


HubSpot, Inc. NYSE:HUBS

FQ3 2014 Earnings Call Transcripts

Wednesday, November 12, 2014 10:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2014-			-FQ4 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(1.65)	-	NM	(0.28)	(4.02)	(1.13)
Revenue (mm)	27.64	30.45	 10.17	29.69	108.97	140.04

Currency: USD

Consensus as of Nov-12-2014 4:45 PM GMT

Call Participants

EXECUTIVES

Brian Halligan

Co-Founder, Chairman and Chief Executive Officer

J. Donald Sherman

President and Chief Operating Officer

John E. Kinzer

Chief Financial Officer

Lisa Mullan

ANALYSTS

Brendan John Barnicle

*Pacific Crest Securities, Inc.,
Research Division*

Brent John Thill

*UBS Investment Bank, Research
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Jennifer Swanson Lowe

Morgan Stanley, Research Division

Richard Hugh Davis

*Canaccord Genuity Limited,
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Sterling Auty

*JP Morgan Chase & Co, Research
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Terrell Frederick Tillman

*Raymond James & Associates,
Inc., Research Division*

Presentation

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the HubSpot Third Quarter Financial Results Conference Call. [Operator Instructions] Please note that this call is being recorded today, Wednesday, November 12, 2014, at 5:00 Eastern Time.

I would now like to turn the meeting over to your host for today's call, Lisa Mullan, Director of Investor Relations for HubSpot. Please go ahead, Ms. Mullan.

Lisa Mullan

Thank you, and good afternoon, and welcome to HubSpot's Third Quarter 2014 Earnings Call. Today, we'll be discussing the results announced in our press release issued after the market closed. With me on the call this afternoon is Brian Halligan, HubSpot's Chief Executive Officer and Chairman; John Kinzer, HubSpot's Chief Financial Officer; and JD Sherman, our President and Chief Operating Officer.

During the call, we will make statements related to our business that may be considered forward-looking, including statements concerning our financial guidance for the fourth fiscal quarter of 2014 and the full year of 2014, our position to execute on our growth strategy and our ability to maintain existing and acquire new customers.

Forward-looking statements may often be identified with words, such as we expect, we anticipate or upcoming. These statements reflect our views only as of today and should not be considered our views as of any subsequent date. These statements are subject to a variety of risks and uncertainties that could cause the actual results to differ materially from our expectations.

For a discussion of material risks and other important factors that could affect our actual results, please refer to those contained in our final prospectus filed pursuant to Rule 424(b) on October 9, 2014, as updated by our other SEC filings.

Finally, during the course of today's call, we will refer to certain non-GAAP financial measures. There's a reconciliation schedule showing GAAP versus non-GAAP results currently available on our press release issued after the close of market today, which is located on our website at hubspot.com.

With that, it's my pleasure to turn the call over to HubSpot's CEO and Chairman, Brian Halligan.

Brian Halligan

Co-Founder, Chairman and Chief Executive Officer

Thanks, Lisa. Thank you, all, for joining us today on our first call as a public company. The IPO is an exciting milestone for our employees, customers, investors and partners. I want to thank all of them for their confidence on us over the years, and I want to welcome our new investors.

Today, I'm going to focus on 3 things that I'm particularly excited about: our recent INBOUND conference, the launch of our sales products and our strong Q3 business results. Before digging into each of these areas, I want to say a brief word about what HubSpot is, as some of you may be new to our story.

HubSpot's an inbound marketing and sales software-as-a-service company based in Cambridge, Massachusetts. We started HubSpot because we noticed that the traditional marketing playbook was broken. Email blasts were blocked by spam protection. Cold calls were blocked by caller ID. TV ads were blocked by DVRs, et cetera, et cetera. Humans had radically changed the way they shop and bought products, and HubSpot's vision was to help companies transform the way they go to market to match the way humans actually behave.

The road to transform your marketing without using HubSpot, a company would have to buy blogging software, a new website, search engine optimization software, social media management software and marketing automation software and then have a team of IT people try to glue it all together. We call this a

Franken-system. What HubSpot does is, not only teach companies how to transform their marketing, but gives them an all-in-one system to enable mere mortals to pull this type of marketing off: one platform to learn, one phone number to call, one payment to make and one password to remember.

Our target market is companies between 10 and 2,000 employees. It's a large and under-penetrated market. There are 2.9 million companies with between 10 and 2,000 employees in North America and Europe with a web presence. Multiply this by our average revenue per customer, and we're looking at a \$25 billion TAM. And based on a study of U.S. B2B companies, only about 3% of these businesses have implemented a marketing platform. As you can see, we believe the market for HubSpot's marketing platform is virtually untapped.

Ironically, what I love about the mid-market is it's hard to penetrate. Most companies take ye olde enterprise sales playbook and attack the mid-market with it. It almost never works. At HubSpot, we have tailored our go-to-market playbook to perfectly fit the mid-market with 3 specific plays. First, we go to market through inbound as opposed to outbound marketing. We pull in tens and thousands of organic leads a month by drinking our own champagne. Second, we're a software company, but we're also the spiritual leaders of a large inbound movement that helps propel us forward. Third, we go to market through agency partners, of which we have over 2,000 who resell and promote our products for us. One of these resellers is Pyxl, a digital marketing agency with offices in Knoxville, Boulder and Scottsdale.

Last week, I met with Brian Winter, the CEO of Pyxl, when he and his team came to visit us here at HubSpot. Since signing on with HubSpot in 2012, Brian told me about their tremendous growth and how they were named to Inc. Magazine's list of America's fastest-growing private companies last year and this year, very exciting. Today, Pyxl is the gold HubSpot partner, having signed up many customers for us. HubSpot has hundreds of awesome partners like this that go to market hand-in-hand with us.

Our vision on how to market in the modern world, our unique product and our go-to-market model has translated into nearly 12,500 customers worldwide using our marketing platform to grow their businesses. One of these customers is a young man named AJ Driscoll from PSMJ, a 50-person architecture and engineering firm. I spoke with AJ a few weeks ago and he told me about the firm's transformation with HubSpot. AJ was an intern at this firm who was put in charge of marketing. Before digging into HubSpot, his website had generated a grand total of 0 customers all time. A year after, AJ has their marketing singing. In the last year, he generated 2,833 leads through his website, and 124 of those have converted into paying customers. I love this story, because it's one I hear over and over and over and over again. It's a very typical HubSpot story. It really helps customers grow.

Now that I've talked to you a bit about HubSpot, I'll talk briefly about INBOUND. INBOUND, for those of you who haven't been before, is an annual conference here in Boston that we organize for the INBOUND movement. This year's event brought over 10,000 registered attendees to Boston, up from 5,500 last year and 2,800 the year before. INBOUND is a key part of our go-to-market strategy, as it serves as a rallying point for the INBOUND community. It's a great event, and I hope those of you who couldn't attend this year will consider joining us for next year's conference, September 8 through 11 in Boston.

Now earlier in the call, I mentioned the shift we saw in the marketing space when we first started HubSpot. Now we're seeing a similar shift in the world of sales. When I was a sales rep back in the day, it was a buyer-beware world. If a prospect wanted a discount, she had to come through me. If a prospect wanted to speak to my founder, she had to come through me. If a prospect wanted detailed product specs, well, she had to come through me. The asymmetric information put all of the power in the sales rep's hand.

Today, if a prospect wants more information about your discounting policy, she can check it on, on G2 Crowd or Quora. If she wants to talk to the company's founder, well, she can use LinkedIn or Twitter. If she wants detailed product specs, she can visit the company's website. The information symmetry that exists today creates a power shift from the sales rep to the buyer. We move from a buyer-beware world to a seller-beware world, and I believe this will create massive changes in how companies sell their products in the future and opens up a big opportunity for innovation in the space.

The sales system most companies use today is CRM. The problem is that CRM systems don't help the sales reps deal with this new reality. CRM systems are built to help the VP track sales but don't help the sales rep make sales, so we come out with 2 new products to help companies lean into the new buying process and make their sales reps' lives more productive.

The first product called Sidekick is for the sales rep only and is designed to enable that sales rep to match the way they sell with the way the buyer buys today. It lives in the sales rep's email system and gives him huge context around the prospect's website activities, social activities and email activities. I encourage all of you to check out Sidekick at www.sidekick.com. It's a premium model. The product's awesome. I think you'll like it as well as salespeople.

The second product is the CRM system. We here at HubSpot use and really like salesforce.com's CRM system, and we use it in conjunction with Sidekick. But many of our prospects are not sophisticated enough for salesforce.com, so we've built them their own CRM system. This system is unique in that it self-populates in the rep's email and browsing activities, so reps don't have to spend hours per week doing data entry. It's the early innings for a sales product line. In fact, it's probably the top of the first inning, but we're really excited about the possibilities here for our new offerings.

Last, but not the least, we delivered really strong business results in Q3, featuring accelerated annual revenue growth of 51%, an increase of 854 customers compared to the second quarter of '14 and solid traction in international agency partner growth.

Now I'll turn it over to the John Kinzer, HubSpot's CFO, to drill into the financial results for the quarter.

John E. Kinzer
Chief Financial Officer

Thanks, Brian. This is an exciting time for HubSpot for several reasons. Our business is growing fast, we are seeing improvements in margins, and as Brian said, there's lots of runway for future growth.

First, let's talk about the top line. Third quarter 2014 revenue grew 51% year-over-year compared to 48% year-over-year growth in the second quarter of 2014. Growth was driven by adding new customers, growing revenue per customer through upsells and improvement in revenue retention. HubSpot ended the quarter with 12,478 customers, up 31% year-over-year.

Average subscription revenue per customer increased to \$9,183, up 15% from the third quarter of last year. Revenue retention continued to improve and is now trending in the low 90s. Although we will not be providing a specific revenue retention figure each quarter, you can expect us to continue to give you color on how our revenue retention is trending. Both revenue retention and average subscription revenue per customer are benefiting from upsells. Upsells are driven by increasing the number of contacts in the customer account, customers adding second URLs to their subscription and, to a lesser extent, customers upgrading the edition of the product they're on.

Billings for the third quarter came in at \$32.7 million, up 49% versus the third quarter of 2013. Similar to others, we define billings as the change in total deferred revenue from the prior quarter plus total revenue for the current quarter. We have stated previously that we would give you color on billing terms, and consistent with recent quarters, in the third quarter, we received between 6 to 7 months of payment upfront from our new customers.

International represented 22% of our revenue in the quarter and grew 86% year-over-year. With lots of greenfield opportunity, we expect international continue to be an important driver for HubSpot's future growth. Our partner channel is another important part of the growth story, both on the domestic and international front. Our partner channel is experiencing terrific growth.

Moving on to the expense side. Given the huge opportunity in front of us, we have been investing heavily. This has included investments to grow our customer base, to improve on our existing products and add new products and to expand internationally, most recently opening an office in Australia. We also increased headcount to 139 people year-over-year, and we currently have 767 employees.

We are disciplined in how we invest in the business, and even with heavy investments, our business is scaling. This can be seen in the third quarter margins. Year-over-year, we saw an operating leverage on a non-GAAP basis across most expense line items. The subscription margin improved 3 points to 76%. R&D as a percentage of revenue improved 5 points to 15%. Sales and marketing as a percentage of revenue improved 3 points to 69%. While G&A as a percentage of revenue was up slightly, as we incurred increased costs for preparing for our public offering in the fourth quarter of '14.

I'd like to point out that the third quarter results are seasonally impacted by our INBOUND conference. As Brian mentioned, we attracted unprecedented attendance at this year's conference. This is an annual event, and we experienced an increase in marketing expense each year from this event. This year, the cost of INBOUND drove up our sales and marketing expense as a percentage of revenue by 9 points. Our operating margin, calculated by removing the INBOUND expense, would be a loss of 23%, a 3-point improvement in operating margin quarter-over-quarter.

Thinking ahead, investors should also note that like other companies, we experience a seasonal increase in costs during our first quarter from higher FICA expenses and employee wage resets. These costs could distort underlying improvements and margin expansion.

Another item I would like to discuss is taxes or the lack of taxes, in our case. As of the end of 2013, we had a tax-affected net operating loss balance of \$35 million. We should be able to use this to offset future tax burdens once we turn profitable.

Lastly, one housekeeping item. Our cash balance as of the end of third quarter '14 was \$12.4 million, while we had \$18 million drawn on our line of credit. We closed our IPO early in the fourth quarter, as we raised just under \$134 million, net of the underwriter's discounts. We used a portion of the IPO proceeds to pay off our line of credit.

Now on to guidance. Today, we are giving you fourth quarter and full year guidance for 2014. For the fourth quarter of 2014, total revenue is expected to be in the range of \$31 million to \$32 million. Non-GAAP operating loss is expected to be in the range of a loss of \$7.8 million to \$6.8 million. Non-GAAP loss per share is expected to be in the range of \$0.28 to \$0.25. This assumes 29.2 million basic shares outstanding, which includes the impact of the partial quarter of the pre-IPO shares since we closed our public offering early in the fourth quarter.

For the full year 2014, total revenue is expected to be in the range of \$112.7 million to \$113.7 million. Non-GAAP operating loss is expected to be in the range of \$32.8 million to \$31.8 million. Non-GAAP loss per share is expected to be in the range of \$2.80 to \$2.90, and this assumes 11.6 million basic shares outstanding. Now the number of shares may seem low, but it is a result of the preferred shares that had not been converted to common prior to us going public.

In closing, thank you to our newest investors for taking time to learn more about HubSpot and for supporting us in our IPO. We are excited about the fundamentals of our business today and what the future has in store for HubSpot.

With that, I'd like to turn it back to Brian for a few closing remarks.

Brian Halligan

Co-Founder, Chairman and Chief Executive Officer

Thanks, John. For those interested in hearing more about HubSpot, John and our COO, JD Sherman, will be presenting at the UBS Conference in November. And we'll have the recording of that presentation up on our IR site for those who want to watch it remotely. Most importantly, I'd like to thank our customers, our employees and our partners for making the third quarter such a success.

One of my favorite elements of our S-1 was a quote on the back cover from Dharmesh Shah, my Co-Founder, that said, "Success is making those who believed in you look brilliant." It's always been our aim since we started HubSpot to deliver upon that promise and both our initial public offering and strong third quarter reflects our commitment to making good on that hope for many years to come.

At this point, I'd like to turn the call back over to the operator to give instructions for the Q&A portion of our call.

Question and Answer

Operator

[Operator Instructions] And our first question comes from the line of Terry Tillman from Raymond James.

Terrell Frederick Tillman

Raymond James & Associates, Inc., Research Division

Great start here as a public company, congratulations. What I was wondering, Brian, is this year, I think you said attendance was up 80% year-over-year. I mean, it was a huge crowd there, and I was impressed with all the noncustomers there. And I know you have a lot of folks come just from the thought leadership standpoint every year that aren't customers. But anything you did differently this year to try to more immediately monetize all those noncustomers that are in attendance and hearing about all the new products and how we can think about that potentially positively impacting net adds over the next couple of quarters? Or am I thinking about that the wrong way?

Brian Halligan

Co-Founder, Chairman and Chief Executive Officer

No. I think you're thinking about the right way. The back story there is a couple of months before the INBOUND conference, we hired a new VP of Sales from salesforce.com, Hunter Madeley. And one of his big initiatives is he wanted to get more prospects there. And I think on the margin as a percentage, we probably had more prospects than we had in previous years. I think it was something about 40% of the attendees were noncustomer, non-partners. But I don't think it was materially different than years before. I suspect in years going forward, we'll do a better job of using it as an event to drive business but pretty similar just to previous years. Terry, a really good question.

Terrell Frederick Tillman

Raymond James & Associates, Inc., Research Division

And I guess, John, in terms of -- how do we think about seasonality, though? Because folks will -- investors will look at each quarter, the progression in net adds. Is there something we should think about in terms of seasonality in terms of adding customers in the fourth quarter versus the cadence of earlier quarters in the year?

John E. Kinzer

Chief Financial Officer

No. I mean, Terry, one of the great things about the business is we really run it as a monthly business, and we really drive to those adds throughout the year. You see a little bit of seasonality in the fourth quarter but really, it's pretty even throughout the year. I mean, some of the seasonality we do see is just on the expense side as you saw in the third quarter. We actually -- you brought up INBOUND. We had that higher cost in the third quarter just from INBOUND, which drove down our margins. But other than that, the business comes pretty evenly throughout the year.

Operator

And our next question comes from the line of Jennifer Lowe from Morgan Stanley.

Jennifer Swanson Lowe

Morgan Stanley, Research Division

I wanted to touch a little bit on the rate of new customer adds, and in particular, it looks like the rate of new -- of your customer growth on a year-over-year basis has been accelerating over the last couple of quarters. So just curious to get your thoughts there on what might be benefiting you in terms of the logo acquisition.

Brian Halligan

Co-Founder, Chairman and Chief Executive Officer

Jen, thanks for the question. It's Brian. I think the things have just been going well for the market. I think you're seeing very early days in the market. There's millions of potential customers, and we're just scratching the surface. I think something like 3% of the target market has implemented a marketing platform. Frankly, 2, 3, 4 years ago, it was very evangelical sale. And the market's sort of maturing, and people are waking up to the fact that they need a marketing platform and are turning to HubSpot. I think that's one big reason. I think sales execution's been solid. We brought in some new sales leadership. They're doing a nice job, and the retention has improved as well. So across the board, it's just been pretty solid. There's not one big unusual thing that's going on.

Jennifer Swanson Lowe

Morgan Stanley, Research Division

Okay. And since you're filing to public and then going public, in fact, how has that been received by your customers? Is that translated to more brand awareness? Any benefits that you've seen as a result at this point?

Brian Halligan

Co-Founder, Chairman and Chief Executive Officer

It's -- that's a very good question. We're actually working on a blog article about the impact of an IPO on brand and that kind of thing. It turns out there wasn't a big bump for us in particular. There is a little bit of tiny increase in traffic and leads, but it was pretty minimal. I would say it's had a nice positive impact on our employees and our investors. Those guys are really excited, but I haven't seen a material change in customer behavior or customer attitude.

Jennifer Swanson Lowe

Morgan Stanley, Research Division

And then just one last one for John. It looked like the revenue came in about \$3 million better than we, in the industry, had been forecasting. But the operating income was about \$2 million better, which would suggest maybe there was \$1 million of extra spend relative to what we had been expecting. Was there anything that either hiring that happened sooner than expected or expenses related to INBOUND, or anything that came in higher than you would've expected from the expense perspective?

John E. Kinzer

Chief Financial Officer

No. I mean, INBOUND basically came in as we expected. I mean, we are -- given the performance we saw, we have been investing heavily in sales and marketing and hired more salespeople. So we see a huge opportunity out there, and we're capturing it.

Operator

And our next question comes from the line of Richard Davis from Canaccord.

Richard Hugh Davis

Canaccord Genuity Limited, Research Division

So one kind of operational question and then one kind of strategic one. So on the operational one, when we think about strategy, kind of which lever, ARPU or churn do you think you have the most leverage to improve on over the couple of years? And then the second question is, and I got this question actually from an investor, so I wish I could tell you it was my idea but it's not. But anyways, so we were musing over the fact that the CRM system makes tremendous sense, but the question I got was he said, "Well, does that implicitly -- if you do CRM, does that -- are you implicitly saying that inbound marketing is more effective when it is part of a broader marketing suite or not?" That was really kind of a follow-on question.

Brian Halligan

Co-Founder, Chairman and Chief Executive Officer

You want to answer the first question, John?

John E. Kinzer

Chief Financial Officer

Yes, sure. It sounds good. So Richard, I would say that we have probably equal opportunity to move both of those levers. They both benefit from upsell, as we go back and sell more to our customers that increases average revenue per customer as well as improve the upsell rate, which goes into revenue retention. But we also have been improving the underlying renewal rates from a customer standpoint, as we continue to improve the product itself, how we service our customers and how we on-board those customers. So we feel like we have opportunity across those lines.

Brian Halligan

Co-Founder, Chairman and Chief Executive Officer

Yes. On your second question regarding CRM, really good question, about 40% of our customers have a CRM system in place. Whether it's from Salesforce or Microsoft, there's a bunch out there. 60% effectively use HubSpot's contact management system as their CRM system. And by far, that was their #1 enhancer request. They wanted us to build basically a CRM system just for them. So that's our offering there. We built our customers the CRM system. It's a really good fit for them. It's very lightweight. It's not 2 different apps. It's one app at the marketing system. It's in beta rate now. It's only being beta-ed by our existing customers, not noncustomers. We got thousands of people on the beta, and they're really enjoying it. So we're really excited about that. The other product, Sidekick, that goes alongside the CRM product, really exciting. It's a sales acceleration product. You can use that with our CRM system or any other CRM system. We have over 100,000 active users of that product. It's a premium model. We think that's very, very exciting opportunity for us. Both of them are really exciting. It's early days. We're not giving guidance on them, but we're super excited about the potential.

Operator

And our next question comes from the line of Brent Thill from UBS.

Brent John Thill

UBS Investment Bank, Research Division

Just a follow-on on the sales solution. Clearly, a lot of interest at the conference, and I know it's still beta. But when you think about, as you're rolling out new functionality, you kind of free primary sleeves of how you can pay. Do you see this as being embedded in one of those sleeves going forward? Is this going to be a separate breakout? I don't know if it's too early to call yet, but I've been getting a lot of questions about how you think about monetizing this.

Brian Halligan

Co-Founder, Chairman and Chief Executive Officer

Do you want to answer that, JD?

J. Donald Sherman

President and Chief Operating Officer

Yes, sure. So Brian, it's JD. I think because we're really -- in really early days here, we're really focused on growing that user base really rapidly right now, kind of like coiling the spring so that as we start to monetize this, we have a big user base that's adopting it with a product-driven premium funnel. So what you've seen on the Sidekick side already is that -- we introduced it initially as a free product sort of in beta a year ago. Then we introduced the \$10 version of it, and now we have a \$50 version of it. And what we're seeing is sort of the product adoption, the upgrades happening in a real touchless premium way. And I think that's the way we'll continue to build, particularly on the Sidekick side. The CRM, it's a little early to tell. Again, we want adoption. We want our customers to be able to adopt and use the CRM systems. But I think over time, as we add functionality to that, we'll have -- very similar to what we're doing with Sidekick, we'll have versions that are more functionality, have some higher limits, and we'll get customers to upgrade to those. But what's real -- another thing that's exciting about this business in

addition to how quickly it's growing in its early stages is I think it's going to be a really efficient product-driven premium model.

Brent John Thill

UBS Investment Bank, Research Division

And John, you had nice growth by -- in terms of the acceleration of total revenue over the last couple of quarters. And your guidance from Q4, I think at the midpoint, implies a fairly sizable deceleration. Just beyond being conservative in your view, is there anything else we should all keep in account as you head into Q4, as you look at that number?

John E. Kinzer

Chief Financial Officer

Yes, Brent. Our philosophy on guidance is to give numbers that we feel we're really comfortable to hit, and we feel like our guidance range accomplishes that. The only small thing in the third quarter was we got about \$200,000 of services revenues that came from the INBOUND conference. So if you look at the services revenue growth, it was a little higher than we have experienced. But other than that, everything was coming through subscription, and the business is performing really well.

Operator

And our next question comes from the line of Brendan Barnicle from Pacific Crest Securities.

Brendan John Barnicle

Pacific Crest Securities, Inc., Research Division

John, I wanted to follow up on Richard's question, because we're seeing this nice uptick in ASPs. And we were, in fact, closing in on sort of what the standard price is for pro edition. As we think about it, can we move beyond that pro edition as a standard ASP? And what are the things that would get us up above that level?

John E. Kinzer

Chief Financial Officer

Yes. So in the near term, as people add more contacts to their tiers, I mean, that price just goes above those standard prices on the price list. At the same time, as people add second URLs, that's another subscription. So that's that whole another price that as customers add other product lines, other geographies. So all of those things can take it up above the standard prices. And then ultimately, once we start cross-selling the sales products, that's a whole another vector that could improve the average subscription revenue per customer.

Brendan John Barnicle

Pacific Crest Securities, Inc., Research Division

Terrific. And then with the increase that you've seen on the international side, can you remind us again how you do your pricing? Do we need to, at some point, start to watch FX for you guys and the impact that, that might have?

John E. Kinzer

Chief Financial Officer

So yes, right now, almost all of our pricing is in U.S. dollars. We have less than 10% of our pricing in local currency. So yes, longer term, that could shift. But right now, it's a really small portion of our revenue.

Operator

[Operator Instructions] Our next question comes from the line of Sterling Auty from JPMorgan.

Sterling Auty

JP Morgan Chase & Co, Research Division

A couple of questions. First, can you give us a little bit of color on how the partner channel contributes to the quarter as well as what kind of additional uptake you might be seeing within the partner channel in terms of interest and willingness to become more a reseller?

Brian Halligan

Co-Founder, Chairman and Chief Executive Officer

Sterling, it's Brian, good question. Partner channel's doing great. We're up to 2,122 partners, up 194 in the quarter, so nice growth quarter-over-quarter there. There's a lot of leverage there over the long haul. The cost to acquire initial customers is sort of x, but you think if we can get a partner successful, their 10th, 11th, 12th customers they're bringing on that cost to acquire gets lower. So really excited about the leverage we get with the partner channel. The mix in terms of direct and partner was pretty similar to previous quarters. In fact, the partner channel and the direct channel are both performing really well, so happy really with both sides of it.

Sterling Auty

JP Morgan Chase & Co, Research Division

Okay. And the other topic I wanted to get into is, in terms of the size of your customer, I'm not talking about going up into the enterprise that gets Oracle or anything like that, but just within your core target market, are you seeing any shift in the size of the customer that you're signing up or seeing interest in, especially coming out of INBOUND and the interest level you got there? You have the marketing event, which is the IPO process, just wondering if it's starting to have an effect and maybe seeing a slightly larger customer profile.

Brian Halligan

Co-Founder, Chairman and Chief Executive Officer

You want to answer that, JD?

J. Donald Sherman

President and Chief Operating Officer

Yes, sure. So Sterling, it's JD. What we're seeing actually, if you look at the sort of the average selling price of customers that we're signing up, it's been pretty steady for a while, and I think there's 2 things going on there. One is we have been sort of increasing our pricing over the long haul for the higher-end products, like the professional and enterprise edition. But we actually slightly tweaked down our pricing on the base product about a year ago. And so as you get at that sort of where we're getting more dollars per customer on the high end, but we're adding more smaller customers at the basic edition on the low end that we think we'll be able to upgrade and upsell over time. So when John talked about that ARPU growing over time, the real driver of that is getting our installed base, our existing customers, to upgrade with us, to add contacts and to grow with us. So that's sort of the dynamics that I kind of like, actually. I like adding a lot of customers that we can upsell over time, particularly as we start to add more and more products that we can sell to those customers.

Brian Halligan

Co-Founder, Chairman and Chief Executive Officer

I think he asked about the size of the account. Sterling, this is Brian. The size of the account has been pretty similar. It's gone up a hair over the years. But really, in the last 3, 4 years, it hasn't changed among the size of the account. There's not this big push in the enterprise. We made a big decision a couple years ago to go broad versus to go into the enterprise, and we're starting to see that decision really pay off these days. Really excited about it.

Operator

And we have no further questions in queue. I'll turn the call back to the presenters for closing remarks.

Lisa Mullan

Great. Well, thanks, everyone, for joining our earnings call today. Just so you know, our fourth quarter call will be held next February, 2015. And until then, please feel free to reach out with questions to investors at hubspot.com.

Brian Halligan

Co-Founder, Chairman and Chief Executive Officer

Thanks, everybody.

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