywhere—Asia, maybe a little bit before, but it hit everywhere, and it sort of—it all kind of washed through like two waves, like I've been talking about. The one place where it hit particularly hard, and I think it'll take longer to recover, is in emerging markets, LATAM and some of the smaller emerging markets. Those are markets we don't have a whole lot of exposure to, and so it aren't particularly painful for us, but it does look like those were hit harder and aren't rebounding as quickly as some of the other bigger markets.

Operator

Your next question comes from Jennifer Lowe from UBS.

Jennifer Lowe

Great, thank you. First, I wanted to ask—you mentioned that you were working to expedite commissions in the quarter to partners and giving them a six-month advance if they asked for it, and just the natural question on that, can you just comment on sort of the health of your partner channel? I know HubSpot is a relatively small mix of their revenue overall, so is this something they're asking for, are they concerned about their businesses, or is this just a gesture of goodwill? Can you talk a little bit about that?

Brian Halligan

Yes, I think it was more—it's a really good question, Jennifer. It was proactive on our part. In mid-March, we thought—you know, partners are small businesses. Most of our partners are relatively small firms. We've got some bigger ones, but the vast majority are relatively small, and we just wanted to make sure they had the cash flow, so they felt confident they could plough through what's going on here. We wanted them to continue to hire, at least not lay off, and continue to invest in their business. We felt that was very good for them, and over the long haul, I think that'll be good for us. It behooves us to have a healthy, cooperative, growing partner channel.

I don't know, Kate, do you have anything to add to that?

Kate Bueker

Yes, no, I think it was highly—it was very well received by our partners. We offered the commissions prepayment to our Platinum and above, and the vast majority took us up on it.

Brian Halligan

Yes.

Jennifer Lowe

I can imagine they did, and maybe just one more for me. We talked about sort of the downdraft and how it affected all the hubs similarly, or at least that was my interpretation of what was said earlier, but as you look at—there's been a discussion around the interest in marketing, and it makes a lot of sense, everyone's got to market digitally in the new world, but can you comment on sales and service hubs, and whether that has potentially seen a similar kind of uptick in interest, or if there's differences in how those products are being received in the current environment, and that's it for me. Thanks.

Brian Halligan

Yes. You know, initially, when I looked at this, I thought we'd see a big surge in marketing and the others would say flat, but it's kind of been across the board, where they all kind of went down at the same time and they're all kind of coming up at the same time. The one that's coming up nicely, that you would hope would come up nicely, is the CMS Hub, the new hub's getting nice reception, but it's been, Jennifer, pretty consistent across all of them. There wasn't an outlier in one direction or the other.

Jennifer Lowe

Great, thank you.

Operator

Your next question comes from Koji Ikeda from Oppenheimer.

Koji Ikeda

Thanks for taking my questions. Just one quick one here on the guidance. I was wondering if you could dig into a little bit more on the full year, on what you commented on as the wider range of outcomes. I guess, how should we be thinking about the outcomes on the bookends of that guidance range? I mean, more specifically on the low end, does the low end assume the macro bottom is in the second quarter and begins to recover from there, or is the low end of the full year guide more like the macro bottom is somewhere beyond the second quarter? Thank you for taking my question.

Kate Bueker

Yes, I think—you know, Brian talked a bit about the scenarios that we are running internally, bridging from this V-shaped scenario that had a really sharp recovery, the U-shaped scenario, which is our current operating assumption that says it takes just a bit longer to have the economy get back on track, and also this sort of L-shape, which envisions a longer period of economic recession. We looked at all of those when we were thinking through and setting our guidance, to make sure that we felt comfortable across sort of a variety of outcomes.

Operator

I will now turn the call back over to Brian Halligan for closing remarks.

Brian Halligan

All of you stay safe and stay healthy, and thanks for joining us on the call, and we'll talk to you next quarter.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.