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HubSpot, Inc. (HUBS)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone. My name is Lenny, and I will be your conference operator today. At this time, I would like to welcome you to HubSpot's Second Quarter 2026 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a questions-and-answer session. [Operator Instructions]

At this time, I would like to turn the call over to Vice President, Investor Relations, Geoff Koegler. Please go ahead.

Geoff Koegler
Vice President-Investor Relations, HubSpot, Inc.

Thanks, operator. Good afternoon and welcome to HubSpot's second quarter 2026 earnings conference call. Today, we'll be discussing the results announced in the press release we issued this afternoon. With me on the call this afternoon is Yamini Rangan, our Chief Executive Officer; Dharmesh Shah, our Co-Founder and CTO; and Kate Bueker, our Chief Financial Officer.

Before we start, I'd like to draw your attention to the Safe Harbor statement included in today's press release. During this call, we'll make forward-looking statements within the meaning of the Federal Securities laws that are subject to risks and uncertainties, including statements regarding our financial guidance for the third fiscal quarter and full year 2026, future financial performance, business outlook and strategy.

These statements reflect our views only as of today, and except as required by law, we undertake no obligation to update or revise them. Please refer to the cautionary language in today's press release, our Form 10-Q and our other SEC filings 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. Reconciliations to the most directly comparable GAAP measures can be found in today's press release.

Now, it's my pleasure to turn over the call to HubSpot's Chief Executive Officer, Yamini Rangan. Yamini?

Yamini Rangan

Chief Executive Officer & Director, HubSpot, Inc.

Thank you, Geoff, and welcome everyone. I'll start with our Q2 results and what drove them. Then, I'll walk through what we learned in the first half, the deliberate choices we are making as a company in response, and how we are accelerating our AI transformation across the company.

Let's dive in. Q2 revenue grew 17.5% year-over-year in constant currency. We delivered three points of non-GAAP operating margin expansion year-over-year, bringing our operating margin to 20.3%. Our total customer count reached over 306,000 globally, with 7,000 net additions in the quarter.

I'm pleased to announce that our Board of Directors have authorized an additional share repurchase program of up to $1 billion, a clear signal of the confidence we have in our business and the growth opportunity ahead. We are still in the early stages of a massive shift with AI, and this quarter reflected that reality.

Let me be direct about what happened. April got off to a slow start, and the quarter we expected did not fully materialize. Two factors drove the headwinds. The first was deliberate. As we discussed last quarter, customers adopting AI want proof of value before they commit and predictability in what it costs. So, in April, we leaned into those trends and made changes across product, pricing and go-to-market.

On the product side, we introduced trial, so customers can turn on agents and AEO in their own environment, with their data for their workflows. The goal was simple. Let customers experience real outcomes before they buy. We knew this would create some near-term headwinds by extending the buying process, but we believe it's the right long-term trade-off.

Lowering the barrier to adoption and building customer confidence and outcomes will ultimately accelerate AI adoption. So far, this approach has worked best with upmarket customers, where our teams and partners provide the support needed to make the trial successful. Our focus is to scale that experience so every customer can adopt AI with the same confidence.

On pricing, predictability has become a defining theme in AI adoption. Businesses have been hit with unpredictable token costs, and they want pricing that is transparent and tied to value. In response, we introduced outcome-based pricing for several of our HubSpot agents, lowered entry price points and are providing customers clear visibility and control over usage and spend, including the ability to set thresholds that fit their budget.

The second factor was a shift in the demand environment in Q2, with increased budget sensitivity. Businesses want greater confidence that their investments will position them for the AI platform shift. As a result, purchase decisions are facing greater scrutiny, buying committees are larger and more deals require C-suite and board approval, leading to longer sales cycles.

For existing customers, unpredictable AI costs across the broader landscape are impacting budget, leading to budget optimization and downgrade pressure. In response, we've evolved our execution playbook by engaging the C-suite earlier, accelerating time to value with our partner ecosystem and demonstrating our pace of innovation that future proofs their investments. These trends reinforce our conviction in accelerating our strategic pivot to deliver predictable pricing and clear value tied to AI.

Now, despite the headwinds in Q2, we continued to see real momentum in AI adoption, upmarket wins, and multi-hub growth. On AI, customer adoption is accelerating. Data Agent has over 16,000 customers activated, up 80% quarter-over-quarter. Prospecting Agent has almost 17,000 customers activated, up 28%, and Customer Agent reached over 10,000 customers.

We launched HubSpot AEO in April, both within Marketing Hub and as a standalone product. And since then, 32% of Marketing Hub Pro+ customers have activated AEO and nearly 16,000 customers have activated a standalone AEO trial in Q2.

More importantly, customers are seeing real business outcomes. Sesame HR, a 400-person HR software platform, could only respond to 70% of incoming support tickets before deploying Customer Agent. Now, they cover all tickets received with 60% fully resolved without human escalation. After their initial trial, they have now purchased more than 1 million credits and are expanding into other agents.

RevenueWell, a 250-person dental software company, combined HubSpot's buyer intent with Prospecting Agent to identify high-intent buyers and reach them with personalized outreach. Meetings booked increased from 8% to 28% and conversion rates climbed to nearly 10%, well above industry benchmarks. They have since grown their usage to more than 350,000 credits across six HubSpot agents.

Upmarket momentum continued to be strong. Deals over $120,000 ARR grew 38% year-over-year, reflecting continued demand from larger customers for a unified, AI-powered customer platform. And multi-hub momentum continued. 64% of new Pro+ customers landed with multiple hubs, up three points year-over-year. Taken together, these results reinforce our conviction that we are making the right strategic choices.

Now, let me step back from the quarter and talk about the bigger opportunity. The last 20 years were about helping teams do more work with software. The next 20 years will be about helping them achieve better outcomes with AI. That's the opportunity we're building for and that's why we are evolving every part of HubSpot, from our products, to our go-to-market, to how we operate as a company.

Our AI strategy is simple: drive growth for scaling companies. And that means delivering real outcomes across the full customer journey and that is exactly what our HubSpot agents do. Customers don't want a chaotic agent sprawl. They want a controlled, cohesive way to build demand, win deals and delight their customers.

In Q2, we expanded our agent portfolio and added both breadth and depth in agent capabilities. We also added two new products: AEO, which shows marketers how their brand appears in AI search engines and tells them what to do about it; and Revenue Hub, which brings quoting, contracts, billing and payments into one place.

Beyond HubSpot agents, we want to make building easy. AI is democratizing the ability to build workflows, agents and automation, and we want every go-to-market builder on our platform to take advantage of that.

In July, we launched Agent Builder and Agent Hub. Agent Builder lets anyone build custom agents, agentic workflows or mix and match both. What makes it powerful is that it connects deeply to HubSpot's CRM and contacts, but it can also automate anything outside HubSpot.

Customer Agents can take a rich set of actions, from sending a WhatsApp message to invoking an LLM, to calling a custom API. And Agent Hub gives customers one place to manage all their agents: HubSpot-built, customer-built and partner-built.

Over 2,700 customers have already activated it in beta, and partners are leading the way here. SmartBug Media, a HubSpot Elite Solutions Partner, built a library of 20 custom agents on HubSpot, spanning sales research, content creation and proposal compliance. We've expanded partner incentives to encourage this motion and expect a significant portion of customers and partners to build on top of our platform, given the trusted context we deliver.

The biggest adoption jump this quarter was in Breeze Assistant. Breeze is no longer just a chat interface. It is how customers interact with the entire HubSpot platform. They use it to build reports, create automations, invoke agents and generate artifacts, all without writing a single line of code. More than half of our Pro+ customers are using it, and weekly active usage has doubled since the start of the year.

What makes it powerful is what's behind it. Every action and every artifact is grounded in real CRM data, growth context and HubSpot's governance model. Customers get AI that actually knows their business. So, how will you know whether our AI strategy is working? We measure it through four lenses: reach, depth, quality and growth.

First, reach. Are customers adopting AI? Today, more than 55% of our Pro+ customers use our agents or Breeze Assistant, up by double digit percentage points since the start of the year. HubSpot agent adoption among our Pro+ customers has grown from high-single digits to mid-teens this year.

Second, depth. Are customers using more over time? The total number of monthly agentic actions across our customer base has increased more than 3x this year. Customers are not just experimenting with AI, they're making it part of their daily workflows.

Third, quality. Are our agents delivering real outcomes? Customer Agent now resolves 72% of support tickets without human escalation. Prospecting Agent is generating response rates on par with human-written outreach, leading to more meetings booked and more deals closed.

Finally, growth. Is AI driving growth of our business? Total credits consumption grew in Q2, despite the pricing changes we made in April. Credit usage is now evenly distributed across Data Agent, Prospecting Agent, Customer Agent and buyer intent. That is an important signal. Customers are adopting a single AI use case. They're using HubSpot agents across the entire customer journey.

Transforming our product and pricing is only part of the story. We're also transforming how HubSpot operates and that internal transformation is driving leverage. We have reorganized into smaller, more focused teams operating in six-week sprints. This lets us move at the speed of AI, experiment continuously and quickly scale what works.

AI is now embedded in how we build, how we sell, and how we run the business. We're doing more with less and getting faster as we go. And it is showing up in the numbers. Operating margins are expanding in 2026, even as we invest aggressively in AI innovation. In addition, we expect to deliver 2 to 3 points of operating margin expansion in 2027, a meaningful step up that reflects the operating leverage we are building as an AI-first company.

I want to close with what I keep coming back to. We're in the middle of a real transition to AI, and we are making deliberate choices to lead in it. While some of these choices create near-term headwinds, they will help us drive long term compounding growth. Our core fundamentals are solid. Our AI momentum is real and accelerating, and the adoption indicators are moving in the right direction. We have a clear strategy, a focused team, and high conviction in where we are headed.

With that, I'll hand it over to our CFO, Kate Bueker, to walk you through our financial and operating results. Kate?

Kathryn Bueker

Chief Financial Officer, HubSpot, Inc.

Thanks, Yamini. Before diving into Q2 results, I want to reiterate the business trends that Yamini shared in her remarks. April got off to a slow start, and the quarter that we anticipated did not fully materialize. We faced two headwinds this quarter.

First, the deliberate changes we made across product, pricing and go-to-market were a headwind. We believe these are the right long term decisions for HubSpot to win in the AI era. Second, we saw a shift in the demand environment in Q2, with increased budget sensitivity. These demand trends reinforce our conviction in accelerating our strategic choices to better assist customers through this transition.

With that, let's turn to our second quarter 2026 financial results. Q2 revenue grew 20% year-over-year as-reported and 17% in constant currency. Q2 subscription revenue grew 20% year-over-year, while services and other revenue increased by 8%, both on an as-reported basis.

Domestic revenue grew 17% year-over-year in Q2. International revenue growth was 23% as-reported and 18% in constant currency, representing 49% of total revenue. We added 7,000 net new customers in Q2, bringing our total customer count to over 306,000, growing 14% year-over-year. This was below our 9,000 to 10,000 expectation and driven primarily by weaker conversion rates and increased buyer hesitancy.

Average subscription revenue per customer was $11,800 in Q2, up four points year-over-year as-reported, and two points in constant currency. Customer dollar retention remained healthy in the high-80s, while net revenue retention was 102%, down a point year-over-year, as continued seat and credit expansion was offset by other net upgrade headwinds as a result of customer budget optimization.

Q2 calculated billings were $930 million, growing 14% year-over-year as-reported and 17% in constant currency. Non-GAAP operating margin was 20%, up three points compared to the year ago period. This expansion reflects our continued disciplined approach to head count spend, partially offset by AI costs.

GAAP operating margin was 5% in Q2 compared to a negative operating margin of 3% in the year ago period. This eight points of expansion reflects our non-GAAP operating income expansion and a more than four point reduction in stock-based compensation expense as a percentage of revenue.

Non-GAAP net income was $165 million and non-GAAP net income per diluted share was $3.26, up 40% and 49% year-over-year, respectively. GAAP net income was $43 million in Q2, and GAAP net income per diluted share was $0.86.

In the second quarter, the company generated $168 million of free cash flow or 18% of revenue. Our cash and marketable securities totaled $1.4 billion at the end of June. During the quarter, we bought back more than $500 million of stock under our current $1 billion share repurchase program. Our board of directors has authorized an additional share repurchase program of up to $1 billion, reflecting the confidence we have in our business and the growth opportunity ahead. Our continued strong balance sheet and free cash flow provide us with the flexibility to return capital to shareholders, while maintaining our focus on investing in organic innovation and opportunistic M&A.

Before we dive into guidance, let me share our current thinking on the second half and our expectations on the near-term performance of our KPIs. Our Q3 and full year guidance reflects our expectation that the headwinds we saw in Q2 will persist throughout the remainder of the year. We now expect quarterly net additions to be approximately 5,000 to 6,000, and ASRPC growth to be in the low to mid-single digits in constant currency.

For the full year of 2026, we expect net revenue retention to be roughly flat year-over-year. We expect customer dollar retention will remain strong and stable in the high-80s, and we continue to expect net upgrade rates to be pressured in the second half as a result of customer budget optimization. We now expect net new ARR growth to be below constant currency revenue growth for the fiscal year of 2026.

With that, let's dive into our guidance for the third quarter and full year of 2026. For the third quarter, total as-reported revenue is expected to be in the range of $924 million to $925 million, up 14% year-over-year on an as-reported basis and 15% in constant currency. Non-GAAP operating income is expected to be between $187 million and $188 million, representing a 20% margin. Non-GAAP diluted net income per share is expected to be between $3.25 and $3.27. This assumes 49.3 million fully diluted shares outstanding.

And for the full year of 2026, total as-reported revenue is now expected to be in the range of $3.678 billion to $3.686 billion, up 18% year-over-year on an as-reported basis and 16% in constant currency. We continue to expect non-GAAP operating income to be in the range of $762 million to $766 million, representing a 21% margin. Non-GAAP diluted net income per share is now expected to be between $13.23 and $13.31. This assumes 50 million fully diluted shares outstanding.

Before we turn to some modeling notes, I'd like to provide additional color on our margin expansion trajectory. As we transform how HubSpot operates, our internal transformation is driving leverage. Our guidance contemplates two points of non-GAAP operating margin leverage this year. Looking ahead, we expect to deliver two to three points of incremental non-GAAP operating margin leverage in 2027.

In addition, we remain committed to driving stock-based compensation as a percentage of revenue down year-over-year. We'll share more detail on this at Analyst Day next month. As you adjust your models, please keep in mind the following. We continue to expect CapEx as a percentage of revenue to be 5% to 6% for the full year of 2026, and continue to expect free cash flow to be about $750 million.

Before we open the call for questions, I want to invite you to join us at our Annual Analyst Day at UNBOUND, taking place on September 17 in Boston. We look forward to seeing you there.

With that, I will turn the call back over to the operator for questions.

QUESTION AND ANSWER SECTION

Operator: We will now move to our question-and-answer session. [Operator Instructions] Your first question comes from the line of Samad Samana with Jefferies. Please unmute your line and ask your question.

Samad Samana
Analyst, Jefferies LLC

Q

Hi. Good evening, and thanks for taking my question. So, look, Yamini, I appreciate all the details that you gave us. I know in the press release, you referenced the deliberate choices. And I think we all understand about the pricing model change and the sales training. Then, there were also the terms of service change and then the rollback.

I guess the question that I have, just processing Kate's guidance and all the information that you gave, were there additional choices in the quarter that disrupted the results and influenced the outlook beyond what we've already talked about? And then maybe looking ahead, are there more aggressive choices the company needs to make in this fast-moving AI backdrop? I appreciate all the progress that you guys have made, but is there more work left to do and more aggressive moves that need to be made? Thank you so much for the question.

Yamini Rangan
Chief Executive Officer & Director, HubSpot, Inc.

A

Hey, Samad, thank you for that question. Look, the simplest way to describe what we observed in the quarter is that as customers are navigating both the platform shift and budget pressure, they're cautious. And I mentioned two specific headwinds. But let me just be very, very specific and break those apart and unpack what those meant.

Now, when I look at the first half, Q1 was solid. But as we moved through Q1, it became very clear that customers are evaluating and buying AI differently. So, in April, we leaned in and made a set of deliberate changes across product, pricing and go-to-market that you referenced. And specifically, to unpack those, customers want proof of value before they buy. This is a different buying motion than SaaS where they bought features. And so, they want to see the agents work within their data, within their workflows and their environment.

So, we shifted to providing trials for several of our HubSpot agents and AEO. We knew that evaluations would slow deal cycles, but we would provide higher confidence for customers as they adopt AI and that would allow us to [ph] seed (00:25:35) as many use cases as early on as possible with customers, because once they buy the first agent and the second agent, and they begin to see clear outcomes, they are much more progressive about adopting the third, fourth and fifth agent. That is exactly why we did that.

The second thing that we did is that, we reflected on customers wanting predictable AI cost. That is an industry-wide concern today. And so we lowered the price for many of our key agents. We introduced outcome-based pricing so that we could tie the agent value to the value that they're getting. And we gave customers much better visibility and spend control, they can set thresholds for what they want to spend.

Now, these decisions create a near-term headwind. And the decision we made is we'd rather remove friction and build customer confidence at the beginning of their AI journey and then help them drive much more adoption as they continue. We believe those are the right trade-offs to becoming the long-term winner.

And as I mentioned, we are seeing encouraging signals in terms of AI adoption. And July continued that adoption in AI. And specifically, Prospecting Agent, we're now seeing 17,000 customers, Customer Agent, 18,000 customers that grew by 80%. Data Agent, similarly – sorry, Data Agent was the 16,000 that grew pretty significantly and intent signal.

So, you can see that customers are getting more and more comfortable, and it's balanced across multiple agents in terms of what they're adopting. And that is exactly what we want to see. Those are all the deliberate changes that we made, and we feel very good because, yes, we take half a step back, but we are doing that so that we can take multiple steps forward.

Now, the second trend that we mentioned is that, in Q2, we saw a shift in the demand environment with increased budget sensitivity. And where that showed up is for prospects, we're seeing greater scrutiny, we're seeing larger buying committees and more of the deals that we are participating in require C-suite approval or board approval, and that means the deal cycles are longer.

Now, having said that, we are seeing a lot of large opportunities within the pipeline, larger than what we've seen in the past, and they are closing, but they're just closing a month later or few weeks later. And so with all of that change that we saw in the second quarter, we understand that the buying environment is changing.

So, in response, we are engaging with our customers earlier in the process. We're providing them clarity in terms of the outcomes that we deliver. We're rolling out plays to support flexibility for customers in terms of their spend and we're working very closely with partners to give confidence to work through and deliver outcomes. So, those are the two very specific trends that we saw and how we are responding to each of those within the quarter.

Now, the factors that I talked about resulted in slower customer acquisition and net new ARR headwinds, and that is what we are contemplating in the guidance for the rest of the year. But we're very confident that we're making the right trade-offs to position the business for the much larger AI opportunity in front of us, and that is our conviction.

Operator: Thank you. Our next question comes from Rishi Jaluria with RBC. Please unmute your line and ask your question.

Rishi Jaluria
Analyst, RBC Capital Markets LLC Q

Oh, wonderful. Thanks so much for taking my question. Look, I appreciate all the detail and I think a lot of us are willing to be patient and long term focused. But maybe would love to understand, in terms of what you're seeing from the buying behavior, totally understand kind of some of the business model shifts and a lot of the noise out there. Yamini, you talked a little bit at the beginning in your prepared remarks about how a lot of companies are struggling to manage their token bills and we obviously saw the trend of token-maxing [indiscernible] (00:29:47).

So, my question for you is, has that kind of token burn impacted budgets and how companies, both new and existing, are thinking about deploying HubSpot? And maybe related to that, is there any kind of confusion or noise in the market from adjacent vendors that are relatively new, marketing themselves as more AI native, that's leading to that higher level of scrutiny that you talked about? Any color there would be helpful. Thank you.

Yamini Rangan
Chief Executive Officer & Director, HubSpot, Inc. A

Yeah. Rishi, thank you so much for the question. So, there are two parts of your question. One is, what are we seeing in terms of the spending environment and is that because of token-maxing. And then the second part of the question is really around our competitive positioning within the market. So, I'll take both of those separately.

Look, in Q2, we saw a more cautious spending environment. And, look, there will be a sorting phase, I'm sure, and there will be clarity in terms of not token-maxing, but really driving value-maxing, and that is why we are leaning really into delivering outcomes.

Now, what that cautious spending environment translated to for us is twofold. For new customers, we're seeing larger buying committees and more C-suite involvement. Many times, boards and PE firms are involved in the final approval, and that's not what we saw a few quarters ago, where things that would get like approved at the VP of Marketing level now requires a board approval. We are definitely seeing more pipeline and larger deals within the pipeline, but because of the scrutiny, it just takes a month longer.

I've been working with a number of customers. We talk about like replacements. One of the larger deals where we're replacing an incumbent and consolidating CRM across 500-plus seats, it just took two more weeks than normal to go through the budget approval process at the CEO level, at the board level to get it approved. So, that is what we're seeing. And it's not surprising that customers who are navigating a platform shift, they want clarity in terms of the outcomes that they can get and they want predictability in terms of the cost.

And we've contemplated that and our execution now meets customers where they are. In terms of how we are responding to what we're seeing in the environment is we are engaging with the C-suite earlier in the process. We are making sure that the value is clearly articulated. We're making sure that the migration and implementation with partners delivers fast outcomes. And so we've changed the playbook to meet where our customers are.

Now, the second part of your question is really around the competitive environment. Look, the market is competitive. It has always been very competitive and it's never a winner-take-all market. But I will say that where we continue to win and which is why we see the strength in the number of conversations that we're having, is that we are, one, pretty easy to use. The second is that we provide a platform. A number of times that I have conversations with customers, they don't want agent sprawl.

They don't want like 10 agents from 10 different vendors because, one, the predictability of cost issue becomes even worse and the ability to see the outcomes in all in one place also becomes worse. And so customers look to us for, one, making sure that all of the agents are in a single place and our platform provides the context, the CRM data, the governance and the workflows to be able to get them to do their work. So, I think our overall position in the market is very solid. We see that in upmarket win rates. We see that across the board. But it's deals are just taking longer to be able to close and that's because of the environment we're in.

Rishi Jaluria
Analyst, RBC Capital Markets LLC

Q

Thank you so much.

Operator: Thank you. Your next question comes from the line of Brian Peterson with Raymond James. Please unmute and ask your question.

Brian Peterson
Analyst, Raymond James & Associates, Inc.

Q

Hey guys. Thanks for taking my question and I appreciate all the detail. Yamini, I'd love to understand the demand environment maybe from a customer size perspective. I know you're talking about CEO involvement and bigger committees. I think we normally associate that with enterprise. I think you're saying that that maybe is a stronger area of the market. I just want to make sure I understand that and how can we think about large customers versus maybe SMB adoption through 2Q? Thanks, guys.

Yamini Rangan
Chief Executive Officer & Director, HubSpot, Inc.

A

Brian, yeah, thank you so much for the question. Let me just unpack what we are seeing upmarket and downmarket. In downmarket, we just saw a more cautious buying environment and that is leading to higher scrutiny when it comes to making the decisions. And our priority is to make it super easy for downmarket businesses to adopt hubs, adopt agents and deliver measurable outcomes. And all of the things that we did deliberately within our Q2 to lean in and deliver trials and make the cost predictable, those are going to help from a downmarket perspective.

Now, upmarket is exactly where we saw a lot of the larger buying committees and more approvals that are needed. So, again, to kind of like repeat, what we are seeing upmarket is that the biggest change is the number of people that are involved in the buying process. And as we move to the larger deals, we're definitely seeing more involvement from CEO, CFO, and having the right conversations with them and making sure that they're comfortable within that process. Many of these deals close, and the win rates are staying very solid upmarket, but it's taking longer.

Now, I will say that relative to all of our business, the upmarket business continues to remain very strong. We saw that in the number of bigger deals. In the prepared remarks, I shared that the number of $120,000 ARR deals grew by 38%, and that means strong interest, increasing interest and a number of conversations. And when upmarket customers talk to us, they are talking to us because we consolidate their platform and we're able to reduce their TCO costs and provide clarity in terms of the AI roadmap.

So, the clear distinction is how many people are involved in the process, which elongates the evaluation time and in downmarket, the higher scrutiny involved within the decision making process, which is where trials and giving real comfort around the predictability of costs are really helping. So, I hope that helps understand the environment that we are navigating.

Having said all of this, look, we are leaning in, we understand that customers are navigating an environment where they're thinking about the platform decision as well as the cost, and we're leaning in to make that easy for them. These are the right long term decisions to set up HubSpot to win in the longer term within the AI era.

Brian Peterson
Analyst, Raymond James & Associates, Inc.

Q

Thanks, Yamini.

Operator: Thank you. Your next question comes from the line of Raimo Lenschow with Barclays. Please unmute your line and ask your question.

Eamon Coughlin
Analyst, Barclays Capital, Inc.

Q

Hey guys. This is Eamy Coughlin on for Raimo. Thanks for taking the question. It's great to see that the credit consumption continues to grow healthily, despite the April pricing changes. And I recognize that it's very early, but is there any way to think about how much of total credit consumption today is coming from paid usage versus bundled or trial usage? Thank you.

Yamini Rangan
Chief Executive Officer & Director, HubSpot, Inc.

A

Yeah. Thank you. Thank you for the question. So, as we were walking through, the way we look at credit consumption is that it starts with breadth of AI usage, which is how many people within HubSpot are using AI features, then it's the depth of usage, then it's the number of outcomes that they're driving that then drives the credit consumption, which includes both the included as well as additional consumption.

And what we saw are very clear leading indicators that are positive. With reach, I mentioned this. So, the question that we have to ask ourselves is how many people are – how many customers are using it? 55-plus-percentage of our customers are using Breeze Assistant as well as agents. And I mentioned that agent usage went from 9% to much higher in the mid-teens and then continue to like accelerate to high-teens in July.

And I also mentioned that Breeze Assistant usage jumped pretty significantly. And Breeze Assistant usage is important because it's no longer just a chat surface. This is how customers interact with HubSpot. This is how they take agent action. This is how they build reports. This is how they build artifacts. And so Breeze Assistant is really important in terms of the reach.

Now, the second metric that we look at is depth. If they are using, how deeply are they using, how consistently are they using? We measure that as agentic actions taken and agentic actions taken grew 3x from the beginning of this year, which means it's not just experimental, they're using it much more.

And then the outcomes, the quality of outcomes is what will enable more small, medium businesses to adopt AI. There, our customer agent resolution rate is at 72%, which is industry-leading. And the Prospecting Agent is actually delivering results as much or better than what humans would deliver in terms of outreach signals.

All of those are the [ph] pre-leading (00:39:35) indicators in terms of credit consumption. And as I mentioned, even though we reduced pricing, we've seen credit consumption increase. And we are continuing to see that trend go into July. So, again, part of this is we're very, very early in the AI adoption cycle.

If you look at businesses adoption, mid-market and small business adoption of AI is pretty early stages and the more comfort that we give them, the more confidence we give them in terms of the quality of output as well as the value that we are delivering with the predictable costs, we are going to see it increase and that is exactly what we are doing to make sure that we set ourselves up for the future.

Operator: Thank you. Your next question comes from the line of Terry Tillman with Truist. Please unmute your line and go ahead.

Giancarlo Valle
Analyst, Truist Securities, Inc.

Q

Hi, guys. It's Giancarlo on for Terry here. Thank you for taking the question. Just on the product roadmap, you had mentioned that there's a lot of progress moving forward, but how do you guys actually train the sales force to sell those new products? Thanks.

Yamini Rangan
Chief Executive Officer & Director, HubSpot, Inc.

A

Yeah. Terry (sic) [Giancarlo] (00:40:48), that's a good question. Look, I think that – just to kind of maybe step back from a product roadmap perspective, we're very, very clear. We start with HubSpot agents. We have deep domain expertise in marketing, sales and service, and those actually show up in HubSpot agents that deliver outcomes for customers.

The second, which we talked about, is Agent Builder. We see a huge opportunity for customers and partners to build on top of the HubSpot platform and continue to extend workflows, build automations, build custom agents, so we have a very clear product strategy.

In terms of how we're thinking about our teams and how we're training them, look, first of all, they all live day in and day out on HubSpot. They're using all of these capabilities and they're understanding what this means to their own sales and marketing processes.

Having said that, we are training them to lead with outcomes and value that we can deliver to customers, communicate the value of the full agentic platform, and then help customers understand AI pricing and credits. That is a new motion. Customers want to understand how this all works, they want to adopt it, but they want to make sure that it is economical, given their budgets and that's where we are training our sales organization to be able to do.

Now, if I step back, the bigger change is really with customers and how they are buying and the go-to-market changes in the training reflects what we are seeing with customers. And to make it pretty simple, look, traditional software used to be about customers looking at features, implementing features and then making sure that users got trained on those features to drive outcomes. But with AI, the real change is that we deliver outcomes.

And they got to make sure that it works within their environment with their data and they got to understand the ongoing economics before they commit. And so it is a different buying motion. Our sellers are stepping into it. Every week, I see the way that they communicate the value and they help our customers navigate a big change in terms of what they're buying improve and we have the right strategy and the confidence that we'll help our customers navigate a set of changes here.

Operator: Thank you. Your next question comes from the line of Gabriela Borges with Goldman Sachs. Please unmute and ask your question.

Gabriela Borges
Analyst, Goldman Sachs & Co. LLC

Q

Hey. Good afternoon. Thank you. Yamini, all of your commentary makes sense. My question for you and Kate, I know you said you're anticipating the environment to stay the same in the second half. My question for the both of you is when does it get better? Are we – I would imagine there's a period of time where our customers are exploring, we're in this period of exploration and the products are becoming more mature.

Do you envision getting to a more steady state environment, or is this like the new normal, like what we were talking about post-COVID, where we kept waiting for things to get better and it just turned out this was the new baseline? So, maybe just give us your hypothesis for what do you think it takes for customers on a timeline standpoint to get more comfortable and for the products to mature, and for the whole buying process to become just a little bit more comfortable for everyone?

Yamini Rangan
Chief Executive Officer & Director, HubSpot, Inc.
A

Yeah. Gabriela, that is a great question. And I will tell you that the moment that we are navigating right now is when customers are thinking about how they adopt AI and how they navigate through that. And the second thing is, like, how do they get a sense of where the budget needs to be as they adopt AI. And I think this is where we find ourselves right now. And if I go back and talk about the – what we observed and therefore the changes that we're making, it really starts with helping customers through this environment.

And as I've now talked about ad nauseam in terms of the changes that we made, if customers want comfort in terms of the outcomes that they want to see [ph] within (00:45:03) AI, we're there for them. We're providing them trials. We are supporting them with solution architects as well as partners, so that they can understand the outcomes that they can get within their environment, and we're helping them with predictability of cost, both by lowering the price and tying it to the outcomes, but also giving them the comfort of set up your threshold and make sure that you understand how the budgets work.

And so, look, that part of it is the moment that we are in. I – having lived through previous transitions many times, you start in a place where you want to understand how this new technology is going to work and how the budgets are going to work. And then going forward, when you begin to see others get the value, when you begin to see the adoption across the industry, then you just get comfortable with it and then you move forward.

So, I think, and I look at this and say, this is the moment that small, medium businesses are in the adoption cycle and understanding what this means for their budget. As we give them confidence, both in terms of the predictability of costs and the clear outcomes that we deliver, there will be a level of comfort in all of this. So, that's how I think about it.

Now, we're going to assume that what we saw in Q2 is what we will see in the second half, and that is what is contemplated within the guidance. But we're doing everything from our response perspective to provide the comfort for our customers as they navigate this transition.

Gabriela Borges
Analyst, Goldman Sachs & Co. LLC
Q

Thank you.

Operator: Thank you. Your next question comes from the line of Alex Zukin with Wolfe Research. Please unmute and ask your question.

Q

Hey, guys. Thanks for taking my question. This is [ph] Ivan (00:46:57) here for Alex. Maybe one question on sort of the product side, since HubSpot was always known as the company with most beloved products. And this one is about the agents. So, what do Customer Agent, Prospecting Agent, AEO and these other agentic products, what do they need to get right over the next two quarters for the H2 numbers to land and where are these products still maturing today?

Our sense from the field is that most AI products, not just HubSpot, but really all products are still very, very early. So, I'm just wondering, from your perspective, what closes the gap on the go-forward basis? And then, connected to the previous questions, when do these products start impacting revenue and offsetting some of the other weaknesses?

Yamini Rangan
Chief Executive Officer & Director, HubSpot, Inc.

A

Yeah. That is a great question. And I will say that the SMB adoption is still pretty early stages. And we feel that we're leaning in and helping them navigate and adopt AI. But let me specifically talk about the agents that you mentioned and our strategy. I'll start with HubSpot agents. Pretty simple, we want to take our deep domain expertise in marketing, sales and service and we want to drive outcomes for our customers.

And what are the outcomes that we deliver? It is to help them build demand. It is to help them win deals, and it is to help them delight customers. And so the set of agents that we now have in the market includes AEO agents to show up in LLMs, Data Agent to build up your audience or TAM, Prospecting Agent to outreach to your customers so you can build pipeline, Smart Deal Progression so that you have a self-updating CRM and a Customer Agent. So, we have agents throughout the customer journey, in the critical points of the customer journey.

What we see in terms of the pattern of adoption is this. Customers start with internal-facing agent, which means that Data Agent, the reason you see that very high adoption of Data Agent is because they're comfortable using an internal use case. And then they're also very comfortable with Smart Deal Progression which is use a note taker and update the CRM records and get sales productivity. They're all starting with those internal use cases because it's pretty easy to drive that within the teams.

What takes one more jump is really making sure that the outcomes of any agent that interacts directly with customers is solid and that is the Prospecting Agent and the Customer Agent, and so on. So, what are we doing about it? As we think about every one of these agents, we're looking at how many customers are discovering agent, how many are activating, how many get that first aha moment of value and then how many continue to double-click and use each of these agents.

And we are looking at every one of those steps for every single agent to be able to optimize. And that gives us a lot of control over, like, what we need to do to drive Customer Agent adoption versus Prospecting Agent adoption? That is where the customers are in the cycle of adopting AI. From a product perspective, that means doing more to drive that first moment of value and driving that clarity in terms of outcomes that we deliver, and helping our customers navigate that process.

I'd say the same thing with Agent Builder. That's the second part of the strategy. We launched Agent Builder so that our customers can build workflows, agents, automation on top of HubSpot. Why would they do that? Well, they do that because there is context, there's CRM data, there's permissions and all of the governance that's associated and that helps them extend AI within their businesses and workflows. And again, we have 2,700 customers already and 1,000 agents that are already adopted.

So, look, from a product cycle perspective, this is – if you think about a mid-market company with 50, 100 employees, they're getting used to what this means to have agentic technology and we are right there with them. We are looking at the points of friction. We are enabling, block – getting through those points of friction and driving that from a product strategy perspective. We are very clear that the strategy is going to help customers deliver outcomes with AI, it's just taking the time as we navigate that shift.

Operator: Thank you. Your next question comes from the line of Jackson Ader with KeyBanc. Please unmute and ask your question.

Jackson Ader
Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thanks, guys. Thanks for taking our questions. I really just had one around the – not so much on the AI disruption or your – what you feel like you can control, Yamini, on making some of the changes, but the budget scrutiny. What is it – when – I'm just kind of struggling to think, okay, customers are scrutinizing their budget more, what is it that they are opting to spend their money on instead of HubSpot at the moment and what gives you the confidence that this is – it's something temporary, and how long does that temporary last? When do you expect the budget scrutiny to loosen up a little bit? Thank you.

Yamini Rangan
Chief Executive Officer & Director, HubSpot, Inc.

A

Jackson, thanks for the question. Look, I wish I had, like, a very clear crystal ball to give you exact answers there. But what happened, as you all know, in the first half of this year is that there's just a lot of token-maxing, and that phase is not very healthy, and it is not tied to value and outcomes of what customers are getting. I think there will be a sorting phase. And one of the reasons why we've been leaning into clear outcomes, agent pricing tied to outcomes and clarity in terms of how they can set thresholds is to give comfort within that process.

The second thing that I would say is the early phase of technology adoption, there is a ton of experimentation. But as you, again, ask the question of where is my spend leading to clear impact and ROI, we think that that is where HubSpot will win. And that is because our platform is clearly connected to the business outcomes that we are delivering. And second, because we actually have the flexibility to pick and choose amongst the AI models, and we can provide the most cost efficient way to be able to deliver the outcomes.

So, look, there is a phase of sorting through, where do I spend money and am I getting value? But I think that the industry is also getting to the point where they're now asking the right questions on how do I optimize spend across and what specific spend is leading to clear outcomes, and I think that's where HubSpot wins. I can't tell you an exact month or a quarter where that happens, but we are doing everything possible to be super clear in communicating the value that we deliver and the predictability of costs that we provide for customers that will help them through their shift.

Jackson Ader
Analyst, KeyBanc Capital Markets, Inc.

Q

Got it. Thank you.

Operator: Your next question comes from the line of Siti Panigrahi with Mizuho. Please unmute your line and ask your question.

Siti Panigrahi
Analyst, Mizuho Securities USA LLC

Q

Great. Thanks for the question. Yamini, really appreciate all the color here. Just to follow-up to some of this question, among the customer base who are picking your AI product, are they asking for more discount from their traditional core hub or basically, I want to understand how they are funding that spending? And in terms of NRR, what gives you that confidence that NRR will be flat? Are you seeing any kind of churn from customers those who are not [ph] adopting (00:55:31) AI?

Kathryn Bueker
Chief Financial Officer, HubSpot, Inc.

A

So, Siti, hi. Thanks for the question. Why don't I start a little bit? I am hearing some feedback. But I'll give Yamini a chance to breathe and talk a bit about net revenue retention, what we saw in the quarter and what gives us the conviction that it will be flat this year.

If you think about the net revenue retention in the quarter, I think it's helpful to think about the components of net revenue retention. And it starts, as it always does, with customer dollar retention. In Q2, customer dollar retention remained really strong and stable in the high-80s. That's the foundation that we always count on for a strong customer dollar retention or for a strong net revenue retention.

Seat and credit expansion, which as you know has been a key driver of net revenue retention, continued to benefit NRR this quarter. But as Yamini talked about, the agent pricing reduction, introduction of trials created a near-term headwind for credit expansion. That said, outside of seats and credits, we did see pressure in the other upgrade motions and how that's manifesting itself is that as customers come up for renewal, we're seeing some downgrade pressure as they sort of optimize their overall spend.

Given those trends, we took down our full-year view for net revenue retention to be basically flat to 2026. If you look at where we are year-to-date, we are flat. Net revenue retention does tend to be higher in Q3 and Q4 with UNBOUND. And Q4 is obviously a big quarter for us, both from a new business perspective, from a renewal perspective and also from an upmarket perspective.

All that said, we do think that the actions that we're taking are positioning us really well to drive stronger net revenue retention over time, like lowering the friction for customers to get started with AI use cases, provides an opportunity for expansion over time that will become a tailwind to NRR.

Yamini Rangan
Chief Executive Officer & Director, HubSpot, Inc.

A

Yeah. And Siti, in terms of the first part of your question, patterns of AI adoption and how are they finding the budget for that, look, there are a couple of patterns and pools, I would say. One is that customers want to experience an agent outcome in their environment, a trial helps them, and they continue to grow.

I'll give you an example of this customer, a great customer called RentSpree. They started with Customer Agent and 70% of the conversations are now being resolved using that. That was what they validated in their trials. And then from there, they expanded to another 350,000 AI credits. That is one pattern that we see. The other pattern that we see is having flexibility to be able to swap seats for credits and managing their budget, wanting to drive AI adoption, but managing the budget across seats and credits. And we've been very flexible to help our customers do that.

Both of those things we think are the right things. Trials give confidence that then lands with use cases and then expands from there to more use cases, and then flexibility in spend gives them the confidence that they can control their budget, while adopting AI. And both of those motions are what we are leaning into with what we're seeing in the market and meeting customers where they are.

Siti Panigrahi
Analyst, Mizuho Securities USA LLC

Q

Thanks for the color.

Operator: Thank you. Your final question for today comes from Keith Bachman with BMO. Please unmute and ask your question. Keith, your line is open. You can ask your question.

Geoff Koegler

Vice President-Investor Relations, HubSpot, Inc.

A

Operator, we'll take the next question, please.

Operator: Your next question comes from Parker Lane with Stifel. Please unmute your line and ask your question.

Jeffrey Parker Lane

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Hi. Good afternoon. Thanks for taking the question. Kate, just one for you on the two pieces that impacted the quarter here, the deliberate actions you took and then the shift in the demand environment. Was that demand environment fairly level and the pressures that you saw consistent throughout the quarter, or is that something that started to become more pronounced as you exited the quarter?

Kathryn Bueker

Chief Financial Officer, HubSpot, Inc.

A

I think that there's not a distinct difference between the pressure at the beginning of the quarter and the pressure at the end of the quarter. And just to be clear, we did see it continue into July.

Jeffrey Parker Lane

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Got it. Thank you very much.

Operator: Thank you. This concludes today's call. You may now disconnect.