

Why You Should Buy HubSpot

Tim Beyers | August 23, 2017 | [Buy Recommendation](#)

CURRENT PRICE: [HUBS](#) \$ 221.75 ↑ \$ 2.66 (1.2%) Close: 221.75, Bid: 221.75, Ask: 221.75, Volume: 1000000, Market Cap: 10000000000, Dividend: 0.00, P/E: 100.00, Beta: 1.00, 52 Week High: 221.75, 52 Week Low: 221.75

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At a time when automation and robotics are the buzz of Silicon Valley, **HubSpot** ([NYSE: HUBS](#)) is betting there's money in the commitment to be more human when it comes to marketing. "The heart of most marketing is interrupting people," HubSpot CEO and co-founder Brian Halligan explained in [a recent interview](#) on the YouTube show *Behind the Brand*. "It's interrupting people with an email while they're at work, with a cold call on their phone, with an ad while they're watching their favorite TV show, an ad on the radio. ... It's irritating."

So he and Dharmesh Shah created HubSpot in 2006 to fix the problem. Their idea? Create a suite of tools for publishing and promoting highly useful content, and prospects will find you, no spam or cold-calling necessary. They call it inbound marketing: Instead of pitch materials going out, prospective customers come in. Over 25,000 small-to-medium sized businesses use HubSpot as of this writing. We expect that total to double and then some, which is why we're urging you to buy shares today.

Looking Inward

Why do we expect such growth? Think about the last time you needed a particular product or service. What did you do first? I'll bet you searched online for options. Maybe you had questions or wanted reviews. You were looking for answers, in other words. Inbound marketing is all about providing answers as a way to draw in customers. And it doesn't require anyone on any side of the transaction to change the way they already use the Internet.

Odds are you're already engaging with a fair amount of inbound marketing thanks not only to HubSpot but also blogging platforms such as WordPress and Weebly and marketing automation from **Salesforce.com** ([NYSE: CRM](#)) and privately owned Marketo. Blogs, social media posts, YouTube tutorials, podcasts ... anything that teaches, offers insights, provides data, or expresses a potentially useful point of view can be considered inbound marketing (or its kissing cousin, content marketing). HubSpot's marketing suite provides subscription access to every feature someone would need: page design, blogging, search optimization, social media tools, even hacks for automating follow-up with those who engage with content.

I've been a user of the software for years in other gigs, and its clean design and built-in metrics for measuring content success have always impressed me. I'm not alone. Over 3,500 design agencies employed by companies to create compelling Web pages and marketing campaigns use HubSpot to

WHAT IT DOES

HubSpot is aiming to humanize marketing by giving small and medium-sized businesses the tools to create great content that draws in prospects, a discipline known as inbound marketing.

WHY BUY

- HubSpot is an innovator that coined the phrase "inbound marketing," helping to lead a growing opportunity.
- The company boasts brand power, a strong culture, and engaged founders.
- Improving metrics suggest heady growth and correspondingly strong returns.

KEY DATA

- **Headquarters:** Cambridge, Mass.
- **Website:** [HubSpot investor relations](#)
- **Sign of a Breaker:** First Mover
- **Market Cap:** \$2.5 billion
- **Cash/Debt:** \$492 million / \$290 million
- **Revenue ('15/'16 / TTM):** \$182 million / \$271 million / \$318 million
- **Earnings ('15/'16 / TTM):** (\$46 million) / (\$45 million) / (\$45 million)
- **Recent Price:** \$68.05

BUYER'S GUIDE

- **Industry:** Cloud software
- **Size:** Mid Cap
- **Region:** North America
- **Risk:** 10 out of 25 ([see all our stocks here](#))
- **Crushability:** Jawbreaker ([see the full scale here](#))
- **Most similar to:** Salesforce.com, Atlassian

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serve their clients. Not only is that a fascinating channel, it's also an imprimatur of the software's premium feel: It's what the pros use, after all.

Financial data from S&P Global Market Intelligence.

Data as of Aug. 17, 2017.

Prospecting for Gold

HubSpot's stock has gone up about 25% in the past year and more than doubled since the company went public in 2014. Given its rich premium — it trades for about 8 times sales, more than the 7.4 multiple at which industry peer Marketo was taken private last year — it will probably take even more outsized growth from HubSpot's core business to keep going. Specifically, I'm looking for marketing subscriptions to roughly double to 50,000 and for average revenue per marketing customer to rise from \$12,773 annually today to \$20,000 five years from now (though even HubSpot expects some choppiness in this figure as it introduces lower-priced services to accelerate and scale up subscription volume).

Maybe that sounds crazy, but HubSpot was already growing its subscription customer base between 28% and 34% annually over last three years. Companywide revenue is up between 48% and 57% over the same period. Meanwhile, analysts polled by S&P Global Market Intelligence expect HubSpot's profits to grow 35% annually over the next three to five years. Whether I'm right about the specifics — let's be honest here, I won't be — all signs still point to heady expansion that should at least double the market cap from today's levels.

Because HubSpot has yet to achieve profitability by generally accepted accounting principles, we're putting a lot of faith in management. That's why I find it particularly encouraging that [Halligan rates as one of Glassdoor's top 10 CEOs](#), just ahead of Mark Zuckerberg and behind Elon Musk. You can't get much better company when it comes to building companies creating entirely new industries, and enriching investors in the process.

Risks and When We'd Sell

And yet HubSpot's had a challenging history. Last spring, well-known technology columnist Dan Lyons published a book about his short stint working for HubSpot, and his comments aren't flattering. Here's an excerpt of *Disrupted* that was published in the April 1, 2016 issue of *Fortune*:

"When someone quits or gets fired, the event will be referred to as 'graduation.' ... Nobody ever talks about the people who graduate, and nobody ever mentions how weird it is to call it 'graduation.' For that matter I never hear anyone laugh about HEART [an acronym for the qualities HubSpot looks for in new hires] or make jokes about the culture code. Everyone acts as if all of these things are perfectly normal."

[Shah, the company's chief technology officer, posted a response to LinkedIn](#) that's refreshingly short on takedown and long on specifics for how HubSpot is fixing legitimate problems Lyons surfaces in the book. On the need for more diversity, Shah writes: "Thank you Dan for the kick-in-the-pants. Honestly though, we would have been fine with a bit of a softer kick. :)" Skeptics will be tempted to treat Shah's promises as a brush-off, and they may be. But if they are, both he and Halligan have plenty to lose. Between them they still hold 6.5% of HubSpot's shares outstanding.

The risk is that Lyons is right, the culture is more utopian than aspirational, and growth stops when the reality is revealed. I think we've already had ample time to see that thesis play out, yet HubSpot is still growing, and employees still love working there. Investors should continue to see strong returns as a result. Then again, if HubSpot takes a sudden dive in the Glassdoor ratings, or if approval of Halligan's methods erodes significantly, we'll know something is wrong and would reconsider our position in the stock — and ask that you do the same.

The Foolish Bottom Line

Inbound marketing sounds buzzy and millennial. In a way, it is. But it's also a proven method for engaging prospects and customers. It's more human. It's more interesting. And to look at HubSpot's business, it's a growing opportunity that — notwithstanding the title to Lyons' book — we don't see getting disrupted any time soon.



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Market data provided by FactSet and Web Financial Group.