

## HubSpot

## See several positives to pricing changes

Reiterate Rating: BUY | PO: 650.00 USD | Price: 623.98 USD

## Introduces seat-based pricing for all tiers

On March 5, 2024, HubSpot plans to roll out a seat-based pricing model to all Hubs and subscription tiers. Under the new pricing plan, HubSpot will remove the seat minimums (five) for Sales and Service Hubs. HubSpot is introducing Core Seats and View-Only Seats. Core Seats will give customers edit access to Hubs, grant access to HubSpot's broader platform, and connect to HubSpot's Smart CRM. The View-Only Seats are free and unlimited for paid portals.

## Change likely to reduce friction on paid conversion

Removal of the seat minimums (for Sales and Service Hubs – estimated 34% of FY24 revenue) should reduce friction for customers migrating to paid (Starter) from free, with a lower paid entry point (\$9 monthly subscription for a single seat, versus \$50 for 5). On AI, the introduction of a core seat with AI functionality included does not provide direct visibility into how the company will monetize AI over a longer term given that it appears Starter, Pro, and Enterprise subscriptions will include some baseline level of AI functionality. We look for further details on AI features included in different editions (Starter, Profession and Enterprise) on the release of new AI features in H1.

## Little detail on AI pricing; though see material benefit

We continue to believe HubSpot is well positioned to monetize on AI given the high ROI associated with AI enabled sales productivity gains, which translates directly to sales uplift. The company demoed an impressive set of AI technologies in beta at the INBOUND conference in September (copilots, bots, and predictive analytics). HubSpot will likely monetize AI features via increased premium mix on demand for features included in Pro and Enterprise editions only.

## Price increase represents an added tailwind to growth

As part of the announcement, the company also cited a <5% migration related price increase, likely to take effect upon renewal (3-month average contract duration). The mechanics and magnitude of the price increase are unclear. However, this is likely to represent a meaningful tailwind to growth and upside our current estimate for FY24 revenue/billings growth of 17%/18% y/y cc, as we move through the year. During a recent round of calls with channel partners, we noted little customer pushback on the price increase for Sales Hub Enterprise Edition (\$150 monthly subscription from \$120).

In conclusion, we believe HubSpot is in the early stages of consolidating the large SMB front office market (\$86 billion TAM) with a leading cloud offering. We maintain our Buy rating and \$650 PO. HubSpot is a top pick in Software.

30 January 2024

## Equity

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## Stock Data

Price	623.98 USD
Price Objective	650.00 USD
Date Established	24-Jan-2024
Investment Opinion	C-1-9
52-Week Range	334.78 USD - 635.74 USD
Mrkt Val (mn) / Shares Out (mn)	32,133 USD / 51.5
Free Float	95.9%
Average Daily Value (mn)	228.04 USD
BofA Ticker / Exchange	HUBS / NYS
Bloomberg / Reuters	HUBS US / HUBS.N
ROE (2023E)	25.9%
Net Dbt to Eqty (Dec-2022A)	-1.5%
ESGMeter™	High

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Timestamp: 30 January 2024 04:12PM EST

## Price objective basis & risk

### HubSpot (HUBS)

Our PO of \$650 is based on an EV/revenue multiple of 10.8x our CY25 revenue estimate. The 10.8x multiple represents an EV/Rev/Growth multiple of 0.5x based on our C25E revenue growth rate of +22% y/y, a slight discount to the large cap group on a growth-adjusted basis, at 0.6x EV/Rev/G (+16% y/y growth).

Risks to our PO are: 1) higher customer attrition rate (low teens) may limit future growth, particularly as the company grows and the dollar attrition amount grows, 2) HubSpot shares trade at a premium to where the software stocks have historically traded, presenting the risk of a pullback, which could occur in the event of changes to market sentiment stemming from the global macro uncertainty, or potentially disappointing quarterly revenue growth, 3) we believe that HubSpot's business has a high degree of exposure to the macro economic cycle, given the company's focus on selling applications into the SMB market segment. Applications projects are discretionary and can be delayed in the event of a shrinking IT budget, unlike projects involving more mission critical infrastructure or security technologies. Also, SMB mortality increases during cyclical downturns, which could affect HubSpot's renewal rate.

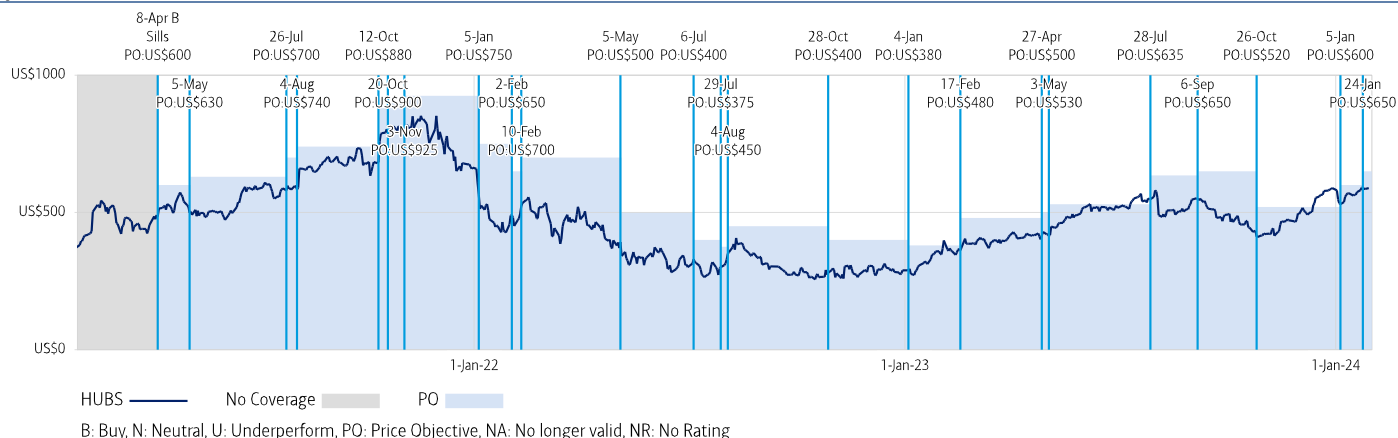
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### HubSpot (HUBS) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

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Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
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