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Executive Summary

We initiate coverage on HubSpot Inc. (HUBS), a SMB focused customer relationship management software provider, with a SELL recommendation based on a 12-month price target of \$564 derived from intrinsic and relative valuation methods. The price target represents a 20% downside from the close price of \$708 on January 6th, 2025.

Investment Summary Highlights

1) Tough Spot: Pressure to meet lofty street expectations exposes HubSpot's enterprise weakness

Stagnant existing customer spend and slowing customer additions is forcing HubSpot to move upmarket and win large enterprise clients. **Conversations with 100 solution partners revealed that this upmarket shift faces significant hurdles**, as HubSpot's SMB-focused sales network and product offerings leave it at a considerable disadvantage against competitors.

2) Artificial Hopes: The market's anticipated boom in customer spend from AI is stretched

Management is dismissing downgrades from overselling and overestimating monetization of AI to accelerate existing customer spend. By 2027, we estimate AI and other upsell would need to increase revenue by \$310M+ YoY while our primary research with industry experts reveal that **HubSpot is playing defense in the AI race and monetization for the company is likely muted**.

3) Spotty Margin Expansion: Expectations & strategy are not aligned with margin expansion pressures by heavy AI and customer acquisition cost

HubSpot's pivot to enterprise clients is putting pressure on margins, as **customer acquisition costs (CAC) are expected to surpass the Street's 2.6x estimate, nearing Salesforce's 3.8x due to the higher expense of enterprise sales**. Furthermore, enterprise CRMs invest up to 10x more in AI, intensifying competition and pressuring HubSpot to increase their R&D spending above streets expectations.

Valuation Summary

We believe HubSpot is currently overvalued, issuing a SELL rating with a target price of \$564, derived by equally weighing our discounted cash flow (DCF) and comparable company (CompCo) analysis. Our target price implies a downside of 20% based on the latest share price close of \$708 as of on January 6th, 2025. Our DCF (PT:\$555) analysis reflects the impact and quality of customer acquisitions, average subscription revenue per customer (ASRPC) and operating leverage over our 2024-2029 forecast period. Our CompCo (PT:\$573) analyzes HubSpot's current multiple relative to peers. Our analysis is supported by a scenario analysis to access HubSpot's potential share price movement over the next 12-18 months (**Price Target Chart**).

HubSpot Financial Model

Non-GAAP	2018A	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E
Net Revenue	513	675	883	1301	1731	2170	2604	3007	3423	3863	4318	4799
Growth YoY	36.6%	31.6%	30.8%	47.3%	33.1%	25.4%	20.0%	15.5%	13.8%	12.8%	11.8%	11.1%
Opt Expense	386	499	650	935	1262	1611	1792	2040	2293	2554	2819	3092
% revenue	75%	74%	74%	72%	73%	74%	69%	68%	67%	66%	65%	64%
EBIT	32	55	75	118	169	233	434	538	648	769	885	994
EBIT Margin	6.3%	8.1%	8.5%	9.0%	9.8%	10.8%	16.7%	17.9%	18.9%	19.9%	20.5%	20.7%
Net Income	37	58	67	92	142	211	385	464	549	642	731	814
Net margin	7.2%	8.6%	7.6%	7.1%	8.2%	9.7%	14.8%	15.4%	16.0%	16.6%	16.9%	17.0%

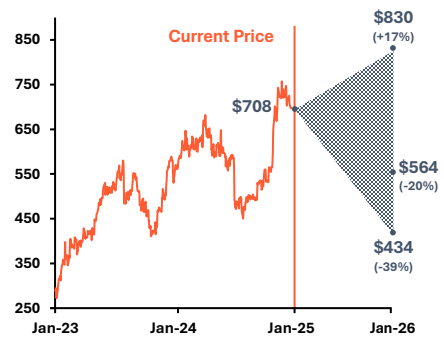
NYSE: HUBS - SELL Rating

Date	1/7/2025
Current Price	\$708
Target Price	\$564
Gap to Target	(20%)
Market Capitalization (\$MM)	\$37,240
Enterprise Value (\$MM)	\$36,304
FDS Outstanding (MM)	52.6
52 Week Low	\$434.84
52 Week High	\$762.47

Valuation Summary

DCF (50%)	\$555
CompCo (50%)	\$573
Blended PT	\$564

Price Target Chart



Catalyst Roadmap

2/13/2025	Q4 Earnings	2025 Guide
3/6/2024	Morgan Stanley Conference	Net Adds ASRPC Upmarket
9/3/2025	Inbound 2025	Long-term AI Strategy

Business Description

Overview

Founded in 2005 and headquartered in Cambridge, Massachusetts, HubSpot provides a comprehensive suite of tools focused on customer relationship management (CRM) solutions. Its platform helps SMB (2 - 300 employees) B2B companies attract, engage, and retain customers through a connected ecosystem of integrations, templates, and marketing resources. HubSpot services 238,000 customers in more than 135 countries. Approximately 53% of its customers are located outside the United States contributing about 47% of total revenue.

Business Model

Operating Segments

HubSpot generates revenue through 1) Subscription Revenue (98%) and 2) Professional Services (2%). Subscription revenue is derived from the sale of its CRM platforms across six core hubs offered individually or in bundles at Starter, Professional, and Enterprise tiers. Subscription revenue plans are dynamic in pricing with additional upsell from the sale of marketing contacts, edition (tier) upgrades, Breeze AI credits, and seat additions. Professional Services provide onboarding, training, and consulting support for new and existing HubSpot customers; however, the company mainly sources this work to solution partners.

Product Suite

HubSpot's dynamic pricing allows customers to choose from six product hubs at varying levels of capabilities through different tiers. (Figure 1) shows the pricing for the Starter, Pro, and Enterprise tier bundles that give customers access to every hub. The six hubs are Marketing, Sales, Service, Content, Operations, and Commerce (Appendix D). HubSpot's first product was their Marketing hub, which is considered one of the best marketing CRMs and HubSpot's most popular product (Figure 2). HubSpot hubs are considered some of the industry's most user-friendly tools.

Growth Strategy

HubSpot's sales strategy follows a land-and-expand approach, acquiring customers through two internal channels and one external channel. Internal channels account for 54% of revenue and include 1) digital-driven sales, which focus on smaller customers by leveraging freemium tools and Starter plans to onboard businesses with minimal sales interaction, and 2) direct sales teams, which engage prospects globally, converting inbound leads. The external channel consists of 3) solution partner-driven sales, which account for 46% of revenue, with 75% of Pro+ customers onboarded through solution partners (Figure 4). After acquiring customers, the company expands them through additional hubs, seats, AI credits, and other upsell (Figure 5).

Industry & Competitive Positioning

To gain deeper insights into the CRM industry, we spoke with 8 industry experts to discuss CRM historical developments, key drivers, and ongoing innovations. The experts consisted of industry thought leaders, CRM company executives, and IT Consultants.

Market Dynamics: Saturation and Limited Growth in Enterprise (Negative)

The CRM market is projected to grow at a 15% CAGR, reaching \$281 billion in the next four years. HubSpot aims to capture a share of its \$128 billion Total Addressable Market (TAM) by increasing adoption of its core products. However, this target is ambitious, as the CRM industry already has a 91% penetration rate among businesses with 10+ employees. The market is highly concentrated, with five major players—Salesforce, Microsoft, Oracle, SAP, and Adobe—controlling 39% of market share, while HubSpot holds only 2.8% (Figure 6). The market is split between SMBs (37%) and Enterprises (63%), with Enterprises contributing a disproportionate share of TAM due to larger contracts and higher ASRPC (Figure 7). HubSpot's reliance on SMB upselling contrasts with Salesforce's dominance in the segment, fueled by 63 acquisitions since 2008 that enhances Salesforces' integrability and functionality. This shows HubSpot's challenges in winning large Enterprise contracts (Figure 8).

Headwind: Market saturation and high switching costs constrain growth.

Tailwind: SMB adoption in emerging markets offers growth potential

Key Driver: Digital transformation continues to drive CRM demand.

Figure 1: Monthly Bundle Cost by Tier

Source: Company Website

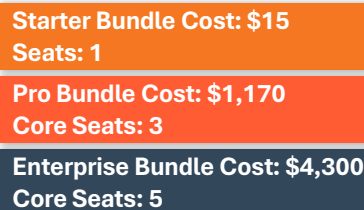


Figure 2: ARR by Hub

Source: Company Filings, 2024

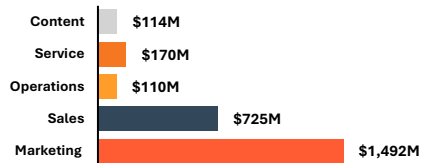


Figure 3: % Hub Occupancy

Source: Company Filings, 2024

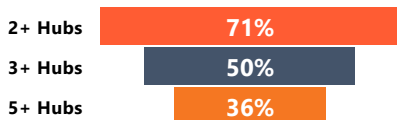


Figure 4: Solution Partners

Source: Company Filings, 2024

HubSpot has 1,576-tiered solution partners. They are evaluated on monthly recurring revenue (MRR), retention rates, and software engagement. Core tiers include Elite, Diamond, Platinum, and Gold.

Figure 5: 2024 Subscription Revenue Growth

Source: Company Filings | Team Analysis, 2024

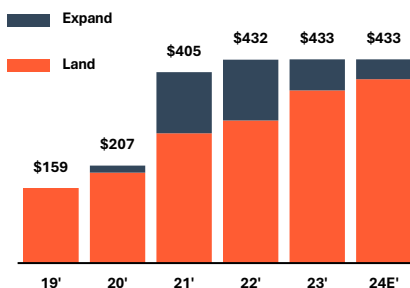


Figure 6: Industry Market Share

Source: Salesforce Website, 2024

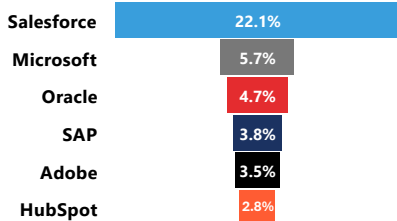
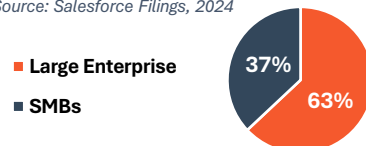


Figure 7: Industry Revenue Share Segments

Source: Salesforce Filings, 2024



Industry Innovation: AI Integrations as a Growth Engine (Moderate)

AI's emergence in CRM promises to enhance automation, efficiency, and data-driven decision-making. Generative, predictive, and agentic AI models (**Figure 9**) are being deployed to improve customer support, retention, and sales outcomes. Despite increased R&D spending (2–4% over recent quarters), AI adoption faces challenges. Monetization strategies are unclear, and adoption rates, particularly among SMBs, remain low. Experts noted a multi-year lag before tangible benefits materialize. While AI is a promising growth engine, it currently acts as a cost without contributing meaningfully to top-line growth.

Headwind: Low adoption rates and unclear ROI delay AI's impact.

Tailwind: Continued innovation could reshape CRM capabilities.

Key Driver: Automation and data-driven solutions fuel AI investment.

Customer Engagement: Non-Accretive ROI is a dealbreaker (Negative)

ROI is critical for CRM adoption. SMBs, with limited budgets, demand high value at low cost. However, only 37% of sale reps feel their organizations fully utilize CRM tools, and 40% cite feature limitations as a major barrier. Just 51% of SMBs adopting CRM, report improved lead conversion rates. This perceived lack of ROI discourages SMB adoption, turning CRM into a cost center. Expert D emphasized that companies invest in CRM for outcomes, not tools (**Appendix E**). Without better ROI, TAM for Professional and Enterprise clients could compress as fewer SMBs upgrade.

Headwind: Limited ROI realization undermines SMB retention.

Tailwind: Tailored solutions addressing SMB needs could boost adoption.

Key Driver: Outcome-focused tools remain key to CRM value.

Competitive Analysis: HubSpot vs. Upmarket Players

HubSpot competes in a market dominated by Salesforce, Microsoft, Oracle, SAP, and Adobe, which collectively hold significant market share through robust product ecosystems, extensive integrations, and acquisition strategies. Salesforce excels with platform depth and strong Enterprise appeal, while others leverage their large customer bases and established reputations. HubSpot differentiates itself with user-friendly simplicity, which appeals to SMBs but limits its ability to compete for Enterprise-level clients that demand extensive customization and higher performance capabilities.

Competitive Analysis: HubSpot vs. SMB Players

HubSpot pioneered CRM solutions for SMBs and established itself as a leader. However, the CRM market has grown, with nearly 3,000 solutions now available globally. In 2014, the top five providers held 50% of the market share, which has since fallen to 39%, highlighting the rise of alternatives. Competitors like Pipedrive, Zoho, and SugarCRM, along with solution partners offering cheaper or niche options, have intensified competition. This shift has increased the pressure on HubSpot to stand out in a crowded market.

Investment Summary

1) Impending Slowdown in Pro & Enterprise Growth

Break in HubSpot's Bimodal Strategy

HubSpot's revenue growth is driven by Pro and Enterprise tiers (Pro+ tiers), which account for 95% of its MRR and 53% of its customer base (**Figure 10**). The company follows a bimodal strategy to acquire Pro+ customers; 1) land Starter customers through online channels and then upgrade customers to Pro+ tiers or 2) land Pro+ customers through their solutions partners and sales team. Following continuous price drops in the Starter tier (**Figure 11**), the pricing gap between Starter and Pro tiers has significantly widened. Backed by our primary research (**Appendix J**), the continuous price cuts have already slowed the Starter to Pro upgrades (**Figure 12**), and the latest price cut in May of 2024 will continue to make organic upgrades from Starter to Pro largely obsolete. To compensate for fewer organic customers, we believe HubSpot's sales team and solution partners are incentivized to 1) target larger enterprise clients or 2) oversell features to new customers to meet growth goals.

Figure 8: Employees & Product Tiers

Source: Company Filings, 2024

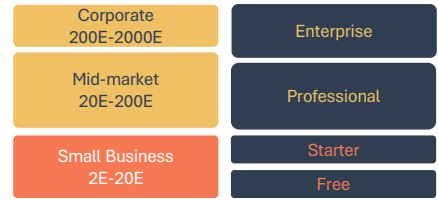
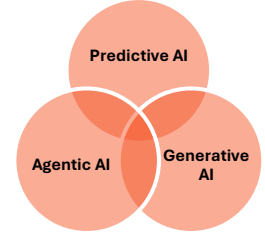


Figure 9: Types of AI in CRM

Source: Company Filings, 2024



"AI adoption among clients remains limited, with more interest in workflow automation and content enhancements"
- HubSpot Solution Partner

Figure 10: Starter vs Pro+ Breakdown

Source: Company Filings, 2024

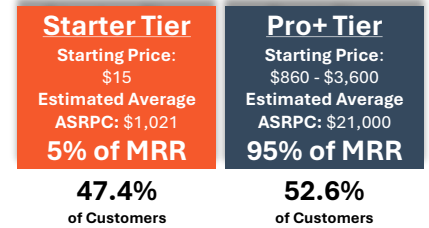


Figure 11: Pro & Starter Tier Pricing

Source: Company Filings, 2019-2024

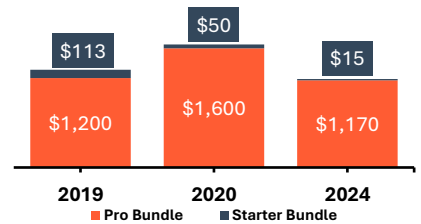


Figure 12: Starter to Pro Annual Recurring Revenue (ARR) Growth

Source: Company Filings | Team Analysis, 2023-2024

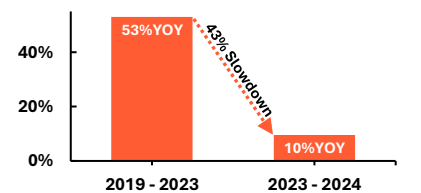
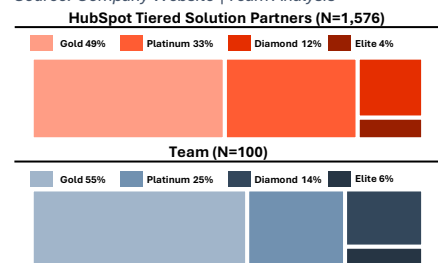


Figure 13: Team vs HubSpot SP's

Source: Company Website | Team Analysis



Sales Ecosystem tailored for SMB's

Conversations with 100 solution partners indicate that HubSpot's sales network is designed to attract and onboard SMB customers, with only a small percentage having experience working with larger Pro+ clients, as most fall below the 300+ employee threshold for Enterprise (Figure 14). Beyond limited experience, these partners often lack the advanced technical expertise that Enterprise clients demand. In contrast, Salesforce partners emphasize product customization, optimization, and deep expertise in specific industry verticals. HubSpot's roots as a marketing platform mean its partners primarily offer broad marketing services rather than specialized vertical solutions. Our primary research shows that Enterprise clients require customized workflows tailored to their unique business needs—an area where few HubSpot partners excel—hindering HubSpot's ability to move upmarket and compete effectively for Enterprise-level clients.

Product Limitations for Enterprise

While HubSpot's product has taken significant steps forward, now offering a comprehensive CRM suite, the HubSpot product lacks specification that enterprise level clients require. A former HubSpot enterprise software engineer noted that HubSpot lags significantly in product development with product feature set 5+ years behind Salesforce. The founder of the largest HubSpot solution partner recognized that Salesforce caters to complex enterprise requirements, and HubSpot captures enterprise clients primarily when they pitch to the five percent of executives dissatisfied with Salesforce product - a small pool of potential customers.

Narrative to Numbers

Our research revealed 1) the organic Starter to Pro upgrades cycle will significantly slow (Figure 15) and 2) the HubSpot product and sales network is not built to win enterprise clients. As a result, we have forecasted Pro+ customer growth to slow down to a 9.3% CAGR over our projection period. We anticipate customer wins to slow from expected 14,000 new Pro+ customers to 12,000 in 2029E due to less customers wins in a challenging environment, while the street expects new customers from Pro+ to grow to 15,000 in 2025E and go to 13,000 in 2029E, leading to a 7.5k difference in the next 6 years (Figure 16).

2) Inability to Monetize AI from Customer Spend

HubSpot's second lever for top-line growth is increasing existing customer spend, tracked through net revenue retention (NRR). After rising to +110% for two consecutive years post-pandemic, driven by higher business spending and hub adoption, NRR has since declined to 102%. Although HubSpot aims to return to 110% NRR, average hub adoption has stabilized, making management's targets increasingly dependent on AI-driven enhancements rather than traditional hub upgrades to boost customer spend (Figure 17).

Past Success

NRR has declined over the past three years because the percentage of Pro+ customers using three or more hubs has stabilized at around 30%, indicating that most Pro+ customers needing additional hubs have already upgraded following the launch of new hubs in 2022 (Figure 18). While new customers are being upsold with more features than existing ones, our primary research indicates that aggressive initial selling followed by downgrades will persist, as SMB remain highly ROI-conscious and tend to downgrade if value isn't met. Other expansion efforts, such as selling marketing products and tier upgrades, are expected to become less impactful as marketing loses priority and tier price gaps widen. To accelerate ASRPC, the street expects AI and seat additions to drive 8% YoY growth and \$310 million by 2027 (Figure 17).

Monetization of AI and Seat Additions

A tenured HubSpot product engineer described their AI efforts as "100% a defensive play to keep up with competition." Rather than focusing on monetizing AI tools, HubSpot is working to match the pace of competitors. The company faces intense competition from agile, AI-native SMB CRMs and enterprise giants like Salesforce, Oracle, and SAP, which leverage large R&D budgets and extensive datasets to create more advanced AI products. Our research with over 100 solution partners revealed that 95% of clients have either never used HubSpot's

Figure 14: Solution Partner Primary Research Customer Sizes

Source: Primary research | Team Analysis, 2024

What are the sizes of the companies that you work with in terms of number of employees? (Check all that apply)

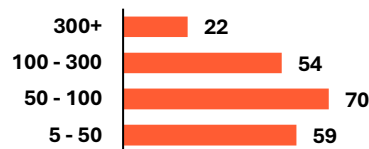


Figure 15: Pro+ Customer Growth

Source: Company Filing | Team Analysis, 2024

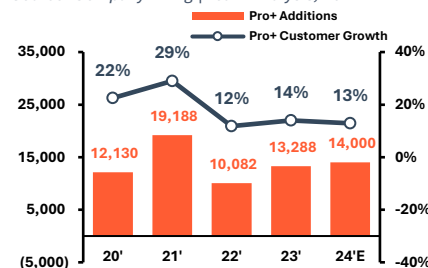


Figure 16: Pro+ Customer Additions

Source: Company Filing | Team Analysis, 2024

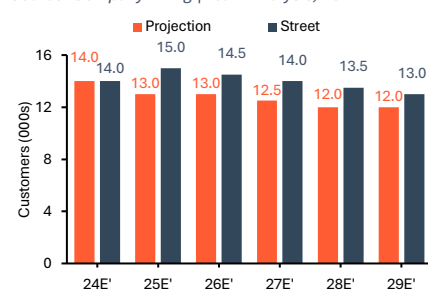


Figure 17: Street vs. Team Net Revenue Retention (NRR) Estimates

Source: Company Filing | Team Analysis, 2019 - 2024

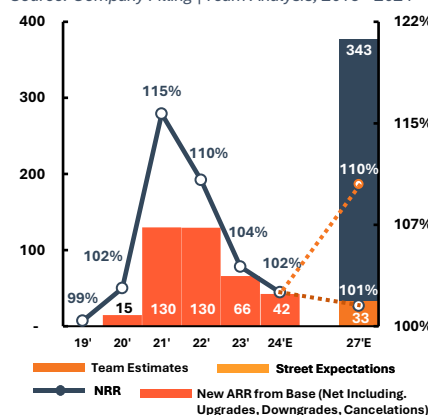
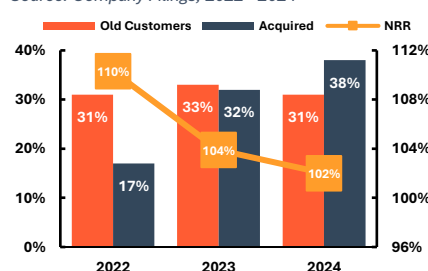


Figure 18: Existing vs Acquired Customers 3+ Hubs

Source: Company Filings, 2022 - 2024



AI features or are still testing them (**Appendix J**). We believe that while basic AI tools such as summarization and generative AI may appeal to SMBs, they will be on par with competitor and third-party offerings. In contrast, high-value AI solutions like agents and data enrichment are expected to be superior in enterprise-grade platforms. As monetization remains a second thought in HubSpot's development, major competitors like Oracle continue to offer AI capabilities at no additional cost, increasing pressure on HubSpot. Additionally, unmonetized AI solutions that improve customer efficiency could act as a headwind to HubSpot's seat-based pricing model.

Narrative to Numbers

We project NRR of 101-102% over the next five years, below market estimates of 110%, driven by a 1-2% uplift from the seat-based pricing model and a 1-2% increase from AI adoption but constrained by a stable 12% annual gross churn and ongoing downgrades and limited upsell from aggressive selling practices. This translates to an ASRPC of 11,545 in 2028E, compared to the Street's estimate of 13,864 from current 11,402, reflecting a 17% discrepancy (**Figure 27**).

3) Aggressive Margin Expansion Will Not Be Realized

As SaaS companies mature, they leverage economies of scale by spreading fixed costs, such as infrastructure, product development, and customer acquisition—across a growing revenue base. HubSpot exemplifies this trend, improving its non-GAAP EBIT margin to an expected 16.6% in 2024 from 2% in 2017 (**Figure 19**). However, HubSpot's strategic pivot toward enterprise clients presents challenges, including rising customer acquisition costs, increased R&D investments, and margin pressures from its Starter-tier offerings that aren't appreciated by the market. These dynamics raise questions about the street's optimistic forecast of a 25% EBIT margin by 2029.

Sales and Marketing (S&M)

S&M is HubSpot's largest expense, representing 41% of revenue (**Figure 19**). These costs include personnel expenses, sales commissions, and marketing initiatives. As HubSpot moves upmarket to attract enterprise clients, CAC (the amount spent on S&M to generate a dollar of ARR) is expected to rise due to the specialized needs of larger customers. Conversations with enterprise-focused CRM sales representatives highlighted the high costs associated with employing specialized sales team dedicated to specific industries or regions rather than a generalist approach. Additionally, HubSpot sales representatives pointed to an increasing need for additional sales personnel to meet growing customer demands. The current CAC of 2.1x is projected by the street to rise to 2.4x by 2029. However, we anticipate a steeper increase to 3.7x, aligning more closely with Salesforce's 4.2x, as HubSpot will target more enterprise clients (**Figure 21**). We expect S&M expenses to improve to 37.3% of revenue, which would lag the street's forecast of 35.0% (**Figure 20**). At the levels that the street is projecting for S&M, HubSpot won't be able to start penetrating the enterprise CRM market as it will lack sales personal and specialized client requests.

Research and Development (R&D)

HubSpot's R&D expenses currently account for 20% of revenue, driven by personnel costs and product development. While the street expects R&D expenses to decline to 18.2% of revenue by 2029, we project no decrease (**Figure 22**). Conversations with HubSpot's solution partners revealed the significant investment required to remain competitive in AI development. They emphasized that the race for AI dominance will favor those who invest early, and Salesforce's R&D spend is nearly 8 times that of HubSpot (**Figure 23**). As a result, ongoing investments in AI and tailored solutions for diverse industries will be crucial to maintaining product differentiation and functionality.

EBIT Margin Difference / Narrative to Numbers

We forecast 20.7% EBIT margin by 2029 compared to the street's 24.4% (**Figure 24**). The gap arises from higher anticipated CAC and sustained R&D investments. While the street anticipates faster margin recovery, we foresee gradual improvements driven by sustained investments in enterprise market expansion and AI development.

Figure 19: Total Expenses

Source: Company Filings | Team Analysis, 2024

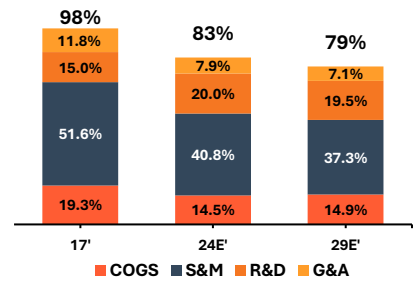


Figure 20: S&M as % of Revenue

Source: Factset Estimates | Team Analysis, 2024

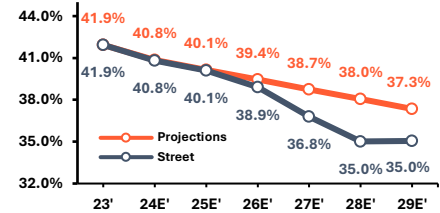


Figure 21: CAC Expenses

Source: Factset Estimates | Team Analysis, 2024

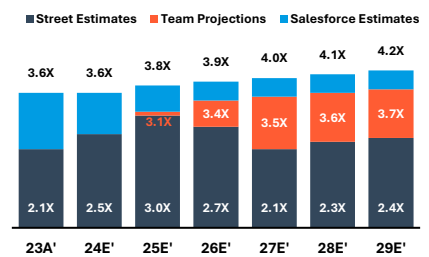


Figure 22: R&D as % of Revenue

Source: Factset Estimates | Team Analysis, 2024

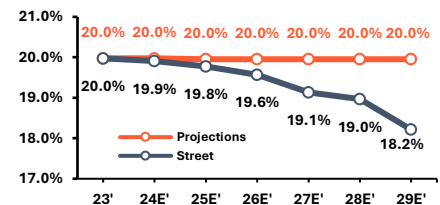


Figure 23: R&D Expense (B)

Source: Factset

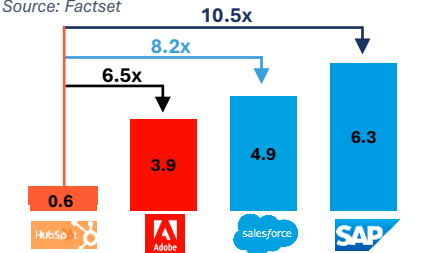
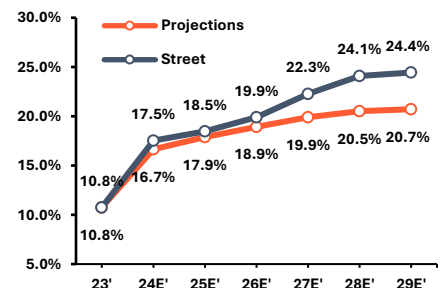


Figure 24: EBIT Margin Difference

Source: Company Filings | Team Analysis, 2024



Financial Analysis

Customer Acquisition: Low Value Customers to Drive Growth

HubSpot has been able to grow customers over the last 5-years at a 29.4% CAGR, slowing as of 3Q24 to 23% YOY. More importantly continuous price cuts in the Starter tier (**Figure 11**) has maintained acquisition of low value customers, while Pro+ customer growth has continued to decelerate (**Figure 25**). We forecast customer growth roughly in line with the street's expectations, however we believe these estimates will be largely driven from cheaper Starter tier customers (**Figure 26**). We forecast a slight decrease in Pro+ customer wins over our projection period due to increasing competition in the SMB space, less organic Starter to Pro & Enterprise upgrades, and friction to win Enterprise clients (**Thesis 1 Pg.3**) along with slower sales cycles associated in selling to enterprise customers.

ASRPC: Declining Trends Signal Pressure on Growth

Average Subscription Revenue Per Customer (ASRPC) is driven by increased spending from existing customers and higher ASRPC contributions from new customers who onboard at premium tiers. Regarding new customer ASRPC, while we believe the company will struggle to succeed in attracting larger customers, we have forecasted new Pro+ customer ASRPC to continue growing at a 5.3% CAGR over our projection period. This is due to a smaller number of wins with larger contract value (**Figure 27**).

The more impactful lever of ASRPC growth is the increase in existing customer spend through additional hubs, tier upgrades, seat additions, marketing contacts, and now Breeze AI credits. We believe added hubs has stabilized to ~31% and will likely remain muted, street's tier upgrades as the pricing gaps have increased limiting upgrades. The sale of Marketing contracts is likely to remain stable with no added tailwinds moving forward. As highlighted in our second thesis point (**Thesis 2, Pg 4**), we believe the streets expectations of increased spend from AI remains unlikely for HubSpot and increases in unmonetized efficiency gains are also likely to act as a headwind to increased seat additions.

We divided ASRPC into Starter and Pro+ tiers, which show different trends. Starter ASRPC, currently \$1,161, is expected to decline 12% to \$968 by 2029, while Pro+ ASRPC is projected to grow at a 3.9% CAGR to \$24,990, driven by new customers. Combined ASRPC is projected to remain flat (**Figure 28**).

Annual Recurring Revenue (ARR): Slowing Growth Challenges Expectations

HubSpot defines Monthly Recurring Revenue (MRR) as monthly subscription fees, with Annual Recurring Revenue (ARR) calculated by multiplying MRR by 12. Historically the company has been able to grow ARR due to the combination consistently landing Pro+ customers and expanding existing customer spend, increasing ASRPC. Decelerating customer growth and (**Figure 25**) and saturated upsell opportunities will cap ASRPC (**Figure 28**) and lead to ARR growth below the street's expectations.

Margin Analysis: Efficiency Gains Weighed Down by Investment Costs

HubSpot's total expenses have declined from 98% of revenue in 2017 to 83% in 2024 (**Figure 18**), reflecting the SaaS industry trend of achieving economies of scale as the customer base grows. Sales & Marketing expenses decreased from 52% to 41%, R&D increased from 15% to 20%, G&A dropped from 12% to 8%, and COGS fell from 19% to 15%.

By 2029, total expenses are projected to decline further to 79.3%, driven by continued efficiencies and economies of scale. However, this represents a slower margin expansion than the Street's estimate, with a 320bps difference due to elevated Sales & Marketing costs as HubSpot pursues enterprise clients with higher CAC and R&D expenses, which are unlikely to decrease given the ongoing costs of AI development and innovation (**Thesis 3, Pg 5**). We expect G&A, which includes personnel costs for executive, finance, legal, and HR functions, to fall by 0.8% by 2029 due to scale efficiencies, while COGS is expected to remain at 15% due to variable costs such as managed hosting and third-party services (**Figure 29**).

Figure 25: Pro+ Customer Growth

Source: Company Filings | Team Analysis, 2018-2024

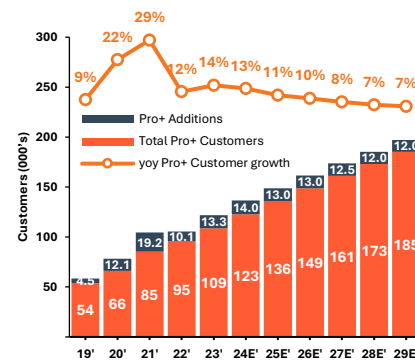


Figure 26: New Customers Tier by %

Source: Company Filings | Team Analysis, 2018-2024

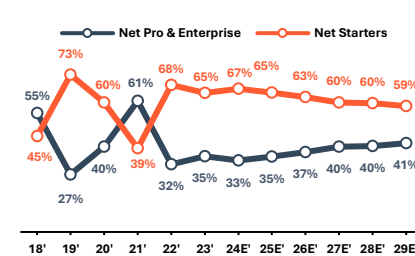


Figure 27: Pro+ Base vs New ASRPC

Source: Team Analysis, 2024

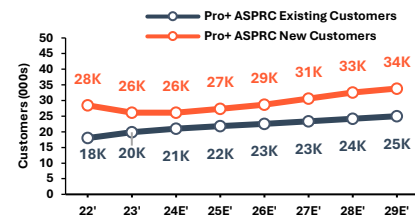


Figure 28: ASRPC Team vs Street

Source: Team Analysis, 2024

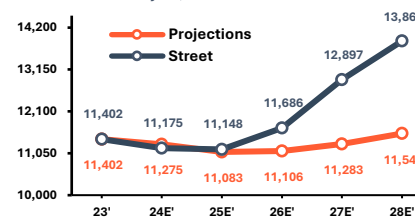


Figure 29: Total Expense % Revenue

Source: Company Filings | Team Analysis, 2023-2024

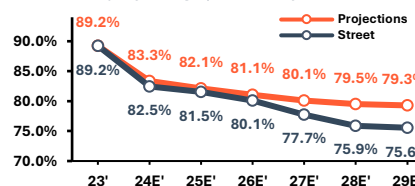
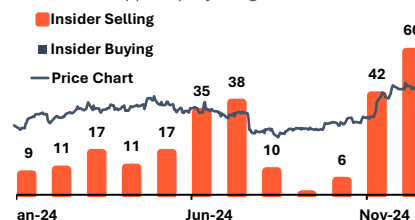


Figure 30: Insider Transactions (000')

Source: Nasdaq | Company Filings



Insider Selling: Share Offloading as Share Price Hits 3-Year High

Insider selling surged as the stock hit its 52-week high, indicating management sees the current price as a chance to take profits. CEO Rangan Yamini sold 61k shares at \$713, totaling \$43mm, with 107k shares sold in the last three months and no purchases from executive board. This suggests management may view the stock as overvalued with expectations exceeding performance (Figure 30).

Stock-Based Compensation: An Impactful Afterthought

SBC grew from 12.1% of revenue in 2017 to 19.9% in 2023 (Figure 31), driven by employee growth at a 26% CAGR. By 2029, SBC is projected to rise to 21.7% of revenue as employee growth moderates to a 20% CAGR. This will result in 1.7% annual share dilution, increasing non-GAAP adjusted outstanding shares and adding pressure on EPS growth (Figure 32). Significant R&D and S&M headcount additions are anticipated to support enterprise customer acquisition.

Liquidity Risks: Balance Sheet Poses Low Risk

HubSpot maintains strong liquidity, with a quick ratio consistently above 1.0x since 2017. In 2023, the ratio was 2.2x, indicating sufficient liquid assets to cover short-term liabilities even in a crisis. The company also maintains a net cash position of approximately \$1 billion, further strengthening its balance sheet. Over our projection period, we expect the quick ratio to remain above 2.0x, reflecting low liquidity risk and prudent capital management.

Valuation

Our **SELL** rating with a target price of \$564, derived by weighting our Discounted Cash Flow (DCF) analysis at 50% and our Comparable Companies (CompCo) analysis at 50% (Figure 33). Our target price implies a potential downside of (20%) based on the latest share price close of \$708 as of January 6th, 2025. This valuation reflects the anticipated impact of customer growth, average subscription revenue per customer growth, and operating leverage over the 2024-2029 forecast period. We assess HubSpot's relative valuation against peers through a CompCo analysis and incorporate scenario testing to potential share price trajectories over the next 12-18 months.

Discounted Cash Flow Analysis

Our DCF analysis incorporates free cash flow projections and an EV/Sales exit multiple to capture HubSpot's growth beyond 2029. This analysis reflects slower market penetration, moderate growth in ASRPC, and slower than expected margin expansion due to increased R&D investments and higher customer acquisition costs. Our DCF valuation results in a target price of \$555, representing a potential downside of (20%) (Figure 34).

WACC: We discount HubSpot's future cash flows using a Weighted Average Cost of Capital (WACC) of 10%, derived from a risk-free rate of 4.5% (10-year U.S. T-Yield), an equity risk premium of 4.6%, and a beta of 1.2, adjusted for HubSpot's capital structure based on median beta values of CRM enterprise peers (Figure 35). Using these inputs, we calculate HubSpot's cost of equity and cost of debt, arriving at a WACC that reflects the company's risk profile.

Terminal Value: To estimate HubSpot's terminal value, we apply a 9.5x EV/Sales multiple to our 2029 Sales forecast. This multiple reflects a premium to EV/Sales multiple of HubSpot's peer group and reflects the tapering revenue growth expected beyond 2029. While this represents a step-down from HubSpot's current multiple, it appropriately accounts for the company's growth deceleration and challenges in customer growth in enterprise level going closer to the peer groups mix.

Scenario Analysis: Our base, downside, and upside scenarios provide a comprehensive view of HubSpot's potential share price trajectory. The base case incorporates moderate growth in ASRPC, slower enterprise customer penetration, and rising customer acquisition costs, yielding a target price of \$546. The upside case accounts for declining ASRPC as well as slower customer acquisition and further margin compression, with a target price of \$316 (55% downside) (Figure 36). The downside case assumes higher-than-expected ASRPC growth, stable net addition in pro & enterprise, and improved operational efficiencies, resulting in a target price of \$830 (17% upside).

Figure 31: HubSpot SBC (MM)

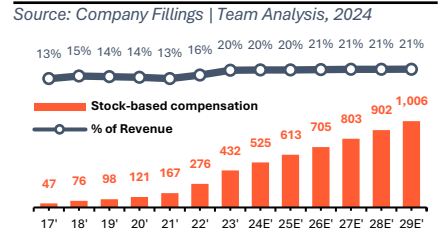


Figure 32: Share Dilution

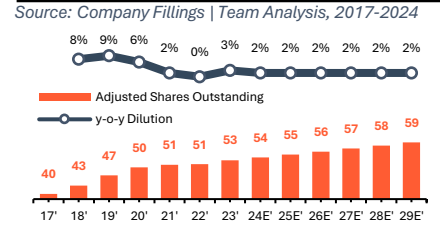


Figure 33: Valuation Matrix

Source: Team Analysis, 2024

Methodology	Weight	Price
DCF	50%	\$555
CompCo	50%	\$573
Blended PT		\$564
Downside		(20%)

Figure 34: DCF Output

Source: Team Analysis, 2024

Base Case (\$MM)	
PV of Forecast Period	\$2,552
Terminal Value	\$45,592
PV of Terminal Value	\$25,628
Enterprise Value	\$28,250
Less: Gross Debt	(\$456)
Plus: Cash	\$1,392
Equity Value	\$29,168
Shares Outstanding	53
Implied Share Price	\$554.60
Downside	(20%)

Figure 35: WACC Calculation

Source: Team Analysis, 2024

Pre-tax Cost of Debt	5.35%
Tax rate	21%
After-tax Cost of Debt	4.22%
Risk-free rate	4.53%
Market risk premium	4.60%
Levered Beta	1.21
Cost of Equity	10.10%
Net Debt	\$456M
Market Value of Equity	\$36,150M
Enterprise Value	\$36,606M
WACC	10.02%

Sensitivity Analysis: We performed sensitivity analyses on key assumptions, including WACC (ranging from 9% to 11%) and EV/Sales multiples (ranging from 7.5 to 11.5x) (**Figure 37**). This yields a share price range of \$430 to \$692, representing potential downsides of 39% and potential upsides of -2%. Additionally, a Monte-Carlo simulation with 10,000 iterations supports our SELL recommendation, with our DCF-derived target price falling within the 5th percentile of outcomes, reinforcing confidence in our projections.

Figure 37: Sensitivity Analysis

		WACC				
		11.0%	10.5%	10.0%	9.5%	9.0%
EV/Sales	7.5x	\$430	\$441	\$452	\$463	\$475
	8.5x	\$479	\$491	\$503	\$516	\$529
	9.5x	\$528	\$541	\$555	\$569	\$584
	10.5x	\$576	\$591	\$606	\$622	\$638
	11.5x	\$625	\$641	\$658	\$675	\$692

Relative Valuation

Our relative valuation is derived from two equally weighted CompCo's with two different peer sets: Enterprise CRM competitors and high growth Software as a Service (SaaS) based companies. Given a limited number of publicly traded pure play CRM platforms with similar scale to HUBS, we chose to analyze the company based off its larger enterprise competitors and high growth SaaS peers. Our blended target price implies a target price of \$573 and a 19% downside to HUBS' January 6th, competitor's price (**Figure 39**).

Enterprise CRM CompCo: Our Enterprise CompCo is based on an EV/Sales multiple and arrives at a price target of \$580. The four companies selected in our analysis reflect leading four of the top five largest enterprise CRM providers (**Figure 38**), excluding MSFT due to CRM being a small % of its revenue and a large % of revenue derived from hardware sales. Given the different margin profile of HubSpot in comparison to the mature enterprise comp set, we believe that an EV/Sales multiple is the best metric to evaluate the companies. HubSpot has historically traded at a 63% premium to the average EV/Sales multiple of their enterprise competitors, or 43% when excluding covid. We believe investors are willing to pay a premium for the faster top-line growth that HubSpot has experienced over the last 5 years, however our estimates suggest growth slowing to 15.5% for 2025 compared to a 35% revenue CAGR since 2017. As a result, we have applied a 25% premium to HubSpot's EV/Sales above HubSpot's enterprise competitors' average EV/Sales multiple to arrive at our target price of \$580 and a (18%) downside.

High Growth SaaS CompCo: Our High-Growth SaaS CompCo is based on an EV/Sales multiple and arrives at a price target of \$566. The companies were selected based off four criteria: +80% of revenue derived from software, expected 2-year revenue growth above a 15% CAGR, and market capitalization above \$10 billion (**see Appendix K**). We choose an EV/Sales multiple due to the importance investors place on top-line growth with the belief that margins will expand as companies scale. We benchmarked HubSpot relative to peers on a 3-year revenue growth CAGR and 2026 EBIT margin expectations and believe the company should trade at the 23rd percentile of its peer set. We believe HubSpot's slowdown in top-line growth will lower the multiple investors are willing to pay for HubSpot when compared to its SaaS peers. This leads us to apply a 9.6X multiple on our 2025 revenue estimate, which arrives at a target price of \$566 and a (20%) downside (**Figure 41**).

Figure 41: HubSpot EV/Sales (5-Year)

Source: Factset | team Analysis, 2024

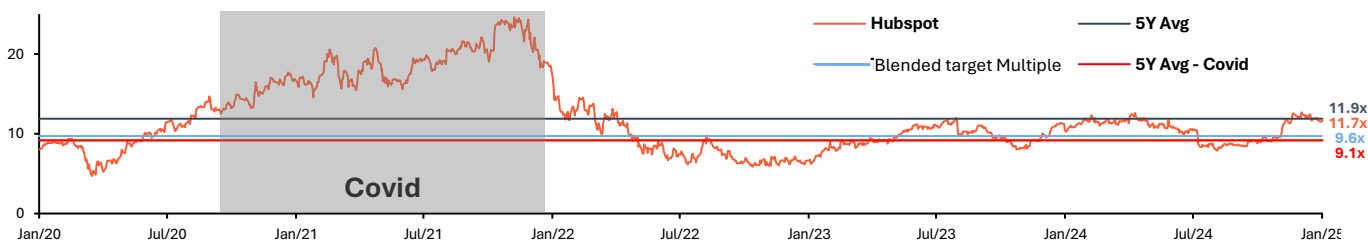


Figure 36: Case Scenarios

Source: Team Analysis, 2024

Criteria	Bear	Base	Bull
Revenue CAGR	13.0%	14.1%	10.1%
EBIT Margins (29E)	24.8%	21.2%	19.0%
Implied Return	17.3%	(20.3%)	(40.8%)

Figure 38: Enterprise EV / 25' Sales

Source: Factset, 2024

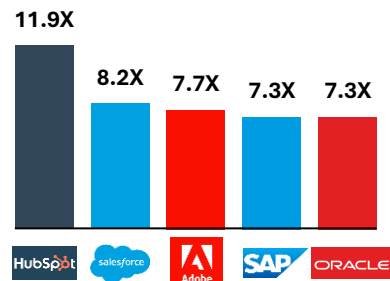


Figure 39: CompCo Matrix

Source: Team Analysis, 2024

Methodology	Weight	Price
Enterprise CompCo	50%	\$580
High Growth CompCo	50%	\$566
Blended PT	100%	\$573
Downside		(19%)

Figure 40: Valuation Football Field

Source: Team Analysis, 2024

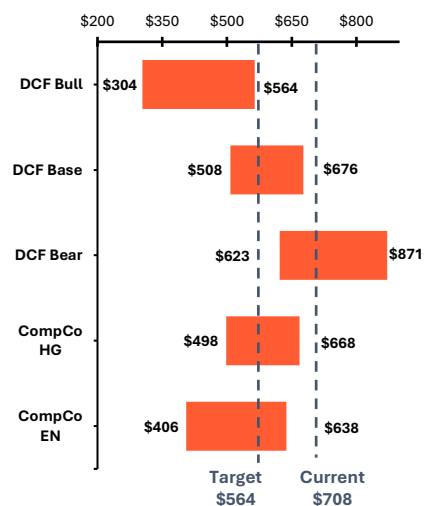


Figure 42: Free Cash Flow Projections

Forecast Year	Historical				Forecast						CAGR	
	2020A'	2021A'	2022A'	2023A'	2024E'	2025E'	2026E'	2027E'	2028E'	2029E'	20-'23	24-'29
Revenue	\$883	\$1,301	\$1,731	\$2,170	\$2,604	\$3,007	\$3,423	\$3,863	\$4,318	\$4,799	35.0%	13.0%
% Growth	30.8%	47.3%	33.1%	25.4%	20.0%	15.5%	13.8%	12.8%	11.8%	11.1%		
Gross Profit (Non-GAAP)	\$725	\$1,052	\$1,431	\$1,845	\$2,226	\$2,577	\$2,941	\$3,323	\$3,704	\$4,086		
Gross Margin (Non-GAAP) %	82.1%	80.9%	82.7%	85.0%	85.5%	85.7%	85.9%	86.0%	85.8%	85.1%		
EBITDA (Non-GAAP)	\$110	\$161	\$225	\$301	\$504	\$619	\$771	\$908	\$1,041	\$1,167		
EBITDA Margin (Non-GAAP) %	12.4%	12.4%	13.0%	13.9%	19.4%	20.6%	22.5%	23.5%	24.1%	24.3%		
EBIT (Non-GAAP)	\$75	\$118	\$169	\$233	\$434	\$538	\$648	\$769	\$885	\$994	46.1%	18.0%
EBIT Margin (Non-GAAP) %	8.5%	9.0%	9.8%	10.8%	16.7%	17.9%	18.9%	19.9%	20.5%	20.7%		
NOPAT (Net Operating Profit After Taxes)	\$59	\$93	\$134	\$184	\$343	\$425	\$512	\$607	\$700	\$785		
(+) D&A	\$35	\$44	\$56	\$67	\$70	\$81	\$123	\$139	\$155	\$173		
(-) CAPEX	(\$59)	(\$62)	(\$82)	(\$100)	(\$115)	(\$147)	(\$175)	(\$205)	(\$238)	(\$274)		
(-) Δ in NWC	(\$37)	(\$96)	(\$49)	(\$46)	(\$69)	(\$109)	(\$133)	(\$150)	(\$190)	(\$231)		
Unlevered FCF					\$367	\$467	\$594	\$691	\$808	\$915		
Discount Rate					10.03%	10.03%	10.03%	10.03%	10.03%	10.03%		
Discount Period						1.00	2.00	3.00	4.00	5.00		
Present Value of Unlevered Free Cash Flow					\$425	\$491	\$519	\$551	\$568			

Investment Risks

[M1] Market Risk | Booming Macroeconomic Backdrop

CRM spending is sensitive to recessionary pressures, as management noted considering HubSpot’s reduced Net Revenue Retention (NRR) to 102%. A greater-than-expected acceleration in software spend among SMBs amid an improving economic backdrop could meaningfully benefit HubSpot’s spend.

Mitigant: Improvements in the macroeconomic environment do not disturb our core theses centered around HubSpot’s struggle to move upmarket, stagnant Pro+ Hub adoption from existing customers, and a saturated and increasingly competitive SMB CRM market (Figure 44). Our conversations with 100 SP revealed that the SMBs have increasingly been exploring alternatives to HubSpot.

[M2] Market Risk | Solution Partner Buyouts

Solutions Partners and CRM Platforms work in tandem to get users onto the platform, creating a mutually beneficial relationship where HubSpot gets their users and Solutions Partners get their compensation. Although, with more buyouts of Solutions Partners from bigger solution partners or PE firms, profit-taking might be the most important checkpoint to hit - creating an emphasis on chasing larger deals contributing more ASRPC.

Mitigant: Despite more acquisitions happening in the Solutions Partners space, further acceleration will take many more years before seeing meaningful change. Additionally, penetration in CRM is high at 91%, meaning that there aren’t many more CRM deals with limited market share opportunity coupled with HubSpot’s product that isn’t meant for enterprise clients (Figure 45).

[F1] Firm Risk | Accelerated AI Monetization

The AI suite is being offered at lower price points to increase adoption; management has noted that 50% of Pro and 65% of Enterprise users have used AI in some form on the HubSpot CRM. If adoption continues to increase, it may make monetization viable and lead to greater top-line revenue growth (Figure 46).

Mitigant: Conversations with 100 solution partners revealed that 42% of the partner network sees little value in HubSpot’s AI tools. SMBs, operating on tighter IT budgets, prioritize tools with clear ROI—something HubSpot’s AI features have yet to demonstrate, as noted by a HubSpot engineer. Additionally, developing competitive AI capabilities requires significant R&D investment, an area where HubSpot lags behind its upmarket competitors.

[F2] Firm Risk | Upmarket Expansion to Enterprise Customers

HubSpot remains heavily concentrated in the SMB segment, primarily serving businesses with 2–300 employees, according to company disclosures and our primary research. Expanding into enterprise businesses with 1,000+ employees could drive higher ASRPC and revenue growth above our estimates (Figure 27).

Mitigant: Our primary research shows that 69% of respondents reported increased adoption of HubSpot’s platform by SMBs—customers who are more likely to use lower-tier plans like Starter and Professional. In contrast, enterprise clients tend to prefer platforms from larger CRM providers like Salesforce, which offer superior integrability and AI capabilities.

Figure 43: Investment Risk Matrix

Source: Primary Research, 2024

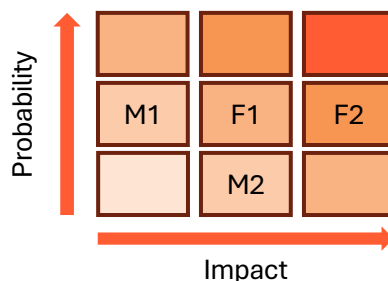


Figure 44: Enterprise Market Value

Source: Primary Research, 2024

Enterprise Market Size (\$mm)	\$40,100
2026 Market Share Estimate	5.0%
Revenue Opportunity (\$mm)	\$2,005

Figure 45: What are the biggest use cases for AI?

Source: Primary Research, 2024

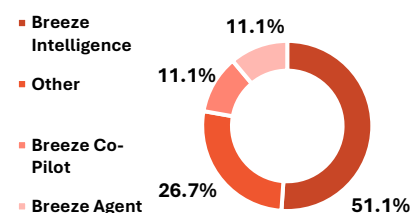
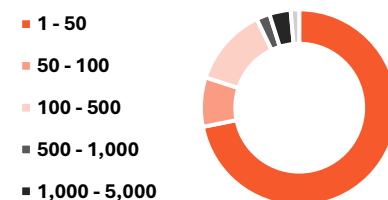


Figure 46: CRM Installations by Company Size

Source: Company Filings, 2024



Environmental, Social, Governance (ESG)

ESG Score: Our team’s ESG score for HubSpot is 5.71 (**Appendix F**), slightly below MSCI’s 5.92, reflecting a more critical stance on governance and environmental practices. HubSpot performs well in carbon emissions and data privacy but faces challenges in supply chain sustainability, board independence, and diversity initiatives, contributing to a lower score compared to MSCI.

Environmental

HubSpot (HUBS) has made notable strides in environmental sustainability, with a commitment to achieving net-zero greenhouse gas (GHG) emissions by 2040. HubSpot also targets a 47% reduction in Scope 1 and 2 GHG emissions by 2030 (**Figure 47**). Its collaboration with the Science-Based Targets (SBTi) ensures alignment with global warming limits, and its migration to AWS’s graviton-based EC2 servers has reduced energy consumption by 60%, demonstrating a commitment to operational efficiency. Challenges remain in supply chain sustainability, with only 14% of suppliers having science-based targets, contributing to a 21.1% year-over-year increase in Scope 3 GHG emissions in 2023. Additionally, HUBS produces 193,905 lbs. of landfill waste, 24% of its total, without clear reduction measures. Unlike peers such as Microsoft, HubSpot does not conduct sustainability audits globally, limiting accountability.

Social

HubSpot’s social ratings are enhanced by its strong community engagement, DEI efforts, and employee wellness benefits. It encourages employee volunteering through non-profits and schools and earned recognition in 2023, such as Fortune’s “Best Workplace for Women” and People Magazine’s “Companies That Care” awards. Approximately 43% of employees identify as women or non-binary (**Figure 48**), and HubSpot offers programs targeting the development of BIPOC employees. In employee wellness, HubSpot provides mental health support, fitness reimbursements and 16 weeks of paid parental leave, aligning with peers like Salesforce, which also offers programs and mental health resources. However, HubSpot faces challenges in diversity, particularly in tech and leadership roles, where 70% of leadership is white, and two-thirds of tech employees are men (**Figure 49**). Unlike Salesforce and Microsoft, HubSpot lacks a clear benchmark to measure its social impact, leaving room for improvement.

Governance

HubSpot balances shareholder alignment, leadership diversity, and oversight, though there is room for improvement in stability and independence.

Shareholder ownership: Institutional investors hold 90% of total ownership, with the top 10 holders accounting for 44% (**Figure 50**). T. Rowe Price Group holds 8.4%, and Groupama Asset Management holds 1.4%. No shareholder owns more than 10%. This dispersed ownership structure, similar to Salesforce, Microsoft, and Oracle, helps limit the risk of undue influence by a single shareholder.

Executive Compensation: HubSpot’s executive compensation framework blends market positioning with performance-based incentives. CEO Yamini and the co-founders have base salaries of \$1, aligning their interests with shareholders but tying compensation heavily to equity performance, which could risk overemphasis on short-term stock price. The CEO pay ratio of 149:1 (**Figure 51**) is mid-range compared to peers. Other executive compensation includes base salaries, annual cash bonuses, and long-term equity awards, with bonuses tied to pre-established performance metrics: 70% based on ARR growth and 30% on non-GAAP operating income (**Figure 52**).

Management: HubSpot’s leadership team, led by CEO Yamini Rangan and supported by its co-founders (**Appendix A**), faces challenges with recent executive departures, including its CCO and CLO in 2024. While Salesforce and Microsoft demonstrate leadership stability, HubSpot’s reliance on founder influence mirrors Oracle’s structure and could hinder agile decision-making.

Board of Directors: HubSpot’s board prioritizes diversity, with 40% female representation and 35% in management roles (**Appendix A**), surpassing Oracle but aligning with Salesforce and Microsoft. Board independence stands at (70%), below Salesforce (75%) and Microsoft (92%) but above Oracle (69%). The average tenure of 7 years (**Figure 53**) balances institutional knowledge and fresh perspectives, though the 30% non-independent members may impact objectivity

Figure 47: GHG by Scope (MT Co2e)

Source: Company Filings, 2024

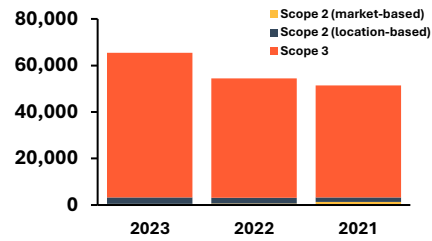


Figure 48: Gender Distribution

Source: Company Filings, 2024

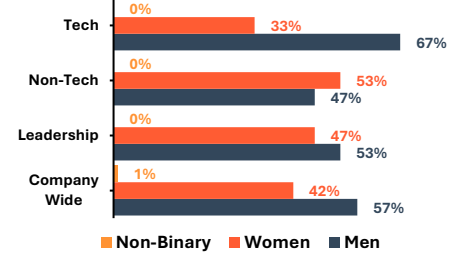


Figure 49: Ethnicity Distribution

Source: Company Filings, 2024

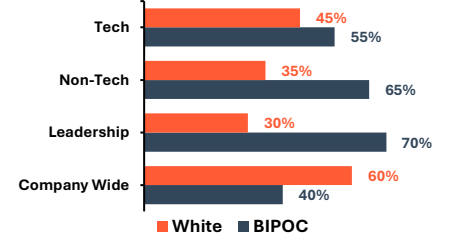


Figure 50: Stock Ownership

Source: FactSet

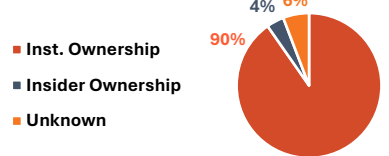


Figure 51: CEO Pay Ratio Comparison

Source: Company Filings, 2024

Company	Name	Ratio
MSFT	Satya Nadella	408:1
CRM	Marc Benioff	240:1
ADBE	Shantanu Narayen	185:1
HUBS	Yamini Rangan	149:1
ORCL	Safra A. Catz	61:1

Figure 52: Performance Based Bonus

Source: Company Filings, 2024

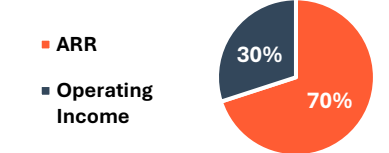
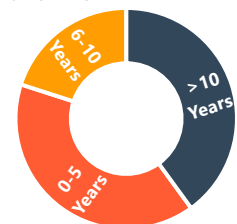


Figure 53: Board of Directors Tenure

Source: Company Filings, 2024



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Appendix A: Executive Management

Name	Position	Tenure	Education	Experience
Yamini Rangan	CEO Board of Directors	2020 - Present	Cal Berkeley (MBA)	Dropbox - CCO & Business Strategy (2016 - 2020)
Brian Halligan	Co-Founder Executive Chair	2006 - Present	MIT (MBA)	Groove - VP Sales (2000 - 2004)
Dharmesh Shah	Co-Founder CTO (Strategic) Board of Directors	2006 - Present	MIT (MS)	Pyramid Digital Solutions - Founder & CEO (1994 - 2005)
Kate Bueker	Chief Financial Officer	2018 - Present	MIT (MBA)	Akamai Technologies - SVP / VP, Business Finance & Operations (2011 - 2018)
Helen Russell	Chief People Officer	2024 - Present	University of Liverpool (BA)	Rivian - Chief People Officer (2019 - 2024)
Andy Pitre	EVP Product	2009 - Present	University of Connecticut (BA)	LEWIS PR - Marketing Executive (2008 - 2009)
Whitney Sorenson	CTO (Operational)	2011 - Present	RIT (BS)	IBM - Advisory Software Engineer (2005 - 2010)
Chris Hogan	SVP Operations	2015 - Present	Dartmouth (MBA)	Barclays - AVP, Software Equity Research (2012 - 2014)
Christian Kinnear	Chief Sales Officer	2015 - Present	UCD (BA)	Google - Head of SAAS Sales & Enterprise Demand Management (2013 - 2015)
Kipp Bodnar	Chief Marketing Officer	2010 - Present	Marshall (BA)	Howard, Merrel & Partners - Social Media Marketing Manager (2007 - 2010)
Alison Elworthy	Chief of Staff & EVP of Central Strategy	2010 - Present	Dartmouth (MBA)	Fidelity - User Experience Specialist (2006 - 2009)
Jon Dick	SVP Customer Success	2016 - Present	Harvard (MBA)	Trunk Club - Marketing Director (2015 - 2016)

Appendix B: Glossary of Key Company Terms

ARR: Annual Recurring Revenue
ASRPC: Annual Subscription Revenue Per Customers
CAC: Customer Acquisition Costs
DCF: Discounted Cash Flow
Net ARR: Net Annual Recurring Revenue (Upsell / Cross-sell)
NRR: Net Revenue Retention

Churn: Customer Turnover on Platform (Annual)
Magic Number: Revenue / Marketing; > .75
Rule of 40: YOY Revenue + EBITDA Margin; >40%
MRR: Monthly Recurring Revenue

Appendix C: Breeze AI Tools

Breeze Intelligence	Breeze Co-Pilot	Breeze Agents
<p>Data Enrichment: Enrich company and contact records using a database of over 200 million buyer and company profiles.</p> <p>Buyer Intent: Help customers identify which prospects are the best fit.</p> <p>Form Shortening: Increase conversion by automatically adding information already known by Breeze Intelligence.</p>	<p>AI Assistant: Integrated into the HubSpot platform. Tool is designed to provide tailored insights to the business. The assistant knows the task the client is working on at a given time.</p>	<p>Customer Agent: Answer questions in chat flows using HubSpot content and public URLs</p> <p>Social Media Agent: Generate social media posts in line with marketing team objectives, brand, and audience</p> <p>Prospecting Agent: Personalized outreach for prospects</p> <p>Content Agent: Generate landing pages, podcasts, case studies, and blogs</p>

Appendix D: Hub Descriptions

Marketing Hub

Product Launch Year: 2006

Description: provides tools for inbound marketing, helping businesses attract, engage, and nurture leads.

Top Features

Email Marketing
 Social Media Management
 Lead Generation

Sales Hub

Product Launch Year: 2014

Description: provides tools for contact and deal management, email tracking, document management, meeting scheduling, and sales automation.

Top Features

Email Tracking
 Meeting Scheduler
 Sales Automation

Service Hub

Product Launch Year: 2018

Description: includes features such as ticketing, knowledge base management, live chat, customer feedback collection, customer satisfaction tracking.

Top Features

Ticketing System
 Knowledge Base
 Live Chat

Operations Hub

Product Launch Year: 2021

Description: includes features for data synchronization, data quality automation, workflow automation, advanced reporting, and integrations with other systems.

Top Features

Data Sync
 Data Quality Automation
 Programmable Automation

Content Hub

Product Launch Year: 2020

Description: provides features for drag-and-drop editing, customizable themes, SEO tools, content staging, and integration with other HubSpot hubs

Top Features

Website Designer
 SEO Tools
 Content Creation

Commerce Hub

Product Launch Year: 2022

Description: offers tools for creating payment links, quotes, and invoices, and integrates with popular financial software.

Top Features

Payment Links
 Quotes and Invoices
 Subscription Management

Appendix E: Expert Interviews Key Insights

Expert A: AI-CRM Distribution Founder	Data to remind salespeople of new leads that they have or new products that they need to order Customers of the product are buying an outcome
Expert B: CRM Thought Leader Author	Strong customer relationships create a long-term sustainable competitive advantage Why should a customer choose you vs. other CRMs?
Expert C: Director Digital Thought Leader	Theory-oriented: Creating systems and problem-solving techniques that address multiple problems as opposed to one
Expert D: Ex-Forrester Strategy Enterprise AI	Direct ROI is required, or customers will choose others AI is the answer, but what is the question? MSD - HSD increasing in Pricing Structures
Expert E: CRM Coach & Mentor ROI Niche	CRM needs to be valued as a revenue driver rather than cost area CRM implementation must include CMO and CFO (Value / Cost)
Expert F: Founder at SMB specialty firm	CRM was originally infrastructure heavy with a high costs, then the shift from on-premise to cloud made the software more accessible for all businesses
Expert G: CRM Manager Retail	Increasing the thresholds and creating new hubs is important for CRM solutions or their CAC gets too high
Expert H: Enterprise Software Consulting	The tools SMBs use are much simpler than enterprises. Enterprises data management is far superior with much larger data sets – requiring advanced tools

Appendix F: ESG Scorecard

Pillar	Weight	MSCI Score	Team Score	Rationale
Environmental Pillar				
Carbon Emissions	5%	10.0	9.5	↓ Lacks comprehensive waste reduction initiatives
Weighted Average		0.5	0.5	
Total	5%	10.0	9.5	
Social Pillar				
Human Capital Development	30%	4.0	3.8	↓ Limited diversity in leadership (73% white) and tech roles
Privacy & Data Security	23%	7.9	8.0	↑ HubSpot's strong encryption practices and AWS security partnerships give it an edge over peers
Weighted Average		3.0	3.0	
Total	53%	5.7	5.6	
Governance Pillar				
Corporate Governance Deductions				
Board		-1.2	-1.3	↓ Greater (30%) non-independence than peers; executive turnover adds instability
Pay		-0.9	-1.0	↓ CEO reliance on equity compensation introduces potential for short-term focus
Ownership & Control		-1.1	-1.1	
Accounting		0.0	0.0	
Total Deductions		-3.2	-3.4	
Corporate Behavior Deductions				
Business Ethics		-1.1	-1.2	↓ Limited supply chain sustainability efforts and emission reductions falls behind industry leaders
Tax Transparency		0.0	0.0	
Total Deductions		-1.1	-1.2	
Maximum Score		10.0	10	
Corporate Governance Deductions		-3.2	-3.4	
Corporate Behavior Deductions		-1.1	-1.2	
Total	42%	5.7	5.4	
Total ESG Score		5.9	5.7	

Appendix G1: Income Statement

	22'	23'	24E'	25E'	26E'	27E'	28E'	29E'
Net Revenue	1,731	2,170	2,604	3,007	3,423	3,863	4,318	4,799
y-o-y	33.1%	25.4%	20.0%	15.5%	13.8%	12.8%	11.8%	11.1%
Gross Profit	1,431	1,845	2,226	2,577	2,941	3,323	3,704	4,086
gross margin	82.7%	85.0%	85.5%	85.7%	85.9%	86.0%	85.8%	85.1%
Total Operating Expense	1,262	1,611	1,792	2,040	2,293	2,554	2,819	3,092
% revenue	72.9%	74.2%	68.8%	67.8%	67.0%	66.1%	65.3%	64.4%
R&D	335	434	520	600	683	771	862	958
% revenue	19.3%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
S&M	777	910	1,064	1,207	1,350	1,497	1,643	1,792
% revenue	44.9%	41.9%	40.8%	40.1%	39.4%	38.7%	38.0%	37.3%
G&A	150	171	205	232	259	287	314	342
% revenue	8.7%	7.9%	7.9%	7.7%	7.6%	7.4%	7.3%	7.1%
Other	0	97	3	0	0	0	0	0
% revenue	0.0%	4.5%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
EBIT	169	233	434	538	648	769	885	994
EBIT margin	9.8%	10.8%	16.7%	17.9%	18.9%	19.9%	20.5%	20.7%
Net Interest / Other	-8	-54	-54	-50	-47	-43	-40	-36
Pre tax Income	177	287	488	588	695	812	925	1,031
Tax	35	77	102	123	146	171	194	216
% tax rate	20.0%	26.7%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Net Income	142	211	385	464	549	642	731	814
net margin	8.2%	9.7%	14.8%	15.4%	16.0%	16.6%	16.9%	17.0%
Diluted Share Count	51	53	54	55	56	57	58	59
EPS	2.8	4.0	7.2	8.5	9.8	11.3	12.6	13.7

Appendix G2: Balance Sheet

	22'	23'	24E'	25E'	26E'	27E'	28E'	29E'
Assets								
Cash & Cash Equivalents	1,416	1,392	1,296	1,756	2,339	3,013	3,800	4,689
Accounts Receivable	227	295	369	426	485	547	612	680
Other Current Assets	434	439	519	590	662	735	809	885
Total Current Assets	2,077	2,127	2,184	2,772	3,485	4,296	5,221	6,253
Long Term Investment	113	326	326	326	326	326	326	326
Net PPE	105	103	122	155	179	209	248	296
Total Fixed Assets	218	429	447	480	504	535	574	622
Deferred Commission	67	122	152	181	213	248	286	328
Intangible Assets	81	149	183	224	260	303	355	417
Other Non-Current Assets	102	245	294	339	386	436	487	542
Total Assets	2,545	3,071	3,260	3,998	4,849	5,818	6,924	8,162
Liabilities								
Accounts Payable	21	9	14	16	21	19	23	27
Other accrued expenses	165	240	281	322	364	410	470	550
Deferred revenue	546	678	818	981	1,165	1,374	1,607	1,866
Other Current Liabilities	36	35	42	49	55	62	70	78
Total Current Liabilities	768	962	1,155	1,367	1,605	1,865	2,169	2,520
Convertible notes	454	456	-	-	-	-	-	-
Lease liabilities	316	297	356	411	468	528	590	656
Other Non-Current Liabilities	15	36	44	51	58	65	73	81
Total Liabilities	1,553	1,751	1,555	1,828	2,130	2,458	2,832	3,256
Equity								
Retained Earnings (Deficit)	(642)	(819)	(878)	(923)	(953)	(963)	(960)	(958)
Additional paid-in capital	1,647	2,137	2,582	3,091	3,670	4,322	5,050	5,862
Other Equity	(13)	2	2	2	2	2	2	2
Total Equity	992	1,320	1,705	2,170	2,719	3,360	4,092	4,906

Appendix G3: Cash Flow

	22'	23'	24E'	25E'	26E'	27E'	28E'	29E'
Net Income - Non Gaap	142	211	385	464	549	642	731	814
Depreciation & Amortization	56	67	70	81	123	139	155	173
Other CFO - Ex WC	15	(19)	-	-	-	-	-	-
Total CFO Ex WC	212	259	455	546	672	781	887	987
Change WC	49	46	69	109	133	150	190	231
Other CFO	12	45	-	-	-	-	-	-
Total CFO	273	351	525	654	805	930	1077	1218
Net of Investments	(228)	(9)	-	-	-	-	-	-
CAPEX	(82)	(100)	(115)	(147)	(175)	(205)	(238)	(274)
Acquisitions	-	(142)	(43)	(40)	(41)	(44)	(45)	(48)
Other CFI	(10)	-	(7)	(6)	(7)	(7)	(7)	(8)
Total CFI	(320)	(335)	(165)	(194)	(223)	(256)	(290)	(329)
Debt Paydown	(21)	-	(456)	-	-	-	-	-
Debt Issuance	-	-	-	-	-	-	-	-
Taxes paid related to SBC	(12)	(11)	-	-	-	-	-	-
Proceeds related to SBC	40	48	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-
Share Repurchases	-	-	-	-	-	-	-	-
Total CFF	7	37	(456)	-	-	-	-	-
Foreign Effect	(7)	5	-	-	-	-	-	-
Net Change in Cash	(46)	58	(97)	460	583	675	787	889

Appendix H: Porter's 5 Forces

*Score from 1-5 with 5 representing the biggest threat, and 1 being the lowest threat (though not non-existent)

Bargaining Power of Suppliers – 4:

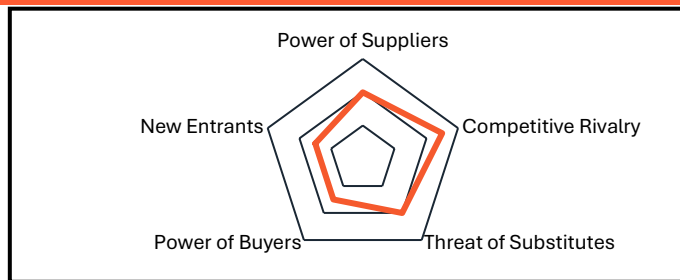
HubSpot relies heavily on key third-party suppliers, such as Google, Facebook, Microsoft, Zoom, Slack, and AWS, which provides these suppliers significant bargaining power. Their specialized software components are critical to HubSpot's platform, and any changes in terms or price increases could significantly impact HubSpot's costs. The high switching costs further strengthen the suppliers' influence.

Bargaining Power of Customers – 3:

HubSpot operates in a competitive CRM market with various alternatives like Salesforce, Zoho, and Microsoft Dynamics, which increases the bargaining power of customers. The majority of HubSpot's customer base consists of small to mid-sized businesses (SMBs), making price sensitivity a crucial factor. The decrease in ASRPC from 2023 to 2024 indicates growing demand for more cost-effective solutions, although HubSpot's extensive feature set and integrated platform help retain customer loyalty to some degree.

Threat of Substitutes – 4:

The rise of open-source CRM solutions like SuiteCRM and Odoo, along with niche platforms like Pipedrive and Freshsales, increases the threat of substitutes. These alternatives often offer lower costs or specialized features, appealing particularly to startups and small businesses. The growing availability of these substitutes challenges HubSpot's market position, especially as businesses seek more affordable or tailored solutions.



Competitive Rivalry – 5:

HubSpot faces intense competition from well-established players, such as Salesforce and Adobe, which have significantly larger market shares and revenues. HubSpot's relatively smaller revenue of \$1.92 billion in 2024 highlights the competitive pressure it faces. The growing global market for digital transformation technologies means HubSpot must continually innovate and differentiate its platform to remain competitive.

Threat of New Entrants – 3:

While the SaaS industry presents low barriers to entry, allowing startups to leverage cloud computing and AI, HubSpot's established presence and continuous innovation help protect it from new competitors. However, emerging technologies and new entrants can still challenge HubSpot, especially in niche markets, although scaling to HubSpot's level remains a significant hurdle.

Appendix I: AI Tools Scorecard

Company	AI Tools	Core Capabilities	AI Grade
	Breeze Intelligence Breeze AI Agents Breeze Co-Pilot	Data Enrichment, Form Shortening, Buyer Intent, AI Assistant, Agentic AI	C+
	Einstein AI Agentforce Code Builder	AI Assistant, Agentic AI, Data Security, Data Enrichment	A-
	Oracle AI Agents Oracle CX	Agentic AI, Email Generation, Lead Scoring	B+
	Zia AI Assistant	AI Assistant, Data Enrichment, Email Generation, Deal Summary	C+
	AI Sales Assistant Pipedrive	Email Generation and Summaries, AI Assistant, Marketplace Search for Third-Party Integrations	C+



Appendix J: Primary Research

Our primary research methodology was designed to be random, unbiased, and representative of HubSpot's solution partner ecosystem. HubSpot has 6,952 solution partners listed in its directory, of which 1,576 hold a tier status (Elite, Diamond, Platinum, or Gold). We focused our research on these tiered partners to ensure our findings reflected the most active and engaged segment of the partner network.

We randomly selected solution partners with a tier status and contacted them via phone. If we successfully reached a representative, we posed the following questions:

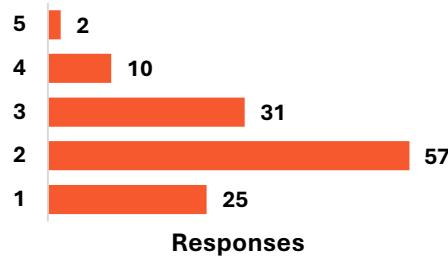
- **CRM Usage:** Do you primarily work with HubSpot CRM, or do you also use other CRM systems?
- **Hub Adoption:** On average, how many hubs do your clients use?
- **Packages:** What is the main package your clients use?
- **Client Size:** What are the sizes of the companies you work with in terms of the number of employees?
- **ASRPC:** Can you provide an estimate of the ASRPC among your HubSpot clients?
- **Cross-Selling vs. New Sales:** Do you sell more new HubSpot subscriptions to non-HubSpot users, or do you sell more additional HubSpot products to existing customers?
- **Customer Growth Trends:** Has the number of customers you've worked with this year increased, remained flat, or decreased?
- **Client Size Trends:** Have you noticed any changes in the average size of companies adopting HubSpot recently?
- **Impact of Commission Changes:** Have commission changes affected your business?
- **AI Adoption:** Do your clients use AI? What are the biggest use cases for AI within the HubSpot ecosystem?

To ensure data quality, we only included responses from participants who were competent to answer these questions. In total, we conducted a significant number of calls and successfully obtained responses from **100 solution partners**, representing a robust and representative sample of HubSpot's tiered partner network.

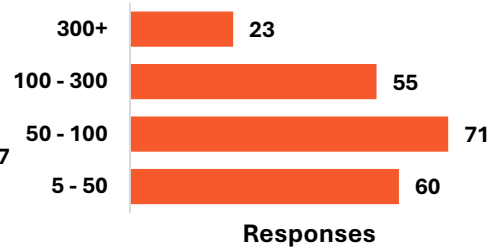
Sample Representation



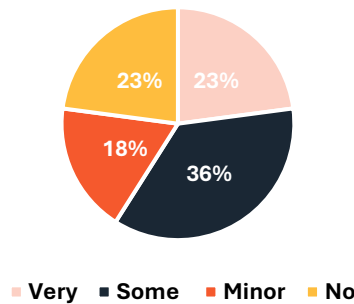
How Many Hubs Clients USE



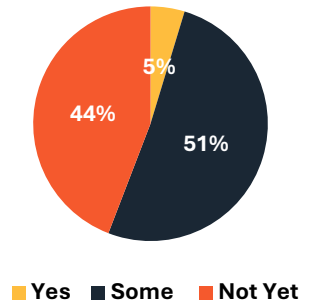
Company Size Distribution Based on Employee Count



Impact of Change in Commission Policy



Do Clients Use AI



Key Insights:

HubSpot locks clients into longer-term contracts and sells features that they may not need. Their current strategy will come back to hurt them in the future.

Most of the businesses moving to HubSpot have been SMBs, not enterprise clients.

There are a small number of solution partners that focus on delivering high-level technical expertise, and the small TAM has led to no industry specification

HubSpot's AI is 'fluff' and is just there so the company does not become irrelevant.

There has not been much upmarket penetration, and it is tough to see NRR (Net Revenue Retention) rebound to 110% next year.

HubSpot had to adopt AI solutions to stay competitive or else they would have fallen significantly behind.

Appendix K: Relative Valuation

Comp Set 1: Enterprise CRM Competitors

NYSE:CRM
NYSE:ADBE
NYSE:ORCL
NYSE:SAP

Salesforce
Adobe
Oracle
SAP



Comp Set 2: High-Growth SAAS

NYSE:KVYO
NASDAQ:WDAY
NYSE:IOT
NASDAQ:CFLT
NASDAQ:TEAM
NYSE:DT
NASDAQ:ZS
NYSE:GWRE
NASDAQ:CYBR
NASDAQ:MNDY
NYSE:SHOP
NYSE:SNOW
NASDAQ:DDOG
NYSE:NET
NASDAQ:CRWD
NYSE:NOW

Klaviyo, Inc
Workday, Inc
Samsara, Inc
Confluent Inc
Atlassian Corp
Dynatrace, Inc
Zscaler, Inc
Guidewire Software, Inc
CyberArk Software Ltd
monday.com Ltd
Shopify, Inc
Snowflake, Inc
Datadog Inc
Cloudflare Inc
CrowdStrike Holdings, Inc
ServiceNow, Inc



Relative Valuation

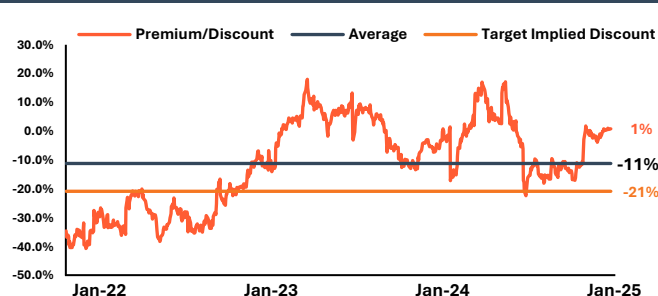
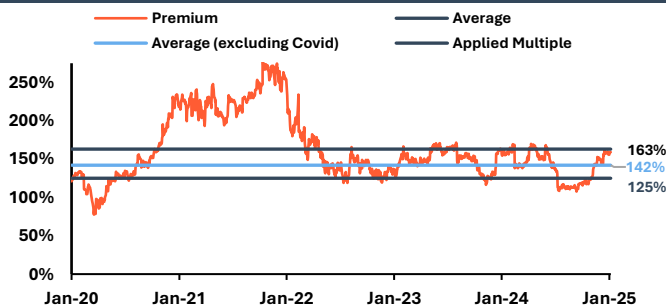
Enterprise EV / 2025 Sales

	HUBS	Enterprise Comps
Current EV / 2025 Sales	11.6X	7.9X
HUBS Current Premium		51%
HUBS Historic Premium (2020-2024)		63%
Standard Deviation		42.2%
Current Multiple x (Peer-Group + 25% Premium)		9.8X
Implied Enterprise Value		\$29,510
Net Debt		(\$936)
Shares Outstanding		53
Current Share Price		\$708
Implied Price		\$580
Upside/(Downside)		(18.8%)

High-Growth SAAS: EV / 2025 Sales

Average	12.5X
Median	12.1X
High	51.0X
Low	7.1X
23rd Percentile	9.6X
Implied Enterprise Value	\$29,736
Net Debt	(\$936)
Shares Outstanding	53
Current Share Price	\$708
Implied Share Price	\$566
Upside/(Downside)	(20.0%)

Premium



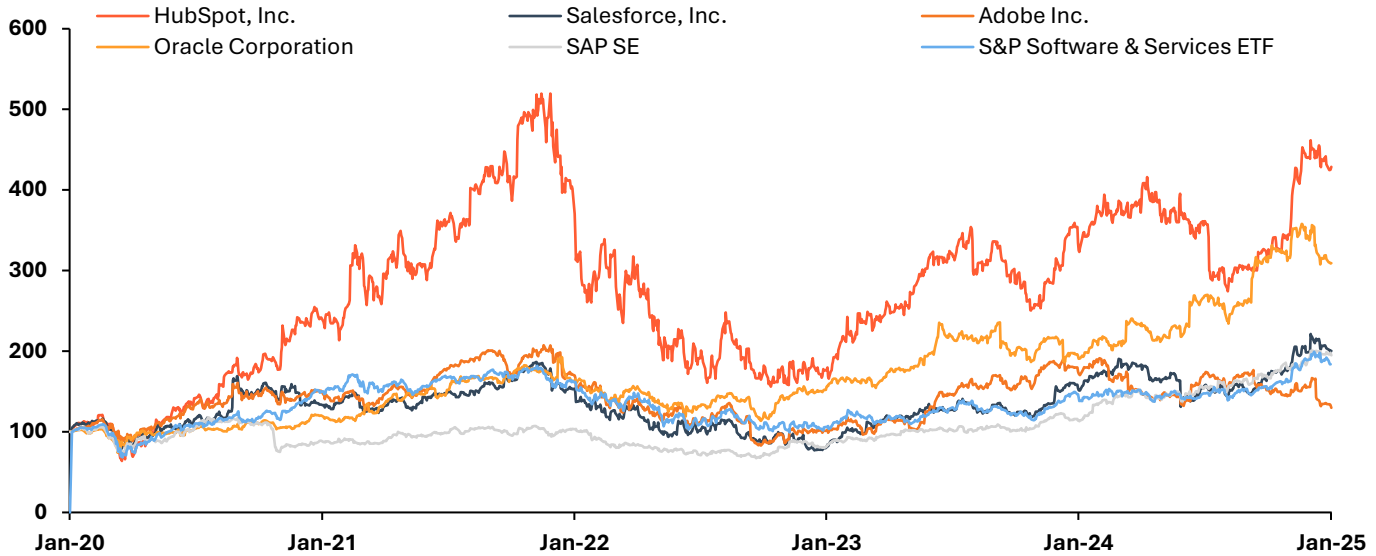
Commentary

As HubSpot looks to grab market share in the enterprise CRM makerspace, we believe over time the company will begin to trade closer to their enterprise competitors. HubSpot has historically grown faster than the enterprise peer group and is expected to outpace their enterprise peers over our projection period, warranting a premium. However, as we believe HubSpot's growth will continue to slow under the street's expectations, we believe a lower premium is warranted. We have applied a 25% premium to the average enterprise comp set multiple to arrive at a 9.8X EV / 2025 Sales multiple, implying a 18.8% downside.

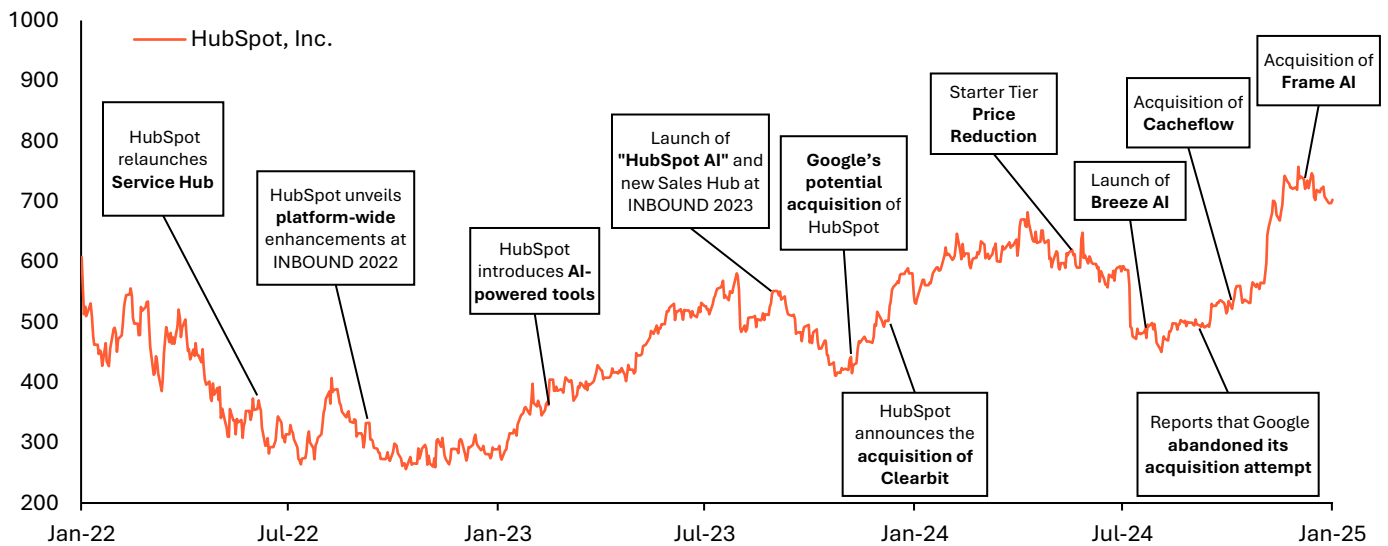
We believe analyzing HubSpot's multiple in relation to other high-growth Software as a Service (SaaS) peers provides a gauge an appropriate multiple HubSpot should be trading at in comparison to software peers. Our peer group comprises of companies above \$10B in market capitalization, with growth expected top-line growth of +15% for the following 2 years. We benchmarked HubSpot against the competitors through 3-Year revenue growth CAGR and 2025 adjusted EBIT margins. Based off our benchmarking the company should trade at the 23rd percentile, implying an 17.8% downside and a share price of \$582.

Appendix L1: Peer Performance (5 Years)

Since 2020, HubSpot has delivered the highest return (328%) among its enterprise peers, driven by its focus on CRM growth compared to more diversified and mature competitors. Oracle follows with a 209% return, bolstered by optimism around its positioning as one of the AI leaders. Salesforce posted a 100% return, despite facing growth pressures through late 2023, as investor sentiment improved with the rise of AI-driven opportunities the stock rose 30% in the last six months in line with HubSpot. The Software & Services S&P ETF (94%), which tracks 174 companies, remained flat until December 2022 before surging on AI momentum over the past two years. Finally, Adobe saw a 73% increase until September 2024, when disappointing earnings led to a stock pullback.



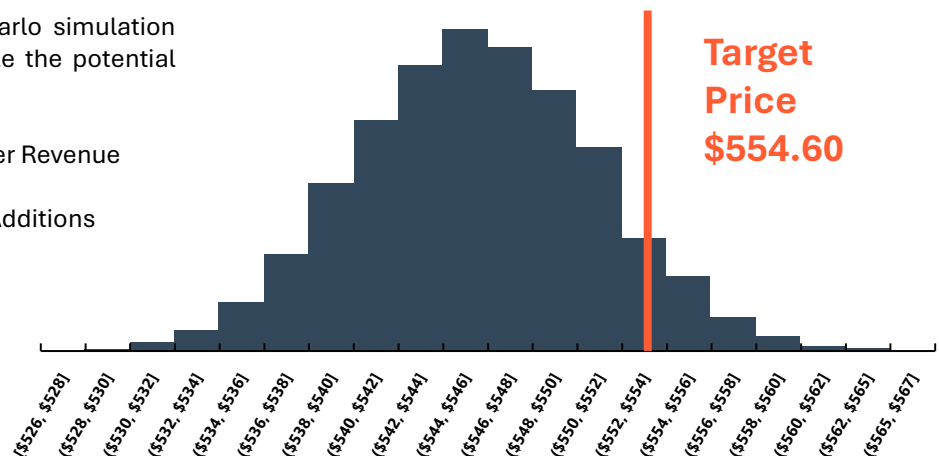
Appendix L2: Annotated Share Price Graph (3 Years)



Appendix L3: Monte-Carlo Simulation

Our team performed a Monte-Carlo simulation with 10,000 iterations to visualize the potential price of HubSpot. We sensitized:

- Subscription Revenue
- Professional Services & Other Revenue
- Total Gross Margin
- Pro & Enterprise Customer Additions
- Starter Customer Additions



Appendix M1: Base Case Assumption

Revenue CAGR vs Historicals			EBITDA Margins			EBIT Margins		
'17-'23	'20-'23	'23-'29E	'24E	'25E	'26E	'24E	'25E	'26E
34.0%	35.0%	14.1%	19.4%	20.6%	22.5%	16.7%	17.9%	18.9%

Appendix M2: Valuation Support (Base Case)

Discounted Cash Flow Analysis (\$mn)

Year	Historical		Forecast					
	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E
Revenue	1,731	2,170	2,604	3,007	3,423	3,863	4,318	4,799
Revenue Growth %	33.1%	25.4%	20.0%	15.49%	13.82%	12.84%	11.80%	11.13%
Operating Profit (Non-GAAP)	169	233	434	538	648	769	885	994
Operating Margin %	9.8%	10.8%	16.7%	17.9%	18.9%	19.9%	20.5%	20.7%
EBITDA	225	301	504	619	771	908	1,041	1,167
EBITDA Margin %	13.0%	13.9%	19.4%	20.6%	22.5%	23.5%	24.1%	24.3%
NOPAT	134	184	343	425	512	607	700	785
NOPAT Margin %	7.7%	8.5%	13.2%	14.1%	15.0%	15.7%	16.2%	16.4%
(+) D&A	56	67	70	81	123	139	155	173
(-) CAPEX	(82)	(100)	(115)	(147)	(175)	(205)	(238)	(274)
(-) Change in NWC	(49)	(46)	(69)	(109)	(133)	(150)	(190)	(231)
Unlevered Free Cash Flow	156	198	367	467	594	691	808	915
Unlevered FCF Growth %	-8.6%	26.6%	85.8%	27.1%	27.1%	16.5%	16.8%	13.3%
Unlevered FCF Margin %	9.0%	9.1%	14.1%	15.5%	17.3%	17.9%	18.7%	19.1%
FCFF - Exit EBITDA Method		(36,304)	367	467	594	691	808	915
Discount Period			-0.01	0.99	1.99	2.99	3.99	4.99
Discount Factor			1.00	1.10	1.21	1.33	1.46	1.61
PV of Unlevered FCF			(2)	425	491	519	551	568

Exit Multiple Method

PV of Forecast Period	2,552
Terminal Year Sales	4,799
Terminal Value	45,592
PV of Terminal Value	25,698
Implied EV	28,250

Less: Debt	(456)
Less: Preferred Stock	-
Less: Minority Interest	-
Plus: Cash & Cash Equivalents	1,392

Implied Equity Value	29,186
Diluted Shares Outstanding	53
Implied Share Price	\$554.6
Current Share Price	\$707.7
Downside	-21.6%

Implied Perpetual Growth Rate	4.2%
IRR	-38.8%

Discount Rate (WACC) Calculation

Inputs		Cost of Debt Calculation	
Risk-free rate	4.53%	Pre-tax cost of debt	5.35%
Weighted-average cost of debt	6.53%	After-tax cost of debt	4.22%
Equity risk premium	4.60%		
Beta	1.21		
Corporate tax rate	21.0%		
Fully diluted shares outstanding	53		
Share price	\$707.71		
Debt	456		
		Cost of Equity Calculation	
		Risk-free rate	4.53%
		Equity risk premium	4.60%
		Beta	1.21
		Cost of equity	10.10%

WACC Calculation

	Amount	% Total	Cost of Capital
Value of Debt	456	1.2%	4.2%
Market Value of Equity	37,240	98.8%	10.1%
	\$36,607	100.0%	10.0%

Appendix N1: Revenue Build

Revenue Build (\$mn)								
	Historicals		Forecast					
	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E
Total Revenue	1,731	2,170	2,604	3,007	3,423	3,863	4,318	4,799
y-o-y	33.1%	25.4%	20.0%	15.5%	13.8%	12.8%	11.8%	11.1%
Subscription Revenue	1,691	2,123	2,550	2,945	3,351	3,779	4,222	4,687
y-o-y	34.3%	25.6%	20.1%	15.5%	13.8%	12.8%	11.7%	11.0%
% of Total Revenue	97.7%	97.8%	97.9%	97.9%	97.9%	97.8%	97.8%	97.7%
# of Total Customers	151,414	186,239	226,141	265,691	301,691	334,941	365,691	395,191
y-o-y	26.5%	23.0%	21.4%	17.5%	13.5%	11.0%	9.2%	8.1%
Total ASRPC	11,165	11,402	11,275	11,083	11,106	11,283	11,545	11,861
y-o-y	6.2%	2.1%	(1.1%)	(1.7%)	0.2%	1.6%	2.3%	2.7%
Professional Services and Other	40	47	54	63	72	84	97	112
y-o-y	(4.5%)	15.6%	15.6%	15.6%	15.6%	15.6%	15.6%	15.6%
% of Total Revenue	2.3%	2.2%	2.1%	2.1%	2.1%	2.2%	2.2%	2.3%

Appendix N2: Bear, Bull, and Base Case Assumptions

Revenue Driver (CAGRS)				Adjusted EBIT Margins				Implied Return			
	Customer Growth	ASRPC Growth	Revenue Growth	'24E	'25E	'27E	'29E	Implied Target Price	Upside/ (Downside)		
Bear	13.0%	4.2%	18.3%	Bear	16.8%	18.3%	22.5%	24.8%	Bear	16.8%	18.3%
Base	12.2%	0.7%	14.1%	Base	16.7%	18.0%	20.2%	21.2%	Base	16.7%	18.0%
Bull	11.6%	-2.5%	10.1%	Bull	16.6%	17.1%	18.1%	19.0%	Bull	16.6%	17.1%

Appendix O: SWOT Analysis

Strengths	Opportunities
<p>Comprehensive All-in-One Platform: HubSpot offers various tools within its CRM, Marketing Hub, Sales Hub, Service Hub, and CMS Hub.</p> <p>Ease of Use: HubSpot ensures ease of use, reducing training needs and encouraging adoption across all user levels.</p> <p>Strong Focus on Inbound Marketing: HubSpot has been a pioneer in inbound marketing, focusing on attracting customers through relevant and helpful content.</p>	<p>Vertical Market Solutions: Developing industry-specific solutions can address the unique challenges and needs of sectors such as healthcare, education, finance, and manufacturing, broadening HubSpot's customer base.</p> <p>Partnerships and Alliances: Strategic partnerships with other technology providers, agencies, and consultants can extend HubSpot's reach, provide integrated solutions, and open new customer segments.</p>
Weaknesses	Threats
<p>Challenges at Scale: While easy to use, the platform may struggle to accommodate the needs of large or highly complex organizations.</p> <p>High Pricing: Transitioning to higher-tier plans can be costly, posing a challenge for small businesses or startups as they scale.</p> <p>Competitive Pressure: Larger players like Salesforce, with greater resources, present strong competition in the market.</p>	<p>Intense Competition: The CRM and digital marketing spaces are highly competitive, with established players like Salesforce and Adobe, as well as numerous startups and emerging technologies vying for market share.</p> <p>Rapid Technological Changes: The fast pace of technological innovation can render existing solutions obsolete quickly so it must continuously innovate to stay relevant, which requires significant investment in R&D.</p>

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