

HubSpot Inc. (HUBS)

\$177.28 (As of 01/09/20)

Price Target (6-12 Months): **\$186.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/03/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: F

Growth: A

Momentum: F

Summary

HubSpot is benefitting from robust performance of Hubspot One and Hubspot CRM tools. The core of HubSpot's subscription-based cloud platform is its inbound database. Growing international footprint, portfolio expansion and collaborations also bode well. Integration with LinkedIn, Shopify & Facebook, is enabling it to expand the business. Also, integration of various in-house offerings is likely to improve subscription revenues. Positive trend in conversion of freemium users to paid subscribers is another positive. Moreover, we note that the company has raised its 2019 outlook on the back of expanding clientele. Notably, shares have outperformed the industry in the past year. However, adverse foreign exchange rate volatility impact is likely to limit calculated billings growth. Also, mounting operating losses remains a concern.

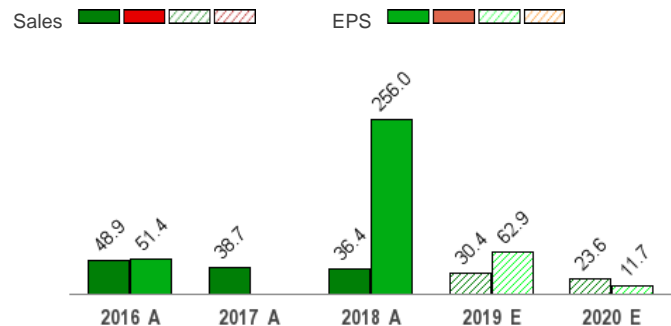
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|-------------------------------------|
| 52 Week High-Low | \$207.98 - \$136.61 |
| 20 Day Average Volume (sh) | 520,759 |
| Market Cap | \$7.6 B |
| YTD Price Change | 11.9% |
| Beta | 1.59 |
| Dividend / Div Yld | \$0.00 / 0.0% |
| Industry | Internet - Software |
| Zacks Industry Rank | Top 42% (106 out of 254) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|------------|
| Last EPS Surprise | 33.3% |
| Last Sales Surprise | 2.7% |
| EPS F1 Est- 4 week change | -0.7% |
| Expected Report Date | 02/11/2020 |
| Earnings ESP | 0.0% |
| P/E TTM | 124.9 |
| P/E F1 | 109.4 |
| PEG F1 | 2.3 |
| P/S TTM | 12.0 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-------|-------|-------|-------|---------|
| 2020 | 189 E | 202 E | 213 E | 225 E | 827 E |
| 2019 | 152 A | 163 A | 174 A | 181 E | 669 E |
| 2018 | 115 A | 123 A | 132 A | 144 A | 513 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2020 | \$0.36 E | \$0.40 E | \$0.33 E | \$0.49 E | \$1.62 E |
| 2019 | \$0.36 A | \$0.37 A | \$0.32 A | \$0.42 E | \$1.45 E |
| 2018 | \$0.15 A | \$0.18 A | \$0.17 A | \$0.37 A | \$0.89 A |

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/09/2020. The reports text is as of 01/10/2020.

Overview

Headquartered in Cambridge, MA, HubSpot Inc. provides inbound marketing and sales application over the cloud. The software-as-a-service (SaaS) vendor helps businesses attract more customers through search engine optimization (SEO), social media, blogging, website content management, marketing automation, email, CRM, analytics and reporting.

HubSpot completed its Initial Public Offering (IPO) on Oct 15, 2014. In 2018, the company generated revenues of \$513 million (up 37% over 2017), majority of which came from subscriptions – 95% of total revenues.

HubSpot primarily caters to the small and medium businesses (SMB) market, where the churn rate is relatively higher as compared with the enterprise markets. As of Sep 30, 2019, HubSpot had approximately 68,803 customers.

The company's core products are Marketing Hub, Service Hub and Sales Hub, together referred to as HubSpot growth platform.

HubSpot Marketing's important features are Marketing Automation and Email, Content Optimization System (COS), Social Media, SEO, CRM Sync and Reporting and Analytics. HubSpot Marketing is available for free as well as at different price points.

Marketing Hub aimed at enterprise, professional and starter marketers start at \$3,200, \$800 and \$50, respectively per month.

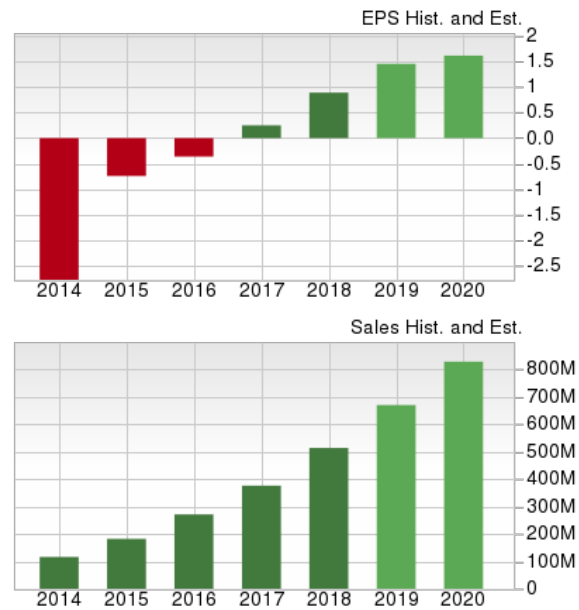
Sales Hub features are Email Engagement Notifications, Sequences, Meetings, Calling, New Lead and Website Visit Alerts, Email Templates and CRM Tracking and Contact Insights.

Sales Hub aimed at enterprise, professional and starter marketers start at \$1,200, \$400 and \$50, respectively per month.

Service Hub features are automation and routing, live chat and conversations, conversational bots, team emails, help desk and tickets, reporting tools and feedback, among others.

Service Hub aimed at enterprise, professional and starter marketers start at \$1,200, \$400 and \$50, respectively per month.

HubSpot CRM is a free offering that features Contact Management, Salesforce Automation and Pipeline Reporting, among others.



Reasons To Buy:

▲ HubSpot's inbound marketing and sales applications are enabling businesses to easily reach, acquire and retain customers without annoying them through traditional marketing tools like cold call, print advertisements and e-mail. The core of HubSpot's subscription-based cloud platform is its inbound database that captures customer activity of a business throughout the customer's lifecycle. Subscribers of HubSpot's SaaS applications use multiple channels like optimized search engine techniques, social media, and targeted content through websites and blogs to fulfill the needs of customers. The success of the platform is evident from the rapid growth in marketing customers. The growing adoption of inbound applications has helped in developing the marketing agency partner network (more than 3500).

HubSpot's growing customer base, cross selling opportunities, One HubSpot initiative and expanding international footprint are key positives.

▲ HubSpot primarily targets mid-market businesses, which as per its own description comprises companies with 10 to 2,000 employee strength. Approximately 3 million mid-market companies are there in North America and Europe, and the total addressable market (TAM) is estimated to be nearly \$45 billion. However, the market is poorly penetrated, which presents significant growth opportunity for HubSpot. Moreover, according to market research firm Gartner, worldwide spending on enterprise software applications is expected to grow 8.8% in 2019 to reach \$457 billion with prime focus on CRM software. The tally is expected to hit \$560 billion in 2021. The rapid growth opportunity is beneficial for HubSpot in the long haul.

▲ We also note that HubSpot has significant scope in cross-selling sales product to existing marketing customer base and vice versa. The One HubSpot initiative is a key growth driver in our view. Moreover, the company has a sizeable customer base that uses its products for free. Given the growing effectiveness of its inbound applications and an innovative product portfolio, we believe that many of this free customers will eventually chose to buy HubSpot pro products for both their marketing and sales functions. This not only presents significant top-line growth opportunity for the company but will also boost its margins, as the acquisition cost for these customers will be much lower as compared with new customers.

▲ HubSpot is expanding its international footprint rapidly. The company currently has international offices in Dublin, Sydney, Singapore and Tokyo. Further, it opened a new office in Berlin in 2017 and in Bogotá in 2018. The company plans to open a new office in Paris in later 2019. Further, we expect the growing footprint will boost top-line growth going ahead. Notably, International revenues advanced 41% from the year-ago quarter (46% on a constant currency basis), representing 40% of total revenues in third-quarter 2019.

▲ We believe that the company has a strong balance sheet with no long-term debt. This is expected to help it in capitalizing on investment opportunities and pursuing strategic business expansion initiatives, further improving growth prospects. As of Sep 30, 2019, HubSpot's cash and cash equivalents and short-term investments were \$948.5 million. Cash flow from operations in third-quarter 2019 came in at \$19.7 million. Free cash flow came in at \$6.7 million.

Reasons To Sell:

- ▼ Although the introduction of \$50 per month marketing starter pack will help the company to attract new customers, the low priced pack will dent ASR per customer growth rate at least in the near term. Despite having limited features, the pack can lead to cannibalization of the premium products. Moreover, we believe that management may not continue with this pack for a very long time and will eventually increase price. However, a price hike can lead to subscription cancellation or customers can opt for the free version, which will ultimately hurt top-line growth.
- ▼ HubSpot generates a significant portion of its revenues from the International market. Hence, we expect adverse foreign currency exchange rates to impede revenue growth in the near term owing to the strengthening of the U.S. dollar as against the Euro and other foreign currencies. Since the company does not have hedging program in place, we believe that exposure to the foreign exchange rate volatility is a significant headwind.
- ▼ HubSpot has been incurring operating losses since inception and has an accumulated deficit of \$387.8 million as of Sep 30, 2019. The company does not expect to generate profit sooner amid growing investments on data center infrastructure, sales & marketing and research & development. Despite the increasing top line, mounting losses doesn't augur well for investor confidence in our view.
- ▼ Moreover, the company is trading at premium in terms of P/B ratio. HubSpot currently has a trailing 12 month P/B ratio of 12.08, which compares unfavorably to some extent with what the industry saw over the last year. Hence, valuation looks slightly stretched from P/B perspective.

Adverse impact of foreign exchange rate volatility, mounting operating losses and stretched valuation are key headwinds.

Last Earnings Report

HubSpot Q3 Earnings & Revenues Beat Estimates

HubSpot's third-quarter 2019 non-GAAP earnings of 32 cents per share beat the Zacks Consensus Estimate by 33.3% and soared 88.2% from the year-ago quarter. The figure also exceeded management's guided range of 22-24 cents.

Revenues of \$173.6 million comfortably surpassed the Zacks Consensus Estimate of \$169 million and surged 31.7% (33% on a constant currency basis) year over year. The figure was also higher than management's guided range of \$168-\$169 million.

Year-over-year growth in revenues can primarily be attributed to growing customer base, which surged 32% to 68,803. Moreover, higher Subscription and Professional services revenues positively impacted the third-quarter revenues.

Quarter Details

Subscription revenues (96.2% of the total revenues) improved 33.2% from the year-ago quarter to \$167.1 million. Professional services and other revenues (3.8%) were up 3.1% year over year to \$6.5 million.

Total average subscription revenue per customer was up 0.3% year over year to \$9,992.

Deferred revenues (including current portion) grew 25% year over year to \$203.6 million. Meanwhile, calculated billings, defined as revenues plus the change in deferred revenues came in at \$179 million, surging 27% year over year (up 30% at cc).

International revenues advanced 41% from the year-ago quarter (46% at cc), representing 40% of total revenues in the reported quarter.

Margins in Detail

Per management, non-GAAP gross margin during the reported quarter came in at 82%, expanding approximately 50 bps from the year-ago quarter, while non-GAAP services gross margin "were negative 7%."

Meanwhile, non-GAAP subscription margin of 85.6% contracted 90 bps on a year-over-year basis.

Non-GAAP Research and development (R&D) expenses as a percentage of revenues expanded 10 bps to 18.3%. Meanwhile, non-GAAP Sales and marketing (S&M) and General and administrative (G&A) expenses contracted 70 bps and 70 bps to 47.4% and 10.3%, respectively, on a year-over-year basis.

The company reported non-GAAP operating income of \$10.5 million, soaring 79.4% from the year-ago figure. Non-GAAP operating margin expanded 170 bps on a year-over-year basis to come in at 6.1%.

Balance Sheet & Cash Flow

HubSpot ended the third quarter with cash and cash equivalents and short-term investments of \$948.5 million, down from \$955.2 million at the end of the previous quarter.

Cash flow from operations during the reported quarter came in at \$19.7 million compared with \$13.7 million reported in the second quarter.

Free cash flow came in at \$6.7 million compared with the prior-quarter figure of \$3.4 million.

Q4 Guidance

For fourth-quarter 2019, HubSpot forecasts revenues in the range of \$180.3 million to \$181.3 million.

Management expects non-GAAP operating income in the band of \$17.1-\$18.1 million for the fourth quarter.

Moreover, HubSpot anticipates non-GAAP net income per share to be in the range of 40-42 cents.

Raised 2019 View

For full-year 2019, HubSpot raised guidance. The company now expects revenues in the range of \$669-\$670 million, up from the previous guidance of \$663-\$665 million.

Non-GAAP operating income is now projected in the range of \$54.5-\$55.5 million (prior guidance was in the range of \$54-\$55 million).

Non-GAAP net income per share is now anticipated to be in the range of \$1.44-\$1.46 (previously \$1.39-\$1.41).

Quarter Ending **09/2019**

| Report Date | Nov 05, 2019 |
|------------------|--------------|
| Sales Surprise | 2.70% |
| EPS Surprise | 33.33% |
| Quarterly EPS | 0.32 |
| Annual EPS (TTM) | 1.42 |

Recent News

On **Jan 9, 2020**, HubSpot announced a new set of features in Marketing Hub Enterprise. The additions are likely to aid companies execute their marketing plans, eliminating outdated user experience that comes with legacy systems.

On **Nov 4, 2019**, HubSpot announced acquisition of PieSync, provider of intelligent iPaaS (or Integration platform as a Service) offerings, aimed at facilitating data synchronization in real-time. The latest acquisition is expected to aid HubSpot to capitalize on user and partner integrations.

On **Sep 4, 2019**, HubSpot unveiled innovative digital functionalities on its Analyst Day event, INBOUND 2019. HubSpot rolled out intelligent duplicate management tool, which leverages ML to identify and merge duplicate company data. Moreover, HubSpot announced new app marketplace, which comprises third-party tools to aid users capitalize on latest integrations and seamlessly connect processes, teams, tools, and data within a connected system.

Valuation

HubSpot shares are down 0.9% in the past six-month period, while it is up 26.6% over the trailing 12-month period. Stocks in the Zacks sub-industry is down 7.5% while the Zacks Computer & Technology sector is up 13.8% in the past six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 15.4% and 33.5%, respectively.

The S&P 500 index is up 10% in the past six-month period and 27.1% in the past year.

The stock is currently trading at 9.13X forward 12-month sales, which compares to 6.32X for the Zacks sub-industry, 3.66X for the Zacks sector and 3.51X for the S&P 500 index.

Over the past three years, the stock has traded as high as 11.34X and as low as 5.01X, with a 3-year median of 8.22X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$186 price target reflects 9.58X forward 12-month sales.

The table below shows summary valuation data for HUBS

| Valuation Multiples - HUBS | | | | | |
|----------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| P/S F12M | Current | 9.13 | 6.32 | 3.66 | 3.51 |
| | 3-Year High | 11.34 | 6.61 | 3.66 | 3.51 |
| | 3-Year Low | 5.01 | 3.20 | 2.62 | 2.76 |
| | 3-Year Median | 8.22 | 5.68 | 3.16 | 3.15 |
| P/B TTM | Current | 12.08 | 7.01 | 5.47 | 4.47 |
| | 3-Year High | 28.26 | 8.17 | 5.47 | 4.47 |
| | 3-Year Low | 9.54 | 3.01 | 3.56 | 3.36 |
| | 3-Year Median | 17.44 | 5.84 | 4.51 | 3.89 |
| EV/Sales TTM | Current | 10.85 | 6.80 | 4.30 | 3.28 |
| | 3-Year High | 13.37 | 7.60 | 4.30 | 3.30 |
| | 3-Year Low | 5.76 | 3.23 | 3.05 | 2.46 |
| | 3-Year Median | 9.34 | 6.03 | 3.73 | 2.95 |

As of 01/09/2020

Industry Analysis Zacks Industry Rank: Top 42% (106 out of 254)



Top Peers

| | |
|-----------------------------------|---------|
| Adobe Systems Incorporated (ADBE) | Neutral |
| salesforce.com, inc. (CRM) | Neutral |
| Oracle Corporation (ORCL) | Neutral |
| Paycom Software, Inc. (PAYC) | Neutral |
| Paychex, Inc. (PAYX) | Neutral |
| Pegasystems Inc. (PEGA) | Neutral |
| SAP SE (SAP) | Neutral |
| Workiva Inc. (WK) | Neutral |

| Industry Comparison Industry: Internet - Software | | | | Industry Peers | | |
|---|--------------|------------|-----------|----------------|--------------|--------------|
| | HUBS Neutral | X Industry | S&P 500 | CRM Neutral | ORCL Neutral | PEGA Neutral |
| VGM Score | D | - | - | F | B | F |
| Market Cap | 7.59 B | 627.30 M | 23.94 B | 159.31 B | 174.43 B | 6.50 B |
| # of Analysts | 12 | 5 | 13 | 16 | 13 | 2 |
| Dividend Yield | 0.00% | 0.00% | 1.78% | 0.00% | 1.77% | 0.15% |
| Value Score | F | - | - | F | B | F |
| Cash/Price | 0.14 | 0.11 | 0.04 | 0.04 | 0.16 | 0.02 |
| EV/EBITDA | -1,993.75 | -2.04 | 13.97 | 55.37 | 11.45 | 197.53 |
| PEG Ratio | 2.30 | 2.54 | 2.03 | 3.32 | 1.43 | NA |
| Price/Book (P/B) | 11.99 | 5.18 | 3.33 | 4.79 | 10.78 | 12.26 |
| Price/Cash Flow (P/CF) | NA | 34.84 | 13.73 | 48.30 | 12.33 | 147.13 |
| P/E (F1) | 109.82 | 56.14 | 18.79 | 62.17 | 13.98 | 630.15 |
| Price/Sales (P/S) | 12.00 | 4.42 | 2.64 | 10.05 | 4.41 | 7.29 |
| Earnings Yield | 0.91% | 0.75% | 5.32% | 1.61% | 7.15% | 0.16% |
| Debt/Equity | 0.89 | 0.09 | 0.72 | 0.16 | 3.13 | 0.11 |
| Cash Flow (\$/share) | -0.06 | -0.01 | 6.94 | 3.72 | 4.41 | 0.56 |
| Growth Score | A | - | - | D | D | F |
| Hist. EPS Growth (3-5 yrs) | NA% | 16.72% | 10.56% | 141.24% | 6.17% | -36.54% |
| Proj. EPS Growth (F1/F0) | 11.06% | 15.09% | 7.49% | 5.05% | 10.47% | 161.90% |
| Curr. Cash Flow Growth | -77.84% | 4.03% | 14.83% | 66.28% | -0.35% | -21.46% |
| Hist. Cash Flow Growth (3-5 yrs) | 13.92% | 14.52% | 9.00% | 41.18% | -1.03% | -9.41% |
| Current Ratio | 3.85 | 1.53 | 1.23 | 1.05 | 2.37 | 1.45 |
| Debt/Capital | 47.15% | 18.02% | 42.99% | 13.87% | 75.79% | 9.72% |
| Net Margin | -8.68% | -14.19% | 11.08% | 4.64% | 27.62% | -8.41% |
| Return on Equity | -5.74% | -12.09% | 17.16% | 5.37% | 56.86% | -14.16% |
| Sales/Assets | 0.49 | 0.66 | 0.55 | 0.43 | 0.37 | 0.94 |
| Proj. Sales Growth (F1/F0) | 23.59% | 17.93% | 4.20% | 27.93% | 1.07% | 13.79% |
| Momentum Score | F | - | - | D | B | C |
| Daily Price Chg | 2.47% | 0.11% | 0.53% | 1.28% | 0.46% | 1.17% |
| 1 Week Price Chg | 3.63% | 0.47% | -0.30% | 0.72% | 0.56% | 1.69% |
| 4 Week Price Chg | 19.25% | 4.92% | 1.92% | 13.25% | -3.70% | 8.78% |
| 12 Week Price Chg | 10.41% | 3.61% | 6.54% | 22.87% | -1.24% | 9.81% |
| 52 Week Price Chg | 26.63% | 0.40% | 22.58% | 22.14% | 13.72% | 58.21% |
| 20 Day Average Volume | 520,759 | 262,513 | 1,580,816 | 4,455,316 | 11,266,150 | 225,242 |
| (F1) EPS Est 1 week change | -0.67% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| (F1) EPS Est 4 week change | -0.67% | 0.00% | 0.00% | 0.00% | 0.49% | 0.00% |
| (F1) EPS Est 12 week change | -3.46% | -0.20% | -0.50% | 2.51% | -0.06% | -90.16% |
| (Q1) EPS Est Mthly Chg | -1.46% | 0.00% | 0.00% | 0.00% | 0.93% | 0.00% |

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

| | |
|----------------|---|
| Value Score | F |
| Growth Score | A |
| Momentum Score | F |
| VGM Score | D |

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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