HUBSPOT INC
Form 10-Q
May 10, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED March 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 001-36680

HubSpot, Inc.

(Exact name of registrant as specified in its charter)

Delaware	20-2632791
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

25 First Street, 2nd Floor

Cambridge, Massachusetts, 02141

(Address of principal executive offices)

(888) 482-7768

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. YES NO

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

There were 38,409,346 shares of the registrant's Common Stock issued and outstanding as of April 30, 2018.

HUBSPOT, INC.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and these statements involve substantial risks and uncertainties. All statements other than statements of historical fact contained in this Quarterly Report on Form 10-Q are forward-looking statements. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “contemplates,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these words or other similar te or expressions that concern our expectations, strategy, plans or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- our future financial performance, including our expectations regarding our revenue, cost of revenue, gross margin and operating expenses;
- maintaining and expanding our customer base and increasing our average subscription revenue per customer;
- the impact of competition in our industry and innovation by our competitors;
- our anticipated growth and expectations regarding our ability to manage our future growth;
- our anticipated areas of investments, including sales and marketing, research and development, customer service and support, data center infrastructure and service capabilities, and expectations relating to such investments;
- our predictions about industry and market trends;
- our ability to anticipate and address the evolution of technology and the technological needs of our customers, to roll-out upgrades to our existing software platform and to develop new and enhanced applications to meet the needs of our customers;
- our ability to maintain our brand and inbound marketing thought leadership position;
- the impact of our corporate culture and our ability to attract, hire and retain necessary qualified employees to expand our operations;
- the anticipated effect on our business of litigation to which we are or may become a party;
- our ability to successfully acquire and integrate companies and assets;
- the U.S. federal tax consequences due to dividends received as part of the move to a territorial tax system for foreign subsidiary earnings;
- our plans regarding declaring or paying cash dividends in the foreseeable future; and
- our ability to stay abreast of new or modified laws and regulations that currently apply or become applicable to our business both in the United States and internationally.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Quarterly Report on Form 10-Q.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors described in “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. The results, events and circumstances reflected in the forward-looking statements may not be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this

Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

In this Quarterly Report on Form 10-Q, the terms “HubSpot,” “we,” “us,” and “our” refer to HubSpot, Inc. and its subsidiaries, unless the context indicates otherwise.

PART I — Financial Information

Item 1. Financial Statements
HubSpot, Inc.

Unaudited Consolidated Balance Sheets

(in thousands)

	March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$154,031	$ 87,680
Short-term investments	375,379	416,663
Accounts receivable — net of allowance for doubtful accounts of $577 and $617 at March 31, 2018 and December 31, 2017, respectively	54,208	60,676
Deferred commission expense	12,721	13,343
Restricted cash	5,968	4,757
Prepaid hosting costs	1,648	4,964
Prepaid expenses and other current assets	15,588	14,418
Total current assets	619,543	602,501
Long-term investments	28,100	31,394
Property and equipment, net	47,734	43,294
Capitalized software development costs, net	9,885	8,760
Deferred commission expense, net of current portion	11,228	—
Other assets	5,273	4,964
Intangible assets, net	6,262	6,312
Goodwill	14,950	14,950
Total assets	$742,975	$ 712,175
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$5,194	$ 4,657
Accrued compensation costs	14,680	16,329
Other accrued expenses	23,996	20,430
Deferred revenue	148,500	136,880
Total current liabilities	192,370	178,296
Deferred rent, net of current portion	19,646	18,868
Deferred revenue, net of current portion	2,284	2,277
Other long-term liabilities	4,222	3,927
Convertible senior notes	303,355	298,447
Total liabilities	521,877	501,815

Commitments and contingencies (Note 10)		
Stockholders’ equity:		
Common stock	39	38
Additional paid-in capital	516,934	496,461
Accumulated other comprehensive loss	(138)	(57)
Accumulated deficit	(295,737)	(286,082)
Total stockholders’ equity	221,098	210,360
Total liabilities and stockholders’ equity	$742,975	$ 712,175

The accompanying notes are an integral part of the consolidated financial statements.

HubSpot, Inc.

Unaudited Consolidated Statements of Operations

(in thousands, except per share data)

	For the Three Months Ended March 31, 2018	2017
Revenues:		
Subscription	$108,602	$77,503
Professional services and other	5,954	4,749
Total revenue	114,556	82,252
Cost of revenues:		
Subscription	15,235	11,409
Professional services and other	7,142	5,663
Total cost of revenues	22,377	17,072
Gross profit	92,179	65,180
Operating expenses:		
Research and development	26,352	13,370
Sales and marketing	59,910	46,672
General and administrative	17,241	13,138
Total operating expenses	103,503	73,180
Loss from operations	(11,324)	(8,000)
Other (expense) income:		
Interest income	1,824	303
Interest expense	(5,174)	(52)
Other expense	(283)	(128)
Total other (expense) income	(3,633)	123
Loss before income tax expense	(14,957)	(7,877)
Income tax expense	(491)	(198)
Net loss	$(15,448)	$(8,075)
Net loss per share, basic and diluted	$(0.41)	$(0.22)
Weighted average common shares used in computing basic and diluted net loss per share:	37,832	36,205

The accompanying notes are an integral part of the consolidated financial statements.

HubSpot, Inc.

Unaudited Consolidated Statements of Comprehensive Loss

(in thousands)

	For the Three Months Ended March 31, 2018	2017
Net loss	$(15,448)	$(8,075)
Other comprehensive loss:		
Foreign currency translation adjustment	298	121
Changes in unrealized loss on investments, net of income taxes of $0 for the three months ended March 31, 2018 and $18 for the three months ended March 31, 2017	(379)	35
Comprehensive loss	$(15,529)	$(7,919)

The accompanying notes are an integral part of the consolidated financial statements.

HubSpot, Inc.

Unaudited Consolidated Statements of Cash Flows

(in thousands)

	For the Three Months Ended March 31, 2018	2017
Operating Activities:		
Net loss	$(15,448)	$(8,075)
Adjustments to reconcile net loss to net cash and cash equivalents provided by operating activities		
Depreciation and amortization	5,110	3,329
Stock-based compensation	16,046	9,303
Benefit for deferred income taxes	—	(27)
Amortization of debt discount and issuance costs	4,908	—
(Accretion) amortization of bond discount premium	(1,164)	77
Noncash rent expense	794	1,667
Unrealized currency translation	36	(46)
Changes in assets and liabilities		
Accounts receivable	6,863	4,176
Prepaid expenses and other assets	1,880	1,061
Deferred commission expense	(5,068)	(464)
Accounts payable	166	(1,250)
Accrued expenses	1,674	922
Deferred rent	(48)	(34)
Deferred revenue	10,973	8,453
Net cash and cash equivalents provided by operating activities	26,722	19,092
Investing Activities:		
Purchases of investments	(210,886)	(16,367)
Maturities of investments	256,250	15,860
Purchases of property and equipment	(6,239)	(5,835)
Capitalization of software development costs	(2,616)	(1,610)
Purchases of strategic investments	(250)	—
Net cash and cash equivalents provided by (used in) investing activities	36,259	(7,952)
Financing Activities:		
Employee taxes paid related to the net share settlement of stock-based awards	(2,344)	(1,153)
Proceeds related to the issuance of common stock under stock plans	6,113	4,340
Repayments of capital lease obligations	(212)	(240)
Net cash and cash equivalents provided by financing activities	3,557	2,947
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	677	454
Net increase in cash, cash equivalents, and restricted cash	67,215	14,541
Cash, cash equivalents and restricted cash, beginning of period	92,784	60,185
Cash, cash equivalents and restricted cash, end of period	$159,999	$74,726
Supplemental cash flow disclosure:		

Cash paid for interest	$15	$192
Cash paid for income taxes	$45	$37
Non-cash investing and financing activities:		
Property and equipment acquired under capital lease	$—	$247
Capital expenditures incurred but not yet paid	$1,382	$1,525
Asset retirement obligations	$101	$—

The accompanying notes are an integral part of the consolidated financial statements.

HubSpot, Inc.

Notes to Unaudited Consolidated Financial Statements

1. Organization and Operations

HubSpot, Inc. (the “Company”) provides a cloud-based inbound marketing, sales and customer service platform which features integrated applications to help businesses attract visitors to their websites, convert visitors into leads, close leads into customers and delight customers so they become promoters of those businesses. These integrated applications include social media, search engine optimization, blogging, website content management, marketing automation, email, sales productivity, CRM, analytics, reporting, helpdesk, chat, and knowledge base.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) applicable to interim periods, under the rules and regulations of the United States Securities and Exchange Commission (“SEC”). In the opinion of management, the Company has prepared the accompanying unaudited consolidated financial statements on a basis substantially consistent with the audited consolidated financial statements of the Company as of and for the year ended December 31, 2017, and these consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results of the interim periods presented. All intercompany balances and transactions have been eliminated in consolidation.

The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for any subsequent quarter or for the entire year ending December 31, 2018. The year-end balance sheet data was derived from audited financial statements, but this Form 10-Q does not include all disclosures required under GAAP. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted under the rules and regulations of the SEC.

These interim financial statements should be read in conjunction with the audited consolidated financial statements and related notes contained in the Company’s Annual Report on Form 10-K filed with the SEC on February 13, 2018. There have been no changes in the Company’s significant accounting policies from those that were disclosed in the Company’s Annual Report on Form 10-K that have had a material impact on our consolidated financial statements and related notes, except the adoption of updated guidance related to revenue recognition and costs to obtain a contract with a customer as described within Note 2 of these consolidated financial statements.

Recent Accounting Pronouncements

Recent accounting standards not included below are not expected to have a material impact on our consolidated financial position and results of operations.

In January 2017, the Financial Accounting Standards Board (“FASB”) issued guidance simplifying the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test. Under current guidance, Step 2 of the goodwill impairment test requires entities to calculate the implied fair value of goodwill in the same manner as the amount of goodwill recognized in a business combination by assigning the fair value of a reporting unit to all of the assets and liabilities of the reporting unit. The carrying value in excess of the implied fair value is recognized as goodwill impairment. Under the new standard, goodwill impairment is recognized based on Step 1 of the current guidance, which calculates the carrying value in excess of the reporting unit's fair value. The new standard is effective beginning in January 2020, with early adoption permitted. The Company does not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

In November 2016, the FASB issued guidance related to the presentation of restricted cash within the statement of cash flows. The guidance requires entities to show the changes in cash, cash equivalents, and restricted cash in the statement of cash flows. Entities will no longer present transfers between cash and cash equivalents and restricted cash in the statement of cash flows. The Company adopted the updated guidance as of January 1, 2018. As a result of adopting this guidance cash and cash equivalents provided by (used in) investing activities increased by $864 thousand and net increase in cash, cash equivalents, and restricted cash also increased by $864 thousand for the three months ended March 31, 2018. Cash and cash equivalent provided by (used in) investing activities increased by $4.4 million and net increase in cash, cash equivalents, and restricted cash increased by $4.5 million for the three months ended March 31, 2017 in the consolidated statements of cash flows.

In February 2016, the FASB issued guidance that requires lessees to recognize most leases on their balance sheets but record expenses on their income statements in a manner similar to current accounting. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The guidance is effective in 2019 with early adoption permitted. The Company is currently evaluating the impact of this guidance on the consolidated financial statements.

In January 2016, the FASB issued guidance that requires entities to measure equity instruments at fair value and recognize changes in fair value within the statement of operations. The Company adopted the updated guidance as of January 1, 2018. The guidance provides for electing a measurement alternative or defaulting to the fair value option for equity investments that do not have readily determinable fair values. The Company elected the measurement alternative for its equity investments in privately held companies, which are included in other assets in the accompanying consolidated balance sheets. These investments are measured at cost, less any impairment, plus or minus adjustments resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer, which will be recorded within the statement of operations. The adoption of this guidance did not have a material impact on the consolidated financial statements.

In May 2014, the FASB issued updated guidance and disclosure requirements for recognizing revenue. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also provides guidance on the recognition of costs related to obtaining customer contracts. The Company adopted the updated guidance as of January 1, 2018 using the modified retrospective transition method. See Note 2 of these consolidated financial statements for further details

2. Revenues

Adoption of Updated Revenue Guidance

On January 1, 2018, the Company adopted new revenue guidance using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after December 31, 2017 are presented under the new guidance, while prior period amounts are not adjusted and continue to be reported in accordance with historic revenue guidance. The Company applied the new standard using practical expedients where:

- the measurement of the transaction price excludes all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the Company from a customer;
- the new revenue guidance has been applied to portfolios of contracts with similar characteristics;
- the modified retrospective approach has been applied only to contracts that are not completed contracts at the date of initial adoption; and
- the value of unsatisfied performance obligations for contracts with an original expected length of one year or less has not been disclosed.

The impact of applying the new guidance in 2018 vs the prior guidance resulted in a change to the period over wh