

HubSpot Inc. (HUBS)

\$141.89 (As of 03/26/20)

Price Target (6-12 Months): **\$154.00**

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:C

Value: F

Growth: A

Momentum: D

Summary

HubSpot is expected to benefit 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. Moreover, integration with LinkedIn, Shopify & Facebook is enabling it to expand the business, which remains a positive. Also, integration of various in-house offerings is expected to improve subscription revenues. Further, positive trend in conversion of freemium users to paid subscribers is a tailwind. However, adverse foreign exchange rate volatility impact is likely to limit calculated billings growth. Also, mounting operating losses remains a concern. Notably, shares have underperformed the industry in the past year.

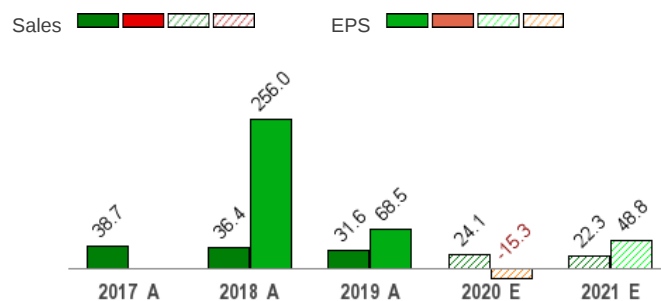
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$207.98 - \$90.84
20 Day Average Volume (sh)	1,216,152
Market Cap	\$6.1 B
YTD Price Change	-10.5%
Beta	1.39
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Software
Zacks Industry Rank	Top 32% (80 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.1%
Last Sales Surprise	2.9%
EPS F1 Est- 4 week change	-1.7%
Expected Report Date	05/05/2020
Earnings ESP	-5.6%
P/E TTM	94.6
P/E F1	111.7
PEG F1	2.3
P/S TTM	9.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	236 E	248 E	261 E	277 E	1,025 E
2020	192 E	203 E	214 E	229 E	838 E
2019	152 A	163 A	174 A	186 A	675 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.43 E	\$0.46 E	\$0.41 E	\$0.57 E	\$1.89 E
2020	\$0.23 E	\$0.26 E	\$0.27 E	\$0.49 E	\$1.27 E
2019	\$0.36 A	\$0.37 A	\$0.32 A	\$0.45 A	\$1.50 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 03/26/2020. The reports text is as of 03/27/2020.

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 2019, the company generated revenues of \$674.9 million, the majority of which came from subscriptions – 95.8% 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 Dec 31, 2019, HubSpot had approximately 73,483 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.
- ▲ 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 hit \$556 billion in 2021 with prime focus on CRM software, from \$456 billion in 2019. 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 these free customers will eventually choose 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 39% from the year-ago quarter (43% at cc), representing 41% of total revenues in the reported quarter.
- ▲ 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 Dec 31, 2019, HubSpot's cash and cash equivalents and short-term investments were \$961.5 million. Cash flow from operations in fourth-quarter 2019 came in at \$47.9 million. Free cash flow came in at \$24.4 million.

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

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 had an accumulated deficit of \$398.1 million as of Dec 31, 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 9.35, 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 Q4 Earnings & Revenues Surpass Estimates

HubSpot, Inc.'s fourth-quarter 2019 non-GAAP earnings of 45 cents per share beat the Zacks Consensus Estimate by 7.1% and surged 21.6% from the year-ago quarter. The figure also exceeded management's guided range of 40-42 cents.

Revenues of \$186.2 million comfortably surpassed the Zacks Consensus Estimate of \$180.9 million and improved 29.3% (31% on a constant currency basis) year over year. The figure was also higher than management's guided range of \$180.3-\$181.3 million.

The top line was driven by accelerating Subscription revenues. Further, growing customer base, which surged 30% year over year to 73,483, contributed to the results.

Quarter Details

Subscription revenues (96.2% of the total revenues) improved 31% from the year-ago quarter to \$179.1 million. Professional services and other revenues (3.8%) were down 2% year over year to \$7.1 million.

Total average subscription revenue per customer was up 0.3% year over year to \$10,047.

Deferred revenues (including current portion) improved 26.2% year over year to \$234.1 million. Meanwhile, calculated billings, defined as revenues plus the change in deferred revenues came in at \$217 million, surging 30% year over year on reported as well as constant currency basis.

International revenues advanced 39% from the year-ago quarter (43% at cc), representing 41% of total revenues in the reported quarter.

Margins in Detail

Per management, non-GAAP gross margin during the reported quarter came in at 82%, contracting approximately 30 basis points (bps) from the year-ago quarter. We note that non-GAAP services gross margin was negative 5%. Further, non-GAAP subscription margin of 85% contracted 150 bps on a year-over-year basis.

Non-GAAP Research and development (R&D) expenses as a percentage of revenues remained flat year over year at 18%. Non-GAAP General and administrative (G&A) expenses contracted 200 bps to 10% on a year-over-year basis. Meanwhile, non-GAAP Sales and marketing (S&M) expenses expanded 100 bps to 44% from the year-ago quarter.

The company reported non-GAAP operating income of \$17.6 million, soaring 24.5% from the year-ago figure. Non-GAAP operating margin contracted 30 bps on a year-over-year basis to 9.5%.

Balance Sheet & Cash Flow

HubSpot ended the fourth quarter with cash and cash equivalents and short-term investments of \$961.5 million, up from \$948.5 million at the end of the previous quarter.

Cash flow from operations during the reported quarter came in at \$47.9 million compared with \$19.7 million reported in the prior quarter.

Free cash flow came in at \$24.4 million compared with the prior-quarter figure of \$6.7 million.

Guidance

For first-quarter 2020, HubSpot forecasts revenues in the range of \$192.5 million to \$193.5 million.

Management expects non-GAAP operating income in the band of \$9.5-\$10.5 million for the first quarter.

Moreover, HubSpot anticipates non-GAAP net income per share to be in the range of 22-24 cents.

For 2020, HubSpot forecasts revenues in the range of \$840.5 million to \$844.5 million.

Management expects non-GAAP operating income in the band of \$54-\$58 million for the full year.

HubSpot anticipates non-GAAP net income per share to be in the range of \$1.24-\$1.32.

Quarter Ending **12/2019**

Report Date	Feb 12, 2020
Sales Surprise	2.88%
EPS Surprise	7.14%
Quarterly EPS	0.45
Annual EPS (TTM)	1.50

Recent News

On Mar 18, 2020, HubSpot celebrated 10-year anniversary of its Agency Partner Program by relaunching it as the Solutions Partner Program. The program will aid customers in finding the right service providers for their business and enable marketing agencies, web developers, CRM and IT implementers to partner with HubSpot and facilitate customer growth.

On Mar 3, 2020, HubSpot announced multiple updates to its Sales Hub product, including a lower-priced Starter tier and improvements to its sales engagement tool to make powerful tools more affordable for growing sales teams.

On Jan 29, 2020, HubSpot announced that Gartner listed the company in the report titled "2020 Gartner Peer Insights Customers' Choice for CRM Lead Management."

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.

Valuation

HubSpot shares are down 6.4% in the past six-month period and 13.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are down 3.7% and 2.4% in the past six-month period, respectively. Over the past year, the Zacks sub-industry is down 11.6% while the sector is up 0.5%.

The S&P 500 index is down 11.5% in the past six-month period and 7.5% in the past year.

The stock is currently trading at 6.94X forward 12-month sales, which compares to 5.44X for the Zacks sub-industry, 3.08X for the Zacks sector and 2.85X for the S&P 500 index.

Over the past five years, the stock has traded as high as 11.34X and as low as 3.86X, with a 5-year median of 7.82X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$154 price target reflects 7.53X 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	6.94	5.44	3.08	2.85
	3-Year High	11.34	15.61	3.58	3.43
	3-Year Low	3.86	3.06	2.30	2.54
	3-Year Median	7.82	5.35	3.07	3.00
P/B TTM	Current	9.35	5.74	4.55	3.54
	3-Year High	28.26	8.23	5.70	4.56
	3-Year Low	6.90	2.29	3.13	2.85
	3-Year Median	14.44	5.18	4.27	3.63
EV/Sales TTM	Current	7.93	6.03	3.60	2.65
	3-Year High	13.37	11.55	4.48	3.46
	3-Year Low	4.58	3.04	2.57	2.16
	3-Year Median	9.01	6.04	3.54	2.83

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Top 32% (80 out of 253)



Top Peers

SAP SE (SAP)	Outperform
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
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	C	-	-	D	C	F
Market Cap	6.14 B	396.57 M	18.50 B	138.48 B	159.19 B	5.97 B
# of Analysts	11	5	13	15	13	3
Dividend Yield	0.00%	0.00%	2.35%	0.00%	1.90%	0.16%
Value Score	F	-	-	F	C	F
Cash/Price	0.19	0.18	0.07	0.06	0.18	0.01
EV/EBITDA	680.16	-0.52	11.16	35.84	10.58	-71.30
PEG Ratio	2.18	2.37	1.74	2.67	1.34	NA
Price/Book (P/B)	9.35	4.28	2.44	4.05	10.70	11.03
Price/Cash Flow (P/CF)	209.72	20.59	9.87	35.37	11.45	NA
P/E (F1)	104.09	35.13	15.29	49.18	13.02	440.82
Price/Sales (P/S)	9.10	3.53	1.93	8.10	4.00	6.55
Earnings Yield	0.90%	0.84%	6.47%	2.04%	7.69%	0.23%
Debt/Equity	0.90	0.11	0.70	0.08	3.31	0.10
Cash Flow (\$/share)	0.68	-0.01	7.01	4.37	4.41	-0.60
Growth Score	A	-	-	B	C	D
Hist. EPS Growth (3-5 yrs)	NA%	16.66%	10.85%	126.79%	7.82%	-39.87%
Proj. EPS Growth (F1/F0)	-15.15%	4.64%	2.89%	5.22%	10.12%	138.64%
Curr. Cash Flow Growth	-1,293.74%	6.87%	5.93%	36.39%	-0.35%	-208.74%
Hist. Cash Flow Growth (3-5 yrs)	21.83%	18.18%	8.55%	40.05%	-1.03%	NA
Current Ratio	3.44	1.46	1.23	1.08	2.12	1.34
Debt/Capital	47.36%	16.90%	42.57%	7.31%	76.82%	8.89%
Net Margin	-7.96%	-16.16%	11.64%	0.74%	27.06%	-9.92%
Return on Equity	-3.67%	-13.19%	16.74%	3.61%	64.68%	-17.78%
Sales/Assets	0.46	0.61	0.54	0.40	0.39	0.96
Proj. Sales Growth (F1/F0)	24.20%	13.89%	2.37%	22.92%	0.35%	20.38%
Momentum Score	D	-	-	C	B	A
Daily Price Chg	4.06%	3.64%	6.21%	5.22%	9.88%	5.43%
1 Week Price Chg	-12.37%	-7.65%	-16.96%	-5.70%	-4.76%	-13.12%
4 Week Price Chg	-19.23%	-14.13%	-15.70%	-10.12%	-0.59%	-16.65%
12 Week Price Chg	-12.72%	-18.19%	-23.67%	-7.34%	-6.43%	-8.14%
52 Week Price Chg	-13.18%	-23.24%	-13.99%	-0.29%	-5.09%	16.29%
20 Day Average Volume	1,216,152	426,380	4,286,768	10,671,097	23,400,834	500,749
(F1) EPS Est 1 week change	0.00%	0.00%	-0.15%	0.00%	-0.34%	0.00%
(F1) EPS Est 4 week change	-1.72%	-0.76%	-2.28%	-0.84%	0.35%	0.00%
(F1) EPS Est 12 week change	-43.54%	-9.87%	-3.22%	2.80%	0.35%	-28.45%
(Q1) EPS Est Mthly Chg	-2.15%	0.00%	-1.60%	-1.32%	-0.41%	0.00%

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	D
VGM Score	C

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.

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