

HubSpot

SMB Front Office Cloud Leader; Initiating with a Buy/Top Pick

Reinstating Coverage: BUY | PO: 600.00 USD | Price: 490.52 USD

Top pick with 4M framework: Market, Moat, Mgmt, Margin

We are initiating coverage of HubSpot with a Buy rating and a PO of \$600 and view it as a top pick in our coverage universe and in the large cap group. HubSpot looks attractive in our 4M framework for software investing - Market, competitive Moat, Mgmt, and Margin potential. HubSpot addresses a large **Market** of Marketing, Sales, Service, and CMS, representing an \$86.7 bn+ TAM. With a combined market share of only 1% in these markets (implied by CY20 rev run rate) and a formidable competitive **Moat**, stemming from 1) large installed base of over 103,000 customers, 2) robust partner network of hundreds of digital marketing agencies and a large inbound sales organization and 3) breadth and depth of the HubSpot suite spanning marketing, sales, service, and CMS, we believe that HubSpot is well positioned to continue gaining share in the vast SMB front office applications industry.

Long runway for 25%+ revenue growth remains

During a recent round of calls with nearly a dozen digital ad agency partners (see detailed commentary on pg20), we noted pipeline builds sustaining with strong recent levels led by front office digital transformation efforts amongst SMBs. We noted continued strength in enterprise edition, given continued feature enhancements. We did not note any slowdown in core marketing or sales pipeline, and ramping pipeline for the emerging CMS Hub. Service Hub penetration continues to lag, given a still fairly nascent offering. We believe that ongoing investment in the offering is likely to drive traction in the coming years, given a natural adjacency to the core Marketing and Sales Hubs. With strong continued adoption of the core marketing and sales offerings and ramping contribution from Service and CMS Hubs (as well as likely future Hubs), we believe a long runway for 25%+ growth remains. In an upside scenario we assume a total customer growth CAGR of 21% and penetration of Service Hub to be 53% of Sales customers, and CMS Hub to reach 64% of Marketing customers through FY26. We arrive at a 25% 5 yr revenue CAGR. Applying a forward revenue multiple for the large cap software group of 17x to our upside FY26 revenue estimate, we would arrive at an implied valuation equating to a 5 yr CAGR of 26% (see Exhibits 3-8 for base and upside case).

\$600 PO represents c. 20x EV/C22e revenue

The 20x multiple represents 0.7x our C22 revenue growth rate of 27%, in line with the peer group, trading at 0.7x C22 growth averaging 19%.

Estimates (Dec) (US\$)	2019A	2020A	2021E	2022E	2023E
EPS	1.49	1.38	1.55	2.24	3.30
GAAP EPS	(1.28)	(1.90)	(1.91)	(2.18)	(2.36)
EPS Change (YoY)	71.3%	-7.4%	12.3%	44.5%	47.3%
Consensus EPS (Bloomberg)			NA	NA	NA
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	329.2x	355.4x	316.5x	219.0x	148.6x
GAAP P/E	NM	NM	NM	NM	NM
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	274.8x	307.2x	232.7x	155.5x	101.6x
Free Cash Flow Yield*	0.3%	0.1%	0.5%	1.1%	1.3%

* For full definitions of *IQmethod*SM measures, see page 34.

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Timestamp: 08 April 2021 06:00AM EDT

08 April 2021

Equity

Brad Sills

Research Analyst
BoFA
+1 415 676 3531
brad.sills@bofa.com

Sherry Guo

Research Analyst
BoFA
+1 415 676 3573
sherryguo@bofa.com

Daniel Bartus

Research Analyst
BoFA
daniel.bartus@bofa.com

Koji Ikeda, CFA

Research Analyst
BoFA
koji.ikeda@bofa.com

Tanika Mehra

Research Analyst
BoFA
tanika.mehra@bofa.com

Stock Data

Price	490.52 USD
Price Objective	600.00 USD
Date Established	8-Apr-2021
Investment Opinion	C-1-9
52-Week Range	123.36 USD - 547.47 USD
Mkt Val (mn) / Shares Out (mn)	22,728 USD / 46.3
Average Daily Value (mn)	290.31 USD
BoFA Ticker / Exchange	HUBS / NYS
Bloomberg / Reuters	HUBS US / HUBS.N
ROE (2021E)	9.7%
Net Dbt to Eqty (Dec-2020A)	-12.9%
ESGMeter™	Medium

ESGMeter is a proprietary metric based on quantitative analysis and fundamental analyst inputs that reflects our assessment of a company's ESG-related attributes. It is intended to indicate a company's likelihood of experiencing stronger financial stability (higher ROE and lower earnings and price volatility) over the next three years relative to its peer group. There are three ESGMeter levels - Low, Medium, and High. Refer to "BoFA ESGMeter Methodology". ESGMeter is not intended to be indicative of a company's future stock price performance and is independent of the BoFA Global Research fundamental equity analyst's investment rating, volatility risk rating, income rating, or price objective for that company.

CMS = content management system

TAM = Total Addressable Market

DX = Digital Transformation

iQprofileSM HubSpot

iQmethodSM – Bus Performance*

(US\$ Millions)	2019A	2020A	2021E	2022E	2023E
Return on Capital Employed	7.3%	5.3%	5.8%	8.0%	11.1%
Return on Equity	15.6%	9.5%	9.7%	12.7%	16.6%
Operating Margin	8.1%	8.5%	8.5%	10.0%	12.3%
Free Cash Flow	65	30	109	261	298

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2019A	2020A	2021E	2022E	2023E
Cash Realization Ratio	1.7x	1.3x	2.5x	2.2x	2.2x
Asset Replacement Ratio	1.9x	1.6x	1.8x	0x	1.2x
Tax Rate	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	-3.9%	-12.9%	-24.5%	-36.7%	-52.3%
Interest Cover	NM	NM	48.5x	NM	NM

Income Statement Data (Dec)

(US\$ Millions)	2019A	2020A	2021E	2022E	2023E
Sales	675	883	1,166	1,474	1,844
% Change	31.6%	30.8%	32.0%	26.4%	25.1%
Gross Profit	553	725	968	1,229	1,542
% Change	32.1%	31.3%	33.5%	26.9%	25.5%
EBITDA	84	75	99	148	227
% Change	50.8%	-10.5%	32.0%	49.6%	53.1%
Net Interest & Other Income	18	6	1	1	1
Net Income (Adjusted)	70	67	79	118	180
% Change	89.3%	-3.8%	17.1%	49.7%	53.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2019A	2020A	2021E	2022E	2023E
Net Income from Cont Operations (GAAP)	(54)	(85)	(90)	(107)	(121)
Depreciation & Amortization	29	37	48	61	76
Change in Working Capital	39	36	56	69	122
Deferred Taxation Charge	(1)	(2)	0	0	0
Other Adjustments, Net	105	103	182	238	314
Capital Expenditure	(54)	(59)	(86)	0	(92)
Free Cash Flow	65	30	109	261	298
% Change	26.8%	-53.9%	262.7%	139.1%	14.5%

Balance Sheet Data (Dec)

(US\$ Millions)	2019A	2020A	2021E	2022E	2023E
Cash & Equivalents	270	378	490	642	897
Trade Receivables	93	126	177	222	277
Other Current Assets	748	952	976	1,002	1,034
Property, Plant & Equipment	84	101	131	168	215
Other Non-Current Assets	376	415	424	434	447
Total Assets	1,569	1,973	2,197	2,468	2,869
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	322	438	566	704	910
Long-Term Debt	244	280	280	280	280
Other Non-Current Liabilities	353	493	495	496	498
Total Liabilities	919	1,211	1,340	1,480	1,688
Total Equity	650	763	857	988	1,181
Total Equity & Liabilities	1,569	1,973	2,197	2,468	2,869

* For full definitions of iQmethodSM measures, see page 34.

Company Sector

Server & Enterprise Software

Company Description

HubSpot, Inc. is a cloud based provider of inbound marketing tools such as website content management, blogging tools, email campaign, search engine optimization, social media monitoring and management, CRM and others for small businesses and mid sized companies. The company's tools provide a single console for marketing professionals to generate new customer leads, convert leads to customers and customers to repeat customers.

Investment Rationale

We believe HubSpot possesses a number of compelling competitive advantages likely to drive solid share gains in the \$86+ billion SMB sales/marketing/service automation market including: 1) innovative inbound marketing approach, 2) breadth of offering (website, blogging, email, SEO and social media), and 3) large and growing channel of over 3,800 digital marketing partners. We estimate strong 25%+ revenue growth over the coming years driven by solid SMB adoption and share gains.

Stock Data

Average Daily Volume 591,839

Quarterly Earnings Estimates

	2020	2021
Q1	0.35A	0.29E
Q2	0.34A	0.32E
Q3	0.28A	0.37E
Q4	0.40A	0.57E

Investment Thesis

Initiating coverage with a Buy/Top Pick, \$600 PO

We rate HubSpot a Buy and view it as a top pick in our coverage universe and in the large cap group. HubSpot looks attractive in our 4M framework for software investing - Market, competitive Moat, Management strength and Margin potential. HubSpot addresses a large **Market** of Marketing, Sales, Service, and CMS, representing a \$41+ billion combined opportunity. With a combined market share of only 2% in these markets and an impressive competitive **Moat**, stemming from 1) large installed base of over 103,000 customers, 2) robust partner network of hundreds of digital marketing agencies and a large inbound sales organization and 3) breadth and depth of the HubSpot suite spanning marketing, sales, service, and CMS, we believe that HubSpot is well positioned to continue gaining share in the large SMB front office applications industry.

During a recent round of call with nearly a dozen digital ad agency partners (see below for detailed commentary), we noted pipeline builds sustaining with strong recent levels led by front office digital transformation efforts amongst SMBs. We noted continued strength in enterprise edition, given continued feature enhancements. We did not note any slowdown in core marketing or sales pipeline, with ramping adoption of the CMS Hub. Service Hub penetration continues to lag, given a still fairly nascent offering. We believe that ongoing investment in the offering is likely to drive traction in the coming years, given a natural adjacency to the core Marketing and Sales Hubs. With strong continued adoption of the core marketing and sales offerings and ramping contribution from Service and CMS Hubs (as well as likely future Hubs), we believe a long runway for 25%+ growth remains.

In our upside case, we assume 1) marketing and sales customer count reaches 240,000 and 275,000, respectively, by FY26, representing 3.9% and 4.6% share of the 6 million small business in the US alone, 2) penetration of Service to be 53% of Sales customers, and CMS to be 64% of Marketing customers and 3) SMIR to decline to 1.5x (toward the high end of high growth large enterprise vendors, averaging 1.2x – 1.5x) from 1.9x in FY20. Given these assumptions, we arrive at FY26 revenue and FCF of \$4.53 billion (25% CAGR) and FCF of \$1.22 billion (26.8% FCF margin). If we apply a forward revenue multiple for large cap software group of 17x to our FY26 revenue base, we arrive at an implied per share value, which would equate to a 5 yr CAGR of 26%. Our PO of \$600 is based on an EV/revenue multiple of 20x our CY22 revenue estimate of \$1.47bn. The 20x multiple represents 0.7x our C22 revenue growth rate of 27%, in line with the peer group, trading at 0.9x C22 growth averaging 18%.

Risks to our price objective

Competition from point solutions and platform vendors. HubSpot faces a number of competitors across each segment of business, from legacy vendors to newer SaaS offerings. Failure to continue delivering ongoing roadmap of new features or new modules could present the risk of slowing share gains or even share losses, which could curb growth.

Application spending is highly cyclical. Enterprise application spending has proven to be highly cyclical, given the more discretionary nature. During an economic slowdown, when firms are faced with shrinking IT budgets, projects involving application upgrades, migrations or new installations are often deferred. This could present a higher degree of risk for a bookings deceleration for HubSpot in the event of an economic slowdown.

SMB focus means higher churn. HubSpot's customer renewal rate is estimated to be in the mid-eighties, which is low relative to the broader cloud applications vendors targeting mid and large organization, averaging 90%+. This difference is due to the company's focus on the SMB market segment, which has a higher rate of mortality and acquisition by larger companies. This higher attrition rate could weigh on future growth in the absences of execution cross selling the broader solutions stack. This could also limit HubSpot's ability to achieve attractive long term operating margin, stemming from sales/marketing leverage, given the need to replace 15% of revenue with upsell of new customer sales, in order to sustain recurring revenue.



Valuation Framework

Comps

HubSpot is a high growth software company, growing subscription revenue in the 30%+ range, that is reinvesting in sales and marketing and R&D to continue driving share gains/growth. We use the EV/sales as our primary valuation methodology.

HubSpot shares currently trade at an EV/Revenue multiple of 15x our C22 revenue estimate of \$1.47bn, a one turn premium to large cap software peers trading at 14x. Our PO of \$600 is based on an EV/revenue multiple of 20x our C22 revenue estimate of \$1.47bn. The 20x multiple represents an EV/Rev/Growth multiple of 0.7x based on our C22 revenue growth rate of 27%, roughly in line with the peer group, trading at 0.9x C22 growth averaging 18%.

Exhibit 1: Comps (Large Cap SaaS Group)

Large cap software group is trading at a EV/C22e FCF multiple of 42x

Large Cap (Mkt Cap > \$15bn)	Ticker	Price	Market Cap	Enterprise Value	EV/FCF				FCF Growth				EV/FCF/ Growth	EV/Revenue				Revenue Growth				EV/Rev/ Growth
					CY19A	CY20E	CY21E	CY22E	CY19A	CY20E	CY21E	CY22E		CY19A	CY20E	CY21E	CY22E	CY19A	CY20E	CY21E	CY22E	
Microsoft	MSFT	249.90	1,898,480	1,827,035	45.0x	36.2x	31.6x	25.4x	27%	24%	15%	25%	1.0x	13.6x	11.9x	10.5x	9.5x	13%	14%	13%	11%	.9x
Adobe	ADBE	493.41	239,292	238,144	58.3x	44.9x	37.8x	32.2x	9%	30%	19%	17%	1.8x	21.3x	18.5x	15.4x	13.5x	24%	15%	20%	14%	1.0x
Salesforce.com	CRM	220.79	209,751	201,224	54.6x	49.2x	44.4x	32.2x	32%	11%	11%	38%	.8x	11.8x	9.5x	7.8x	6.6x	29%	24%	21%	18%	.4x
Oracle	ORCL	74.07	218,689	252,124	20.7x	20.8x	21.2x	20.9x	-11%	-1%	-2%	1%	NM	6.4x	6.4x	6.2x	6.0x	0%	0%	3%	3%	2.3x
SAP	SAP	129.79	154,969	167,409	55.8x	23.0x	25.5x	24.3x	-11%	142%	-10%	5%	5.2x	5.4x	5.4x	5.3x	5.2x	6%	1%	2%	2%	2.7x
Shopify	SHOP	1,159.47	143,082	136,995	NM	NM	NM	NM	2666%	-97%	NM	NM	NM	86.8x	46.8x	33.8x	27.0x	47%	86%	38%	25%	1.1x
Zoom	ZM	323.08	96,967	95,485	NM	80.8x	66.3x	56.7x	397%	939%	22%	17%	3.3x	153.4x	37.0x	25.1x	20.7x	88%	314%	48%	21%	1.0x
ServiceNow	NOW	510.73	103,400	100,480	NM	71.5x	54.9x	42.3x	66%	45%	30%	30%	1.4x	29.0x	22.2x	17.5x	14.2x	33%	31%	27%	24%	.6x
Intuit	INTU	401.05	109,552	104,662	48.3x	46.0x	38.9x	34.0x	9%	5%	18%	15%	2.3x	15.4x	13.6x	11.7x	10.4x	13%	13%	16%	13%	.8x
Autodesk	ADSK	286.12	63,597	63,536	46.7x	47.4x	39.0x	27.8x	339%	-2%	22%	40%	.7x	19.4x	16.9x	14.7x	12.4x	27%	15%	16%	18%	.7x
Twilio Inc	TWLO	353.11	58,546	55,476	NM	NM	NM	NM	NM	NM	NM	NM	NM	48.9x	33.2x	22.7x	17.4x	75%	47%	46%	31%	.6x
Atlassian	TEAM	217.63	55,612	53,428	NM	NM	86.9x	69.4x	42%	2%	23%	25%	2.7x	37.7x	27.5x	23.4x	19.2x	37%	37%	17%	22%	.9x
Workday	WDAY	251.93	64,019	61,176	98.8x	60.3x	78.9x	42.8x	53%	64%	-24%	84%	.5x	16.9x	14.2x	12.3x	10.4x	29%	19%	15%	18%	.6x
VMware	VMW	153.57	64,807	64,798	15.9x	15.9x	18.9x	15.3x	19%	0%	-16%	24%	.6x	6.0x	5.5x	5.1x	4.7x	12%	9%	8%	8%	.6x
DocuSign	DOCU	205.71	42,893	42,985	NM	NM	NM	90.1x	-4%	393%	55%	43%	2.1x	44.1x	29.6x	21.8x	17.1x	39%	49%	35%	28%	.6x
Veeva	VEEV	260.38	42,774	41,111	94.7x	75.8x	64.8x	53.6x	44%	25%	17%	21%	2.6x	37.2x	28.1x	23.4x	19.6x	28%	33%	20%	19%	1.0x
RingCentral	RNG	306.00	28,465	29,167	NM	NM	NM	NM	-39%	NM	NM	76%	NM	32.3x	25.0x	19.6x	15.9x	34%	29%	27%	24%	.7x
Splunk	SPLK	138.79	22,226	22,400	NM	NM	NM	62.7x	NM	NM	NM	NM	.1x	9.5x	10.0x	8.8x	7.3x	31%	-5%	14%	21%	.3x
Coupa	COUP	263.28	20,276	19,953	NM	NM	NM	NM	88%	19%	73%	39%	NM	51.2x	36.8x	29.5x	23.8x	50%	39%	25%	24%	1.0x
Average					51.1x	45.4x	48.8x	41.8x	59%	266%	9%	36%	1.7x	33.3x	21.0x	16.6x	13.7x	31%	38%	22%	18%	.9x

Source: BofA Global Research, company reports, Bloomberg
Priced as of 4/7/2021

BofA GLOBAL RESEARCH

Discounted cash flow

From a DCF perspective, our PO represents a 10-year DCF. We recognize that the longer-term time horizon presents a higher degree of uncertainty to assumptions, though we believe that HubSpot is positioned for share gains in a large market opportunity over the longer term. Our model assumes share gains of 30-40bps per year in the \$41 billion market opportunity identified as of 2021 (growing at 12% CAGR to FY30). We estimate that HubSpot's market share ultimately reaches 6.9% in 15 years, up from 2.1% in CY20.

Our model also assumes that operating margin reaches 13% over the next five years from 8.5% in FY20, and improves ~100 basis points on average per year until reaching a terminal margin of 35%, driven by opex scale primarily from the S&M line. Our model also assumes weighted average cost of capital (WACC) of 9% and a terminal cash flow multiple of ~20x.

Exhibit 2: DCF analysis

Our DCF model assumes HubSpot's market share against its TAM ultimately reaches 8% in 15 years, up from 1% in FY20

(\$mns, except per share)	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E	FY2023E	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E	FY2032E	FY2033E	FY2034E	FY2035E	TV	FY20-30 CAGR
Market Opportunity (\$bn)			86.70	93.25	100.29	107.86	116.00	123.40	130.87	137.47	143.04	148.12	152.64	157.14	161.78	166.55	171.46	176.52	181.73	6%
Growth				7.6%	7.6%	7.6%	7.6%	7.1%	6.1%	5.1%	4.1%	3.6%	3.1%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	
Revenues	\$513	\$675	\$883	\$1,166	\$1,474	\$1,844	\$2,281	\$2,788	\$3,381	\$4,083	\$4,910	\$5,881	\$7,015	\$8,300	\$9,737	\$11,327	\$13,062	\$14,802	\$15,394	23%
Growth	31.6%	30.8%	30.8%	32.0%	26.4%	25.1%	23.7%	22.2%	21.3%	20.8%	20.3%	19.8%	19.3%	18.3%	17.3%	16.3%	15.3%	13.3%	4.0%	
% of market			1.0%	1.3%	1.5%	1.7%	2.0%	2.3%	2.6%	3.0%	3.4%	4.0%	4.6%	5.3%	6.0%	6.8%	7.6%	8.4%	8.5%	
Operating Income - Non-GAAP	\$32	\$55	\$75	\$99	\$148	\$227	\$328	\$459	\$628	\$812	\$1,031	\$1,301	\$1,630	\$2,033	\$2,531	\$3,114	\$3,787	\$4,514	\$5,388	36%
Operating Income Margin	6.3%	8.1%	8.5%	8.5%	10.0%	12.3%	14.4%	16.5%	18.6%	19.9%	21.0%	22.1%	23.2%	24.5%	26.0%	27.5%	29.0%	30.5%	35.0%	
Interest & Other Income	\$7	\$18	\$6	\$1	\$1	\$1	\$2	\$2	\$3	\$1	\$1	\$1	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Cash Taxes	\$2	\$3	\$13	\$21	\$31	\$48	\$69	\$96	\$132	\$170	\$217	\$273	\$342	\$427	\$532	\$654	\$795	\$948	\$1,131	
Tax rate	7.3%	8.6%	19.4%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	
Depreciation and Amortization	\$23	\$29	\$37	\$48	\$61	\$76	\$157	\$177	\$198	\$219	\$246	\$294	\$351	\$415	\$487	\$566	\$653	\$740	\$770	
D&A as % of revenue	4.6%	4.3%	4.2%	4.1%	4.1%	4.1%	6.9%	6.4%	5.9%	5.4%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
CapEx & Capitalized Software	(\$33)	(\$54)	(\$59)	(\$86)	(\$109)	(\$136)	(\$157)	(\$177)	(\$198)	(\$219)	(\$246)	(\$294)	(\$351)	(\$415)	(\$487)	(\$566)	(\$653)	(\$740)	(\$770)	
Capex as % of revenue	-6.5%	-8.0%	-6.7%	-7.4%	-7.4%	-7.4%	-6.9%	-6.4%	-5.9%	-5.4%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	
Change in Working Capital	\$33	\$39	\$36	\$56	\$69	\$122	\$114	\$139	\$169	\$204	\$246	\$294	\$351	\$415	\$487	\$566	\$653	\$740	\$770	
Working Capital as % of revenue	6.4%	5.9%	4.1%	4.8%	4.7%	6.6%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Other Adjustments	\$5	\$17	(\$40)	\$14	\$15	\$16	(\$39)	(\$34)	(\$24)	(\$14)	\$1	\$1	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Other Adjustments as % of revenue	1.0%	2.5%	-4.5%	1.2%	1.0%	0.8%	-1.7%	-1.2%	-0.7%	-0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Free Cash Flow	\$51	\$65	\$30	\$109	\$152	\$255	\$332	\$466	\$638	\$831	\$1,061	\$1,322	\$1,639	\$2,021	\$2,486	\$3,027	\$3,645	\$4,306	\$5,026	49%
Growth		27%	-54%	263%	40%	68%	30%	40%	37%	30%	28%	25%	24%	23%	23%	22%	20%	18%	17%	
Margin	10%	10%	3%	9%	10%	14%	15%	17%	19%	20%	22%	22%	23%	24%	26%	27%	28%	29%	33%	
Less: SBC	\$47	\$76	\$98	\$121	\$155	\$211	\$287	\$295	\$290	\$268	\$225	\$269	\$321	\$380	\$446	\$518	\$598	\$677	\$704	
SBC as a % of revenue	9%	11%	11%	10%	11%	13%	11%	13%	9%	7%	5%	5%	5%	5%	5%	5%	5%	5%	5%	
Adjusted FCF	\$4	(\$11)	(\$68)	(\$13)	(\$3)	\$44	\$45	\$171	\$348	\$563	\$836	\$1,053	\$1,318	\$1,641	\$2,041	\$2,508	\$3,047	\$3,629	\$4,322	
Discounted Adj. FCF	\$4	(\$11)	(\$68)	(\$12)	(\$2)	\$34	\$32	\$112	\$210	\$311	\$425	\$492	\$566	\$648	\$740	\$836	\$933	\$1,021		
Cumulative free cash flow	\$6,280	21%																		
Terminal Value	\$23,185	79%																		
Total DCF value	\$29,465	100%																		
Debt	\$759																			
Cash	\$1,251																			
Market Value of Equity	\$29,958																			
Shares Outstanding	50																			
Implied Share Price	\$600																			
Current Price	\$450																			

Source: BofA Global Research, Company Filings

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Base/Upside Case Revenue Sensitivity Model

We run a 6 year revenue sensitivity model with base and upside scenarios for 1) customer adds, 2) penetration rate of new products (Hubs), 3) ASP, and 4) sales efficiency (through SMIR ratio). We hold gross renewal at 85%, consistent with historical levels in order to isolate subscription revenue from renewals, upsells, and penetration.

Base Case

In our base case model, we assume 1) marketing and sales customer count reaches 204,566 and 240,000, respectively, by FY26, representing 3.4% and 4% share of the 6 million small business in the US alone, 2) penetration of Service to be 53% of Sales customers, and CMS to be 64% of Marketing customers and 3) SMIR to increase to 2.2x from 1.9x in FY20. Given these assumptions, we arrive at FY26 revenue and FCF of \$3.38 billion (24% CAGR) and FCF of \$638 million (18.9% FCF margin).

Exhibit 3: Base Case Subscription Revenue Model

Subscription Revenue Model for Marketing Hub

	YEAR FY18A	YEAR FY19A	Mar 1Q20A	Jun 2Q20A	Sep 3Q20A	Dec 4Q20A	YEAR FY20A	Mar 1Q21E	Jun 2Q21E	Sep 3Q21E	Dec 4Q21E	YEAR FY21E	YEAR FY22E	YEAR FY23E	YEAR FY24E	YEAR FY25E	YEAR FY26E
Customer metrics																	
# customers	56,628	73,483	78,776	86,672	95,634	103,994	103,994	111,063	118,132	125,200	132,269	132,269	162,295	194,347	228,339	264,195	301,843
Net additions	15,035	16,855	5,293	7,896	8,962	8,360	30,511	7,069	7,069	7,069	7,069	28,275	30,026	32,052	33,993	35,856	37,648
y/y growth	36.1%	29.8%	29.5%	33.7%	39.0%	41.5%	41.5%	41.0%	36.3%	30.9%	27.2%	27.2%	22.7%	19.7%	17.5%	15.7%	14.3%
q/q growth			7.2%	10.0%	10.3%	8.7%		6.8%	6.4%	6.0%	5.6%						
Average # customers	48,650	64,877	76,130	82,724	91,153	99,814	87,455	107,529	114,598	121,666	128,735	118,132	147,282	178,321	211,343	246,267	283,019
y/y growth	41.3%	33.4%	29.6%	31.7%	36.4%	40.3%	34.8%	41.2%	38.5%	33.5%	29.0%	35.1%	24.7%	21.1%	18.5%	16.5%	14.9%
ASP	10,020	9,961	10,018	9,466	9,669	9,758	9,754	9,461	9,392	9,593	9,869	9,590	9,762	10,116	10,583	11,123	11,757
q/q growth			-0.3%	-5.5%	2.1%	0.9%		-3.0%	-0.7%	2.1%	2.9%						
y/y growth	-3.3%	-0.6%	2.1%	-4.5%	-3.2%	-2.9%	-2.1%	-5.6%	-0.8%	-0.8%	1.1%	-1.7%	1.8%	3.6%	4.6%	5.1%	5.7%
y/y growth - constant currency	-2.3%	1.2%	4.1%	-2.5%	-1.2%	-0.9%											
Subscription revenue	487,450	646,266	191,229	196,415	221,058	244,323	853,025	254,335	269,089	291,797	317,620	1,132,840	1,437,699	1,803,822	2,236,739	2,739,287	3,327,410
y/y growth	36.6%	32.6%	32.6%	26.0%	32.3%	36.4%	32.0%	33.0%	37.0%	32.0%	30.0%	32.8%	26.9%	25.5%	24.0%	22.5%	21.5%
y/y growth - constant currency	35.3%	34.0%	33.0%	26.0%	30.0%	32.0%											
Subscription revenue as % of total revenue	95.0%	95.8%	96.1%	96.5%	96.8%	96.9%	96.6%	96.8%	97.1%	97.3%	97.4%	97.2%	97.5%	97.8%	98.1%	98.3%	98.4%
Professional services and other	25,530	28,594	7,739	7,193	7,327	7,742	80,001	8,513	7,912	8,060	8,516	33,001	36,301	39,931	43,924	48,317	53,149
													1,165,841	1,474,003	1,843,754	2,280,664	2,787,609
Total Revenue	512,980	674,860	198,968	203,608	228,385	252,065	883,026	262,847	277,001	299,856	326,136	1,165,841	1,474,003	1,843,754	2,280,664	2,787,609	3,380,559
5-year CAGR%															27.6%	25.8%	23.7%
															128.2%	126.7%	125.1%
Customers/ASP by Product																	
Marketing Hub model																	
Marketing Hub Customers	35,879	42,234	44,527	48,702	53,998	58,766	58,766	63,591	68,416	73,241	78,066	78,066	99,366	122,666	147,966	175,266	204,566
Net additions	5,734	6,355	2,293	4,175	5,295	4,768	16,532	4,825	4,825	4,825	4,825	19,300	21,300	23,300	25,300	27,300	29,300
y/y growth	19.0%	17.7%	17.0%	23.0%	31.5%	39.1%	39.1%	42.8%	40.5%	35.6%	32.8%	32.8%	27.3%	23.4%	20.6%	18.5%	16.7%
Average marketing customers	33,114	39,441	43,381	46,615	51,350	56,382	49,432	61,178	66,003	70,828	75,653	68,416	88,716	111,016	135,316	161,616	189,916
y/y growth	24.8%	19.1%					25.3%					38.4%	29.7%	25.1%	21.9%	19.4%	17.5%
ASP	12,830	13,203	13,679	12,531	12,893	12,978	13,005	12,237	11,811	11,885	12,098	12,005	11,238	10,838	10,652	10,584	10,650
q/q growth			1.0%	-8.4%	2.9%	0.7%		-5.7%	-3.5%	0.6%	1.8%						
y/y growth	1.3%	2.9%	6.4%	-4.0%	-3.2%	-4.2%	-1.5%	-10.5%	-5.8%	-7.8%	-6.8%	-7.7%	-6.4%	-3.6%	-1.7%	-0.6%	0.6%
5-year CAGR															-4.2%	-4.0%	-2.4%
Subscription revenue	424,837	520,716	148,352	146,037	165,512	182,936	642,837	187,154	194,888	210,455	228,815	821,312	996,963	1,203,171	1,441,349	1,710,530	2,022,666
y/y growth	26.5%	22.6%	24.9%	15.3%	23.3%	29.7%	23.5%	26.2%	33.5%	27.2%	25.1%	27.8%	21.4%	20.7%	19.8%	18.7%	18.2%
Subscription mix	87.2%	80.6%	77.6%	74.4%	74.9%	74.9%	75.4%	73.6%	72.4%	72.1%	72.0%	72.5%	69.3%	66.7%	64.4%	62.4%	60.8%

Source: BofA Global Research estimates

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Exhibit 4: Base Case Subscription Revenue Model

Subscription Revenue Model for Sales, Service, and CMS Hub

	YEAR FY18E	YEAR FY19A	Mar 1Q 20A	Jun 2Q 20A	Sep 3Q 20A	Dec 4Q 20A	YEAR FY20A	Mar 1Q 21E	Jun 2Q 21E	Sep 3Q 21E	Dec 4Q 21E	YEAR FY21E	YEAR FY22E	YEAR FY23E	YEAR FY24E	YEAR FY25E	YEAR FY26E
Sales Hub Model																	
Growth stack customer count (sales and marketing)	19,500	30,000	32,000	34,750	37,750	41,000	41,000	44,366	47,733	51,099	54,465	54,465	69,326	85,582	103,234	122,280	142,723
% of total customers	54.3%	71.0%	71.9%	71.4%	69.9%	69.8%	69.8%	69.8%	69.8%	69.8%	69.8%	69.8%	69.8%	69.8%	69.8%	69.8%	69.8%
Net additions	9,700	10,500	2,000	2,750	3,000	3,250	11,000	3,366	3,365	3,365	3,365	13,462	14,858	16,253	17,648	19,044	20,439
Sales Hub only customer count	20,749	31,249	34,249	37,970	41,636	45,228	45,228	47,473	49,716	51,960	54,203	54,203	62,929	71,681	80,373	88,929	97,278
Net additions	9,700	10,500	3,000	3,721	3,667	3,592	13,979	2,244	2,244	2,244	2,244	8,975	8,726	8,752	8,693	8,556	8,348
	50%	50%	60%	58%	55%	53%	56%	40%	40%	40%	40%	40%	37%	35%	33%	31%	29%
Sales Hub customer count	40,249	61,249	66,249	72,720	79,386	86,228	86,228	91,839	97,449	103,059	108,669	108,669	132,255	157,263	183,607	211,210	240,000
y/y growth	89.4%	52.2%	49.7%	47.7%	46.3%	40.8%	40.8%	38.6%	34.0%	29.8%	26.0%	26.0%	21.7%	18.9%	16.8%	15.0%	13.6%
Average customers	29,774	49,624	63,749	69,484	76,053	82,807	73,023	89,034	94,644	100,254	105,864	97,449	120,462	144,759	170,435	197,409	225,605
Monthly User ASP	53	57	56	51	49	48	51	47	47	47	47	47	47	47	47	47	47
X Average # users	3.0	3.2	3.4	3.5	3.6	3.6	3.5	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
ASP - Monthly	159	185	190	179	176	173	179	169	169	169	169	169	169	169	169	169	169
ASP - Annual	1,912	2,222	2,285	2,142	2,117	2,074	2,147	2,030	2,030	2,030	2,030	2,030	2,030	2,030	2,030	2,030	2,030
	25.4%	16.2%	6.2%	-2.1%	-5.0%	-9.7%	-3.4%	-11.1%	-5.2%	-4.1%	-2.1%	-5.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Sales Hub Subscription revenue	56,940	110,267	36,413	37,209	40,247	42,927	156,797	45,193	48,041	50,889	53,736	197,860	244,586	293,919	346,052	400,818	458,069
q/q growth			9.8%	2.2%	8.2%	6.7%		5.3%	6.3%	5.9%	5.6%						
y/y growth	172.9%	93.7%	60.3%	45.5%	39.7%	29.5%	42.2%	24.1%	29.1%	26.4%	25.2%	26.2%	23.6%	20.2%	17.7%	15.8%	14.3%
Subscription mix	11.7%	17.1%	19.0%	18.9%	18.2%	17.6%	18.4%	17.8%	17.9%	17.4%	16.9%	17.5%	17.0%	16.3%	15.5%	14.6%	13.8%
Service Hub Model																	
Sales Hub customers	40,249	61,249	66,249	72,720	79,386	86,228	86,228	91,839	97,449	103,059	108,669	108,669	132,255	157,263	183,607	211,210	240,000
% penetration	9.0%	13.0%	14.0%	15.0%	16.0%	17.0%	17.0%	18.5%	20.0%	21.5%	23.0%	23.0%	29.0%	35.0%	41.0%	47.0%	53.0%
# Service Hub customers	3,622	7,962	9,275	10,908	12,702	14,659	14,659	16,990	19,490	22,158	24,994	24,994	38,354	55,042	75,279	99,269	127,200
Net additions	3,622	8,765	9,275	1,633	1,794	1,957	14,659	16,990	2,500	2,668	2,836	24,994	38,354	55,042	75,279	99,269	127,200
Average # customers	2,801	5,660	8,619	10,091	11,805	13,680	11,049	15,825	18,240	20,824	23,576	19,616	31,453	46,464	64,914	87,015	112,965
ASP	2,700	2,700	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Service Hub Subscription revenue	5,672	15,283	6,464	7,569	8,854	10,260	33,146	11,868	13,680	15,618	17,682	58,848	94,359	139,391	194,741	261,045	338,894
q/q growth			32.3%	17.1%	17.0%	15.9%		15.7%	15.3%	14.2%	13.2%						
y/y growth	169.4%	138.0%	107.0%	119.9%	110.1%	116.9%	116.9%	83.6%	80.7%	76.4%	72.3%	77.5%	60.3%	47.7%	39.7%	34.0%	29.8%
Subscription mix	1.2%	2.4%	3.4%	3.9%	4.0%	4.2%	3.9%	4.7%	5.1%	5.4%	5.6%	5.2%	6.6%	7.7%	8.7%	9.5%	10.2%
CMS Hub Model																	
Marketing Hub Customers			48,702	53,998	58,766	58,766	63,591	68,416	73,241	78,066	78,066	99,366	122,666	147,966	175,266	204,566	
% penetration			11.5%	13.5%	15.5%	15.5%	17.5%	19.5%	21.5%	23.5%	23.5%	31.5%	39.5%	47.5%	55.5%	63.5%	
# CMS customers			5,601	7,290	9,109	9,109	11,128	13,341	15,747	18,345	18,345	31,300	48,453	70,284	97,272	129,899	
Net additions			5,601	1,689	1,819	9,109	11,128	2,213	2,406	2,599	18,345	31,300	48,453	70,284	97,272	129,899	
Average # customers			5,601	6,445	8,199	6,748	10,119	12,235	14,544	17,046	13,486	24,557	39,585	59,052	83,437	113,220	
ASP			4,000	4,000	4,000	4,000	4,000	4,080	4,080	4,080	4,080	4,060	4,141	4,224	4,309	4,395	4,483
q/q growth				0.0%	0.0%		0.0%	2.0%	2.0%	2.0%							
CMS Subscription revenue			5,601	6,445	8,199	20,245	10,119	12,479	14,835	17,387		54,820	101,791	167,341	254,597	366,894	507,781
q/q growth				15.1%	27.2%		23.4%	23.3%	18.9%	17.2%							
y/y growth								122.8%	130.2%	112.1%		170.8%	85.7%	64.4%	52.1%	44.1%	38.4%
Subscription mix				2.9%	2.9%	3.4%	2.4%	4.0%	4.6%	5.1%	5.5%	4.8%	7.1%	9.3%	11.4%	13.4%	15.3%

Source: BoFA Global Research estimates

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Exhibit 5: Base Case Valuation Summary

Projected 24% revenue CAGR through FY26

FCF Model - Base Case

	2018	2019	2020	2021E	2022E	2023E	2024E	2025E	2026E	2030E
Revenue	\$513	\$675	\$883	\$1,166	\$1,474	\$1,844	\$2,281	\$2,788	\$3,381	\$7,015
Y/Y	36.6%	31.6%	30.8%	32.0%	26.4%	25.1%	23.7%	22.2%	21.3%	19.3%
5 year CAGR				33.9%	31.4%	29.2%	27.6%	25.8%	23.7%	20.3%
Gross Profit	\$418	\$553	\$725	\$968	\$1,229	\$1,542	\$1,909	\$2,337	\$2,837	\$5,915
Gross Margin	81.6%	81.9%	82.1%	83.1%	83.4%	83.6%	83.7%	83.8%	83.9%	84.3%
S&M Expense	\$236	\$304	\$401	\$535	\$661	\$800	\$955	\$1,126	\$1,314	\$2,512
SMIR ratio (S&M to incremental revenue)	1.7x	1.9x	1.9x	1.9x	2.1x	2.2x	2.2x	2.2x	2.2x	2.2x
as % Revenue	46.1%	45.1%	45.5%	45.9%	44.9%	43.4%	41.9%	40.4%	38.9%	35.8%
R&D Expense	\$92	\$123	\$165	\$225	\$284	\$351	\$428	\$516	\$617	\$1,211
as % of Revenue	17.9%	18.2%	18.7%	19.3%	19.3%	19.0%	18.8%	18.5%	18.3%	17.3%
G&A Expense	\$58	\$71	\$84	\$110	\$136	\$165	\$198	\$236	\$277	\$561
as % of Revenue	11.4%	10.5%	9.5%	9.4%	9.2%	8.9%	8.7%	8.4%	8.2%	8.0%
Non GAAP Operating Income	\$32	\$55	\$75	\$99	\$148	\$227	\$328	\$459	\$628	\$1,630
Non GAAP Operating Margin	6.3%	8.1%	8.5%	8.5%	10.0%	12.3%	14.4%	16.5%	18.6%	23.2%
Interest and other	\$7	\$18	\$6	\$1	\$1	\$1	\$2	\$2	\$3	\$0
Pretax Income	\$39	\$73	\$81	\$99	\$149	\$228	\$330	\$462	\$631	\$1,630
Tax	\$2	\$3	\$13	\$21	\$31	\$48	\$69	\$97	\$132	\$342
Tax Rate	4.8%	4.3%	16.7%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Net Income	\$37	\$70	\$67	\$79	\$118	\$180	\$261	\$365	\$498	\$1,288
Net Income Margin	7.2%	10.3%	7.6%	6.7%	8.0%	9.8%	11.4%	13.1%	14.7%	18.4%
EPS	\$0.87	\$1.49	\$1.38	\$1.55	\$2.24	\$3.30	\$4.59	\$6.18	\$8.11	\$19.37
Shares outstanding	42.2	47.0	48.7	50.7	52.4	54.5	56.7	59.0	61.4	66.5
	2018	2019	2020	2021E	2022E	2023E	2024E	2025E	2026E	2030E
Net Income	\$37	\$70	\$67	\$79	\$118	\$180	\$261	\$365	\$498	\$1,288
Net Working Capital	\$33	\$39	\$36	\$56	\$69	\$122	\$114	\$139	\$169	\$351
as a % of Revenue	6.4%	5.9%	4.1%	4.8%	4.7%	6.6%	5.0%	5.0%	5.0%	5.0%
Depreciation and other	\$15	\$10	(\$14)	\$61	\$74	\$89	\$114	\$139	\$169	\$351
as % of Revenue	3.0%	1.4%	-1.6%	5.2%	5.0%	4.8%	5.0%	5.0%	5.0%	5.0%
Operating Cash Flow	\$85	\$119	\$89	\$195	\$261	\$391	\$489	\$644	\$836	\$1,990
Operating Cash Flow Margin	16.5%	17.6%	10.1%	16.7%	17.7%	21.2%	21.4%	23.1%	24.7%	28.4%
Capex & Capitalization of Software	(\$33)	(\$54)	(\$59)	(\$86)	(\$109)	(\$136)	(\$157)	(\$177)	(\$198)	(\$351)
as a % of Revenue	-6.5%	-8.0%	-6.7%	-7.4%	-7.4%	-7.4%	-6.9%	-6.4%	-5.9%	-5.0%
FCF	\$51	\$65	\$30	\$109	\$152	\$255	\$332	\$466	\$638	\$1,639
Y/Y	130.7%	26.8%	-53.9%	262.7%	39.5%	67.6%	30.4%	40.3%	36.9%	23.9%
FCF Margin	10.0%	9.7%	3.4%	9.3%	10.3%	13.8%	14.6%	16.7%	18.9%	23.4%
5 year CAGR							38.5%	73.1%	42.4%	28.6%

Source: BofA Global Research, company filings

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Upside Case

In our upside case model, we assume 1) marketing and sales customer count reaches 240,000 and 275,000, respectively, by FY26, representing 3.9% and 4.6% share of the 6 million small business in the US alone, 2) penetration of Service to be 53% of Sales customers, and CMS to be 64% of Marketing customers and 3) SMIR to decline to 1.5x (toward the high end of high growth large enterprise vendors, averaging 1.2x – 1.5x from 1.9x in FY20. Given these assumptions, we arrive at FY26 revenue and FCF of \$4.53 billion (25% CAGR) and FCF of \$1.22 billion (26.8% FCF margin). If we apply a forward revenue multiple for large cap software group of 17x to our FY26 revenue base, we arrive at an implied per share value, which would equate to representing a 5 yr CAGR of 29%.

Exhibit 6: Upside Case Subscription Revenue Model

Upside Case Subscription Revenue Model for Marketing Hub

	YEAR FY19A	YEAR FY20A	Mar 1Q21E	Jun 2Q21E	Sep 3Q21E	Dec 4Q21E	YEAR FY21E	Mar 1Q22E	Jun 2Q22E	Sep 3Q22E	Dec 4Q22E	YEAR FY22E	YEAR FY23E	YEAR FY24E	YEAR FY25E	YEAR FY26E
Total combined customer metrics																
# customers	73,483	103,994	111,063	118,132	125,200	132,269	132,269	139,776	147,282	154,789	162,295	162,295	198,061	246,430	291,086	347,624
Net additions	16,855	30,511	7,069	7,069	7,069	7,069	7,069	7,507	7,506	7,506	7,506	7,506	8,941	12,092	11,164	14,134
y/y growth	29.8%	41.5%	41.0%	36.3%	30.9%	27.2%	27.2%	25.9%	24.7%	23.6%	22.7%	22.7%	22.0%	24.4%	18.1%	19.4%
q/q growth	0.0%	0.0%	6.8%	6.4%	6.0%	5.6%	0.0%	5.7%	5.4%	5.1%	4.8%	0.0%	0.0%	0.0%	0.0%	0.0%
Average # customers	64,877	87,455	107,529	114,598	121,666	128,735	118,132	136,022	143,529	151,035	158,542	147,282	180,178	222,246	268,759	319,355
y/y growth	33.4%	34.8%	41.2%	38.5%	33.5%	29.0%	35.1%	26.5%	25.2%	24.1%	23.2%	24.7%	22.3%	23.3%	20.9%	18.8%
ASP	9,961	9,754	10,013	9,919	10,365	10,648	10,648	10,905	10,787	11,245	11,532	11,532	12,253	12,999	13,686	14,389
q/q growth			2.6%	-0.9%	4.5%	2.7%		2.4%	-1.1%	4.2%	2.5%		8.3%	6.3%	6.1%	5.1%
y/y growth	-0.6%	-2.1%	-0.1%	4.8%	7.2%	9.1%	9.2%	8.9%	8.8%	8.5%	8.3%					
y/y growth - constant currency	1.2%	0.0%														
Subscription revenue	646,266	853,025	269,167	284,169	315,266	342,681	1,211,284	370,839	387,068	424,615	457,079	1,639,601	2,134,995	2,796,279	3,569,553	4,462,290
y/y growth	32.6%	32.0%	40.8%	44.7%	42.6%	40.3%	42.0%	37.8%	36.2%	34.7%	33.4%	35.4%	30.2%	31.0%	27.7%	25.0%
y/y growth - constant currency	34.0%	0.0%														
Subscription revenue as % of total revenue	95.8%	96.6%	96.8%	97.1%	97.3%	97.4%	97.2%	97.2%	97.5%	97.6%	97.7%	97.5%	97.8%	98.1%	98.3%	98.4%
Professional services revenue	28,594	30,001	9,009	8,356	8,708	9,188	35,286	10,584	9,858	10,239	10,699	41,399	47,263	54,913	62,962	71,276
Total revenue	674,860	883,026	278,176	292,525	323,974	351,869	1,246,570	381,423	396,926	434,854	467,778	1,681,000	2,182,258	2,851,192	3,632,514	4,533,566
y/y growth		30.8%					41.2%					34.9%	29.8%	30.7%	27.4%	24.8%
5-year CAGR														33.4%	32.7%	29.5%
Customers/ASP by Product																
Marketing Hub model																
Customers	42,234	58,766	63,591	68,416	73,241	78,066	78,066	83,391	88,716	94,041	99,366	99,366	125,366	161,366	195,366	239,366
Net additions	6,355	16,532	4,825	4,825	4,825	4,825	19,300	5,325	5,325	5,325	5,325	21,300	26,000	36,000	34,000	44,000
y/y growth	17.7%	39.1%	42.8%	40.5%	35.6%	32.8%	32.8%	31.1%	29.7%	28.4%	27.3%	27.3%	26.2%	28.7%	21.1%	22.5%
Average marketing customers	39,441	49,432	61,178	66,003	70,828	75,653	68,416	80,728	86,053	91,378	96,703	88,716	112,366	143,366	178,366	217,366
y/y growth	19.1%	25.3%	41.0%	41.6%	37.9%	34.2%	38.4%	32.0%	30.4%	29.0%	27.8%	29.7%	26.7%	27.6%	24.4%	21.9%
ASP	13,203	13,005	12,995	12,531	13,022	13,238	12,957	13,255	12,782	13,282	13,503	13,215	13,214	13,215	13,213	13,213
q/q growth			0.1%	-3.6%	0.2%	5.6%		0.1%	-1.4%	0.2%	5.6%					
y/y growth	2.9%	-1.5%	-5.0%	0.0%	1.0%	2.0%	-0.4%	2.0%	2.0%	2.0%	2.0%	2.0%	0.0%	0.0%	0.0%	0.0%
5-year CAGR														0.0%	0.3%	0.4%
Subscription revenue	520,716	642,837	198,755	206,778	230,577	250,374	886,483	267,514	274,983	303,425	326,439	1,172,362	1,484,855	1,894,614	2,356,729	2,872,132
y/y growth	22.6%	23.5%	34.0%	41.6%	39.3%	36.9%	37.9%	34.6%	33.0%	31.6%	30.4%	32.2%	26.7%	27.6%	24.4%	21.9%
Subscription mix	80.6%	75.4%	73.8%	72.8%	73.1%	73.1%	40.4%	72.1%	71.0%	71.5%	71.4%	34.7%	29.2%	30.1%	26.9%	24.4%

Source: BoFA Global Research estimates, company filings

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Exhibit 7: Upside Case Subscription Revenue Model

Upside Case Subscription Revenue Model for Sales, Service and CMS Hubs

	YEAR FY19A	YEAR FY20A	Mar 1Q21E	Jun 2Q21E	Sep 3Q21E	Dec 4Q21E	YEAR FY21E	Mar 1Q22E	Jun 2Q22E	Sep 3Q22E	Dec 4Q22E	YEAR FY22E	YEAR FY23E	YEAR FY24E	YEAR FY25E	YEAR FY26E
Sales Hub Model																
Growth stack customer count (sales and marketing)	30,000	41,000	44,366	47,733	51,099	54,465	54,465	58,181	61,896	65,611	69,326	69,326	87,466	112,583	136,304	167,002
% of total customers	71.0%	69.8%	69.8%	69.8%	69.8%	69.8%	69.8%	69.8%	69.8%	69.8%	69.8%	69.8%	69.8%	69.8%	69.8%	69.8%
Net additions	10,500	11,000	3,366	3,365	3,365	3,365	13,462	3,715	3,714	3,714	3,714	14,858	18,137	25,114	23,718	30,695
Sales Hub only customer count	31,249	45,228	47,473	49,716	51,960	54,203	54,203	56,385	58,567	60,748	62,929	62,929	72,695	85,065	95,721	108,258
Net additions	10,500	13,979	2,244	2,244	2,244	2,244	8,975	2,182	2,181	2,181	2,181	8,726	9,766	12,369	10,656	12,537
% of total additions	50%	56%	40%	40%	40%	40%	40%	37%	37%	37%	37%	37%	35%	33%	31%	29%
Sales customer count	61,249	86,228	91,839	97,449	103,059	108,669	108,669	114,566	120,462	126,359	132,255	132,255	160,161	197,647	232,025	275,260
y/y growth	52.2%	40.8%	38.6%	34.0%	29.8%	26.0%	26.0%	24.7%	23.6%	22.6%	21.7%	21.7%	21.1%	23.4%	17.4%	18.6%
Average customers	49,624	73,023	89,034	94,644	100,254	105,864	97,449	111,617	117,514	123,411	129,307	120,462	146,208	178,904	214,836	253,643
Monthly User ASP	57	51	49	49	49	49	49	50	50	50	50	50	51	52	53	54
X Average # users	3.2	3.5	3.7	3.7	3.7	3.7	3.7	3.8	3.8	3.8	3.8	3.8	3.9	4.0	4.1	4.2
ASP - Monthly	185	179	181	181	181	181	181	190	190	190	190	190	199	208	217	227
ASP - Annual	2,222	2,147	2,176	2,176	2,176	2,176	2,176	2,280	2,280	2,280	2,280	2,280	2,387	2,496	2,608	2,722
	16.2%	-3.4%	-4.8%	1.6%	2.8%	4.9%	1.3%	4.8%	4.8%	4.8%	4.8%	4.8%	4.7%	4.6%	4.5%	4.4%
Sales Hub subscription revenue	110,267	156,797	48,425	51,477	54,528	57,579	212,009	63,622	66,983	70,344	73,705	274,654	348,970	446,545	560,207	690,314
q/q growth			12.8%	6.3%	5.9%	5.6%		10.5%	5.3%	5.0%	4.8%					
y/y growth	93.7%	42.2%	33.0%	38.3%	35.5%	34.1%	35.2%	31.4%	30.1%	29.0%	28.0%	29.5%	27.1%	28.0%	25.5%	23.2%
Subscription mix	17.1%	18.4%	18.0%	18.1%	17.3%	16.8%	17.5%	17.2%	17.3%	16.6%	16.1%	16.8%	16.3%	16.0%	15.7%	15.5%
Service Hub Model																
Sales Hub customers	61,249	86,228	91,839	97,449	103,059	108,669	108,669	114,566	120,462	126,359	132,255	132,255	160,161	197,647	232,025	275,260
% penetration	13.0%	17.0%	18.5%	20.0%	21.5%	23.0%	23.0%	24.5%	26.0%	27.5%	29.0%	29.0%	35.0%	41.0%	47.0%	53.0%
# Service Hub customers	7,962	14,659	16,990	19,490	22,158	24,994	24,994	28,069	31,320	34,749	38,354	38,354	56,056	81,035	109,052	145,888
Net additions	8,765	14,659	16,990	2,500	2,668	2,836	24,994	28,069	3,252	3,428	3,605	38,354	56,056	81,035	109,052	145,888
Average # customers	5,660	11,049	15,825	18,240	20,824	23,576	19,616	26,531	29,694	33,034	36,551	31,453	46,944	68,195	94,721	127,065
ASP	2,700	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Service Hub Subscription revenue	15,283	33,146	11,868	13,680	15,618	17,682	58,848	19,898	22,271	24,776	27,414	94,359	140,831	204,584	284,164	381,194
q/q growth			15.7%	15.3%	14.2%	13.2%		12.5%	11.9%	11.2%	10.6%					
y/y growth			83.6%	80.7%	76.4%	72.3%	77.5%	67.7%	62.8%	58.6%	55.0%	60.3%	49.3%	45.3%	38.9%	34.1%
Subscription mix	2.4%	3.9%	4.4%	4.8%	5.0%	5.2%	4.9%	5.4%	5.8%	5.8%	6.0%	5.8%	6.6%	7.3%	8.0%	8.5%
CMS Model																
Marketing Hub Customers	58,766	63,591	68,416	73,241	78,066	78,066	78,066	83,391	88,716	94,041	99,366	99,366	125,366	161,366	195,366	239,366
% penetration	10.6%	17.5%	19.5%	21.5%	23.5%	23.5%	23.5%	25.5%	27.5%	29.5%	31.5%	31.5%	39.5%	47.5%	55.5%	63.5%
# CMS customers	9,109	11,128	13,341	15,747	18,345	18,345	18,345	21,265	24,397	27,742	31,300	31,300	49,519	76,649	108,428	151,997
Net additions	9,109	11,128	2,213	2,406	2,599	18,345	18,345	21,265	3,132	3,345	3,558	31,300	49,519	76,649	108,428	151,997
Average # customers	7,333	10,119	12,235	14,544	17,046	13,486	13,486	19,805	22,831	26,069	29,521	24,557	40,085	62,634	92,113	129,663
ASP	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000
q/q growth			0.0%	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%	0.0%					
CMS Subscription revenue	20,245	10,119	12,235	14,544	17,046	53,943	19,805	22,831	26,069	29,521	98,226	160,339	250,536	368,453	518,650	
q/q growth			23.4%	20.9%	18.9%	17.2%		16.2%	15.3%	14.2%	13.2%					
y/y growth			118.4%	125.7%	107.9%	166.4%	95.7%	86.6%	79.2%	73.2%	82.1%	63.2%	56.3%	47.1%	40.8%	
Subscription mix		2.4%	3.8%	4.3%	4.6%	5.0%	4.5%	5.3%	5.9%	6.1%	6.5%	6.0%	7.5%	9.0%	10.3%	11.6%

Source: BofA Global Research estimates

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Exhibit 8: Upside Case Valuation Summary

Projected 33% revenue CAGR

	2018	2019	2020	2021E	2022E	2023E	2024E	2025E	2026E	2030E
Revenue	\$513	\$675	\$883	\$1,247	\$1,681	\$2,182	\$2,851	\$3,633	\$4,534	\$10,999
Y/Y	36.6%	31.6%	30.8%	41.2%	34.9%	29.8%	30.7%	27.4%	24.8%	24.8%
5 year CAGR							33.4%	32.7%	29.5%	
Gross Profit	\$418	\$553	\$725	\$1,035	\$1,401	\$1,825	\$2,387	\$3,045	\$3,805	\$9,275
Gross Margin	81.6%	81.9%	82.1%	83.1%	83.4%	83.6%	83.7%	83.8%	83.9%	84.3%
S&M Expense	\$236	\$304	\$401	\$618	\$717	\$802	\$1,037	\$1,172	\$1,307	\$3,170
SMIR ratio		1.7x	1.9x	1.9x	1.7x	1.7x	1.6x	1.6x	1.5x	1.5x
as % Revenue	46.1%	45.1%	45.5%	49.6%	42.6%	36.8%	36.4%	32.3%	28.8%	28.8%
R&D Expense	\$92	\$123	\$165	\$240	\$324	\$415	\$535	\$672	\$828	\$1,899
as % of Revenue	17.9%	18.2%	18.7%	19.3%	19.3%	19.0%	18.8%	18.5%	18.3%	17.3%
G&A Expense	\$58	\$71	\$84	\$118	\$155	\$195	\$248	\$307	\$372	\$880
as % of Revenue	11.4%	10.5%	9.5%	9.4%	9.2%	8.9%	8.7%	8.4%	8.2%	8.0%
Non GAAP Operating Income	\$32	\$55	\$75	\$59	\$206	\$413	\$567	\$893	\$1,298	\$3,326
Non GAAP Operating Margin	6.3%	8.1%	8.5%	4.8%	12.3%	18.9%	19.9%	24.6%	28.6%	30.2%
Interest and other	\$7	\$18	\$6	\$1	\$1	\$1	\$2	\$2	\$3	\$0
Pretax Income	\$39	\$73	\$81	\$60	\$207	\$414	\$569	\$896	\$1,301	\$3,326
Tax	\$2	\$3	\$13	\$13	\$43	\$87	\$120	\$188	\$273	\$699
Tax Rate	4.8%	4.3%	16.7%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Net Income	\$37	\$70	\$67	\$47	\$164	\$327	\$450	\$708	\$1,028	\$2,628
Net Income Margin	7.2%	10.3%	7.6%	3.8%	9.7%	15.0%	15.8%	19.5%	22.7%	23.9%
EPS	\$1	\$1	\$1	\$1	\$3	\$6	\$8	\$12	\$17	\$40
Shares outstanding	42.2	47.0	48.7	50.7	52.4	54.5	56.7	59.0	61.4	66.5
	2018	2019	2020	2021E	2022E	2023E	2024E	2025E	2026E	2030E
Net Income	\$37	\$70	\$67	\$47	\$164	\$327	\$450	\$708	\$1,028	\$2,628
Net Working Capital	\$33	\$39	\$36	\$59	\$79	\$144	\$143	\$182	\$227	\$550
as a % of Revenue	6.4%	5.9%	4.1%	4.8%	4.7%	6.6%	5.0%	5.0%	5.0%	5.0%
Depreciation and other	\$15	\$10	(\$14)	\$65	\$84	\$105	\$143	\$182	\$227	\$550
as % of Revenue	3.0%	1.4%	-1.6%	5.2%	5.0%	4.8%	5.0%	5.0%	5.0%	5.0%
Operating Cash Flow	\$85	\$119	\$89	\$172	\$327	\$576	\$735	\$1,071	\$1,481	\$3,728
Operating Cash Flow Margin	16.5%	17.6%	10.1%	13.8%	19.4%	26.4%	25.8%	29.5%	32.7%	33.9%
Capex	(\$33)	(\$54)	(\$59)	(\$92)	(\$124)	(\$161)	(\$196)	(\$231)	(\$266)	(\$550)
as a % of Revenue	-6.5%	-8.0%	-6.7%	-7.4%	-7.4%	-7.4%	-6.9%	-6.4%	-5.9%	-5.0%
FCF	\$51	\$65	\$30	\$80	\$203	\$416	\$539	\$840	\$1,216	\$3,178
Y/Y	130.7%	26.8%	-53.9%	166.1%	153.8%	104.8%	29.7%	55.8%	44.7%	26.0%
FCF Margin	10.0%	9.7%	3.4%	6.4%	12.1%	19.0%	18.9%	23.1%	26.8%	28.9%
5 year CAGR										

Source: BofA Global Research estimates, company filings

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Lifetime Value (LTV)

We also calculate a valuation based on our discounted lifetime value of a customer framework over a forward 8-year period (estimated customer lifetime). Our calculation is based on assumptions for customer growth and revenue per customer growth. Our LTV calculation assumes a gross customer renewal rate of 87% (13% churn) and an expansion rate per customer of ~15%. We include customer acquisition cost (CAC) in year 1, calculated as Sales & Marketing expense divided by gross user adds. We also calculate our lifetime value valuation under three scenarios: 1) base case: 18% CAGR for customer count growth; 2) high growth: 20% CAGR for customer count growth; and 3) low growth: 16% CAGR for customer count growth, and assigned equal weightings to each of the three cases. Our LTV analysis arrives at a per share valuation of \$600 under the following calculation below:

Exhibit 9: LTV Analysis

We arrive at our PO of \$600 using a base case customer growth CAGR of 18% and LTV/CAC of 6.8x

LTV (per customer)	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Cumulative
Revenue	9,754	11,168	12,732	14,450	16,329	18,370	20,575	22,941	25,464	151,783
y/y		14.5%	14.0%	13.5%	13.0%	12.5%	12.0%	11.5%	11.0%	
less: CAC (off gross customers)	(11,231)									(11,231)
less: COGS	(1,417)	(1,622)	(1,850)	(2,099)	(2,372)	(2,669)	(2,989)	(3,333)	(3,699)	(22,049)
Profit	(2,894)	9,546	10,882	12,351	13,957	15,702	17,586	19,608	21,765	118,504
Profit (discounted)	(2,894)	8,758	9,159	9,538	9,888	10,205	10,486	10,726	10,923	76,789
LTV/CAC ratio										6.8x

LOW GROWTH	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY21-26 CAGR
Ending customers	103,994	130,189	157,139	185,030	213,692	242,974	272,739	303,423	334,524	16%
y/y		25%	21%	18%	15%	14%	12%	11%	10%	
Customer net adds		28,275	26,950	27,891	28,662	29,282	29,765	30,684	31,102	1%
x cumulative profit (discounted)		76,789	76,789	76,789	76,789	76,789	76,789	76,789	76,789	
Implied company value		9,997,124	12,066,599	14,208,303	16,409,266	18,657,817	20,943,444	23,299,631	25,687,898	
Implied per share value		210.1	251.6	294.5	338.6	383.6	429.4	476.6	524.4	

BASE CASE	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY21-26 CAGR
Ending customers	103,994	132,269	162,295	194,347	228,339	264,195	301,843	341,838	383,714	18%
y/y		27%	23%	20%	17%	16%	14%	13%	12%	
Customer net adds		28,275	30,026	32,052	33,993	35,856	37,648	39,995	41,876	6%
x cumulative profit (discounted)		76,789	76,789	76,789	76,789	76,789	76,789	76,789	76,789	
Implied company value		10,156,837	12,462,510	14,923,735	17,533,998	20,287,349	23,178,345	26,249,530	29,465,160	
Implied per share value		213.3	259.5	308.8	361.1	416.3	474.2	535.7	600.1	

UPSIDE CASE	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY21-26 CAGR
Ending customers	103,994	132,269	164,940	200,813	239,953	282,432	328,328	378,398	432,321	20%
y/y		27%	25%	22%	19%	18%	16%	15%	14%	
Customer net adds		28,275	32,671	35,873	39,140	42,479	45,896	50,071	53,923	10%
x cumulative profit (discounted)		76,789	76,789	76,789	76,789	76,789	76,789	76,789	76,789	
Implied company value		10,156,837	12,665,646	15,420,302	18,425,824	21,687,735	25,212,043	29,056,940	33,197,623	
Implied per share value		213.3	263.6	318.8	379.0	444.3	514.9	591.9	674.9	

	Probability	Implied per share value
Low Growth	33%	\$524
Base Case	33%	\$600
Upside Case	33%	\$675
Probability Weighted	100%	\$600

Source: BofA Global Research estimates, company filings

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Investment Positives – 4M framework

Market - HubSpot addresses a cumulative Total Addressable Market (TAM) of \$86.7bn

Using our bottoms up TAM work, we estimate that HubSpot addresses a cumulative TAM of \$86.7bn. We arrived at this number by summing across the total addressable markets for Marketing, Sales, and Service, with our calculations for these categories detailed below.

Exhibit 10: Marketing TAM

We believe Marketing Software TAM could reach \$43.3bn by 2025 (growing at a CAGR of 7%)

Marketing Assumptions/data points						
Companies sizes taken from the US Census Bureau MSFT pricing: Dynamics marketing - \$125/user/month (from Gartner magic quadrant) HubSpot pricing: \$800/month (Professional edition)						
Marketing						
	Very small businesses (< 20)	Small Businesses (20 - 500)	Mid market (500 - 2,500)	Large Enterprise (>2,500)	Global 2000	Total/Average
# companies (US)	5,305,960	629,025	15,567	3,132	1,000	5,954,684
# companies (rest of world)	10,611,920	1,258,050	31,134	6,264	1,000	11,908,368
Total # companies	15,917,880	1,887,075	46,701	9,396	2,000	17,863,052
ASP 2020	\$600	\$9,600	\$38,400	\$76,800	\$1,200,000	\$1,824
Marketing TAM (\$mn) - 2020	\$9,551	\$18,116	\$1,793	\$722	\$2,400	\$32,582
Gartner/IDC Category Spend - 2020 (\$mn)						\$16,682
Implied penetration						51%

2025 Marketing TAM Calculation						
ASP 2025 (assume +3% y/y)	\$696	\$11,129	\$44,516	\$89,032	\$1,391,129	\$2,093
Total # companies (assume +3% y/y):	18,453,186	2,187,637	54,139	10,893	2,000	20,707,855
Marketing TAM - 2025 (\$mn)	\$12,835	\$24,346	\$2,410	\$970	\$2,782	\$43,344
TAM CAGR						7.4%
Gartner/IDC Category Spend - 2025 (\$mn)						\$34,025
Implied penetration						79%

Source: BofA Global Research estimates, Gartner, IDC, company websites

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Exhibit 11: Sales TAM

We believe the Sales Software TAM could reach \$51.5bn by 2025 (growing at a CAGR of 8%)

Sales TAM - assumptions/data points	
Gartner 2020 Sales revenue estimate: \$14bn with Salesforce \$4.5bn, Microsoft \$0.9bn, Oracle \$0.8bn	
Gartner estimated growth rate y/y: 17%	
Salesforce pricing /user/month: CRM starter (\$25), professional (\$75), Enterprise (\$150), Unlimited (\$300)	
Microsoft Dynamics pricing/user/month: Pro (\$65), Enterprise (\$95)	
Oracle Sales Cloud: Professional (\$65), Std (\$100), Enterprise (\$200) and Premium (\$300)	
Lower cost products like SugarCRM cost depending on the Edition \$40, \$65, \$150	
ORCL on-premise Sales base pricing is about \$1,080 maintenance, \$4,910 license	
We assume \$100 ASP/mo for the market	
U.S. Bureau of Labor Statistics: 14.5mn sales and related occupations	
Customer Service and Support TAM	
Sales workers worldwide (2x US estimate of 14.5mn)	29.0
x ASP	\$1,200
TAM 2020 (\$mn)	\$34,800
Gartner TAM installed base estimates 2020 (mn)	\$14,113
Implied penetration in 2020	41%
Sales workers 2025 estimate (mn), assuming +3% CAGR	33.6
x ASP 2025 (assume +3% y/y, in line with global GDP growth)	\$1,532
TAM 2025 (\$mn)	\$51,489
5 year CAGR	8%
Gartner TAM installed base estimates 2025 (mn)	\$25,143
Implied penetration in 2025	49%

Source: BofA Global Research estimates, Gartner, IDC, company websites

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Exhibit 12: Customer Service and Support TAM

We believe the Customer Service and Support TAM could reach \$28.6bn by 2025 (growing at a CAGR of 8%)

Customer Service and Support (CSS) - assumptions/data points	
Gartner 2019 SaaS market revenue estimate: \$8.1 bn = Salesforce + Oracle + Zendesk + other subscription revs (e.g. Freshworks)	
Gartner estimated growth rate y/y: 15%	
Salesforce pricing: \$75 (pro), \$150 (Enterprise), Unlimited (\$300)	
Oracle Service Cloud is \$90, \$110, \$140 or \$250/user/mo depending on the edition	
Lower cost products like Zendesk cost depending on the Edition \$5, \$19, \$49, \$99, and \$199	
We assume \$100/user/mo for market ASP	
Einstein pricing: Service cloud: \$75/user/month	
16.1mn call center agents worldwide according to Gartner	
Customer Service and Support TAM	
Call center/service agents worldwide estimate (mn)	16.1
x ASP	\$1,200
TAM 2020 (\$mn)	\$19,320
Gartner TAM installed base estimates 2020 (mn)	\$14,563
Implied penetration in 2020	75%
Call center/service agents 2025 estimate (mn), assuming +3% CAGR (in line with global GDP growth)	19
x ASP 2025 (assume +3% y/y, in line with global GDP growth)	\$1,532
TAM 2025 (\$mn)	\$28,585
5 year CAGR	8%
Gartner TAM installed base estimates 2025 (mn)	\$23,332
Implied penetration in 2025	82%

Source: BofA Global Research estimates, Gartner, IDC, company websites

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Alternatively, we could calculate HubSpot's TAM by taking the 2014 estimate they point to of 3mn SMBs with a website in US, Canada, and Europe, and then adding an additional 1mn SMBs to account the rest of the world. With this, we then roll forward the estimate assuming a 5% CAGR through 2021, and then multiply this by HubSpot's most recently reported ASP.

Exhibit 13: Bottoms up TAM - SMBs with a web presence x ASP

Alternative Bottoms up TAM calculation suggests a 2021 TAM of \$54.9bn

SMBs with a website 2014, NA + EU (mn) :	3
Add: Estimate for Rest of World	1
2014 Total	4
Growth Rate Assumption per year	5%
SMBs with a website 2021, entire world (mn):	5.63
HubSpot Current ASP	\$9,754
TAM (\$mn)	54,899

Source: BofA Global Research estimates, Company Filing

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Moat – HubSpot’s organically grown platform with good ease of use

We believe there is ample room for HubSpot to continue gaining share of the estimated >\$41bn market given a number of competitive advantages which we believe are defensible over the long term. These include:

- Depth of technology – organically built unified platform with single code base.** The HubSpot CRM platform offers a single data model and common services from which both the company and third parties can build on. We believe the disciplined approach HubSpot for R&D (and M&A) in maintaining a single, unified platform is a key competitive differentiator vs. other software application vendors. CEO Halligan refers to HubSpot’s platform as a “set of internal primary colors” which can then be combined to creative Hubs for a more integrated and cohesive platform with a common interface between all Hubs, adding to the ease of use, which would ultimately lead to customer satisfaction. Our channel discussions strongly validate HubSpot’s cohesive platform, single data model and ease of use, which is an enduring advantage that few companies can build directly into their system without trading off functionality.
- Breadth of offering:** HubSpot’s consistent innovation is important for customer satisfaction and retention of core marketing customers as well as growing with add-on offerings. The breadth of HubSpot’s CRM platform offering sets it apart from competition, based on both our partner conversations and third-party rankings. HubSpot’s feature-rich platform today, reliable roadmap of new offerings, and future-proof cloud approach are key differentiators. HubSpot’s CRM Platform spans four key pillars of software technology that are useful in building a strong digital presence, which include Marketing, Sales, Service, and CMS. HubSpot offers a solution (“Hub”) for each of these use cases that can also be used on a standalone basis or with another third-party CRM.
- Large and growing installed base within the SMB.** HubSpot currently has 103,944 customers, mostly comprised of SMBs (HubSpot defines as companies between 2 and 2,000 employees), with this customer base distributed over 120 countries and across all major verticals. This large installed base contributes to the viral nature of HubSpot adoption, amongst SMBs, with validation as the SMB front office market leader.



- **Established and focused sales channel.** HubSpot goes to market through a combination of self-serve/freemium, inbound marketing, direct sales, and a broad channel of digital advertising agencies. HubSpot's combination of the three have been effective approaches in addressing its high volume velocity/SMB market segments. HubSpot's inbound marketing creates strong top of funnel and demand generation activity via its digital marketing efforts. Its new Starter tier helps create a self-serve/flywheel adoption model positioned around a land and expand approach. As for its direct sales force, we estimate HubSpot currently has an estimated 1,500+ sales reps, slightly under 1/3 of total headcount. In addition to its direct sales force, HubSpot has an extensive relationship with a network of 5,700+ channel partners. Currently, the reseller channel contributes roughly 40% of revenue to HubSpot and has referred ~35% of total customers to HubSpot; partners earn a commission for referring customers to HubSpot.

Other Positives

- **Estimated >\$1.36bn multi-Hub upsell opportunity within installed base.** HubSpot has been adding additional Hubs and is positioned to benefit as more of its customers adopt HubSpot as a platform and not just for a 1-2 Hubs. We currently estimate that ~45% of total customers are single-Hub customers, implying HubSpot can upsell 3 additional Hubs into the 45,000 customers who currently only use one Hub. If we assume an ASP of \$1,500/mo at the mid-level professional tier for an additional 3 hubs, and multiply this by ~47,000, we estimate HubSpot has an \$842mn upsell opportunity the *single hub* installed base. In addition to this, we estimate that within the other ~55% of total customers who are multi-Hub customers, that they on average use 2.5 Hubs, meaning an incremental upsell opportunity of 1.5 Hubs in each of the ~57,000 multi-Hub customers. We assume an ASP of \$750/mo for the 1.5 additional Hubs, yielding an additional upsell opportunity for multi-Hub customers of \$515mn.

In its most recent earnings call (4Q20), Mr. Halligan likened the use of multiple Hubs by customers to the "Clydesdale rule," where he states that one Clydesdale (Hub) can pull 1,000 pounds, but if you add a second Clydesdale (Hub) that can pull 1,000 pounds, the combined Clydesdale can pull 4,000 pounds, noting "that's HubSpot." Commentary such as this as well as our partner conversations give us confidence that HubSpot is well positioned to enjoy a multi-year upsell opportunity.

Exhibit 14: Installed Base Upsell Opportunity Calculation

Long runway of multi-Hub upsells within installed base

Total Number of Customers:	103,994
% of <u>Single Hub</u> Customers:	45%
# of Single Hub Customers:	46,797
ASP of 3 additional Hubs (\$1500/mo x 12):	\$18,000
Total Upsell Opportunity for Single Hub Customers (\$mn):	\$842
% of <u>Multi-Hub</u> Customers:	55%
# of Multi-Hub Customers:	57,197
ASP of 1.5 additional Hubs (\$750/mo x 12):	\$9,000
Total Upsell Opportunity for Multi Hub Customers (\$mn):	\$515
Total Upsell Opportunity within Installed Base (\$mn):	\$1,357

Source: BofA Global Research Estimates

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- **International Expansion.** HubSpot currently operates internationally, with geographies outside of the US representing 44% of revenue in 4Q20; ~50% of customers are located outside of the US. We believe there is still strong incremental opportunity internationally which are underpenetrated compared to the US, as evident in the higher growth rate for international revenue. We believe HubSpot is well set up for these regions and is currently seeing strong traction in Germany, Colombia, and Brazil.

Management – Founder/CEO story

At the helm HubSpot is the co-founder and CEO **Brian Halligan**. Mr. Halligan founded HubSpot in 2006. Prior to HubSpot, Mr. Halligan was a Venture Partner at Longworth Ventures and VP of Sales at Groove Networks, which was subsequently acquired by Microsoft. Before this, Mr. Halligan was a Senior VP of Sales at PTC. Mr. Halligan has an MBA from the Massachusetts Institute of Technology and a BSEE from the University of Vermont.

Dharmesh Shah is co-founder and CTO of HubSpot. Prior to founding HubSpot, Mr. Shah was founder and CEO of Pyramid Digital Solutions, which was acquired by SunGard Data Systems in 2005. Mr. Shah is an active member of the Boston-area entrepreneurial community, an angel investor in over 60 startups, and a frequent speaker on startups, inbound marketing, and company culture. Mr. Shah holds a B.S. in Computer Science from UAB and an MS in the Management of Technology from the Massachusetts Institute of Technology.

Kate Bueker has been the chief financial officer of HubSpot since June 2018. Prior to HubSpot, Ms. Bueker spent eleven years in finance and business development leadership roles at Akamai Technologies and most recently served as a senior vice president of business finance and operations. Before this, Ms. Bueker had spent almost 10 years in investment banking at The Blackstone Group, UBS, Credit Suisse, and Donaldson, Lufkin & Jenrette. Ms. Bueker has an MBA from the Massachusetts Institute of Technology and a Bachelor's degree in Mathematics from Cornell University.



Margin – Solid customer economics to drive solid margin expansion/FCF

As a gauge for unit economics, we calculate HubSpot's LTV/CAC ratio (lifetime value to customer acquisition cost). We estimate customers have a lifetime of 8 years, given a customer retention rate of 87%. We arrive at a discounted lifetime value of a customer of \$69,008. We calculate the FY20 CAC (customer acquisition cost) to be \$11,231, translating into an LTV/CAC ratio of 6.1x for the customer base. We note that this metric has been improving (was closer to 2.5x in 2015), largely driven by growing cross sell of more Hubs and growing contact volumes. We believe that the healthy and growing LTV/CAC economics HubSpot enjoys are a leading indicator for healthy margin expansion over time.

Alternatively, we look at the company's sales/marketing expense to incremental revenue (SMIR) ratio, which was 1.9x in FY20 (and we estimate 1.9x in FY21). This has historically been in the 1.7x-1.9x range, where it was 1.7x in FY18 and 1.9x in FY19. We estimate this metric to naturally continue to increase as the company sustains investments in sales and marketing headcount as it grows. Overall, we believe that HubSpot's solid customer economics, marked by a healthy LTV/CAC ratio of 6.1x, are a leading indicator for long term margin expansion driven by leverage primarily in the S&M line item, which accounted for 45% of revenue in FY20, but is targeted to be 30-35% in the long term. The company's long term financial targets (reflective of their view as of 2/11/2021) suggest a long-term PF operating margin of 20-25%. In addition to the long term financial targets, HubSpot has shared its framework on how it expects to trade off revenue growth and margin expansion (see Exhibit 13).

Exhibit 15: HubSpot Long Term Financial Targets

Most leverage will come from the S&M line item

Long Term Financial Target

	2016	2017	2018	2019	2020	Long Term Target
Gross Margin	78%	81%	82%	82%	82%	81% - 83%
R&D % of revenue	14%	15%	18%	18%	19%	18% - 20%
S&M % of revenue	55%	52%	46%	45%	45%	30% - 35%
G&A % of revenue	14%	12%	11%	11%	10%	8% - 9%
Operating Margin	-4%	2%	6%	8%	8%	20% - 25%

Note: These estimates reflect our current operating plan as of 2/11/2021 and are subject to change as future events and opportunities arise.
All percentages are non-GAAP and exclude expenses associated with stock based compensation, amortization of acquired intangible assets and acquisition related expenses.
Please refer to the end of this presentation for a reconciliation of GAAP to non-GAAP figures.



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Source: Company Filings

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Exhibit 16: HubSpot's framework on growth vs. profitability

HubSpot is currently in the "High Growth" category for FY21E

Financial framework focused on profitable growth

	High Growth	Growth	Moderate Growth
Revenue Growth	>30%	≈30%	<30%
Operating Margin %*	1% - 2% increase per year	2% - 3% increase per year	3% - 4% increase per year
Operating Cash Flow	≈Revenue Growth		

*Theoretical operating margin % is non-GAAP and excludes expenses associated with stock based compensation, amortization of acquired intangible assets and acquisition related expenses.

Source: Company Filings

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Investment Risks

HubSpot faces the following risks:

Competition from point solutions, platform vendors, and incumbent offerings.

HubSpot faces a number of competitors for each of its Hubs, from legacy vendors to newer SaaS offerings. For its flagship Marketing Hub, HubSpot faces competition from Adobe (Marketo), Salesforce (Pardot), Oracle (Eloqua) and newer SaaS vendors such as MailChimp, HootSuite, Braze and Iterable. For its Sales and Service Hubs, HubSpot faces competition from application platform vendors such as Salesforce, Oracle, SAP, Pegasystems, and Microsoft Dynamics, in addition to SaaS offerings from Sugar CRM and Zendesk. Lastly, for its CMS Hub, HubSpot faces competition from SaaS applications such as Webflow, Pantheon, WordPress, Sitecore, Wix, Drupal, Squarespace, and more.

Despite what appears like a long tail of competitors, feedback from partners and customers alike suggest that HubSpot remains top of mind for SMBs as the key CRM platform given the ease of use, effectiveness of the solution, and quick ROI/time-to-value the solution offers; we see little competition in the SMB segment from large enterprise vendors such as Adobe (Marketo), Salesforce (Pardot), and Oracle (Eloqua). We also note a number of SMB marketing point solutions but view HubSpot's advantages over these vendors as formidable given the breadth and fully integrated suite spanning sales, marketing, service, and content management, ease of use, and channel leverage via 5,700+ digital ad agency partner network.

Overall, we view HubSpot's offering to be well differentiated and capable of continuing to drive share gains. However, it is important that the company continues to deliver an ongoing roadmap of new features and customer acquisition in order to sustain market position. The absence of ongoing feature enhancements and new module development could present the risk of slowing share gains or even share losses, which could curb growth.

Application spending is highly cyclical. Enterprise application spending has proven to be highly cyclical, given the more discretionary nature of applications projects. During an economic slowdown, when firms are faced with shrinking IT budgets, projects involving application upgrades, migrations or new installations are often deferred. This could present a higher degree of risk for a bookings deceleration for HubSpot and other application vendors, in the event of an economic slowdown.



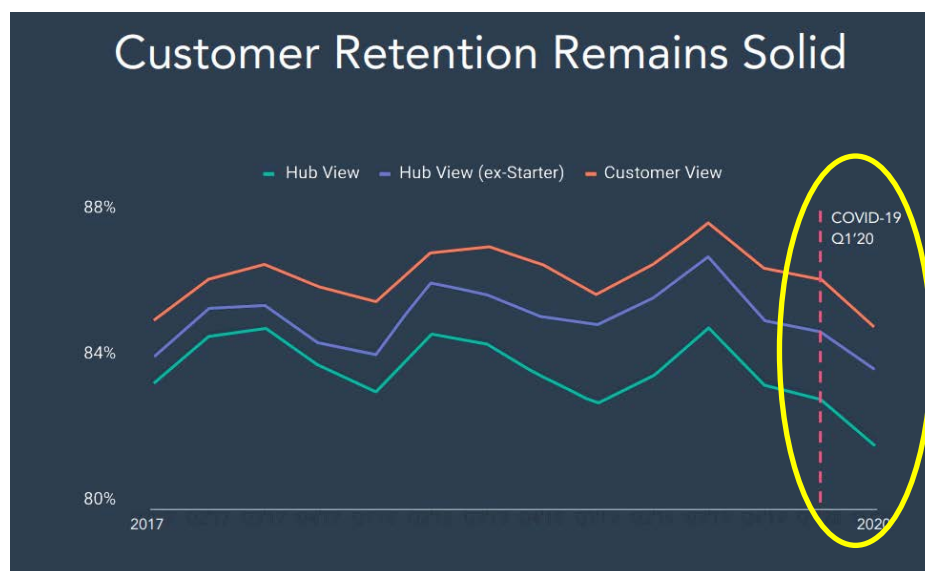
Acquisitions could weigh on margin expansion. Relative to other software companies, HubSpot has not been very acquisitive due to its focus on organically growing an integrated and cohesive platform. As an example though, HubSpot purchased PieSync in C20 which had a dilutive impact on margins. That said, we have seen HubSpot demonstrate PF Operating Margin over the years, where PF Operating Margin has gone from 2.3% in C17 to 8.5% in C20. Currently, we are forecasting PF Operating Margins to be 8.6% in C21 and 10.9% in FY22. We expect continued operating margin over the long term as HubSpot continues to grow revenue at a faster clip than expenses. Primary sources of leverage in HubSpot's operating model include: 1) operating leverage in S&M/R&D/G&A and 2) professional services as a % of revenue continues to decrease.

SMB focus means higher churn. HubSpot's customer renewal rate is estimated to be in the mid-eighties, which is low relative to the broader cloud applications vendors targeting mid and large organization, averaging 90%+. This difference is due to the company's focus on the SMB market segment, which has a higher rate of mortality and acquisition by larger companies. This higher attrition rate could weigh on future growth in the absences of execution cross selling the broader solutions stack. This could also limit HubSpot's ability to achieve attractive long term operating margin, stemming from sales/marketing leverage, given the need to replace 15% of revenue with upsell of new customer sales, in order to sustain recurring revenue.

Higher cyclical exposure given SMB focus. HubSpot's business has a high degree of exposure to the macroeconomic cycle given the company's focus on selling applications into the SMB market segment. Application projects are discretionary and nature and can be delayed in the event of a shrinking IT Budget. We saw the impact of this during the height of the COVID pandemic in in late March 2020 where HubSpot saw customer budgets were put on hold. HubSpot took proactive measures to help alleviate this impact, including offering flexible payment terms and customer friendly downgrade alternatives, and prepaying partner commissions. Government stimulus was effective in limiting SMB mortality during the pandemic, though this intervention is unlikely to occur in most recessions.

Exhibit 17: Customer Retention dipped as a result of COVID in 1Q20

Initial COVID impact on customer retention



Source: 2020 Financial Analyst Day (company filings)

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Partner Feedback

We spoke to a dozen Hubspot ad agency and implementation partners as part of our reinstatement process. Partners have seen strong adoption over the past year due to heightened interest in digital transformation efforts as a result of COVID. Partners are expecting this momentum to hold well into 2021 and are seeing healthy demand levels which are contributing to strong pipelines. Professional editions of Marketing Hub and Sales Hub are the most popular SKUs, however, partners are seeing more adoption of the Enterprise SKU as the platform attracts larger organizations given more enterprise features (i.e. custom objects). Partners are noticing that more customers are now starting with only Sales Hub, instead of leading with Marketing. Service Hub and CMS are also gaining traction, though more for mid-market organizations.

We highlight some of the commentary below:

“Our Hubspot practice has been performing above expectations. The pace of projects for this year is significantly better than last year driven by accelerated adoption and larger deals at larger companies. We are seeing more Enterprise SKUs for Marketing and Sales Hub, given the product is now sophisticated enough to attract larger companies with more complicated requirements. As a result, we have had more technical projects around data migration and integration work. Service Hub started to gain some traction at the beginning of last year, however the pandemic affected the progress. We are starting to see some more Service Hub this year and expect it to perform well in the year. Overall, our pipelines are looking great, especially for migration and data work. We think we could see accelerated growth this year.” – **Digital ad agency partner, North America**

“Our Hubspot practice is performing ahead of expectations and we are seeing an acceleration this quarter compared to Q4. We are already performing above prepandemic levels, mostly driven by new business. We are seeing major tailwinds for digital transformation. Most of the momentum is coming from Sales Hub and we are increasingly seeing companies that are solely Sales Hub (around one third of all new deals). These are mostly replacement deals of industry specific or old custom CRM products. We are seeing larger deals than ever, including 600-1,000 seat deals in the upper midmarket. A year ago this would not have been the case. We are not seeing much traction in Service Hub, give the price and features that are still under development. We are seeing some traction in the CMS product, though more on the Pro level than Enterprise, given that there are still some features required for this to be more enterprise class. In general our pipelines are looking healthy. We are expecting similar growth for the year.” – **Digital ad agency partner, North America**

“Our Hubspot practice has been performing well in the past year. Our practice is mostly focused on eCommerce vendors and as a result, we are seeing the core integrations with Shopify drive a lot of growth for Hubspot as eCommerce vendors move away from legacy marketing automation tools onto Hubspot. Most of the adoption is coming from Marketing Pro, with some Sales Pro. We are also seeing a healthy amount of interest in the CMS offering, especially for the midmarket customers. The addition of the CMS offering also creates another entry point that may draw some customers in to the Hubspot platform over competitors. However, we think there needs to be some work done for CMS in order to make it scalable at the enterprise level. In general our pipelines are healthy.” – **Digital ad agency partner, North America**

“Our Hubspot practice has been growing at a healthy level over the past few years. Our customers are mostly implementing Marketing and Sales Hubs at the Pro level, though some have also adopted Service Hub. Most of these deals were replacement deals for legacy marketing/CRM tools. Our clients usually also consider Marketo or Eloqua but find that they are too expensive, too heavy to implement, and do not have as intuitive of an user experience. During COVID we saw volumes increase significantly and as a result we had a number of customers upgrade their Hubspot licenses to Enterprise. We think that



Hubspot is the best platform for midmarket firms given their ease of use and complete platform offering. However, we think that there could be some improvements to their reporting tool – often times it is difficult to export and share data.” – **Digital ad agency partner, North America**

“Our Hubspot business is performing ahead of our expectations and we have seen heightened activity levels all throughout COVID. We have not seen any slowdown in activity, in fact, some industries that were holding off on any DX efforts are now generating a lot of demand for tools. We are expecting this activity level to hold for at least the next 6 to 9 months. We are mostly leading with Marketing Pro, followed by Sales Pro and some add ons (Reporting, Dashboards, etc.). We are starting to see more of Sales Pro being implemented as a standalone product. We don’t see much demand for Service Hub, though there is some healthy demand for CMS. CMS works really well with the Hubspot environment and is a natural extension of the platform, however there could still be some work for scaling the product up to the enterprise level. In general we are starting to see more enterprise customers and more rollouts of enterprise features, however our core customer base is still within the SMB.” – **Digital ad agency partner, North America**

“Our Hubspot business has been growing rapidly over the past year. Most of this growth has been led by Sales Hub. In fact, there is now more of an immediate emphasis on Sales Hub, over Marketing Hub. We are mostly working with the Pro edition for Sales Hub. We think there are still some features that need to be added in order to make the Sales Hub completely enterprise ready, including a quoting offering. However, the Sales Hub works great for medium sized businesses. We do not see much of Service Hub. We are seeing some interest in the CMS offering, especially for organizations who may not have a website solution. CMS natively integrates with Hubspot so all the information lives within one platform.” – **Digital ad agency partner, North America**

“Our Hubspot business has been growing at a heightened rate in the past year. We saw a lot of replacement of homegrown systems, spreadsheets, and some migrations from Pardot and Marketo. We are beginning to see a shift to customers starting out with only Sales Pro, instead of starting with Marketing. We are also seeing more Marketing Enterprise editions than Pro. In general, around 50-75% of our deals involve both Marketing and Sales Hub, 20% are just Marketing Hub, and the remaining are Sales only. We don’t see Service Hub come up as much – most of the customers who adopt Service Hub are just using it for ticketing and don’t see it as having a lot of complexity. In the past year, Hubspot introduced new custom object tools which are driving a lot of momentum, particularly in the enterprise. Hubspot has also added more enterprise functionality. As a result, we are expecting strong growth in the enterprise to continue throughout this year.” – **Digital ad agency partner, North America**

“Our Hubspot business has seen healthy growth. We are a consulting firm focused on marketing, as a result, we work mostly with the Pro edition of Marketing Hub. We are seeing demand for Sales Hub but we will have to expand our team in order to capture that demand. We view Hubspot as the most user friendly and easiest platform to work with for the midmarket, especially for the price. We are noticing that Hubspot has definitely been moving more upmarket over the past year.” – **Digital ad agency partner, North America**

“Our Hubspot business has seen accelerated growth during COVID. We are seeing mostly adoption of Marketing and Sales Pro, with some Service Hub (though in minority of situations). Hubspot typically wins over Salesforce because Salesforce was too complicated for organizations who are entering the market for the first time, given too many plug and play capabilities. Hubspot provides more of an out of the box solution. However, we think Hubspot could make some improvements on its reporting tool. It is difficult to extract data out of Hubspot which makes it hard to share information within the organization.” – **Digital ad agency partner, North America**

“Our Hubspot business has performed above expectations for the past year. We are on track to exceed our lofty goals for Q1. We are increasingly seeing more technical implementations that involve integrations with other systems and data migrations and this is due to the fact that Hubspot is attracting larger organizations with more complicated needs. Hubspot is becoming the source of truth within organizations and we are seeing many customers starting out with multiple Hubs from the initial rollout. Sales Hub has been a huge growth driver, though we are seeing a lot of traction with Service Hub and the CMS product as well. Our pipelines are very healthy and we are recruiting heavily to keep up with the demand in the market.” – **Digital ad agency partner, North America**

“Our Hubspot business has seen an acceleration in the past year due to COVID. We saw many organizations doubling down on their Hubspot usage and expanding into other Hubs, particularly Sales Hub and CMS. We are also starting to see customers start out with only Sales Hub or only CMS from the initial implementation which is a new trend for us. Service Hub is gaining a decent amount of traction, particularly with the Knowledge Base feature. Hubspot is an ideal platform for the midmarket because all the features are natively integrated and work seamlessly together – this makes upselling additional Hubs very simple.” – **Digital ad agency partner, North America**

Company Description

HubSpot was founded in 2006 as a cloud based provider of inbound marketing tools such as website content management, blogging, email campaigns, search engine optimization (SEO), social media monitoring and management, CRM, and others. The company's tools provide a single console for marketing professionals to generate new customer leads, convert leads to customers, and customers into repeat customers. In October 2014, the company completed its IPO. HubSpot is based in Cambridge, MA, with offices all around the world, including New Hampshire, San Francisco, Dublin (European HQ), Berlin, Paris, Ghent (PieSync), Bogota (Latam HQ), Singapore (APAC HQ), Tokyo, and Sydney.

As of 4Q20, HubSpot has 103,994 customers across 120 countries and employs 4,225+ employees, including an estimated 1,900+ in sales and marketing. HubSpot sells primarily to customers with 2-2,000 employees. In FY20, HubSpot generated 64% of revenues in the United States and 36% internationally.

HubSpot goes to market using three primary strategies: 1) inbound marketing, where its marketing team attracts new leads on a monthly basis through its blog and other content, free tools, large social media following, high search engine rankings, and personalized website email content. Additionally, HubSpot generates leads for new and add-on product purchase through content and offers delivered through its CRM platform to existing customers; 2) inbound direct sales, where HubSpot sales reps who are based around the world meet with prospects and customers in-person or digitally; 3) self-serve/freemium channel through web, where HubSpot can close new/add-on business with little or no interaction by sales reps; and 4) inbound channel sales, HubSpot has a worldwide network of 5,7000 digital ad agencies who manage and execute digital marketing plans on HubSpot and resell HubSpot solutions.

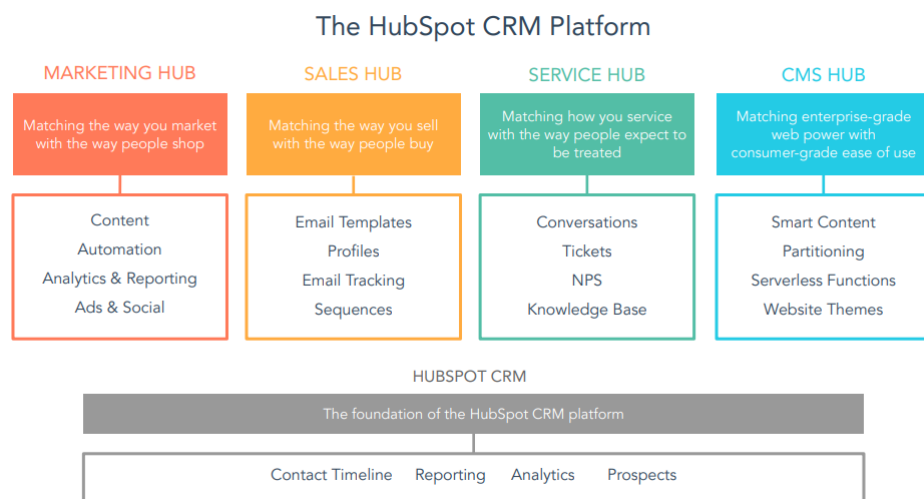
HubSpot at its core is a CRM platform, which is a single database of lead and customer information that allows businesses to track their interactions with contacts and customers, manage their sales activities, and report on their pipelines and sales. The HubSpot CRM can be used in tandem (or standalone) with any combination of its other “Hubs”, which include Marketing Hub, Sales Hub, Service Hub, and CMS Hub. We also note that, each Hub can also be used with third party CRM providers. Each Hub (and the CRM Platform) are available both in free and paid tiers (Starter, Professional, and Enterprise), with incrementally higher levels of functionality at higher tiers. We outline the major “Hub” offerings below:



- **Marketing Hub** (>\$600M ARR growing at +20% y/y at time of 2020 Analyst Day). Marketing Hub provides a toolset for marketers to attract, engage, and nurture new leads towards sales readiness over the entire customer lifecycle. Features include: marketing automation (lead management) and email campaign tools, social media marketing, SEO, and reporting and analytics. The marketing Hub is the system of record for marketer, with a core database of managing customer prospects and leads.
- **Sales Hub** (>\$160M ARR growing at +60% y/y at time of 2020 Analyst Day). Sales hub offers tools that deliver a personalized experience for customers/prospects. Features include: email templates and tracking, conversations and live chat, meeting and call scheduling, lead and website visit alerts, sales automation, and lead scoring.
- **Service Hub** (>\$30M ARR growing at +100% y/y at time of 2020 Analyst Day). Service Hub is our customer service software that is designed to help businesses manage and connect with customers. Features include: conversations and live chat functionality, conversational bots, tickets and help desk, automation and routing, knowledge base, team emails, feedback and reporting tools, and customer goals.
- **CMS Hub** (>\$25M ARR growing at +45% y/y at time of 2020 Analyst Day). CMS (content management system) Hub provides content tools to enable businesses to create new and edit existing web content while also personalizing their websites for different visitors and optimizing their websites to convert more visitors into leads and customers. Features include: website pages, business blogging, smart content, landing pages and forms, SEO tools, forms and lead flow, web analytics reporting, calls-to-action, and file manager.

Exhibit 18: HubSpot's CRM Platform visualized

Marketing, Sales, Service, and CMS Hub sit on top of the foundational HubSpot CRM platform



Source: Company Filings

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Like most software companies, HubSpot also offers professionals services, customer success, and support. The majority of HubSpot's services and support is offered over email, phone, chat applications, and web meeting technology rather than in-person. In the year ended C21, professional services accounted for 3% of total revenue.

HubSpot offers its software using a freemium subscription model through a mix of monthly, quarterly, and annual subscription agreements for paid tiers, where annual subscriptions are offered at a 10% discount. Each Hub can be purchased standalone or in combination with each other or as a full suite bundle (for 25% off the combined standalone prices) and are all offered in three paid tiers: Starter, Professional, and

Enterprise. In addition to this, customers pay additional fees if the number of contacts stored and tracked in the customer's database exceeds specified thresholds, add account users, or if they purchase subdomains. Typically, customer upselling is driven equally by migration to higher price subscriptions and contract growth. HubSpot customers typically signs of less than one year. We note that we currently estimate monthly SaaS to represents roughly a third of total revenues, and this revenue is not recorded to deferred revenue or RPO/cRPO. Mechanically, HubSpot books billings to the company's deferred revenue and the balance to RPO. Revenue is then recognized ratably over the duration of the contract. With respect to deployment, HubSpot offers its software in a "true SaaS" manner in that its customers do not have to make an infrastructure decision; HubSpot uses AWS and GCP as well as Rackspace for its technical infrastructure.

Financial model

We model Q1FY21 revenue of \$262.8 million (32% y/y). We are modelling subscription revenue of \$254.3 million (+33% y/y), representing 97% of total revenue, with professional services revenue of \$8.5 million (+10% y/y).

We model Q1FY21 non-GAAP EPS of \$0.29. Our EPS estimate assumes non-GAAP operating margin of 6.9%, down from 7.3% in Q1FY20 for higher sales/marketing and R&D spend. We model 82.6% gross margin, up slightly from 82.1% in Q4FY20 for slightly higher subscription margins and breakeven professional services margins (vs. -19.8% in Q4FY20).

We forecast Q1FY21 free cash flow of \$24.6 million, up from \$7.1 million in Q1FY20. Our free cash flow estimate assumes operating cash flow of \$44.0 million, up from \$23.0 million in Q1FY20 driven by higher working capital though offset by higher net loss. We estimate capital expenditures and capitalized software of \$19.4 million, representing 7.4% of total revenue, a decrease from Q1FY20's 8%.

For FY21, we model total revenue of \$1.166 billion, representing 32% y/y growth. We model subscription revenue of \$1.133 billion (+32.8% y/y). We model FY21 non-GAAP EPS of \$1.55. Our EPS estimate assumes non-GAAP operating margin of 8.5%, in line with FY20's 8.5%.

We forecast FY21 free cash flow of \$109.0 million, up from \$30.0 million in FY20. Our free cash flow estimate assumes operating cash flow of \$194.8 million, up from \$88.9 million in FY20. We estimate capital expenditures and capitalized software of \$85.8 million, representing 7.4% of total revenue, largely in line with FY20's 6.7%.



Exhibit 19: Income Statement 2018-2023E

We are forecasting 32% total revenue growth in FY21

	YEAR FY18A	YEAR FY19A	Mar 1Q20A	Jun 2Q20A	Sep 3Q20A	Dec 4Q20A	YEAR FY20A	Mar 1Q21E	Jun 2Q21E	Sep 3Q21E	Dec 4Q21E	YEAR FY21E	YEAR FY22E	YEAR FY23E
Revenues														
Subscription Professional services and other	487,450	646,266	191,229	196,415	221,058	244,323	853,025	254,335	269,089	291,797	317,620	1,132,840	1,437,699	1,803,822
	25,530	28,594	7,739	7,193	7,327	7,742	30,001	8,513	7,912	8,060	8,516	33,001	36,301	39,931
Total Revenue	512,980	674,860	198,968	203,608	228,385	252,065	883,026	262,847	277,001	299,856	326,136	1,165,841	1,474,000	1,843,753
Subscription Professional services and other	36.6%	32.6%	32.6%	26.0%	32.3%	36.4%	32.0%	33.0%	37.0%	32.0%	30.0%	32.8%	26.9%	25.5%
	35.2%	12.0%	2.2%	-2.5%	12.0%	9.0%	4.9%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Total revenue y/y	36.6%	31.6%	31.1%	24.7%	31.5%	35.4%	30.8%	32.1%	36.0%	31.3%	29.4%	32.0%	26.4%	25.1%
Subscription Professional services and other	66,848	93,719	27,936	28,446	31,599	35,936	123,917	37,155	38,971	41,711	46,717	164,553	208,842	262,026
	27,715	28,618	7,944	7,749	8,770	9,275	33,738	8,513	7,912	8,060	8,516	33,001	36,301	39,931
Cost of Revenues	94,563	122,337	35,880	36,195	40,369	45,211	157,655	45,668	46,883	49,770	55,233	197,554	245,143	301,958
Gross Profit	418,417	552,523	163,088	167,413	188,016	206,854	725,371	217,180	230,118	250,086	270,903	968,286	1,228,857	1,541,796
Operating Expenses														
Research & Development	91,581	122,597	37,164	38,934	43,872	44,975	164,945	51,255	54,353	59,101	59,822	224,531	283,907	350,535
Sales & Marketing	236,345	304,087	91,512	89,712	105,979	114,263	401,466	122,224	128,805	139,144	144,579	534,752	661,423	799,724
General & Administrative	58,400	70,905	19,818	19,601	21,638	22,992	84,049	25,655	26,315	28,409	29,748	110,128	135,577	164,988
Total Operating Expenses	386,326	497,589	148,494	148,247	171,489	182,230	650,460	199,134	209,474	226,654	234,149	869,411	1,080,906	1,315,247
									21.4	22.3	38.2			
Income from operations	32,091	54,934	14,594	19,166	16,527	24,624	74,911	18,045	20,644	23,431	36,754	98,875	147,951	226,549
Other Income														
Interest income	9,176	19,429	4,057	2,135	958	623	7,773	653	653	653	653	2,612	2,912	3,392
Interest expense	(1,051)	(1,028)	0	(357)	(536)	(510)	(1,403)	(510)	(510)	(510)	(510)	(2,040)	(2,040)	(2,040)
Other expense	(1,492)	(393)	(1,052)	(91)	(7)	441	(709)	0	0	0	0	0	0	0
Total other income	6,633	18,008	3,005	1,687	415	554	5,661	143	143	143	143	572	872	1,352
Pretax income	38,724	72,942	17,599	20,853	16,942	25,178	80,572	18,188	20,787	23,574	36,897	99,447	148,823	227,901
Income taxes	1,868	3,168	870	4,171	3,388	5,036	13,465	3,820	4,365	4,951	7,748	20,884	31,253	47,859
Net Income (Pro Forma)	36,856	69,774	16,729	16,682	13,554	20,142	67,107	14,369	16,422	18,624	29,149	78,563	117,570	180,042
EPS (Pro Forma)	0.87	1.49	0.35	0.34	0.28	0.40	1.38	0.29	0.32	0.37	0.57	1.55	2.24	3.30
Net Income (GAAP)	(63,828)	(53,746)	(17,716)	(29,401)	(22,498)	(15,416)	(85,031)	(23,451)	(24,150)	(24,919)	(17,603)	(90,122)	(106,976)	(120,502)
Diluted EPS (GAAP)	(1.66)	(1.28)	(0.41)	(0.67)	(0.49)	(0.34)	(1.90)	(0.50)	(0.51)	(0.53)	(0.37)	(1.91)	(2.18)	(2.36)
Shares outstanding (Pro Forma)	42,240	46,963	47,715	48,367	48,961	49,922	48,741	50,300	50,602	50,855	51,109	50,716	52,400	54,527

Source: Company filings, BofA Global Research estimates

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Exhibit 20: Income Statement Analysis 2018-2023E

We are forecasting 8.5% operating margin in FY21

	YEAR FY18A	YEAR FY19A	Mar 1Q20A	Jun 2Q20A	Sep 3Q20A	Dec 4Q20A	YEAR FY20A	Mar 1Q21E	Jun 2Q21E	Sep 3Q21E	Dec 4Q21E	YEAR FY21E	YEAR FY22E	YEAR FY23E
Margin Analysis														
Subscription	86.3%	85.5%	85.4%	85.5%	85.7%	85.3%	85.5%	85.4%	85.5%	85.7%	85.3%	85.5%	85.5%	85.5%
Professional services and other	-8.6%	-0.1%	-2.6%	-7.7%	-19.7%	-19.8%	-12.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Gross Margin	81.6%	81.9%	82.0%	82.2%	82.3%	82.1%	82.1%	82.6%	83.1%	83.4%	83.1%	83.1%	83.4%	83.6%
Operating Expenses														
Research & Development	17.9%	18.2%	18.7%	19.1%	19.2%	17.8%	18.7%	19.5%	19.6%	19.7%	18.3%	19.3%	19.3%	19.0%
Sales & Marketing	46.1%	45.1%	46.0%	44.1%	46.4%	45.3%	45.5%	46.5%	46.5%	46.4%	44.3%	45.9%	44.9%	43.4%
General & Administrative	11.4%	10.5%	10.0%	9.6%	9.5%	9.1%	9.5%	9.8%	9.5%	9.5%	9.1%	9.4%	9.2%	8.9%
Total Operating Expenses	75.3%	73.7%	74.6%	72.8%	75.1%	72.3%	73.7%	75.8%	75.6%	75.6%	71.8%	74.6%	73.3%	71.3%
SMIR	1.7x	1.9x					1.9x					1.9x	2.1x	2.2x
Operating Margin	6.3%	8.1%	7.3%	9.4%	7.2%	9.8%	8.5%	6.9%	7.5%	7.8%	11.3%	8.5%	10.0%	12.3%
Pretax margin	7.5%	10.8%	8.8%	10.2%	7.4%	10.0%	9.1%	6.9%	7.5%	7.9%	11.3%	8.5%	10.1%	12.4%
Pro forma tax rate	4.8%	4.3%	4.9%	20.0%	20.0%	20.0%	16.7%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Net Margin	7.2%	10.3%	8.4%	8.2%	5.9%	8.0%	7.6%	5.5%	5.9%	6.2%	8.9%	6.7%	8.0%	9.8%
Growth Rates														
Quarter-to-Quarter														
Subscription			6.8%	2.7%	12.5%	10.5%		4.1%	5.8%	8.4%	8.8%			
Professional services and other			9.0%	-7.1%	1.9%	5.7%		10.0%	-7.1%	1.9%	5.7%			
Total Revenue			6.9%	2.3%	12.2%	10.4%		4.3%	5.4%	8.3%	8.8%			
Gross profit			7.0%	2.7%	12.3%	10.0%		5.0%	6.0%	8.7%	8.3%			
Operating Income			-17.3%	31.3%	-13.8%	49.0%		-26.7%	14.4%	13.5%	56.9%			
Net Income			-20.0%	-0.3%	-18.8%	48.6%		-28.7%	14.3%	13.4%	56.5%			
EPS - Pro Forma			-21.4%	-1.6%	-19.7%	45.7%		-29.2%	13.6%	12.8%	55.7%			
Year-over-Year														
Subscription	36.6%	32.6%	32.6%	26.0%	32.3%	36.4%	32.0%	33.0%	37.0%	32.0%	30.0%	32.8%	26.9%	25.5%
Professional services and other	35.2%	12.0%	2.2%	-2.5%	12.0%	9.0%	4.9%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Total Revenue	36.6%	31.6%	31.1%	24.7%	31.5%	35.4%	30.8%	32.1%	36.0%	31.3%	29.4%	32.0%	26.4%	25.1%
COGS	30.2%	29.4%	28.5%	22.2%	30.1%	33.9%	28.9%	27.3%	29.5%	23.3%	22.2%	25.3%	24.1%	23.2%
Gross profit	38.1%	32.1%	31.6%	25.3%	31.9%	35.7%	31.3%	33.2%	37.5%	33.0%	31.0%	33.5%	26.9%	25.5%
Operating Income	275.3%	71.2%	12.3%	39.2%	57.2%	39.5%	36.4%	23.6%	7.7%	41.8%	49.3%	32.0%	49.6%	53.1%
Net Income	277.4%	89.3%	3.3%	-5.0%	-10.3%	-3.7%	-3.8%	-14.1%	-1.6%	37.4%	44.7%	17.1%	49.7%	53.1%
EPS - Pro Forma	250.9%	70.3%	-1.4%	-6.6%	-12.3%	-9.5%	-7.3%	-18.5%	-5.9%	32.3%	41.4%	12.5%	44.8%	47.2%

Source: BofA Global Research estimates, company filings

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Exhibit 21: Balance Sheet 2019-2023E

We are forecasting 31% billings growth in FY21

\$ Thousands	YEAR FY19A	Mar 1Q20A	Jun 2Q20A	Sep 3Q20A	Dec 4Q20A	YEAR FY20A	Mar 1Q21E	Jun 2Q21E	Sep 3Q21E	Dec 4Q21E	YEAR FY21E	YEAR FY22E	YEAR FY23E
Current Assets													
Cash & cash equivalents	269,670	229,133	201,086	124,895	378,123	378,123	405,807	403,613	415,085	490,109	490,109	642,130	896,986
Short-term investment	691,834	739,428	934,992	1,059,615	873,073	873,073	873,073	873,073	873,073	873,073	873,073	873,073	873,073
Accounts receivable, net	92,517	81,055	86,184	94,122	126,433	126,433	107,078	117,250	138,570	176,632	176,632	221,818	276,511
Deferred commissions	32,078	33,214	36,121	39,666	44,576	44,576	43,877	49,141	52,079	57,675	57,675	72,430	90,288
Restricted Cash	5,816		0	0	0	0	0	0	0	0	0	0	0
Pre-paid hosting costs	0		0	0	0	0	0	0	0	0	0	0	0
Pre-paid expenses and other current assets	17,809	29,923	37,936	40,516	34,716	34,716	39,530	51,610	53,195	44,918	44,918	56,408	70,317
Total Current Assets	1,109,724	1,112,753	1,296,319	1,358,814	1,456,921	1,456,921	1,469,366	1,494,688	1,532,002	1,642,406	1,642,406	1,865,859	2,207,175
Long-term investments	53,776	66,184	61,095	43,550	30,697	30,697	30,697	30,697	30,697	30,697	30,697	30,697	30,697
Property & equipment, net	83,649	85,653	89,993	95,352	101,123	101,123	108,013	114,888	122,748	130,842	130,842	167,936	214,626
Capitalized software development costs, net	16,793	18,826	21,391	22,839	24,943	24,943	26,985	28,878	31,207	33,437	33,437	43,856	57,083
Restricted Cash	0		0	0	0	0	0	0	0	0	0	0	0
Other assets	244,214	243,448	281,337	290,544	289,786	289,786	289,786	289,786	289,786	289,786	289,786	289,786	289,786
Intangible Asset	11,752	10,898	10,075	10,013	10,282	10,282	10,282	10,282	10,282	10,282	10,282	10,282	10,282
Goodwill	30,250	29,956	29,935	30,597	31,318	31,318	31,318	31,318	31,318	31,318	31,318	31,318	31,318
Deferred Commission Expense, net of current portion	19,110	18,792	20,831	23,712	28,296	28,296	28,296	28,296	28,296	28,296	28,296	28,296	28,296
Total Assets	1,569,268	1,586,510	1,810,976	1,875,421	1,973,366	1,973,366	1,994,742	2,028,833	2,076,336	2,197,065	2,197,065	2,468,030	2,869,264
Current Liabilities													
Accounts payable	12,842	10,671	10,814	14,116	13,540	13,540	14,097	14,712	18,533	17,519	17,519	22,001	27,425
Accrued compensation costs	26,318	23,809	26,513	40,079	44,054	44,054	31,453	36,070	52,621	57,000	57,000	71,581	89,231
Other accrued expenses	28,686	29,450	28,211	31,891	37,184	37,184	38,905	38,380	26,878	48,111	48,111	35,844	44,683
Capital lease obligations	23,613	24,542	29,807	30,252	30,020	30,020	30,020	30,020	30,020	30,020	30,020	30,020	30,020
Deferred rent	0	0	0	0	0	0	0	0	0	0	0	0	0
Deferred revenue	231,030	238,913	238,101	256,034	312,866	312,866	323,026	333,148	349,754	412,879	412,879	544,864	719,039
Total Current Liabilities	322,489	327,385	333,446	372,372	437,664	437,664	437,501	452,330	477,807	565,528	565,528	704,310	910,398
Capital lease obligations, net of current portion	244,216	239,655	275,210	283,373	279,664	279,664	279,664	279,664	279,664	279,664	279,664	279,664	279,664
Deferred rent, net of current portion	0	0	0	0	0	0	0	0	0	0	0	0	0
Deferred revenue, net of current portion	3,058	3,334	2,914	3,082	3,636	3,636	4,508	4,077	4,210	4,798	4,798	6,332	8,356
Other liabilities	8,983	8,898	8,832	9,682	10,811	10,811	10,811	10,811	10,811	10,811	10,811	10,811	10,811
Convertible senior notes	340,564	346,265	467,523	474,048	478,936	478,936	478,936	478,936	478,936	478,936	478,936	478,936	478,936
Total Liabilities	919,310	925,537	1,087,925	1,142,557	1,210,711	1,210,711	1,211,419	1,225,819	1,251,428	1,339,738	1,339,738	1,480,053	1,688,165
Stockholders' Equity													
Total stockholders' equity	649,958	660,973	723,051	732,864	762,655	762,655	783,323	803,014	824,908	857,327	857,327	987,977	1,181,099
Total Liabilities & Equity	1,569,268	1,586,510	1,810,976	1,875,421	1,973,366	1,973,366	1,994,742	2,028,833	2,076,336	2,197,065	2,197,065	2,468,030	2,869,264

Source: BoFA Global Research estimates, company filings

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Exhibit 22: Cash Flow Statement

We are forecasting FCF margin of 9% in FY21

\$ Thousands	YEAR FY18A	YEAR FY19A	Mar 1Q20A	Jun 2Q20A	Sep 3Q20A	Dec 4Q20A	YEAR FY20A	Mar 1Q21E	Jun 2Q21E	Sep 3Q21E	Dec 4Q21E	YEAR FY21E	YEAR FY22E	YEAR FY23E
Net Income (GAAP)	(63,828)	(53,746)	(17,716)	(29,401)	(22,498)	(15,416)	(85,031)	(23,451)	(24,150)	(24,919)	(17,603)	(90,122)	(106,976)	(120,502)
Depreciation and amortization	23,428	28,794	8,711	8,972	9,384	9,993	37,060	10,420	11,626	11,888	13,688	47,621	61,010	75,829
Stock-based compensation	76,261	97,753	27,463	31,374	31,186	31,466	121,489	34,388	37,139	40,110	43,319	154,957	210,818	286,815
Provision for deferred income taxes	36	(799)	(257)	(165)	(314)	(1,449)	(2,185)					0	0	0
Amortization of debt discount and issuance cost	20,335	21,790	5,703	5,959	6,526	6,702	24,890	6,702	6,702	6,702	6,702	26,808	26,808	26,808
Amortization of bond premium discount	(6,787)	(14,160)	(2,154)	(1,336)	(226)	59	(3,657)					0	0	0
Noncash rent expense	2,336	0	0	0		0	0					0	0	0
Unrealized Currency Translation	483	(156)	781	(597)	(305)	(831)	(952)					0	0	0
Other	0	0		(38,182)		(359)	(38,541)					0	0	0
Changes in Assets and Liabilities	32,587	39,497	480	(10,314)	14,914	30,760	35,840	15,948	(13,117)	(233)	52,929	55,528	68,884	121,651
Accounts receivable	(17,726)	(15,428)	9,780	(3,850)	(6,311)	(29,592)	(29,973)	19,355	(10,172)	(21,320)	(38,062)	(50,199)	(45,186)	(54,693)
Prepaid expenses and other assets	3,880	10,556	(9,384)	2,362	7,008	14,394	14,380	(4,814)	(12,081)	(1,585)	8,278	(10,202)	(11,491)	(13,909)
Deferred commission expense	(23,900)	(9,666)	(1,523)	(4,314)	(5,514)	(7,937)	(19,288)	699	(5,264)	(2,938)	(5,596)	(13,099)	(14,755)	(17,859)
Accounts payable	3,298	4,471	1,495	342	1,233	627	3,697	557	615	3,821	(1,015)	3,979	4,482	5,425
Accrued expenses	11,920	7,275	(5,439)	5,883	13,336	12,240	26,020	(10,880)	4,092	5,050	25,611	23,872	2,315	26,488
Restricted cash	0	0	0	0	0	0	0					0	0	0
Deferred rent	5,799	0	0	0	0	0	0					0	0	0
Deferred revenue	49,316	49,265	10,832	(3,704)	14,364	51,133	72,625	11,031	9,692	16,738	63,714	101,176	133,518	176,200
Other	0	(6,976)	(5,281)	(7,033)	(9,202)	(10,105)	(31,621)					0	0	0
CFO	84,851	118,973	23,011	(33,690)	38,667	60,925	88,913	44,007	18,200	33,549	99,036	194,792	260,544	390,602
Purchases of investments	(681,632)	(1,304,847)	(439,889)	(527,139)	(410,414)	(139,915)	(1,517,357)					0	0	0
Maturities of investments		1,066,366	382,875	338,059	303,268	338,961								
Purchases of property and equipment	(22,305)	(40,372)	(11,098)	(8,799)	(7,856)	(9,521)	(37,274)	(13,142)	(13,850)	(14,993)	(16,307)	(58,292)	(73,700)	(92,188)
Capitalization of software development costs	(11,168)	(13,474)	(4,769)	(5,394)	(5,481)	(5,955)	(21,599)	(6,210)	(6,544)	(7,084)	(7,705)	(27,543)	(34,823)	(43,558)
Net cash acquired from acquisition	0	0		0	0	0	0					0	0	0
Acquired technology or business	0	23,314		0	0	0	0					0	0	0
Purchase of strategic investments		553	0	(1,000)	(1,000)	(500)						0	0	0
Restricted cash	0	0					0					0	0	0
CFI	(71,230)	(316,194)	(72,881)	(204,273)	(121,483)	183,070	(215,567)	(19,352)	(20,394)	(22,077)	(24,012)	(85,835)	(108,523)	(135,746)
CFF	12,778	359,342	5,883	207,694	4,120	4,763	222,460	0	0	0	0	0	0	0
Effect of exchange rate changes on cash	(2,069)	(720)	(1,814)	1,670	2,505	4,470	6,831					0	0	0
Net Change in cash and cash equivalents	24,330	161,401	(45,801)	(28,599)	(76,191)	253,228	102,637	24,655	(2,194)	11,472	75,024	108,957	152,021	254,856
Cash and cash equivalents at beginning of period	92,784	117,114	278,515	232,714	204,115	127,924	278,515	381,152	405,807	403,613	415,085	381,152	490,109	642,130
Cash and cash equivalents at end of period	117,114	278,515	232,714	204,115	127,924	381,152	381,152	405,807	403,613	415,085	490,109	490,109	642,130	896,986

Source: BoFA Global Research estimates, company filings

BoFA GLOBAL RESEARCH

Price objective basis & risk

HubSpot (HUBS)

Our PO of \$600 is based on an EV/revenue multiple of 20x our CY22 revenue estimate of \$1.47bn. The 20x multiple represents an EV/Rev/Growth multiple of 0.7x based on our C22 revenue growth rate of 27%, roughly in line with the peer group, trading at 0.9x C22 growth averaging 18%.

Risks to our PO are: 1) higher customer attrition rate (high teens) does limit future growth, particularly as the company grows and the dollar attrition amount grows, 2) HubSpot shares trade at a premium to the software group, 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.

Analyst Certification

I, Brad Sills, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Adobe	ADBE	ADBE US	Brad Sills
	Alteryx, Inc	AYX	AYX US	Brad Sills
	Avalara Inc	AVLR	AVLR US	Brad Sills
	Bill.com, Inc.	BILL	BILL US	Brad Sills
	Coupa Software Inc	COUP	COUP US	Brad Sills
	DocuSign	DOCU	DOCU US	Brad Sills
	Duck Creek Technologies, Inc.	DCT	DCT US	Brad Sills
	Dynatrace	DT	DT US	Brad Sills
	HubSpot	HUBS	HUBS US	Brad Sills
	Intuit	INTU	INTU US	Brad Sills
	Medallia	MDLA	MDLA US	Daniel Bartus
	Microsoft Corporation	MSFT	MSFT US	Brad Sills
	nCino, Inc.	NCNO	NCNO US	Brad Sills
	Salesforce.com	CRM	CRM US	Brad Sills
	ServiceNow	NOW	NOW US	Brad Sills
	Splunk	SPLK	SPLK US	Brad Sills
	SurveyMonkey, Inc	SVMK	SVMK US	Brad Sills
	Veeva Systems, Inc.	VEEV	VEEV US	Brad Sills
	Workday Inc.	WDAY	WDAY US	Brad Sills
	Zendesk, Inc.	ZEN	ZEN US	Brad Sills
	ZoomInfo	ZI	ZI US	Brad Sills
NEUTRAL				
	C3.ai	AI	AI US	Brad Sills
	Datto	MSP	MSP US	Brad Sills
	Everbridge	EVBG	EVBG US	Brad Sills
	Guidewire Software, Inc.	GWRE	GWRE US	Brad Sills
	Jamf	JAMF	JAMF US	Brad Sills
	JFrog Ltd	FROG	FROG US	Brad Sills
	Oracle Corporation	ORCL	ORCL US	Brad Sills
	Qualtrics	XM	XM US	Daniel Bartus
	Vertex, Inc.	VERX	VERX US	Brad Sills
	VMware	VMW	VMW US	Brad Sills
UNDERPERFORM				
	Blackbaud, Inc.	BLKB	BLKB US	Brad Sills
	Cornerstone OnDemand, Inc.	CSOD	CSOD US	Brad Sills
	Shopify, Inc.	SHOP	SHOP US	Brad Sills
	Unity Software Inc.	U	U US	Ryan Gee
RSTR				
	Bentley Systems	BSY	BSY US	Brad Sills



iQ^{method}™ Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	192	64.65%	Buy	122	63.54%
Hold	64	21.55%	Hold	34	53.13%
Sell	41	13.80%	Sell	22	53.66%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2021)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1909	58.54%	Buy	1218	63.80%
Hold	653	20.02%	Hold	395	60.49%
Sell	699	21.44%	Sell	356	50.93%

* Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
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