HubSpot Q2 2022 Earnings Call Thursday, 04 August 2022

Chuck MacGlashing Good afternoon, and welcome to HubSpot second quarter 2022 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 Harbour 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 third fiscal quarter and full-year 2022.

Forward-looking statements reflect their views only as of today, and except as required by law, we undertake no obligation to update or advise these forward-looking statements. Please refer to the cautionary language in today's press release in our Form 10-Q, which shall be filed with the SEC this afternoon for a discussion of the risks and uncertainties that can cause actual results to differ materially from expectations. During the course of today's call, or for the certain non-GAAP financial measures, as defined by Regulation G.

The GAAP financial measure most directly comparable to each non-GAAP financial measure used or discussed, and a reconciliation of the differences between such measures, can be found within our second quarter 2022 earnings press release in the Investor Relations section of our website. Finally, I'm excited to announce that we'll be hosting our annual Analyst Day at Inbound on September 7th. I look forward to seeing many of you there. The event will be livestreamed on our IR website, for those who can't make it in person. If you have any questions, please reach out to ir.inbound@hubspot.com.

Now, it's my pleasure to turn over the call to HubSpot's Chief Executive Officer, Yamini Rangan. Yamini.

Yamini Rangan Thank you, Chuck. And welcome to everyone joining us on the call. Today, I want to focus on the Q2 results, what's driving performance, and HubSpot's playbook for driving durable growth over the long-term.

First, let's kick it off with our results this quarter. Q2 was a solid quarter for HubSpot, with revenue growing 41% year-over-year in constant currency. And total customers growing 25% year-over-year to more than 150,000 globally. With more than 60% using multiple HubSpot products.

These results were driven by strong product innovation, a deep understanding of what our customers need in order to grow today, and focused execution. As I talk to our customers, it is clear that SMBs need to do more with less as they navigate the current macroeconomic environment. They're looking for ways to consolidate their fragmented [unclear] pack of point solutions, improve inefficiencies, and get better visibility into their customers' journey. As a result, HubSpot's connected, easy to use platform is mission-critical for our customers.

Let’s start with product innovation in the second quarter. We're focused on delivering a world class front office platform by investing in our anchor hubs of marketing, sales, and service. And by innovating with our newer hubs.

We made important strides in both areas in Q2. Last time we talked, I shared the exciting news that Marketing Hub had just surpassed $1 billion in annual recurring revenue. In Q2, we unlocked marketing automation features in the starter tier, so that marketeers can deliver a personalised touch without draining personal time.

Teams can now engage and convert customers faster by personalising and segmenting marketing efforts and automating routine tasks. This unlocks tremendous value for the starter tier. On the upper end of the markets, we're increasing Marketing Hub Enterprise pricing in September to match the additional value we've been delivering to customers over the last few years with more sophisticated functionality like revenue attribution reporting. AI-powered A/B testing and more.

These changes are consistent with our pricing and packaging strategy of driving high-value features down to starter while fuelling innovation at the higher tiers. During our last call, we had also just relaunched Service Hub. And over the last quarter, we've been pleased to see customer usage of features like tickets and inbox tools increase.

In Q2, we further enhanced Service Hub by launching inbound calling, so that customers can provide real-time service and engagement over the phone. With these developments, we're making meaningful progress with Service Hub to empower our customers to deliver an exceptional customer experience at scale.

Another big product milestone in Q2 was the launch of CMS Hub Free. Why free CMS now? Well, every business today starts with a website to connect with their customers, but too often, they're forced to choose between free content management systems with limited customisation, or robust solutions that are cost-prohibitive, especially in this environment.

What differentiates CMS Hub from other website-building tools is that it’s powered by a free CRM platform. That means companies can easily build a beautiful website to attract visitors and leverage CRM to nurture that business across their entire front office. All on HubSpot. That combination is powerful and unique.

As part of the launch in June, we also introduced CMS website themes in our marketplace to give business builders the tools and the assets to get started online. As a result, we have seen nearly 4,000 CMS Free signups in the first month since launch. And a 110% increase in marketplace transactions. I'm really excited by these results and the large greenspace opportunity to drive premium growth with CMS Free.

This pace of product innovation in the second quarter demonstrates that HubSpot is making meaningful progress to become the platform of choice for scaling businesses.

Okay, shifting gears, I want to acknowledge that we, like a number of companies, saw lengthening of deal cycles and more decision makers getting involved in deals in June.

While we cannot predict how the macroeconomic environment will evolve in the second half, I want to share the HubSpot playbook for how we will navigate through the uncertainty in the short term while driving the business towards strong durable growth over the long term.

Then, in a few minutes, Kate will talk about how we're planning to continue to grow profitably in the softer demand environment. One of HubSpot's strengths is that we focus on near-term execution while driving a clear long term strategy. During times of uncertainty in the past, we've continued to place strategic bets that will help us and our customers emerge stronger.

We did this successfully throughout the pandemic by following three core principles. Solve for the customer, sustain investments in product, and execute with focus. We're taking the same approach to drive durable growth now.

Let me unpack each of these core principles. During the pandemic, solving for the customer was all about helping businesses become digitally enabled. Now, it is about helping customers become digitally powered, by helping them consolidate on a single platform to drive efficiencies. For example, take Standard Design, a digital design branding agency. Before HubSpot, their front office consisted of multiple point solutions that were cobbled together by different departments.

Our team helped them consolidate all of their point solutions and moved their entire front office onto the HubSpot platform. Before implementing HubSpot, it took them months to create landing pages and e-mail campaigns, now it just takes a few takes.

Additionally, Standard Design has saved thousands of dollars by getting rid of point solutions. This is exactly how our customers are reducing cost, increasing efficiency, and growing better by consolidating on HubSpot.

The second principle in our playbook is to sustain investments in product. Throughout the pandemic, we maintained our investment in product innovation. This enabled us to create levers for long term growth with platform and payments, and now we're continuing to build on that foundation.

In the second quarter, we enhanced our platform for our customers with more sophisticated needs by releasing new Sales Hub features that enabled CRM customisation and then crafted data management. We also continued to expand HubSpot's app ecosystem with our integration catalogue growing nearly 40% year-over-year.

Moving forward, we will continue to invest in our developer strategy to drive customisation and extensibility of the HubSpot platform. We also made meaningful progress in payments by launching new features including paid meetings, forms, and links. In addition to recurring ACH and a payments object. These features are helping our customers unlock the power of a commerce-enabled CRM.

Take some non-profit trade group. International Car Wash Association is an example.

Their disconnected payment and fulfilment paths were creating customer friction and lots of manual processing. They were already using HubSpot's Marketing, Sales, and Service Hub, when they decided to implement payments to connect the buyers' journey.

Since adopting payments, they've increased e-commerce sales by 400%, and sped up the fulfilment process by nearly twofold. This is a powerful example of how B2B businesses can sell online and create new revenue streams with HubSpot.

Looking ahead, we plan to sustain key investments in product, so that we can emerge stronger as a platform of choice. The third and final principle is to execute with focus. Like every business, there are many factors outside of our control due to uncertainty in a macro environment. So, we will control the controllable. We're focused on driving both direct and partner enablement. Reaching our customers with the relevant TCO playbooks. And continuing to build the foundation for excellent execution.

These principles have helped guide HubSpot to the position of strength we are in today. The long term drivers of our business remain solid, as HubSpot continues to be mission-critical for our customers, and we are making meaningful progress towards becoming the number one CRM platform for scaling companies.

With that, I'll hand it over to Kate to talk about our financial results and our strategy for driving profitable growth.

Kate Bueker Thanks, Yamini. Let's turn to our second quarter 2022 financial results. Second quarter revenue grew 41% year-over-year in constant currency, and 36% on an as reported basis. Q2 subscription revenue grew 37% year-over-year while services and other revenues decreased 10% on an as reported basis.

Domestic revenue grew 35% year-over-year in Q2, while international revenue growth was 49% in constant currency and 37% as reported. International revenue represented 46% of total revenue in Q2. We added approximately 7100 net new customers in the quarter, bringing our total customer count to over 150,000, up 25% year-over-year.

Average subscription revenue per customer grew 14% year-over-year in constant currency, and 10% on an as reported basis to $11,200. This was driven by continued strength and multi-hub adoption. We saw healthy net revenue retention rates in Q2 on a continued strong foundation and customer dollar retention and nice cross-sell and upsell activity.

Deferred revenue, as of the end of June, was $474 million, a 31% increase year-over-year. Calculated billings were $433 million in Q2, growing 39% year-over-year in constant currency and 30% as reported.

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

Second quarter gross margin was 82%, up one point year-over-year. Subscription gross margin was 85% in Q2. While services and other gross margin was negative 42%.

Second quarter operating margin was 7%, down two points year-over-year. There was approximately a one point headwind to operating profit margin from FX in the quarter.

Net income in the second quarter was $22 million, or 44 cents per fully diluted share. At the end of the second quarter, we had just over 7,000 employees, up 41% year-over-year. Capex, including capitalised software development cost, was $19 million, or 4% of revenue in Q2. And free cash flow in the quarter was $22 million, or 5% of revenue.

Finally, our cash and marketable securities totalled $1.4 billion at the end of June. As Yamini highlighted, we saw a softening in demand in June, marked by lengthening deal cycles and more decision makers in deals. In light of this increased macroeconomic pressure, we are taking several actions to drive a continued balance between growth and profitability.

We had a strong first half of hiring. And have a talented team in place to execute against our strategic goals. Which gives us the opportunity to slow our hiring in the second half of the year. We will continue to maintain investments in product and engineering and grow revenue generating sales headcount in the second half. But we will moderate headcount growth in other areas of the business.

In addition, we are taking steps to pull back T&E facilities and other discretionary expenses in the second half of 2022. Before I turn to our outlook, I want to highlight the impact of foreign currency translation on our as reported financial results.

The US Dollar strengthened sharply throughout Q2 and into July, creating a meaningful incremental headwind to our 2022 as reported revenue and non-GAAP operating profit relative to the guidance we've provided on our May earnings call. At current spot rates, we now expect FX to negatively impact full-year 2022 revenue growth by six points, up from our prior expectation of a five point headwind.

Finally, our guidance assumes continued macroeconomic headwinds throughout the remainder of the year. And with that, let’s review our guidance for the third quarter and full-year of 2022. For the third quarter, total as reported revenue is expected to be in the range of $425-426 million. Up 25% year-over-year at the midpoint. We expect FX to be an eight point headwind to as reported revenue growth in the third quarter.

Non-GAAP operating income is expected to be between $31-32 million. Non-GAAP diluted net income per share is expected to be between 50 and 52 cents. This assumes 51.0 million fully diluted shares outstanding. And for the full-year of 2022, total as reported revenue is now expected to be in the range of $1.69-1.695 billion. Up 30% year-over-year at the midpoint.

As I mentioned, we now expect FX to be a six point headwind to as reported revenue growth for the full year of 2022. Non-GAAP operating income is now expected to be between $143-144 million. Which includes an incremental $5 million FX headwind versus our prior forecast.

Non-GAAP diluted net income per share is now expected to be between $2.28 and $2.30. This assumes 51.1 million fully diluted shares outstanding. As you adjust your models, keep in mind the following. We expect FX as a percentage of revenue to be roughly 5% and free cash flow to be about $200 million for the full year of 2022. Including an incremental headwind of approximately $10 million from the strengthening of the US Dollar relative to our prior forecast.

And 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 by saying, we are confident in HubSpot’s future despite the headwinds we are seeing from the macro environment. We have a clear strategy to drive long term durable and profitable growth, an award-winning culture, and an incredible team solving for our customers every single day. I want to thank our employees globally for their adaptability and commitment to our mission.

Lastly, I look forward to seeing many of you at our Analyst Day as part of our Inbound 2022 event on September 7th. With that, operator, please open up the call for questions.

Operator Thank you. And for our Q&A, if you would like to ask a question, please press star followed by 1 on your telephone keypad now. If you change your mind, please press star followed by 2. When preparing to ask your question, please ensure your device is unmuted locally. Our first question today comes from Samad Samana, from Jefferies. Your line is open. Please go ahead.

Samad Samana Hey, good afternoon. Let me start with maybe just saying, if we step back, it's just an awesome performance to deliver the constant currency growth that you are, with everything that's going on with the macro backdrop. 39% for billings and 42% for revenue growth is extremely impressive. So, I just wanted to get that out of the way.

But, maybe, Yamini, I wanted to double-click on your commentary around what's happening with what you've seen in the demand environment. So, it's shifted for HubSpot and a number of other companies since you gave the guidance for Q2 and you updated that full-year guidance. Can you maybe walk through the linearity of demand trends that you saw in the quarter and what you're maybe seeing more broadly across your business in real-time today?

Yamini Rangan Yes. Thanks a lot, Samad, for the question. We are seeing two trends. First off, deal cycles are lengthening, and more decision makers, specifically CFOs and CEOs are getting pulled into deals for approval. Now, in early May, we were one of the first companies to transparently share that we saw deals taking longer in Europe. And in June, we saw these trends become more broad-based across our segments and the geos that we serve.

Now, while these trends will have impact in the short term, and it is reflected within our guidance, we are confident in HubSpot's long term growth opportunity for a couple of reasons. First off, while these deals are taking longer, deals are coming down to platform and multi-hub decisions. SMBs are figuring out how to spend effectively, and they're looking at HubSpot as the platform to run their front office. So, we see deals close favourably, but taking a little bit longer.

And second, we're not a discretionary point solution. We're the backbone for small and medium businesses. All these businesses still need to market, they need to sell, they need to service their customers. And HubSpot is the system of records and engagement for customer data. So, we're mission-critical and we're sticky. So, while we're seeing the demand trends soften [unclear] in the short term, we are very confident in our strategy and long term growth. Thanks a lot for that question, Samad.

Samad Samana Very helpful. And Kate, maybe if I could ask you a quick follow up. Just, as I think about that Yamini talked about what you're seeing in terms of deals etc., but maybe could you help me get some colour on what you're seeing in terms of retention trends within the install base. And if there's been any change or anything worth calling out what you're seeing with your existing customers. And maybe what you're assuming in the guidance around retention.

Kate Bueker Yes, sure thing. As you know, we think about retention in two ways. We have a gross retention that is the base of what we then ultimately have as net revenue retention which happened after the net upsell. Net retention in our quarter was comfortably about that 110 target that we've been talking about, despite really the more difficult environment that we saw towards the end of the quarter.

I think the good news there is that underneath that, the gross retention remained really solid in the high 80s, which is the range that we've been talking about for a year or two now. And then, on the net retention side, we had another quarter of really strong install base selling, which, in particular, addition upgrades and cross-sell really led the way for us here in Q2. In the back half of the year, it's a good question, I would expect that net revenue retention will hang in there, I would call it around 110 for Q3 and Q4.

Samad Samana Great. Really appreciated. And again, very impressive results in the tough backdrop.

Operator Our next question comes from Arjun Bhatia from William Blair. Your line is open.

Arjun Bhatia Thank you so much for taking my questions. Maybe just a follow-on onto that, can you talk a little bit about what you're seeing in terms of addition to the pipeline and velocity of deals that are being added? Understandably, it's taking a little bit longer as companies are scrutinising spend more. But is the shape of what's coming into the pipeline changing at all? Are the products the customers are looking at changing? If you can give any colour on that, that would be super helpful.

Yamini Rangan Yes, thanks a lot, Arjun, for the question. So, I think the best way to think about it is the more discreet changes are deal cycles elongating and more decision makers getting involved as they assess their budget, as they do a double-click and scrutinise their investments. And this is not just happening in one part, it's happening across geo segments and industries. And there's not anything more specific that we see in terms of pipeline as it flows through from the top of the funnel all the way down.

Now, having said that, as I talk to customers, hear from customers around the quarter, there are a couple of themes, right? Customers are looking for clear revenue impact. So, the closer the solution is to driving the impact, the faster the customer decision. So, from our perspective, we're leading with the clear impact from having marketing, sales, service tied together. The other part that's changing is that customers want to be able to do more with less. That means they are okay giving up on point solutions and they're looking for more platform-level solutions that are very cost-effective.

So, we're leading with our CRM platform as well as multi-hub value proposition to have very clear TCO savings decisions for our customers. And so, that's how I would think about the colour.

Arjun Bhatia All right. That's very helpful. Thank you very much.

Unidentified Male It appears that we're having some technical difficulties here. Just hang with us. Hey, Gabriela, it looks like your line's open. Can you hear us?

Gabriela Borges Oh, great. Hi, good afternoon. Yes, I can hear you.

Unidentified Male It looks like I'm going to be moderating the call from here on out.

Gabriela Borges Okay, great.

Unidentified Male And for your question.

Gabriela Borges I have one for Yamini and one for Kate. So, see, Yamini, the comment that you were just making on driving to a clear revenue impact, I'm curious if you could share with us any nuance you're seeing within the front office categories. Are there some areas that you feel are more ripe for consolidation than others, in the context of perhaps some of your company-specific product cycles?

And then the follow-up question is for Kate. So, you mentioned earlier the continued macro headwinds being incorporated into guidance. Could you share a little bit about what you're assuming about the trend? Are you looking at June and extrapolating that things get worse? Are you looking at June and assuming things stay the same at the squishy June levels? Any colour there would be helpful.

Yamini Rangan Yes, thanks a lot, Gabriela. I'll start with the first one, which is, is there any colour specifically around products or segments? And look, I will say, broadly, as we look at how customers are focused on [unclear], they are deprioritising spend that is not closely tied to revenue.

Examples of that could be like event spend, brand spend, ad spend, those are areas that they are deprioritising. And they are prioritising spend that clearly drives pipeline and is closer to revenue. And examples of that are sales and marketing that continues to help them grow.

And so, I think it’s really a question of where they are prioritising. More broadly speaking, there is a look at how many point solutions do we have? Do we need all of these? And is there an opportunity to eliminate some of these point solutions and consolidate on a platform like HubSpot? And that's certainly a value proposition that we are leaning into for both multi-hub sales as well as our entire suite sales. I'll pass it to Kate for the second half.

Kate Bueker Yes, sure. In terms of guidance, I mentioned in my prepared remarks that we’re factoring in a continuation of the current weaker environment. That really means, like we saw, a weakness through June and July. And we’re assuming that that continues through the rest of the year. Gabriela, we’re also assuming that foreign currency rates stay in and around current spot rates, which as you know is a one point incremental headwind to our growth for 2022.

And we feel really good about our ability to deliver against that guidance, and the continued weaker environment we see today or even in something a little bit worse than that.

Gabriela Borges That makes sense. Congrats on the quarter.

Operator Our next question comes from Alex Zukin from Wolfe Research. Your line is open. Please go ahead.

Alex Zukin Hey guys. Can you hear me okay?

Operator Yes, we can.

Alex Zukin Perfect. I guess I want to ask about just the magnitude of incremental deterioration that's assumed in the guide, maybe, for constant currency subscription revenue for the year. And then, is there anything in payment terms that you're seeing lengthening that's impacting cash flow this year? And/or linearity or seasonality of billings in the second half?

Kate Bueker Yes, maybe I'll dive in there. When we guided in May, Alex, the midpoint of our guide was 32.5% growth for full-year revenue, and on an as reported basis. And our update is for 30% as the midpoint, on an as reported basis. Which is a 2.5% slowdown. One point of that is from FX, and then the other point and a half is associated with macro and business performance. I would like to remind you that our guidance includes six points of FX impact for the full year, up from five. So, our constant currency revenue growth has moved from 37.5 to 36% growth for 2022.

And then, in terms of payment terms, we really haven't seen anything of note. I think the thing that we've seen most in new deals is exactly what Yamini was talking about, which is a bit of a lengthening in the sales cycle and more decision makers really getting involved before things are signed.

Operator Our next question comes from Brent Bracelin from Piper Sandler. Your line is open. Please go ahead.

Brent Bracelin Thank you. Yamini, one for you here. The growth equation has benefited from both strong new customer add and strong ASRPC growth over the last couple of years. As you think about entering a new period here where customer growth starts to slow just on these lengthening sales cycles, can you continue to drive ASRPC growth higher IF? Because we are in a period here where we're starting to hear more narrative around vendor consolidation, which might play to larger deal bundles. Just trying to think through that equation as a potential offset to slowing customer net add.

Kate Bueker This is Kate. Maybe I will dive on in around KPIs. I think you've heard us say over a long period of time that we see a lot of opportunity both in continuing to drive new customer acquisition and also in our ability to sell more of HubSpot into our install base. And I think that the KPIs we saw in Q2 really demonstrated that balance pretty nicely. We added 7,000-plus new customers and we were able to grow double digits, both in constant currency and on an as reported basis, our ASRPC.

That being said, I think you look forward and we've talked a lot about the moderating macro environment, we'll probably see a little bit of a moderation similar to what we're seeing in revenue across our KPIs.

And so, we don't really give guidance there. But we do think we would anticipate that half of the year or something that looks like 6-7,000 new customers added in Q3 and Q4. And ASRPC growth that looks closer to the 10% end of the double digit in constant currency.

Operator Our next question comes from Keith Bachman from BMO Capital Markets. Your line is open.

Kate Bueker Yes, thank you. I wanted to segue on that. Could you talk a little bit more about the price increases? I don't think you mentioned the percent, what is a range that you could share with us on how prices are increasing? Where would that be? And then, how would that flow into both the ASRPC and/or revenues, more broadly?

Yamini Rangan Sure, Keith, I'll take the first part of the question and then I'll have Kate comment on the second part, which is impact. Look, from a pricing perspective, we will stay very consistent with our pricing and packaging philosophy that we have talked to you all about. We pour innovation and build powerful features within the enterprise tier. And over time, we will bring those high end features down to professional starter and premium editions. That's been our pricing and packaging philosophy for a while.

When we have added tremendous value, then we look at pricing changes. And that's been very consistent.

So, what I mentioned in the prepared remarks today is that with Marketing Hub, we have innovated. We've added tonnes of incremental value over the last few years. And the last time we increased price for Marketing Hub Enterprise was Inbound 2018. So, that was like four years ago. And we've certainly added a lot of value. So, what we did in July is that we announced an upcoming modest increase in terms of pricing that will be effective 09/01 for new customers. It’s in the 12% range. And that announcement has gone out. We are tracking the feedback from customers, and it has been fine so far.

So, broadly, we’ll continue to stay focused on driving a lot of value with our products, and when we deliver value to customers we look at pricing and packaging decisions and changes. Kate, I'll pass it to you.

Kate Bueker Yes, sure. In terms of impact, I think it will take time for us to recognise the full impact of the incremental price on Marketing Hub Enterprise as customers go through the renewal process and as we add new customers. Any impact for 2022 is incorporated in the guidance we shared earlier.

Operator We now turn to Michael Turits from KeyBanc. Your line is open. Please go ahead.

Michael Turits Hi. I'll start with Kate and then move to Yamini. So, Kate, the cash flow guide came down more than the EBIT guide came down. So, is there some impact there from, let’s call it the lengthening decision cycles in terms of working capital? And then, Yamini, I'll have a question, but we’ve all agonised over, oh, front office was great. Oh no, [unclear]. Oh no, now it seems to be back. And at least in [unclear] you’re doing well. So I'm wondering how you're really thinking about how demand for front office for your customer set has evolved over the last two quarters?

Kate Bueker Yes, Michael, I'll start. You're right, the reduction of the free cash flow estimate for the full year incorporates two things.

One is an incremental $10 million headwind from foreign exchange on cash flow. And the other is [unclear] demand environment reflected in our revenue guide.

Yamini Rangan And so, Michael, I'll take the second part of the question in terms of how we see the demand for front office evolve. Look, in coming straight out of the pandemic, it was just massive tailwinds. Every small medium business that needed to get connected to their customers needed some kind of digital marketing or sales or support. And so, I'd say that was just the acceleration for adopting new solutions.

And now, it is much more about driving productivity and making sure that it is very close to revenue impact, and it's also very, very cost-effective. So, I think the nature of the conversations, and therefore, the nature of the demands has shifted. But broadly, our SMB customers, they are continuing on their path to digital transformation. The conversations, and certainly the rigour with which they look at the purchase decisions has changed.

Operator Our next question comes from Rishi Jaluria, from RBC Capital Markets. Your line is open.

Rishi Jaluria Oh, wonderful. Thanks so much for taking my questions. First, I just wanted to start on going back to the price increases. Number one, what has just been the general feedback from customers you've talked to about the upcoming price increases? And I know it's big in the guidance, but should we expect there to be any potential pull forward of business, with the expectation of an upcoming price increase? And then I've got a follow-up for Kate.

Yamini Rangan Yes, I'll start with that. Look, in terms of the price increase and the feedback, as I mentioned, Marketing Hub Enterprise has gone through a very, very fast pace of innovation. We've added a tremendous number of features there. I mentioned revenue attributions, reporting, but that's just the first of many. We've done a lot in terms of omnichannel marketing and building just a world class marketing solution.

So, innovation has gone in there, which means our customers understand. They use it and they are leveraging it, and we have not increased prices for the last four years. So, the feedback from our customers as well as partners has been, got it. We get it, given the level of innovation.

And we'll keep tracking the feedback from our partners as well as customers. And Kate, I don't know if you want to add more in terms of how we think about flowing there.

Kate Bueker Yes. Look, I think that all product announcements carry with it some positive impact and momentum. It's not internally and externally, but it's not a huge needle-mover for us given the timeline. And as I said, it's all already there in the guidance.

Rishi Jaluria Okay, great. That's helpful. And then, Kate, I just wanted to look at the SBC line. Historically, your stock comp has been pretty responsible and relatively low for a company of your growth profile. But it looked like it's spiked up a lot this quarter, 19% of revenue. And I know there's obviously a lot of moving pieces there. Any one-time impact that led to that big spike? And maybe taking a step back, can you maybe walk through, philosophically, how you think about stock comp at HubSpot and the balance of stock versus cash? Thank you.

Kate Bueker Yes, you're right. So, Q2 stock comp expense every year is a high watermark for us as a percentage of revenue, because we do a catch up in expense for two quarters. And so, that 19% in Q2 will be the high watermark for 2022. The increase is driven by a few things. One, there's an impact we had in a bunch of notable executive hires over the last six months, and that impacts. And then, the other big change is that we made a big shift in our RSU vesting from four years to three years for all of our employees.

We think it was an important change for us to make. It increased the attractiveness of the RSU. It increased the retentive value of the RSU. And so, those are really the two big drivers of the SBC increase.

Even with those changes, we pay a lot of attention to stock comp as a percentage of revenue. We also pay a lot of attention to dilution. And we look at our management of those relative to our peer companies. And we still compare very well against the software companies in general.

Operator Our next question comes from Keith Weiss from Morgan Stanley. Your line is open.

Elizabeth Porter This is Elizabeth Porter on for Keith. Thank you so much. Just given the more volatile macro environment, I wanted to see if there was anything that you guys were doing to adapt the go-to-market strategy just to more uncertain times. Any incremental focus on different customer segments, geos, the departments, that might have more durability in spend, for example? Thank you.

Yamini Rangan Yes. So, Elizabeth, thanks a lot for the question. In terms of what we are seeing, it's very, very consistent with what I said earlier. We saw broad-based shifts in terms of the time it takes, but really not that much more. Now, in terms of our go-to-market strategy, I think there was an earlier question in how we are adapting. So, it was quite the start of all this, what are the customer conversations focused on? And the customer conversations are focused clearly on revenue impact or TCO cost savings.

That's how the nature has changed. Which means from a go-to-market perspective, we're focused on both campaigns as well as informing our direct sales teams, the partner organisation, and our customer success organisation with those very specific value messages.

Now, more broadly, a time of shift like this is doubling down on direct and partner enablement. Doubling down on the right kinds of messages, where we can deliver value to our customers. And overall additional rigour within the sales process and sales execution. That's how I would look at it. I don't know if Kate, you have anything else to add.

Kate Bueker I think you got it.

Operator We now turn to Brad Sills from Bank of America Securities. Your line is open. Please go ahead.

Brad Sills Oh, great. Thanks so much. [Unclear] congratulations on very solid execution in a tough environment. I wanted to ask about Service Hub first please if I could. It's a major new revamp here. And we're hearing real positive feedback from the channel. Just to get your perspective on that cycle, please. And then also, with the move into higher levels of the organisation for approvals, could that mean that perhaps we see larger, more strategic deals, as those deals close?

Yamini Rangan Hey, Brad. Thanks a lot for both of those questions. I'll start with the Service Hub one. We're very happy with the traction that we're beginning to see following the relaunch. And just as a general reminder, we've launched a number of features in both Q1 as well as Q2, including SLA, mobile helpdesk, inbound calling, you name it. There was a very long list of really needle-moving features.

And the focus for us with Service Hub has been providing a modern helpdesk that provides omnichannel support and great AI-powered automation. And the question that we ask after a major relaunch of a project product like that is, are more customers buying the product? Are more customers using the product? And are more customers happy with the product?

And all three are trending positively and in the right direction. And in the past quarter, we've seen customer usage of features like tickets and inbox tools increase. And so, overall, the feedback from Service Hub has been very positive. Our partners are beginning to see this as traction in terms of the conversations they're having. And so is our direct sales team. So, I think that's one.

The second part of your question, which is does more decision makers mean more strategic deals? It certainly means more platform and multi-hub deals. And that's exactly what we're seeing in conversations. As we get a CEO or a CFO getting involved in these deals, the question they're asking is, what can we eliminate and what can we consolidate in? And therefore, for us, it has been leaning into our platform's message as well as the value proposition. Which is, we deliver a very cohesive, a connected easy-to-use platform.

Now, in the prepared remarks, I gave you an example of Standard, that was exactly the nature of the conversations. If you're already on a couple of hubs from HubSpot, what does it mean to have HubSpot as the platform and how does it drive both direct revenue impact as well as cost savings? And that's the nature of the [unclear] conversations we are having.

Brad Sills That's great to hear. Thanks, Yamini.

Operator We now turn to Ken Wong from Oppenheimer & Co. Your line is open.

Ken Wong Great. And thank you for taking my question. A couple of quick ones here. I just wanted to maybe dive into that one and a half point growth headwind due to macro. I think we saw some, you get cross-sell softness across the longer sales cycles in terms of some of the headwinds. I just wanted to double check to see, are you seeing, is it just purely sales cycles lengthening or are customers walking away, trimming deal cycles, as a reflection of the softness? What's the right way to think about that movement?

And then the second piece just around the pulling back of spend. Is that more of a near-term tactical response to macro or a broader shift in the growth in profitability algorithms?

Yamini Rangan Hey, Ken. Thanks a lot for the question. In terms of the way to think about this, it's really more conversations and elongation of the sales cycle. When you have additional executives get involved, we're spending the time on making sure that there is clarity in how our solution actually impacts revenue. And most of the time, like I said in my prepared remarks, it actually comes back and we see it.

And then, in the first or next couple of weeks, those deals close. And so, I think the way to think about it is that elongation and more scrutiny in terms of the budget, and more scrutiny in terms of the decision making. But it results in favourable sourcing for HubSpot. And we'll continue to execute in a way that it goes forward from there.

I think the second question that you had is, is there more near-term tactical response or it's more change to long term. From HubSpot's perspective, we will reflect what our customers need at this moment, and certainly, we'll have some changes in the near-term in terms of how they're responding. But longer term, the secular trends for our customers remain really consistent. We are in the middle of going from a marketing automation company to a CRM platform. We are in the middle of not just serving the smaller end of SMBs but really going upmarket.

And both of those continue to remain strong. And they both provide durable longer term growth levers for us. And we'll continue to have those kinds of conversations with our customers.

Operator Our next question comes in.

Dharmesh Shah I'm sorry. One quick thing to add on demand. We just had our product strategy meeting, which is we've spent eight hours talking about what customers are asking for and what partners are asking for. And one continuing trend we've seen is that customers still have ideas. It's not like they've crawled into holes and think, okay, we're done here. They're still asking for new features and asking for new development. So, there's years and years of innovation left across the front office.

So it's not a static industry where everyone's said, okay, well, we're done here. We're seeing just as much demand in terms of innovation from our customers and partners as we have in the past. So, that has not slowed down. And the list of things that we want to do over the coming years is just as long as it's ever been.

Operator Our next question comes from Michael Turrin from Wells Fargo Securities. Your line is open. Please go ahead.

Michael Turrin Hey there, thanks. I appreciate your taking the question. And Kate, I know it's not necessarily the best metric to focus in on for your model, but billings grew 39% in constant currency on a tough compare. Remind us to put some tape to that metric. Maybe it is seen from impact, but why isn't that showing more impact, given some of the later cycle characterisations we've heard across software companies? And then, just any dynamics for us to be mindful of there, given some moving pieces and assumptions in what you're seeing here currently is helpful. Thank you.

Kate Bueker Yes. I guess what I would say is that billings growth in constant currency and revenue growth in constant currency, generally speaking, are going to track one another. And you're seeing that in the results that we put up in Q2. The difference there is really just a point and a half, which is not particularly large. I think we would expect the relative trend over the back half of the year to remain as it is.

Operator Our next question comes from Siti Panigrahi from Mizuho. Your line is open. Please go ahead.

Siti Panigrahi Thanks for taking my question. Yamini, thanks for sharing your playbook to how to navigate uncertainty. When you compare contrast last 2020 post-COVID versus now, one thing you said, digital enable versus digitally powered now, does that… I know in 2020 you were more focused on acquiring more customers with that promotion. Could you double-click on what's your strategy going to be now in this slowdown? Is it more retaining and…?

We saw subscription downgrades post-pandemic. Could you double-click how you're trying to be different in your strategy this time versus last what we saw in 2020?

Yamini Rangan Yes, Siti, thanks a lot for the question. I would say that going into the pandemic, the conversations with customers and what the focus was, was just getting digitally enabled. And there was, I would say, almost a buying spree towards multiple point solutions and getting digitally powered, right? Now, as I have conversations with our customers, two things have shifted. First off, the conversation is much more about what is the level of revenue impact and what is the level of cost efficiency I can get. That is front and centre in a lot of the conversations.

So, from our playbook perspective, going into the pandemic, we literally turned around, had our sales organisation, customer success organisation, all focused on helping small medium businesses get online. Now, our playbooks are turning around and it's really focused on driving revenue impact as well as cost savings for our customers. And ensuring that they get the most out of the spend that they've had over the last couple of years.

So, when we talk about our playbook and solving for the customers, really everything centres around what is their current top priority, and how can we be very helpful in terms of helping them meet their challenges.

Operator We now turn to Terry Tillman from Truist Securities. The line is open. Please go ahead.

Terry Tillman Great. Thanks for taking the question. This is Robert D on for Terry. I appreciate the International Car Wash Group case study on payments, but just to get some feedback on what you've heard from customers using it, and where customers are seeing other quantifiable impacts from embedding the feature in the CRM. Thanks.

Yamini Rangan Yes, that's a great question, Robert. From a payments perspective, we've said, this is a strategic bet and we are patiently nurturing, and we think it's a very big growth opportunity for us going into the future. And it is actually worth reiterating that payments in commerce for us is based on two very solid hypotheses. The first one is that B2B businesses can grow revenue by selling more online. And it seems very obvious with what we have seen in B2C, but B2B businesses are slower in terms of doing that.

And so, that is the number one hypothesis. The second part of our hypothesis is that commerce context within CRM will help businesses grow. Why? Because when you bring payments object and data into a marketing campaign or in a sales conversation, or you have the support conversation and it's grounded in terms of what the customer has paid and what they have purchased from us, then it really helps them grow.

So, those are our two main hypotheses. And over the past year, our conviction in terms of those two hypotheses has only grown. And the feedback from the customers that we're working with is that yes, we have now found new ways to sell online. This is the example that I gave in the prepared remarks. And yes, bringing payments dashboard and connecting it with CRM provides us more visibility into our customer, not just before they become a customer but after they become a customer and they continue to grow with us.

And so, we'll certainly share more examples as we go in the future. But broadly speaking, both of those use cases and hypotheses are validated. And we are continuing to focus on driving great customer experience. We've found the fit, now we have to drive great customer experience from the time that they discover payments within HubSpot to the time they close the transaction and continue to grow with us. So, we're happy with what we're hearing from customers there.

Operator Our next question comes from Kirk Materne from Evercore ISI. Your line is open.

Kirk Materne Yes, thanks very much. Yamini, sorry, you've touched upon this, but just to be clear on the deals that are getting elongated, is there any split towards either expansion with existing customers or new customers? It sounds like it's just multi-product deals that are bigger in nature from a spend perspective that are getting pushed. I wasn't sure if that was impacting, perhaps, expansion more or net new. If you can add any colour there, that would be helpful.

Yamini Rangan Yes, Kirk, it's a good question. In terms of what we are seeing, both in elongation and more people, it's across both install base as well as new. Having said that, I think in the shorter term, we'll see the mix between install base and new move around. First off, as I mentioned a couple of times here, we're seeing consolidation on fewer platforms. And so, if they already have Marketing Hub or they already have Sales Hub, they're looking at HubSpot to further consolidate. And that drives more of an install base mix.

And the second part of it is that our product portfolio has expanded, both in terms of breadth as well as in depth. And our install base has grown pretty significantly in the last couple of years. So, our direct and partner teams have leaned more into our broader value proposition as well as install base. And so, while we see this mix between install base and new move a little bit around month to month, we see a very healthy balance as we look into the future, both based on what our customers are telling us as well as our product innovation cycle there.

Operator Our final question comes from Taylor McGinnis from UBS. Your line is open.

Please go ahead.

Taylor McGinnis Yes, hi. Thanks so much for taking my question. And maybe going off Michael's question earlier, I believe duration and co-terming has impacted billing from one quarter to the next. So, any thoughts that you can provide on the impact that that might have had on a year-over-year basis? And given the strength of this metric, does that mean the lower constant currency rev guide is more reflective of what you're seeing in the pipeline today as opposed to the quarter? And is there any conservatism embedded in the guide that the slowdown could worsen and maybe just wanting to be mindful of that. Thanks.

Yamini Rangan Yes. There's another term that I would add around the billing side. We have been consistently seeing a little bit of a shortening of duration over the last couple of years. And that just continued into Q2. So, that was not new news there, just a continuation of the trends that we've been seeing. In terms of the guidance, and I tried to cover this in Gabriela's question, we assumed in the guidance that we were going to continue to see the softness in the macro environment that we saw through June and July. And that would sustain through the back half of the year.

We are not assuming that we're going to see another step change down in the overall environment, nor are we assuming that we're going to see a recovery here. It's really just like a status quo from what we saw over the last couple of months.

Operator This concludes our Q&A. I will now hand back to Yamini Rangan, CEO of HubSpot, for the final remarks.

Yamini Rangan Well, I want to end by thanking all of our employees for their commitment to our mission as well as just incredible work. I also want to thank our customers, partners, and investors for the support. Another thing, I look forward to seeing many of you at the Analyst Day at Inbound in a couple of months. Thanks a lot, everyone.