

HUBSPOT INC
Form 10-K
February 12, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

OR

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

Commission File Number 001-36680

HubSpot, Inc.

(Exact name of registrant as specified in its charter)

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

25 First Street

Cambridge, Massachusetts, 02141

(Address of principal executive offices)

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(888) 482-7768

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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

Indicate by check mark whether the registrant has submitted every Interactive Data file required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of common stock held by non-affiliates of the registrant, based on the closing price of the registrant's common stock on June 30, 2018, as reported by the New York Stock Exchange on such date was approximately \$4,536,600,064. Shares of the registrant's common stock held by each executive officer, director and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This calculation does not reflect a determination that certain persons are affiliates of the registrant for any other purpose.

On February 11, 2019, the registrant had 39,613,020 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2019 Annual Meeting of Stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K. Such Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

HUBSPOT, INC.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

The forward-looking statements made in this Annual Report on Form 10-K relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Annual Report on Form 10-K to reflect events or circumstances after the date of this Annual Report on Form 10-K or to reflect new information or the occurrence of unanticipated events, except as required by law.

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

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

PART 1

ITEM I. BUSINESS

Overview

We provide a cloud-based marketing, sales, and customer service software platform, which we refer to in this document as our Growth Platform, that enables businesses to grow better. At HubSpot, we're committed to helping our customers grow better, which means helping them grow without compromise, always solving for the customer, and creating a better experience for customers and company alike. To that end, our Growth Platform, comprised of Marketing Hub, Sales Hub, Service Hub, and a free customer relationship management, or CRM system, features integrated applications and tools that enable businesses to create a relevant and cohesive customer experience throughout the customer lifecycle.

We focus on selling to mid-market business-to-business, or B2B, companies, which we define as companies that have between 2 and 2,000 employees. We sell our Growth Platform on a subscription basis. In 2018, our total revenue was \$513.0 million, and we incurred net losses of \$63.8 million. As of December 31, 2018, we had 2,638 full-time employees and 56,628 total customers of varying sizes in more than 100 countries.

Our company was formed as a limited liability company in Delaware on April 4, 2005. We converted to a Delaware corporation on June 7, 2007. Our principal executive offices are located at 25 First Street, Cambridge, Massachusetts, and our main telephone number is 888-482-7768. Our website address is <https://www.hubspot.com>. Information contained on or that can be accessed through our website does not constitute part of this Annual Report on Form 10-K, and inclusions of our website address in this Annual Report on Form 10-K are inactive textual references only.

The HubSpot Approach

We provide our Growth Platform to enable businesses to attract, engage, and delight customers throughout the customer lifecycle. Our Growth Platform features a central database of lead and customer interactions and integrated applications to help businesses attract visitors to their websites, convert visitors into leads, close leads into customers, and delight customers so they become promoters of those businesses.

Designed to Help Companies Grow Better. Our Growth Platform was architected from the ground up to enable businesses to transform their marketing, sales, and services playbook to meet the demands of today's customers. Our Growth Platform includes integrated applications and tools that help businesses efficiently attract more customers through search engine optimization, social media, blogging, marketing automation, and other useful content. In addition, our Growth Platform is designed to help businesses personalize and optimize interactions with their customers through website content management, messaging, chatbots, landing pages, ticketing, knowledge base and emails.

Ease of Use of an Expansible Platform. We provide a set of integrated applications on a common platform, which offers businesses ease of use and simplicity. Our Growth Platform has one login, one user interface, one inbound database, and one team for support. Our Growth Platform is designed to be used by people without technical training, does not require an expert or technical system administrator, and was built to make it easy to get started. In addition to being a comprehensive suite itself, our Growth Platform seamlessly integrates with hundreds of external applications, making it easy to extend the functionality of our Growth Platform and customize it for any business.

Power of a Unified Customer View. At the core of our Growth Platform is a single CRM database for each business that captures its lead and customer activity throughout the customer lifecycle. Our Growth Platform creates a unified

timeline incorporating all the interactions with a particular customer. With our Conversations tool, our Growth Platform also centralizes all conversations in a universal inbox that gives sales, marketing, and customer service teams one place to view, manage, and reply to all conversations — regardless of the messaging channel they came from.

Scalability. Our Growth Platform was designed and built to serve a large number of customers and with demanding use cases. Our Growth Platform currently processes billions of data points each week, and we use leading global cloud infrastructure providers and our own automation technology to dynamically allocate capacity to handle processing workloads of all sizes. We have built our Growth Platform on modern technologies, including HBase, Kafka, and Elastic Search, which we believe are more scalable than traditional database technologies. Our scalability gives us flexibility for future growth and enables us to service a large variety of businesses of different sizes across different industries.

Extendable and Open Architecture. Our Growth Platform features a variety of open APIs that allows easy integration of our platform with other applications. We enable our customers to connect our platform to their other applications, such as ecommerce, event management and videoconferencing applications. By connecting third-party applications, our customers can leverage our centralized inbound database to perform additional functions and analysis.

Our Competitive Strengths

We believe that our market leadership position is based on the following key strengths:

Leading Platform. We have designed and built a world-class Growth Platform. We believe our customers choose our Growth Platform over others because of its powerful, integrated, and easy-to-use applications.

Market Leadership and Strong Brand. We are a recognized thought leader in the cloud-based marketing, sales, and customer service software industry with a leading brand. Our founders, Brian Halligan and Dharmesh Shah, wrote the best-selling marketing book *Inbound Marketing: Get Found Using Google, Social Media and Blogs*. An inbound marketing, sales, and service experience attracts, engages, and delights customers by being more relevant, more helpful, more personalized, and less interruptive than traditional marketing and sales tactics. Our INBOUND conference is one of the largest inbound industry conference events with registered attendance increasing from 1,100 in 2011 to over 24,000 in 2018.

Large and Growing Partner Program. Thousands of agencies and consultants worldwide, which we refer to as our Partners, promote our brand and offer our Growth Platform to their clients. Partners and customers referred to us by our Partners represented approximately 36% of our Total Customers, as defined in our Key Business Metrics in Item 7, as of December 31, 2018, and approximately 40% of our revenue for the year ended December 31, 2018. These Partners help us to promote the vision of the inbound experience, efficiently reach new mid-market businesses at scale, and provide our mutual customers with more diverse and higher-touch services.

Mid-Market Focus. We believe we have significant competitive advantages reaching mid-market businesses and efficiently reach this market at scale as a result of our inbound methodology, freemium pricing strategy, and our Partner channel. Through our freemium products, our customers are able to receive value from HubSpot before converting to a paid product or engaging with sales.

Powerful Network Effects. We have built a large and growing ecosystem around our Growth Platform and company. Thousands of our customers integrate third-party applications with our Growth Platform. We believe this ecosystem drives more businesses and professionals to embrace the inbound playbook. As our engaged audience grows, more Partners collaborate with us, more third-party developers integrate their applications with our Growth Platform, and more professionals complete our certification programs, all of which help to drive more businesses to adopt our Growth Platform.

Our Growth Strategy

The key elements to our growth strategy are:

Grow Our Customer Base. The market for our Growth Platform is large and underserved. Mid-market businesses are particularly underserved by existing point application vendors and often lack sufficient resources to implement complex solutions. Our all-in-one Growth Platform allows mid-market businesses to efficiently adopt and execute an effective inbound marketing, sales, and customer service strategy to help them expand and grow. We will continue to leverage our inbound go-to-market approach, freemium pricing strategy and our network of Partners to keep growing our business.

Increase Revenue from Existing Customers. With 56,628 Total Customers in more than 100 countries spanning many industries, we believe we have a significant opportunity to increase revenue from our existing customers. We plan to increase revenue from our existing customers by expanding their use of our Growth Platform by upselling additional offerings and features, adding additional users, and cross-selling our marketing, sales, and service products to existing customers through touchless or low touch in-product purchases. Our scalable pricing model allows us to capture more spend as our customers grow, increase the number of their customers and prospects managed on our Growth Platform, and offer additional functionality available from our higher price tiers and add-ons, providing us with a substantial opportunity to increase the lifetime value of our customer relationships.

Keep Expanding Internationally. There is a significant opportunity for our Growth Platform outside of the United States. As of December 31, 2018, approximately 43% of our Total Customers were located outside of the United States and these customers generated approximately 37% of our total revenue for the year ended December 31, 2018. We sell to those international customers from our U.S., European, Asia Pacific, and South American based operations. We intend to grow our presence in international markets through additional investments in local sales, marketing and professional service capabilities, as well as by leveraging our Partner network. We have opened six international offices and plan to open additional international offices. We already have significant website traffic from regions outside the United States, and we believe that markets outside the United States represent a significant growth opportunity.

Continue to Innovate and Expand Our Growth Platform. Mid-market businesses are increasingly realizing the value of having an integrated marketing, sales, and customer service platform. We believe we are well positioned to capitalize on this opportunity by introducing new products and applications to extend the functionality of our Growth Platform. For example, in 2018 we announced the availability of new Sales Hub Enterprise and Service Hub offerings, as well as numerous updates to our Marketing Hub Starter and Marketing Hub Enterprise products.

Selectively Pursue Acquisitions. We plan to selectively pursue acquisitions of complementary businesses, technologies and teams that would allow us to add new features and functionalities to our platform and accelerate the pace of our innovation.

Our Growth Platform

Our Growth Platform, comprised of Marketing Hub, Sales Hub, Service Hub, and a free CRM, features integrated applications and tools that enable companies to create a cohesive and adaptable customer experience. Each Hub can be used standalone or in conjunction with the other Hubs. Our Hubs are available in both free and paid tiers (i.e., Starter, Professional and Enterprise) with gradually increasing levels of functionality that support the needs of our customers as they see success with our tools and their businesses grow.

HubSpot CRM

The core of our Growth Platform, the HubSpot CRM, is a single database of lead and customer information that allows businesses to track their interactions with contacts and customers, manage their sales activities, and report on their pipeline and sales. This allows a complete view of lead and customer interactions across all of our integrated applications, giving our Growth Platform substantial power. This integration makes it possible to personalize every aspect of the customer interaction across web content, social media engagement, and email messages across devices, including mobile. The integrated applications on our Growth Platform have a common user interface, are accessed through a single login, and are based on our CRM database. HubSpot CRM is a free product that can be used standalone, or with any combination of Marketing Hub, Sales Hub, and/or Service Hub.

Marketing Hub

Marketing Hub is an all-in-one toolset for marketers to attract, engage, and nurture new leads towards sales readiness over the entire customer lifecycle. Marketing Hub is available in both free and paid tiers, and can be used standalone, with HubSpot CRM, and/or any version of Sales Hub or Service Hub. Features include: marketing automation and email, social media, search engine optimization (SEO), CRM Sync, and reporting and analytics.

Sales Hub

We designed Sales Hub to enhance the productivity and effectiveness of sales teams. Businesses can empower their teams with tools that deliver a personalized experience for prospects with less work for sales representatives. Sales Hub is available in both free and paid tiers, and can be used with HubSpot CRM, a third party CRM system, and/or any version of Marketing Hub or Service Hub. Features include: email templates and tracking, conversations and live chat, meeting and call scheduling, lead and website visit alerts, sales automation, and lead scoring.

Service Hub

Service Hub is our customer service software that is designed to help businesses manage and connect with customers. Service Hub is available in free and paid tiers, and can be used standalone, with HubSpot CRM Free, and/or any version of Marketing Hub or Sales Hub. Features include: conversations and live chat functionality, conversational bots, tickets and help desk, automation and routing, knowledge base, team emails, feedback and reporting tools, and customer goals.

HubSpot CMS

HubSpot CMS combines the power of content relationship management and a content management system into one integrated platform. Our content tools enable businesses to create new and edit existing web content while also personalizing their websites for different visitors and optimizing their websites to convert more visitors into leads and customers. HubSpot CMS can be purchased as a standalone product and/or with any version of Marketing Hub, Sales Hub, or Service Hub. Features include: website pages, business blogging, smart content, landing pages and forms, SEO tools, forms and lead flow, web analytics reporting, calls-to-action, and file manager.

Platform Partners

Businesses that use software outside of HubSpot can leverage our ecosystem of certified third-party integrations. We make it easy to find and install new or existing software solutions that complement our Growth Platform. Over 200 certified integrations are available for our users, across a wide range of categories, including integrations with leading social media, email, sales, video, analytics, content and webinar tools.

Our Services

We complement our product offerings with professional services and support. The majority of our services and support is offered over the phone and via web meeting technology rather than in-person, which is a more efficient business model for us and more cost-effective for our customers.

Professional Services. We offer professional services to educate and train customers on how to leverage our Growth Platform and inbound methodology to transform how their business attracts, engages and delights customers. Depending on which product plan and professional services a customer buys, they receive one-on-one training and advice from one of our implementation specialists by phone and web meeting and can purchase additional group training and education in online or in-person classes. Our professional services are also available to customers who need additional assistance on a one-time or ongoing basis for an additional fee.

Support. In addition to assistance provided by our online articles and customer discussion forums, we offer phone and/or email and chat based support, which is included in the cost of a subscription for our Marketing, Sales, and Service Hub products. Phone support is available starting at the Professional product level for each Hub. We strive to maintain an exceptional quality of customer service. We continuously monitor key customer service metrics such as phone hold time, ticket response time and ticket resolution rates, and we monitor the customer satisfaction of our customer support interactions. We believe our customer support is an important reason why businesses choose our Growth Platform and recommend it to their colleagues.

Our Total Customers

As of December 31, 2018, we had 56,628 Total Customers in more than 100 countries, representing many industries. No single customer represented more than one percent of our revenue in 2018, 2017 or 2016.

Our Technology

Our 56,628 Total Customers have chosen us as their marketing, sales, or customer service platform, which we architected and built to be secure, highly distributed and highly scalable. Since our founding, we have embraced rapid, iterative product development lifecycles, cloud automation and open-source technologies, including big data platforms, to power marketing, sales and service programs and provide insights not previously possible or available.

Our Growth Platform is a multi-tenant, single code-based, globally available software-as-a-service delivered through web browsers or mobile applications. Our commitment to a highly available, reliable, and scalable platform for businesses of all sizes is accomplished through the use of these technologies.

Modern Database Architecture. We process billions of data points weekly across various channels, including social media, email, SEO and website visits, and continue to drive nearly real-time analytics across these channels. This is possible because we built our database from the ground up using distributed big data technologies such as HBase, Kafka, and Elastic Search to both process and analyze the large amounts of data we collect in our inbound database. Using modern database technologies, we can provide actionable insights across disparate data-sets in a manner not easily achievable or cost effective, at scale or efficiently, with traditional databases or platform architectures.

Agility. Our infrastructure and development and software release processes allow us to update our platform for specific groups of customers or our entire customer base at any time. This means we can rapidly innovate and deliver new functionality frequently, without waiting for quarterly or annual release cycles. We typically deploy updates to our software platform hundreds of times a week, enabling us to gather immediate customer feedback and improve our product quickly and continuously.

Cost leverage. Because our Growth Platform was built on an almost exclusive footprint of open-source software and designed to operate in cloud-based data-centers, we have benefited from large-scale price reductions by these cloud computing service providers as they continue to innovate and compete for market share. As our processing volume continues to grow, we continue to receive larger volume discounts on a per-unit basis for costs such as storage, bandwidth and computing capacity. We also believe that our extensive use of open-source software will provide additional leverage as we scale our Growth Platform and infrastructure.

Scalability. By leveraging leading cloud infrastructure providers along with our automated technology stack, we are able to scale workloads of varying sizes at any time. This allows us to handle customers of all sizes and demands without traditional operational limitations such as network bandwidth, computing cycles, or storage capacity as we can scale our platform on-demand.

Reliability. Customer data is distributed and processed across multiple data centers within a region to provide redundancy. We built our Growth Platform on a distributed computing architecture with no single points of failure and we operate across data-center boundaries daily. In addition to data-center level redundancy, this architecture supports multiple live copies of each data set along with snapshot capabilities for faster, point-in-time data recovery instead of traditional backup and restore methodologies.

Security. We leverage industry standard network and perimeter defense technologies, DDoS protection systems (including web application firewalls) and enterprise grade DNS services across multiple vendors. Our data-center providers operate and certify to high industry compliance levels. Due to the broad footprint of our customer base, we regularly test and evaluate our platform with trusted third-party vendors to ensure the security and integrity of our services.

Marketing and Sales

We believe we are a global leader in implementing an inbound experience in marketing and sales. We believe that our marketing and sales model provides us with a competitive advantage, especially when targeting mid-market businesses, because we can attract and engage these businesses efficiently and at scale.

Inbound Marketing. Our marketing team focuses on inbound marketing and attracts new leads per month through our industry-leading blog and other content, free tools, large social media following, high search engine rankings and personalized website and email content. In addition, we are generating leads for new and add-on product purchases through content and offers delivered through our Growth Platform to existing customers.

Inbound Direct Sales. Our sales representatives are based in our offices in Cambridge, Massachusetts, Dublin, Ireland, Sydney, Australia, Singapore, Tokyo, Japan, Berlin, Germany, and Bogota, Columbia, and use phone, email, and web meetings to interact with prospects and customers. The majority of revenue generated by our sales representatives

originates with inbound leads produced by our marketing efforts. In addition, through our recently launched freemium products and in-product cross-sell offerings, we are starting to close new business with little or no interaction by our sales representatives.

Inbound Channel Sales. In addition to our direct sales team, we have sales representatives that manage relationships with our worldwide network of Partners who both use our platform for their own businesses and also, on a commissioned basis, refer customers to us. These Partners collaborate with us not only to leverage our software platform and educational resources, but also to build their own business by offering new services and shifting their revenue mix to include more retainer-based business with a recurring revenue stream.

Culture and Employees

Transforming the business world to embrace the inbound experience requires a truly remarkable team. From the very beginning, our company was founded on a fundamental belief in radical transparency, individual autonomy, and enlightened empathy.