S&P Global
Market Intelligence

# HubSpot, Inc. NYSE:HUBS

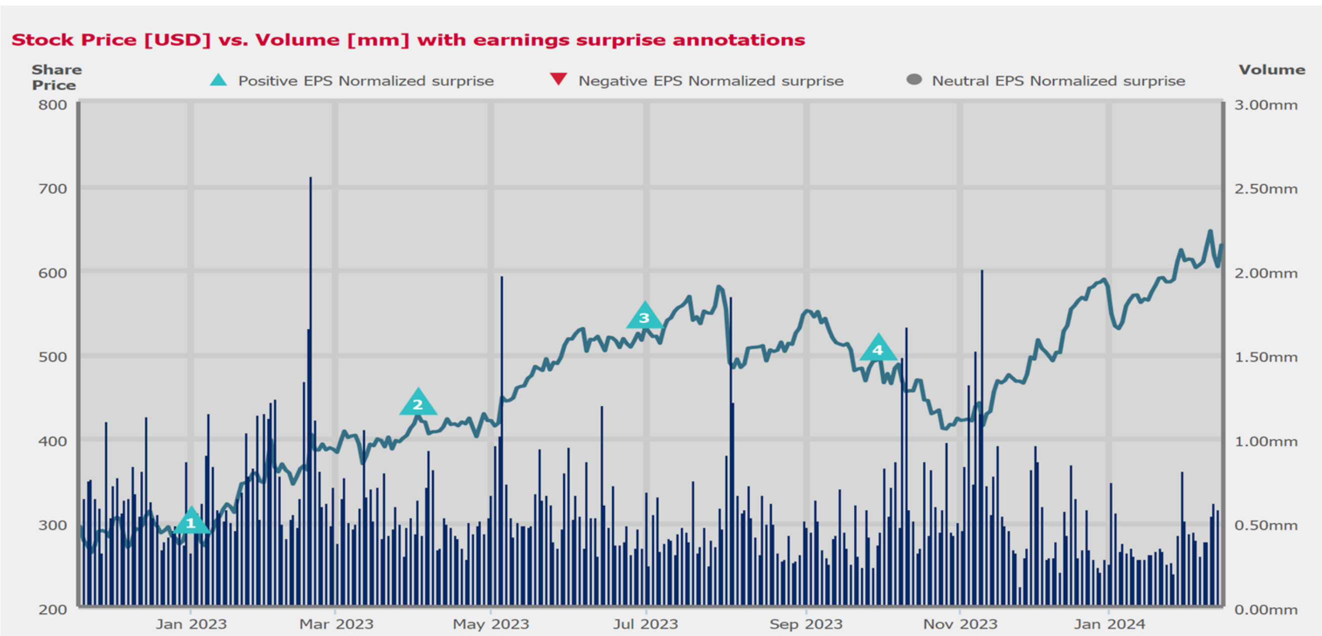
# FQ4 2023 Earnings Call Transcripts

## Wednesday, February 14, 2024 9:30 PM GMT

## S&P Global Market Intelligence Estimates

| | -FQ3 2023- | | | -FQ4 2023- | -FY 2023- | -FY 2024- |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| EPS Normalized | 1.24 | 1.59 | ▲28.23 | 1.55 | 5.68 | NA |
| Revenue (mm) | 534.30 | 557.56 | ▲4.35 | 558.75 | 2147.01 | NA |

Currency: USD
Consensus as of Feb-12-2024 12:00 PM GMT




- EPS NORMALIZED -

| | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| FQ4 2022 | 0.82 | 1.11 | ▲35.37 % |
| FQ1 2023 | 0.83 | 1.20 | ▲44.58 % |
| FQ2 2023 | 0.99 | 1.34 | ▲35.35 % |
| FQ3 2023 | 1.24 | 1.59 | ▲28.23 % |

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# Call Participants

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# Presentation

### Operator

Good afternoon. Thank you for attending the HubSpot Q4 and Full Year 2023 Earnings Call. My name is Matt, and I'll be your moderator for today's call.[Operator Instructions] I'll host the conference over to our host, Ryan Burkart, Senior Director of Investor Relations. Ryan, please go ahead.

### Ryan Burkart

Thanks, operator. Good afternoon, and welcome to HubSpot's Fourth Quarter and Fiscal Year 2023 Earnings Conference Call. Today, we'll be discussing the results announced in the press release that was issued at the market closed. With me on the call this afternoon is Yamini Rangan, our Chief Executive Officer; Dharmesh Shah, our Co-Founder and CEO; and Kate Bueker, our Chief Financial Officer. Before we start, I'd like to draw your attention to the safe harbor statement included in the press release. During this call, we'll make statements related to our business that may be considered forward-looking within the meaning of Section 27A of the Securities Exchange Act of 1933 as amended and Section 21E of the Securities Exchange Act of 1934 as amended. All statements other than statements of historical fact, are forward-looking statements, including those regarding management's expectations of future financial and operational performance and operational expenditures, the expected timing and benefits of the Clearbit acquisition, expected growth movement and business outlook, including our financial guidance for the first fiscal quarter and full year 2024.

Forward-looking statements reflect our views only as of today, and except as required by law, we undertake no obligation to update or revise these forward-looking statements. Please refer to the cautionary language in today's press release and our Form 10-Q, which will be filed with the SEC this afternoon. For a discussion of the risks and uncertainties that could cause actual results to differ materially from expectations. During the course of today's call, we'll refer to certain non-GAAP financial measures as defined by Regulation G. The GAAP financial measure most directly comparable to each non-GAAP financial measure used or discussed and a reconciliation of the differences between such measures can be found within our fourth quarter and fiscal year 2023 earnings press release in the Investor Relations section of our website. Now it's my pleasure to turn the call over to HubSpot's Chief Executive Officer, Yamini Rangan, Yamani?

### Yamini Rangan
*CEO, President & Director*

Thank you, Ryan, and welcome to everyone joining us today. Let me start with our Q4 and 2023 results, share my observations on the macro environment as we step into a new year and wrap up with our strategy for balancing growth, efficiency and culture in 2024. We saw a solid finish to a good year despite the challenging macro environment. Q4 revenue grew 21% year-over-year in constant currency and full year 2023 revenue grew 25% in constant currency. We delivered an operating profit margin of 17% in Q4 and 15% for the full year, up over 500 basis points year-over-year. Total customers grew 23% to over 205,000 customers globally, driven by nearly 11,000 net customer additions in the quarter, a new record for us. Our customers have high confidence in our ability to help them grow, and we are becoming the clear platform of choice for scaling companies. Our momentum in Q4 and 2023 results highlight two important aspects of our strategy that are working. We're focused on crafting great products and continuously innovating to solve for the customer. And second, we are consistently driving go-to-market execution across digital, sales and partner channels.

At the lower end of the market, we saw exceptionally strong net ads driven by starter momentum. Our pricing optimization plays continue to work. Our value proposition of an Easy-to-buy, easy-to-use platform is crystal clear, and our efforts to amplify this value in-app, in chat and across brand campaigns drove results in the quarter. We improved our in-app onboarding and support to help customers get value faster, and our investments to drive retention are beginning to work. These efforts resulted in record net adds that we are pleased with. In upmarket, the big themes in Q4 were large deal strength, Sales Hub and multi-hub momentum. We saw seasonally strong impact from large deals as more upmarket customers are consolidating on our platform. 60% of [ Crown ] Enterprise customers are now on two or more hubs and more customers are starting with multi-hub. Post the relaunch of INBOUND, Sales sub is just cranking. Customers are getting value from AI-powered features like call summarization and forecasting and are driving sales productivity with the new prospecting workspace. We can see from the results that doubling down here was the right choice.

Sales Hub was our fastest-growing hub in the quarter in terms of new business with 18 of the top 25 wins, including Sales Hub. It is becoming a sustainable front door to HubSpot, and I'm thrilled with the momentum we are seeing after the relaunch. Overall, 2023 was a banner year for product innovation with over 800 product enhancements across our hubs and entire platform. We want to be the market share leader in marketing, sales and service for scaling companies, and we doubled down on core hubs to deliver even more value to customers. In addition to relaunching Sales Hub, we enhanced Marketing Hub with more omnichannel features like Instagram

Reels and introduced more robust insights with customer journey analytics. The Service Hub, we introduced multiple knowledge bases, which was a top customer request and advanced our vision of a modern help desk.

And of course, the big headline in 2023 was the launch of HubSpot AI. We were early with Gen AI beta launches and have embedded AI features across our entire platform and hubs so customers can get the power of AI without needing to become AI experts. Reflecting on 2023, we moved fast with AI to drive innovation for our customers. We doubled down on core hubs to further establish ourselves as the platform of choice for scaling companies, and we focused on consistent execution of our bimodal strategy. I'm thrilled with the innovation the team delivered in 2023 and look forward to driving even more value for our customers this year. Okay. I want to quickly touch on what we're seeing in the macro environment. Throughout 2023, we saw customers tightening their budgets, deal cycles taking longer and overall scrutiny in the buying process. Though these trends continued in Q4, we saw some buyer urgency at the end of the year, driving sequential improvement in large deals.

Customers are simplifying and consolidating on fewer, more effective platforms and this translated to stable growth retention and more multi-cup wins for HubSpot. That said, we're not sounding the all clear just yet as we continue to see cautious buying and multiple decision-makers involved in deals. Overall, we expect this choppy environment to persist and we will remain focused on HubSpot's specific growth drivers and execution in 2024. Shifting gears, I want to share context on the pricing change we recently announced and the strategic rationale behind it. As we've evolved from an app to suite to customer platform, we have had a simple strategy, make HubSpot easy to use and easy to buy. We're doubling down on the strategy to make HubSpot even easier to buy. That's why we announced a new seat-based pricing model on January 30 that will go into effect for all new customers on March 5. For existing customers, pricing will remain the same at the time of the migration, but they will see a price increase of 5% or less at the time of their next renewal. Now there are three reasons for this shift. First, we want to make it even easier for customers to get started with HubSpot and therefore, we're removing seat minimums for Sales Hub and Service Hub.

This will remove friction for customers and will help us accelerate market share gains. Second, we want to make it easier for customers to upgrade from starter. We have heard feedback that the product jump from Starter to Pro or enterprise is high. This is a point of friction as customers look to upgrade. So we're changing the pro and enterprise seat pricing for Sales Hub and Service Hub, and we are introducing view-only seats core seats for users who want to edit and specialized seats for users who need specific functionality like sales or service. This change will bridge the gap between starter and [ Troll ] and drive more Pros adoption and upgrades. Third, and perhaps most importantly, we're aligning price to the value from our AI-powered smart CRM. We have invested heavily in our smart CRM over the past few years to make it more customizable, extensible and easier to integrate with. The easiest way for you to think about Smart CRM is it's the unified customer record, which enables our customers to have a single view of their customers. Now customers can continue to view the CRM for free but will need a core seat to edit it. This expands our ability to monetize beyond core personas to ops admin finance personas who may need more powerful edit capabilities.

In addition, we have embedded HubSpot AI across our entire platform and hubs which means that customers at every tier can access AI features at no additional cost. This differentiated strategy should drive even more adoption of HubSpot AI and drive more upgrades as we continue to add value in higher tiers. We launched the seats pricing changes as a pilot in ANZ in April 2023, and we have fine-tuned our execution based on customer partner and sales feedback. For the global launch in March, we are hyper focused on enabling our teams and partners to communicate the value of the changes to customers. Overall, I'm really excited about our pricing model evolution. It's going to make HubSpot easier to buy and easier to scale as our product growth, while matching how we monetize the platform based on the value we deliver to customers.

Okay. I want to wrap up by sharing our strategy for 2024, and how we are balancing growth, profitability and culture to drive durable growth. Our strategy is working, and we have high conviction in our strategic choices. We remain focused on SMB a very large, growing and underserved market, and we are well positioned to innovate and be a leader in this market. The way we differentiate is by making our products easy to buy, easy to adopt and easy to use. In 2024, we will double down on our playbook of driving the pace of product innovation, focusing on consistent execution and building a high-performing sustainable company. On the product side, you can expect to see us take big swings in AI, build deeper and more sophisticated upmarket functionality and focus on driving product usage across all hubs and platform. AI in 2023 was all about speed and being fast to market. 2024 is going to be all about delivering value. We are doubling down on HubSpot AI use cases that are driving repeat usage and will innovate even more with AI agents. With our core hubs, we will continue to go deep on the key use cases our customers need across marketing, sales and service and bring more upmarket sophistication to Sales Hub and Service Hub specifically.

In addition, access to rich contextual data is a top priority for our customers, we are excited to evolve our data offering in 2024 following the Clearbit acquisition. In terms of go-to-market, we're focused on driving efficiency across all motions. We're scaling self-service to expand beyond acquisition to activation and engagement. We're investing in partner and rep productivity and we will drive guided selling initiatives with AI to save rep's time, surface insights and power deeper conversations. And as a company, our goal is to create a culture where people can do their best work. and we're investing to help employees grow better, work better and connect better. As we look forward this year, we have momentum in a large market. Our pricing evolution will allow us to accelerate acquiring and serving more customers and the pace of product innovation will enable us to become the #1 AI-powered customer platform for scaling companies. With that, I'll hand it over to our CFO, Kate Bueker, to take you through our financial and operating results.

**Kathryn A. Bueker**
*CFO & Treasurer*

Thanks, Yamini. Let's turn to our fourth quarter and full year 2023 financial results. Q4 revenue grew 21% year-over-year in constant currency and 24% on an as-reported basis. Q4 subscription revenue grew 24% year-over-year, while services and other revenue increased 2% on an as-reported basis. Full year 2023 revenue grew 25% year-over-year in both constant currency and as reported. Full year subscription revenue grew 26% year-over-year, while services and other revenue increased 16% both on an as-reported basis. Q4 domestic revenue grew 17% year-over-year. International revenue growth was 27% in constant currency and 32% as reported. Now representing 48% of total revenue. Clearbit revenue was de minimis in Q4. We added nearly 11,000 net new customers in the quarter, bringing our total customer count to over 205,000 growing 23% year-over-year and surpassing a notable milestone of 200,000 customers. This strength was once again driven by a significant volume of customer additions at the low end. Average subscription revenue per customer was nearly $11,400, growing 1% on an as-reported basis and declining 1% year-over-year in constant currency.

Our strong growth in our lower ASP starter customers more than offset the positive impact to ASRPC of the steady progress in our multi-hub adoption upmarket. Our customer count and ASRPC metrics exclude the impact of the Clearbit acquisition in Q4. Gross retention held steady in the high 80s in Q4, and net revenue retention was comfortably above 100 and flat sequentially. We continue to see customers actively scrutinize spending, resulting in continued pressure on net upgrades. We expect similar trends to continue in the short term, with net revenue retention likely staying in and around the current range in 2024. Calculated billings were $662 million in Q4, growing 21% year-over-year in constant currency and 22% as reported, driven by our strong large deal performance in Q4. This includes roughly 0.5 point of contribution from the Clearbit acquisition. The remainder of my comments will refer to non-GAAP measures. Q4 operating margin was 17% and full year operating margin was 15%, both up significantly compared to the year ago period. Our Q4 and 2023 operating margin increased was driven by our workforce reduction in Q1, product infrastructure optimization, the impact of the changes in our partner commission structure and prudent and focused hiring throughout the year. or 13% of revenue for the full year.

Finally, our cash and marketable securities totaled [ $1 billion ] at the end of December. Before we jump into guidance, I wanted to share some perspective on our expectations for the macro environment and provide some detail regarding the impact of the Clearbit acquisition and our pricing change on growth and KPIs for 2024. As Yamini shared, we continue to operate in a choppy and challenging environment. Despite some signs of stabilization in downgrades and buyer urgency in Q4, our current working assumption is that the macroeconomic environment will remain challenging in 2024. The introduction of our seat-based pricing model is an important foundational change to make it easier for prospects and customers to get started and grow with HubSpot. Our first motion will be focused on selling to new customers in this model, and we expect less than 1 point of contribution to revenue growth in 2024 from this change. Over the longer term, we expect this to be a more material driver to the business as new customers grow in this model, and we introduced the change to our existing customers.

We believe that our continued success at the low end coupled with the lower barrier to entry in our new pricing model will allow us to maintain quarterly net customer additions around 10,000 in 2024. This will result in ASRPC growth that is down in the low single digits for the year. Finally, we officially closed the acquisition of Clearbit in December. In terms of 2024 contribution, we expect the acquisition to drive roughly 1 point of growth to revenue. Now let's turn to our guidance for the first quarter and full year of 2024. For the first quarter, Total as reported revenue is expected to be in the range of $596 million to $598 million, up 19% year-over-year at the midpoint. Non-GAAP operating profit is expected to be between $83 million and $84 million. Non-GAAP diluted net income per share is expected to be between $1.48 and $1.50. This assumes 53.1 million fully diluted shares outstanding. And for the full year of 2024, total as reported revenue is expected to be in the range of $2.55 billion to $2.56 billion, up 18% year-over-year at the midpoint. Non-GAAP operating profit is expected to be between $408 million and $412 million.

Non-GAAP diluted net income per share is expected to be between $6.86 and $6.94. This assumes 53.6 million fully diluted shares outstanding. As you adjust your models, please keep in mind the following: we expect foreign exchange to have a neutral impact on both our Q1 and full year 2024 as reported revenue growth. The impact of our pricing change and the Clearbit acquisition is included in our guidance. We expect non-GAAP operating profit margin to be approximately 14% in the first and second quarter in the mid- to high teens in the back half of the year. [Audio Gap] Free cash flow to be about $365 million for the full [Audio Gap] remarks.

**Yamini Rangan**
*CEO, President & Director*

Thanks so much, Kate. Or close by highlighting our momentum in becoming the customer platform of choice for scaling companies. G2 recently released their annual Best Software Award and HubSpot was recognized as the #1 sales product and the #1 marketing product in 2024. This recognition is a strong testament to the pace of innovation we are driving and our focus on delivering value. My huge heartfelt thank you to our employees who worked tirelessly to solve our customers and a big thank you to our partners, customers and shareholders for their continued support. With that, operator, let's please open up the call for questions.

# Question and Answer

**Operator**

[Operator Instructions]. First question is from the line of Samad Samana with Jefferies.

**Samad Saleem Samana**
*Jefferies LLC, Research Division*

Congrats on a strong finish to 2023. So, Yamini, you gave a lot of information about the pricing model change and it's helpful. I want to maybe dig a little deeper there. It looks like the impact to customers will be minimal and then it encourages them to try more of HubSpot. But, how do you expect this to impact -- I know you gave the net adds number, but what about the potential doors that customers enter through? Do you see maybe a shift from marketing maybe more towards sales or service? Is that part of the intention here? and whether it makes up slot more consistent with some of your enterprise competitors as far as their pricing is structured just especially as you gain more traction with mid-market customers.

And then, Kate, I know you baked into the guidance, but can you just give us timing wise, is it more back half that you expect the impact to guidance from the pricing model change on a great quarter.

**Yamini Rangan**
*CEO, President & Director*

Hey, Samad, thanks a lot. Maybe to address multiple questions that you asked there, we have all have been easy to buy, easy to use. And we are just doubling down to make HubSpot even easier to buy. This change has been probably a couple of years in the making, and we got started with these stages by talking to our customers to hear from them in terms of where they experience point of friction in the buying journey and where they're seeing value. That's how we got started. And I talked about the three shifts, and it's easy to see how this the adds up. The first shift is we wanted to be super easy for customers to get started with HubSpot, so we're removing the seat minimum. What we have seen in the pilot, and what we expect in terms of this change is it will result in more customers starting with HubSpot and higher volume of charter customers over a period of time.

The second thing we did is we reduced the price jump between Starter and Pro. And you've asked us this before, our customers have consistently given us the feedback that the jump from Starter to Pro is really high. And that's a point of friction for our customers by lowering the price for seats, in making this change, there are more customers that start with starter and then continue to upgrade into pro and enterprise, which is exactly what we want in order to be -- to have a great foundation for pricing. And the third, probably most importantly, we're now monetizing the value of Smart CRM. We've invested pretty heavily in Smart CRM over the past few years. We've made it customizable. We've made it extensible. We've made it easier to integrate with and this change allows us to monetize. You asked specifically about how does this compare to the rest and what are we beginning to see, I think you're going to see more volume because we have removed the friction, both in terms of Starter and Pro. And then over a period of time, the biggest opportunity is really post sales expansion and growth.

When we sign more customers, then reps have the capacity to go back and sell more in terms of cross-sell opportunities. When customers start with exactly what they need, then they now will buy more seats as they continue to expand and core seats is a new upgrade lever. So this is a foundational shift that removes friction and provides value and gives us the ability to continue to expand over the next multiple years. So we're really excited about this change.

**Kathryn A. Bueker**
*CFO & Treasurer*

Yes. And Samad, I think the impact in the year flows very naturally from what Yamini said, right? We're going to have more customers starting at lower ASP but growing more over time. And so you naturally see that build more into the back half of the year.

**Operator**

Next question is from the line of Parker Lane with Stifel.

**Jeffrey Parker Lane**
*Stifel, Nicolaus & Company, Incorporated, Research Division*

I wanted to just sort of stay on that theme we're talking about here with the pricing and packaging changes. And when we look at the specialized in view-only seat types, have you guys done work to figure out how many of the potential seats that have not been addressed in the past can now be addressed under this package, not just the new customer acquisition side, but actually on the expansion side in those two areas.

**Yamini Rangan**
*CEO, President & Director*

Yes. So maybe just to address the basic. So we now have three seat types. The first is just a view-only seat. If anybody within the whole company wants to view it, that's the seat to use. The second type of seat, and this is probably the new change that we are introducing is a core seat. And this is really associated with the Smart CRM. And then the third is a specialized seat if you need a Sales Hub specialized functionality or Service Hub specialized functionality. To take a moment and maybe talk about the biggest change, which is that core seat, we talked about smart CRM at inbound. And the easiest way to think about Smart CRM is a core system of customer record. If you want contact information, you want company information, you want information on the interactions in your customer. All of that is associated with the smart CRM layer. And over the past few years, and we look at where customers are spending the most time and getting value, they will tell you that it is from having a single unified view of the customer. And what we have done with this pricing model change is if you want to view it, you can use the free seat. But if you want to edit anything within that core CRM, you will need to buy a core seat. So by monetizing the Smart CRM, we're aligning the value where customers are getting to our monetization strategy. And it really goes back to our core pricing philosophy. We add value, and then we know we have added a ton of value and then we align the monetization.

**Operator**

Next question is from the line of Mark Murphy with JPMorgan.

**Mark Ronald Murphy**
*JPMorgan Chase & Co, Research Division*

Yamini, you stated that AI will be embedded across the entire platform. And customers can access it at no additional cost. So I'm curious how might you handle a high octane user or a campaign, which might incur a lot of LLM costs on the back end. So just in other words, should we look at this and say, well, it's a less than 5% price increase, and then it's free AI for everyone. Are you going to have other tokens or credits or SKUs something like that for some of the higher AI usage scenarios.

**Yamini Rangan**
*CEO, President & Director*

Yes. That's a great question, Mark. I want to say that our AI is embedded. It is not free. And there is a difference between those two. And maybe just step back, this is very, very consistent with what we communicated as our AI monetization strategy at Analyst Day. Very, very early stages on a very massive shift in the industry and we are focused on driving value and making it super easy for getting companies to just adopt AI. That's why we have taken this strategy. And we have embedded AI into platform and all of the hub, and by including the AI into our platform and hubs, we're just driving acquisition of customers. That's number one. The second thing, which is important to note is that while all of our tiers, freemium, Startup, Pro and Enterprise have AI features, we have a lot more features at the Pro and Enterprise tiers. In fact, of the features that are becoming generally available in the first half of 2024, will be in the Pro [indiscernible]. So the way we think about it is that it will drive a lot of upgrades and higher ASP in terms of tier upgrade. And then longer term, when we drive even more sophisticated features like AI agents, then we may charge specifically for it.

So going back to kind of your question on how do you make sure that in its scale. Right now, we think we're in the first stages removing friction, educating customers, driving adoption, making sure there is repeat usage, that's the focus. And based on what we're seeing, we're not quite worried about the cost impact. But if we continue to introduce very sophisticated features where it has an impact, then we will charge for. So that's how we're thinking about it.

**Operator**

The next question is from the line of Elizabeth Elliott with Morgan Stanley..

**Elizabeth Mary Elliott Porter**
*Morgan Stanley, Research Division*

Great. So your bimodal strategy has really enabled you to add a lot of that low-end customers in 2023 and especially exiting the year. So I wanted to get a better sense of how quickly do customers typically upgrade. It sounds like the price narrowing that price jump should be a bit of an accelerator. But just curious on when we could see the big upgrade opportunity and have that start to benefit ASRPC growth.

**Kathryn A. Bueker**
*CFO & Treasurer*

Yes. Thanks, Elizabeth, for the question. We are, again, pleased with the strength that we saw in our starter customer additions in the quarter. There are both strategic and financial reasons that we want to continue to lean into low-end customer acquisition. We think that sort of significant volume of customers we have at the low end provides us with a nice competitive moat. It also makes our overall ecosystem more valuable. So both of those are strategic reasons. Starter upgrades, if you sort of look at the impact that they've had for us represent probably a couple of points of net revenue retention for us. And we continue to see pretty healthy rates of upgrades from starter cohorts about most of -- about half of that happens within the first 6 months. There is still friction in that motion, right? Yamini talked about the meaningful jump that we have in price between starter and professional. So the dollars of upgrade from starter and professional are relatively small. That said, we think this sets pricing model should reduce the overall friction in that motion, and we're optimistic that we can really change the game on the start or upgrade rate with this new pricing model.

**Operator**

Next question is from Rishi Jaluria from RBC.

**Rishi Nitya Jaluria**
*RBC Capital Markets, Research Division*

Nice to see continued momentum in the business. I wanted to drill a little bit more into the AI strategy. Obviously, you have really impressive innovation we've seen in AI, especially when we think about how you're innovating compared to some of your CRM competitors. I'd love to hear maybe number one, what sort of feedback have you had from customers in terms of new use cases that maybe you hadn't initially thought about? And second, and maybe more importantly, is this part -- has this started turning up as part of initial sales conversations and maybe a consideration that new customers are having when it comes to choosing you versus others?

**Yamini Rangan**
*CEO, President & Director*

Thank you, Rishi, for that question. So maybe the way I'd characterize it was '23 was a year of experimentation. And this year is going to be all about delivering customer value. And probably the most important leading indicator that we are looking for is repeat usage of AI features. So the focus for the product team, the focus for the go-to-market team is really, one, educating customers; and two, making sure that any feature that we have out is driving repeat usage. That's the focus. You asked about work we are learning. We're definitely seeing a lot of adoption, but there is some signals, some noise. And as I look at our top, maybe, 20 customers who are leveraging AI effectively, there are a few key trends. The first one is prospecting and company research is really, really a big use case. And [ Chatbot ] is driving that we have over 200,000 cumulative users on Chatbot and more than 20,000 monthly active users. And they're just wanting to use AI for better researching companies, better preparation before they talk to customers, and that's great. Marketing, not a surprise at all. The use cases in marketing that we started with the launch of content assistance last year is now getting well integrated into the flow of work. So marketers using generative AI for creating blocks, creating e-mails, creating title, taking one content and then modifying that content into multiple channels that is becoming very common, and we are seeing those use cases get into the daily action. And the third and probably not a surprise, again, is Service Hub. Our highest usage in terms of features is summarizing conversations and then generating takeaways. That feature and specifically, there's something called Highlight Command, and we're very surprised by this. But being able to highlight a particular text and then change the tone, change the -- expand the text, that is getting almost daily usage. So I think we're seeing areas where it is deeply integrated into the flow of work and we're beginning to see much more usage. And we have a very robust road map of AI features coming up. A lot of those features are in kind of the pro plus categories. And I'm really excited to see the usage metrics go up. So a lot of the work that we're going to be doing this year is looking for those usage patterns.

**Operator**

Next question is from the line of Keith Bachman with BMO.

**Keith Frances Bachman**
*BMO Capital Markets Equity Research*

Yes. Many thanks. First, Kate, for you, I wanted to see if you could talk about how we should be thinking about billings growth versus the revenue growth for '24. There was actually convergence in the December quarter, which was a bit sooner than we were thinking.

And so if you could just at least directionally or provide some philosophical points of view about how we should be thinking about the variance or lack there between the revenue growth guidance that you've given and what we should be thinking about billings. And then, Yamini, just for you, if I could sneak another in, I wanted to see if you could revisit on existing customers as it relates to the price change. We've gone through the information in detail, and you mentioned that those customers would see a 5% price bump at the time of renewal, but are they -- do they make a transition at the time of the renewal to the new price plan? Or are they can continue on, and that's where the 5% bump happens.

**Kathryn A. Bueker**
*CFO & Treasurer*

So maybe I'll start. Thanks, Keith. You are right on. The constant currency billings and constant currency revenue growth in Q4 were both 21%. There's a couple of things that help close the gap between billings and revenue versus what we have seen over the last couple of quarters. The first is that we -- and you heard Yamini talk about this in her prepared remarks, this was a good quarter for us in terms of big deals and big deals tend to have longer billing terms. And so it showed up in billings for us in Q4. The other thing that's notable is December was particularly strong for us. So from a timing perspective, it helps to drive the closure between billings and revenue. In terms of 2024, we probably -- we expect that billings growth and revenue growth, again, both in constant currency, will actually track pretty close to one another, plus or minus 1% or so from 1 quarter to the next.

**Yamini Rangan**
*CEO, President & Director*

And Keith, on your question in terms of impact of the pricing changes for existing customers, we are being very thoughtful in how we roll this out to our existing customers. And a couple of maybe first principles as we do this. One, we don't want the customer experience as they go from one pricing model to another to even be noticeable. That's one principle. The second is we don't have any surprises for existing customers as they kind of go through this pricing change. So as I mentioned, in March, what we're launching is only for new customers. Equation for existing customers to the new model, which means having view-only fees, having core seats and having specialized fees, that migration will seek in mid-2024, and it would go through 2025 in [indiscernible]. So that, again, the experience for customers is seamless. They probably won't even notice that they have been migrated on the back end to support the new seats model. Then at the first renewal after migration, customers can expect up to 5% increase, no more than 5% increase. And that way, they have visibility in terms of the level of change that they can expect. We have started doing this as part of our ANZ pilot, and we are finding that it's a very seamless kind of motion for existing customers with plenty of time for them to adjust to kind of the new motion.

**Operator**

Next question is from the line of Kirk Materne with Evercore ISI.

**Kirk Materne**
*Evercore ISI Institutional Equities, Research Division*

Yes. And I'll echo the congrats on the quarter. I just wonder if you could just talk a little bit about the strength in international versus the U.S.? Meaning, are the trends there either in the high end of the market or the low end the market any different? Obviously, really good growth out of that segment. So I wonder if you could just unpack that a little bit more.

**Yamini Rangan**
*CEO, President & Director*

Yes. Overall, the strength is just is consistent across international and North America. We talked about the bigger trends that we saw in Q4, which is large deal momentum, Sales Hub momentum, multi-hub momentum, we kind of saw the same trend in North America as we saw within the international markets and very consistent with prior quarters.

**Operator**

The next question is from the line of Ken Wong with Oppenheimer.

**Hoi-Fung Wong**
*Oppenheimer & Co. Inc., Research Division*

I wanted to maybe dive in on the strength in sort of down market in Q4. Usually, that's more of an enterprise quarter, which you guys did emphasize seeing some strength -- did you guys run any unique plays to try to spark some of that demand in the long tail? Or did that catch you guys by surprise as well?

**Kathryn A. Bueker**
*CFO & Treasurer*

Yes, Ken, it's Kate. I'll start. Look, the success that we saw in the net additions at the low end in Q4 was very much consistent in terms of the themes, as we've been talking about over the last couple of quarters here. It's very starter focused. We continue to see strong top of funnel demand, frankly, the value proposition of our Starter product is just really compelling, we constantly run experiments. There's nothing different in Q4 that I would note versus sort of our normal course. We continue to experiment with pricing and packaging. And we continue to experiment in ways to reduce friction in the motion of a free user becoming a Starter customer.

**Operator**

Thank you for your question is from the line of Tyler Radke with Citigroup.

**Tyler Maverick Radke**
*Citigroup Inc., Research Division*

I wanted to hit on Clear bit, which sounded like there was a modest contribution in Q4, but you are expecting that to ramp up to a point of growth next year. Can you just talk about now that you've had a few months post the announcement, kind of what your plans are from a road map perspective, how you're thinking about pricing and how you're kind of -- what kind of range bound is on that 1 point? And what's a scenario that could potentially drive upside to that?

**Yamini Rangan**
*CEO, President & Director*

Yes. I can start with the first part on the strategy tuition. First of all, we are very pleased with the successfully closing in December. We welcomed all of the Clearbit employees into HubSpot family early January and everyone's kind of excited to build something special. We do think that Clearbit can accelerate our vision of the customer platform. And if you take a step back, we want to be able to bring together enrich data, powerful AI tools that can drive insights from the data and are easy to use engagement hub so that our customers can connect and grow. This is really driving and accelerating our vision for providing a customer platform. And we continue to get really good positive feedback from customers and partners. They can see this vision come to life. In terms of how we're thinking about Clearbit a couple of different phases. Initially, we will look to get clear bit data into our customer base. Our customers want more enrich data and intent data. They want it that is completely unified within the hubs in the platform. And Clearbit has already been within our marketplace. If there's a pure integration. And so it's a natural starting point for cross-selling into our installed base, and that mission has started. Probably in the medium term, as we do with any of the acquisitions, we want to more natively integrate the data into HubSpot products. And so that we really fire up all of the use cases and marketing sales and our entire customer platform, and we're starting with that journey, and we'll also be able to thoughtfully leverage all of our distribution to be able to take that [indiscernible] product to market. And so it will happen in a couple of phases that we are really excited about what is done for our vision as well as how the initial few weeks have gone by.

**Operator**

Thank you for your question. The next question is from the line of Brad Sills with Bank of America.

**Bradley Hartwell Sills**
*BofA Securities, Research Division*

I wanted to ask a question on just the model here and growth drivers here between customer count and ASRPC. Obviously, we're at a point now where the growth is really outsized towards customer count. Could we see a more balanced dispersion between customer count and ASRPC over time? What would be the key to get back to that? Is this just simply -- is this a macro phenomenon where you're seeing that strength in starter addition. And as we get into potentially a better macro, you just see more of a balanced growth there? And then just one follow-up. I think it would be helpful to clarify if there was any material contribution to Q4 deferred from Clearbit.

**Kathryn A. Bueker**
*CFO & Treasurer*

Yes. Maybe I'll just start with the last one because it's super straightforward. There is a very little amount of impact to the deferred revenue from Clearbit. The way that and reported is just the change from December until year-end. So it was very small. In terms of the net adds in ASRPC, I would just say, Brad, over the time that I've been here, we have consistently gone through waves where we see outsized growth on net customer additions, followed by periods where we see outsized growth in the expansion of existing customers. I think we're at a point here where there's a lot of things happening, particularly with the seat model chains that are going to fuel a short-term focus on growth in that net adds number. But if you think about the way that Yamini talked about the impact of that seat model. Over time, that will drive an expansion motion that can become a tailwind to ASRPC.

**Operator**

Next question is from the line of Alex Zukin with Wolfe Search.

**Ryan Scott Krieger**
*Wolfe Research, LLC*

This is Ryan on for Alex. Just had a quick question on the potential uplift from the monetization opportunity of core seats from the CRM module or just kind of put another way, for a typical customer now that you're monetizing that and you weren't before? What's the kind of uplift to a typical contract from that specifically?

**Kathryn A. Bueker**
*CFO & Treasurer*

Yes. I think it's important to understand that this impact will happen for new customers only through largely 2024. And that after the migration, we start to see renewals, you will see some similar growth trends out of the installed base. The addition of the core seat, as you heard from Yamini, is really our ability or opportunity to monetize the CRM. And in our model, every active user on the platform will need to have a paid seat. The data points that we have are really from the pilot and what we saw in the pilot was very strong assignment of core seats across the set of customers on the new model. which indicates to us that there is real value here and we should see a meaningful uplift in the percentage of users who will be on a paid seat.

**Operator**

Next question is from the line of Brian Peterson with Raymond James.

**Brian Christopher Peterson**
*Raymond James & Associates, Inc., Research Division*

Congrats on the strong results. So we heard from some of your partners that Service Hub was stronger this quarter. I know you mentioned that the multiproduct deals and Sales Hub increasingly being up front door, but is Service Hub, maybe another potential front door that you guys can walk through. And has that created any more prospects or TAM on the B2C side? Would love to get your thoughts there.

**Yamini Rangan**
*CEO, President & Director*

Yes, that's a great question. We are definitely pleased with the momentum in Service Hub, both from a product perspective as well as a customer adoption perspective. As you know, last year was a pretty big year for Service Hub growth. We did a ton of work to make the pro tier very, very powerful, and we also added some differentiating features on enterprise tiers. And based on the work that the team did, we saw a lot more adoption upmarket. When we talk about multi-hub wind, there are more customers now starting with 2, 3 hubs. And when we see that, we the power of having all of your customer information in one platform, and therefore, including service up there has become pattern. So we're very, very happy about that. I think we're not done yet. I think there's just a tremendous amount of work that we're going to be doing in the Service Hub area this year to make it even more competitive. The AI is a pretty big lever in terms of Service Hub of the kinds of use cases that we're seeing the traction of use cases that you're seeing. I talked about summarizing conversations, highlighting comments for content generation and editing answers, all of that is driving a lot more effectiveness within our Service Hub customers and also driving engagement. So we're very excited about the trajectory. Now stepping back, we have a playbook with Sales Hub and you can see it's working. When we focus the product organization when we align the go-to-market team, we know how to get that to a front door. I think we can apply the same kind of playbook or Service Hub. It will get into the same trajectory as Sales Hub as we continue to innovate for our customers.

**Operator**

The next question is from the line of Terry Tillman with Truist.

**Robert William Dee**
*Truist Securities, Inc., Research Division*

Great. This is Bobby Dee on for Terry. Curious to get an update on the health and strength of partner channels. Are you seeing more partners adept at doing platform selling versus single hub specializations.

**Yamini Rangan**
*CEO, President & Director*

Yes. Thank you so much. Partner momentum continues to grow. I just spent a bunch of time with partners this week, and we're all doing the kickoffs ready for 2024, and there continues to be good momentum and excitement with this the partner channel. As you know, partners contribute to about 40% of our ARR, and that has continued to grow as we have scaled maybe to step back, we have a very, very clear strategy with partners. We've gone to our [indiscernible], we said we wanted scale selling, co-selling and servicing with you, and we want you to become experts of the entire customer platform. And this journey is something that has been in the making for the past 3 years, and partners have enrolled in the journey. More partners are now well versed in overall CRM, the entire customer platform. They know the value proposition of multiple hub they're able to get our customers started with greater onboarding, better engagement and then continue to drive multiple hub adoption. And so I think you're seeing partners gain even more traction with us upmarket are seeing partners drive multi-hub momentum as well as like larger deal top market. And so it's become a really nice growth lever to continue to grow the ecosystem for us.

**Operator**

Next question is from the line of Arjun Bhatia with William Blair.

**Arjun Rohit Bhatia**
*William Blair & Company L.L.C., Research Division*

Perfect. Thank you and I'll add my congrats. Maybe sticking on the pricing changes. I'm curious if when you think about the new customers since that's going to go into effect first, does it actually change the incentive structures for new customers to buy the suite more? Or do you anticipate there could be more single product adoption from new customers at the landing point going forward and then eventually growing into multi-hub customers over time?

**Yamini Rangan**
*CEO, President & Director*

Maybe the way I would think about it is that in the lower end of the market and when customers are thinking about starter, absolutely removes all friction. We've always had a great momentum in starter now that we've removed the seat minimums, they encourage starter customers to start with the suite. And I'd say that the value proposition is exceptionally compelling. There is almost nothing out there with the value that we provide for the price per seat and it has become such a compelling starting point and it is all sweet at the lower end and the lower tier. Now upmarket, I don't think necessarily this pricing change is going to make everybody think about suite, and that's really not the motion. What we want people to do is to start with a couple of hubs and then continue to drive adoption and then continue to get value over a period of time. What it does is it removes that friction point for the upgrade. So when we get a lot more customers at [indiscernible], when we remove the cription that more folks are going to go into the pro tier and the enterprise tier. And over a period of time, this sets up the foundation for accelerating customer acquisition and then continuing to show the value for those customers so that they continue to go off market with us. And so that's probably the way to think about it.

**Operator**

Next question is from the line of David Hynes with Canaccord Genuity.

**David E. Hynes**
*Canaccord Genuity Corp., Research Division*

Yamini, can we just go back to the large deal activity? I think you characterized it as urgency, which is a term we haven't heard much of in software lately. Can you just talk about -- does it feel like there's a [ saying ] maybe at the high end of your customer base? Was it just a year-end phenomenon? Has there been any durability in those trends? Any color what you're seeing on the large deal front would be interesting.

**Yamini Rangan**
*CEO, President & Director*

Yes. I know urgency is definitely not something that we have heard in the past few quarters. So we definitely saw it towards the end of the quarter. especially with larger deals and multi-hub wins. In upmarket, we saw customers wanting to consolidate into fewer effective platforms both to reduce the total cost of ownership as well as to get better disability across sales and marketing as they set up for the new year. So a lot of the conversations that we had towards the end of the quarter were how do we consolidate, how do we get better visibility so we can set up a growth in 2024. I do think that our fast time to value, easy to adopt, but very powerful tools is just compelling. And we saw that towards the end of the year. I think -- and like I said earlier in the prepared remarks, it doesn't mean that the whole environment has shifted. We are really not ready to call it all clear in terms of the pattern, but the value proposition up market is certainly resonating and that translated into large deal strength.

**Charles MacGlashing**
*Corporate Treasure & Senior Director of IR*

Operator, I think we have time for maybe one more question.

**Operator**

The final question is from the line of Michael Turrin with Wells Fargo.

**Michael James Turrin**
*Wells Fargo Securities, LLC, Research Division*

Great. Appreciate you squeezing me in. Nice job with the close of the year. I was hoping you could maybe compare and contrast what you saw across customer segments exiting the year, it's pretty clear from the comments throughout the starter motion has come through strong, but I was hoping we could maybe revisit the macro commentary you made across segments. And then in terms of guidance, what you're assuming sounded like macro does not improve in the current scenario. But just going back to that as a closing point, I think, is helpful.

**Kathryn A. Bueker**
*CFO & Treasurer*

Yes. I mean, you definitely heard both Yamini and I talk in our prepared remarks that we saw some early positive signs in Q4. But at the highest level, we're assuming that the macro conditions remain challenging into 2024. In general, our customers are still cautious and we assume that our customers are going to continue to optimize their spend throughout 2024. That's that I do feel like we have seen some stabilization in customer trends. I believe we have a tighter handle on the overall environment and customer behavior entering 2024. So our overarching velocity for guidance hasn't changed. We always endeavor to set a financial guidance that we feel we have high confidence in achievement.

**Operator**

Thank you for your question. There are no additional questions waiting at this time. So I'll pass the conference back to Yamini Rangan, CEO, for any closing remarks.

**Yamini Rangan**
*CEO, President & Director*

Well, thank you so much for your support, and we look forward to connecting back again in the quarter.

**Operator**
That concludes the conference call. Thank you for your participation. You may now disconnect your lines.