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Freshworks, Inc. (FRSH)

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CORPORATE PARTICIPANTS

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

OTHER PARTICIPANTS

Taylor McGinnis

Analyst, UBS Securities LLC

MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

Taylor McGinnis

Analyst, UBS Securities LLC

...coming to the 2023 UBS Tech Conference. It's great to see all of you, and I'm very excited for this session that we have with Tyler Sloat, who's the CFO of Freshworks. So, Tyler, thanks so much for joining.

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

Taylor, thanks for having us.

Taylor McGinnis

Analyst, UBS Securities LLC

Yeah. Of course. Before we begin, I just want to let anyone know if you have a question, which we'll try to address them at the end, you can submit your question through the app and then we'll, like I said, get to some of those at the end.

QUESTION AND ANSWER SECTION

Taylor McGinnis

Analyst, UBS Securities LLC

Q

So, maybe, to start off, Tyler, I'd love to ask you – so this past earnings season, I think you had a lot of software companies with SMB exposure, where you had some that skated on like things were fine. You had others that talked about incremental weakness. I think you guys were more in the camp of saying things feel more stable, but I'd love maybe for you to elaborate more in terms of what you guys are seeing in the macro environment as it relates to SMBs. And then if there's any demand tailwinds that you would point to, that might be a reason why you guys might be weathering the storm better than others?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Yeah. So, yeah, so just to back up, SMB for us is 250 employee businesses and below. About 40% of our business now is SMB. So, we've kind of shift a little bit over time. Q3 kind of came through as we expected, so there was no real big surprise. I think the nuance is that we had started talking about, "macro pressures" at the end of Q1 2022 really were our expansion motion was getting hit a little bit, and that's persisted over time. And I think what we did is we just adjusted, right? We tried to figure out what growth is going to be without agent expansion in particular, and SMBs did get hit more than others and figured out, how are we going to grow with our customer base outside of that. But we didn't see any incremental pressure. And like I said, Q3 kind of came in as we expected.

Taylor McGinnis

Analyst, UBS Securities LLC

Q

Yeah. That's helpful. And then maybe let's dive down into like the different product types. Obviously, your customer service, ITSM, sales and marketing. So, when you look at like those three, how would you characterize the like the health of like each of those businesses individually, right? And to the extent there were any changes within the macro within each of those.

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

So, our CS or customer service product is still our largest product line, but definitely the one that's been impacted the most by from that expansion motion, kind of seeing pressure over the last year and a half. And that market in general is becoming a little bit more fragmented. That being said, we've done a lot to kind of keep up with what the new trends are there. And we launched at the end of Q2 our customer service suite. That's already starting to see some good traction there. And we have a lot of other things that we're focused on there specifically, some of our AI initiatives.

Freshservice, which is our ITSM solution, has been doing really, really well and that continues to be the driver of growth for the business. And in that space, we are just positioned really in a good spot where you have ServiceNow at the very high end. You've got a lot of legacy players that a lot of it is still on premise, and then you have kind of geo-service management, ManageEngine, these guys servicing really smaller companies. And we are kind of regard as the number one self-alternative underneath ServiceNow.

Our Freshsales and Freshmarketer products broadly under CRM category is [indiscernible] (00:03:23), and they're starting to see some good traction specifically for SMBs and for B2C businesses that we can really serve well and provide a great solution kind of from lead all the way through to support, but that one still needs to have injection of growth, and that's where we're focused on right now.

Taylor McGinnis

Analyst, UBS Securities LLC

Q

Got it. That's really helpful. And then maybe on the ITSM side in particular, because I think that's the area that you guys have sounded really upbeat on these last few quarters. And I know you've made changes on the go-to-market side to move market there, but can you maybe talk about the demand tailwinds that you guys are seeing on that side? So, are there any product cycles that are occurring within the incumbent space? Why now, right? Some of these mid-market companies be looking at these solutions, if they hadn't had an incumbent before. Like, what are some of the tailwinds? Is it more self-driven where you guys are making a bigger go-to-market push there or is there actually some underlying demand trends, too?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Yeah, I think we're definitely making a better – a more go-to-market push. And we built out this field presence throughout North America, Europe and parts of Asia. And over – I'd say, over the last year, year and a half, those individuals have learned how to sell that product really well. But I think it's a chicken and egg, it's because the demand is there or because they actually like the product and go sell. I think it serves itself.

The thing that's happening is that space has just been kind of underserved. That space being kind of high end of SMB, which is kind of the employee base, that's around 250 to 200, all the way through to low end of enterprise, which is kind of like the 7,000 person company. Traditionally been served by a bunch of legacy products that are kind of old tech and now moving like – they're coming out with cloud versions and they're forcing their customer base to shift, right? They're saying you got to go migrate to the cloud. And whenever you do that to a customer, they're going to go look at alternatives. We are a great alternative, priced really to provide value, but also with tech that is regarded as really, really good. And so, I think just because of that, yes, it's positioned really, really well in the market.

Taylor McGinnis

Analyst, UBS Securities LLC

Q

Yeah, that's interesting to me, it makes a lot of sense. Maybe I'm shifting then to the other side on the customer service side. So, you mentioned you guys are still seeing a lot of pressure on the seat side of things. If we look at your NRR that fell point to 106%. But it sounds like your messaging is that we could start to see, like, some stabilization and that metric. So, on the CS side, what gives you guys comfort in that stabilization? Like what are you seeing to say, hey, this is kind of where we're getting to the bottom? Is it that you've gotten through a chunk of the renewals where you've already seen that optimization activity? Maybe you could just elaborate a little bit more on that.

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Sure. So, net dollar retention for the whole company, 106% on a constant currency basis, we said it's actually going to come to 105% in Q4. Coming into this year, I think we had called 105% for Q2, and we just have done better, specifically on churn. And that's the reason it's actually not at 105% yet. We do – based on what we see today, we do think 105% is going to be kind of the bottom. And obviously, we'll update that if we see anything

different. I don't think it's going to immediately rebound. I think it might stay remain stable there. And then, we're figuring out how to grow.

In customer support, in general, yes, that's where agent expansion, which is – agent addition was driving by far the largest part of our expansion motion. And expansion is very, very material for us. That one, it just kind of makes sense as companies haven't been growing or if they've been downsizing, they reduce their agent counts. In that space, we've been trying to figure out, okay, how do we grow with our customer base outside of that.

So, a lot of focus on cross-selling of new products, which is now 25% of our customer base using more than one product. Moving them up the addition chain, and then new products like Customer Service Suite that we've introduced. We'll see. I think it's a journey, right? We're going to have to go through this journey and figure out how to grow with our customer base. But I do think we've weathered the storm. Part of what gives us confidence that we've weathered – you mentioned we've already been through renewal cycles. We don't find big, multi-large...

Taylor McGinnis

Analyst, UBS Securities LLC

Q

Yeah.

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

...multi-year contracts. And so, we've already renewed by far the majority of our customer base in all – across all products. At the same time, down-sell is included in churn. And we've been able to get churn to a company best. And in fact, last quarter was a company best we've ever had, and reduce it from the low-20s when we went public down to mid-teens now. And that feels good, right? It feels like – and it includes the down-sell. So, it includes the pressure we've seen.

So that, I think, is a testament to, okay, larger customers' annual deals now that customers are signing, but also the technology that we've actually been providing to the customers that is providing real value. So, coming into next year, we've a bunch of initiatives that we've been working on. We've been talking about them now for about a year. We're starting to see some of them actually kind of take root, and we're optimistic that we have a chance to actually accelerate growth once these things actually start playing out.

Taylor McGinnis

Analyst, UBS Securities LLC

Q

Yeah. That's actually – a follow-up question on that. So, when you think about like the difference between the growth drivers this year, right, versus next year, so you talked about like a lot of these initiatives that you've had in place that hopefully can become more tailwinds as we go into next year. How do we think about that in terms of the context of NRR? So, if we start to see some stability, right, on optimizations and churn and things like that, where – is it possible that you could start to see that metric trend up, if some of these initiatives start to materialize? Maybe you can just go in more detail in terms of like the timing of when you think some of these initiatives could start to...

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Sure. Our Investor Day in September, we – first of all, we broke out all the products and kind of gave some of the revenue numbers around the product lines, which we hadn't done before. And then, outside of those sections, in

my section, we talked about, okay, there's six growth initiatives that are incremental to kind of what we said we were going to be able to do, which is \$1 billion by 2026. And that \$1 billion kind of – if you run that out, it means around 20% growth every year.

These initiatives, like – one of the ones I just mentioned, is cross-selling of additional products. So to be able to do that, you have to have prescriptive sales motions and train your field to be able to do that. But also you have to have the new products. So, Freshservice for Business Teams is one of those products that we just launched in Q – at the end of Q1, but really just started to kind of like get it out there. We now have roughly, I think, 20% to 25% of agents being purchased for Freshservice includes Freshservice for Business Teams as 25% of agents. We're starting to see traction on this. And these are things that are brand-new to our customer base.

Taking a little bit of price, which we have never done before. It's not really inherent in our DNA. We've actually been the opposite. We did a little bit of that in Freshservice this year. When I say it, we're literally doing like CPI increases, which we've never done before, and got zero pushback from customers. And so, we'll continue that journey and looking at the other products that we can – that we've been providing really a lot of value to customers for years. I like to look at it as kind of reducing discounts as opposed to increasing prices, but not being a vendor who's going to go to their customers and increase price 50% or something like that, which happens to us, which is really frustrating. More like, hey, here's a 5% increment or 7%, which seems to be what everybody is doing. We just haven't been doing it.

Our AI initiatives, I think they're really exciting. Just from a monetary perspective, I think we have to wait. If G or Dennis were up here, I think they'd say something different. I'd like to see that that come through. The first one we have is Freddy Self Service, which is going to be reflected in bot usage, which we already see increase bot usage. And the way we're going to monetize that is bot add-ons as customers use the bots that they are entitled to, they'll have to buy more of them. And we'll start to see that I think starting in the beginning of the year.

Freddy Copilot will be launched in Q1. That'll be \$29 per seat in addition to what they're already paying for the agent, until we launch it and get it out there to GA, we don't know, but we do have about 2,500 customers that are in beta right now, and getting really good feedback on it. And then, Freddy Insights, we don't have a launch date for that. I think it's going to be later in the year. We have about 4,000 customers actually beta in that product. And so, I look at these things, they are going to be incremental to our growth stuff that we're not necessarily counting on, but things that actually could provide real traction.

Taylor McGinnis

Analyst, UBS Securities LLC

Q

Awesome. I was going to ask some of these AI questions later, but because you mentioned them, let's just dive right into those. So, I think you've talked about in your outlook – CY 2026 outlook that you guys have that AI isn't a big contributor to that. So, when we think about all these individual products that you mentioned, where are you seeing the most interest from customers today? How has feedback been around that? And as you look in the out years, like which of those products gets you the most excited or where you think can be the most – the biggest opportunity is?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Yeah, I think the Freddy Self Service and Freddy Copilot are going to be the two things. So, if you think about Freddie Self Service, it's all about allowing our customers' customers to quickly resolve any problems that they have, right, in self service. So it's all going to be through bots and automation through those bots. The one thing I'm excited about there is that the hurdle to bot adoption historically has been building the bots, which has been

really complex. And we've released now kind of our 2.0 bot builder, which allows our customers to actually – in our Investor Days have bots building bots essentially, and being able to go out there and allow our customers to actually go use the technology a lot easier as opposed to hiring services from us or building it themselves I think is going to be really exciting.

On Freddy Copilot, it's new, but that one – two things. One, it's about allowing our customers to be the agents that they have been much more efficient in the transactions that actually do not go through self-service. And that one, I think, is going to be the one that's going to have the most impact overall to our customer base in how it allows them to service their customers potentially in a lower cost environment, whereas previously they might have had to hire people in North America, if they're North American based, where they could actually outsource that. But those agents now are going to have capabilities that they never had before. And I think that actually not just for us but for other companies could be really a big fundamental change for businesses in general. Freddy Insights is really about the administration of the entire business. That one I think is a little bit further out and we'll see how that goes. But the first two are really, really exciting.

Taylor McGinnis

Analyst, UBS Securities LLC

Q

Yeah. So, on the chat bots in particular, so I think there's a really interesting opportunity for companies that serve SMB and midmarket companies, where they might not have the in-house developer or resources in order to build these bots themselves. But I'd be curious how you guys see that playing out, like when you look at the fact that you run on GPT, right, Open AI, is it possible for these SMBs to go and build it themselves? What's the heavy lifting there? Do you guys see that as a risk? I'd love to dive into that a little bit.

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Yeah. I mean, the phrase we use internally is like how do you deliver AI to the Fortune 5 million as opposed to Fortune 500, that's what we're really focused on. Like, make it really easy for our customers who may not have the capabilities. And you're talking about some cases 50 person business that really just want to do their business. But in order to have these access to all the new technologies that have to hire that technical talent, we're spending a lot of money on it. To be able to actually inject that in the services that we're already providing them is really, really exciting.

The things you have to make it really easy to use, which is what has been in our DNA from the very beginning. Like we build our software focused on the end user, which means that it's truly built for the SMB. It has to have a great UI, has to have a great usability, has to have really fast go-to-market or time to value. We're doing that same thing with all the AI stuff we're building. So, that's why it's taken a little bit of time, right? You have to learn. You have to let the AI, kind of, models learn but then also release it when it's really ready. And that's what we're doing with our customer base right now in all the beta programs we're doing. We'll see, right? That's the goal. We have to go out there. We have to release it. And then, we have to actually start selling it.

Taylor McGinnis

Analyst, UBS Securities LLC

Q

Yeah.

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

But it is exciting.

Taylor McGinnis

Analyst, UBS Securities LLC



Awesome. And then on the monetization strategy, so you've had – so [indiscernible] (00:15:58) \$29 Copilot offering. You've had Microsoft do something similar. You've had Salesforce do something similar, but you've had other SMB focused companies that haven't yet put out their monetization strategy. Or if they had, the early stages for some of the companies within my coverage is, okay, we'll first drive adoption, figure out monetization later. Maybe they use it to drive the top of funnel, maybe they put it in the higher premium price SKUs. So, is that at all – like those differences in monetization, like, how do you guys view that? Is that a risk at all that someone could go to a competitor for a similar offering? Do you think it's just a matter of time before other SMBs start monetizing it? I'd love to get your thoughts there.

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.



I'm not worried about the competitive dynamic there. I mean what we are providing is built into the product. So, to have something on the side, it would have to be deeply integrated, which I guess is possible. But it actually – the model has to learn from – the large language models, but also it's all about the data that we have internally that we're actually allowing our customers to utilize their own data, right, and enhance it essentially. And I think that's going to be the power there.

In terms of the price, we've set \$29. And that's based on, I'd say, more art and science, on math that we've done internally, on understanding what agent costs are for our customers, understanding what the potential efficiencies that they're going to gain and then what we would want to get if we – if that does result in a lower agent count for us. The goal here would be kind of a win-win-win. It's a win for the very end customer. They get resolution to their problems and a better experience. It's a win for our customers, because reduced agent count and a human capital cost is going to be much less than the \$29 that they're paying us, but also a win for us because that reduced agent count is going to be supplemented by the \$29. So, that is the absolute goal. We will learn as we go, right? We'll have to figure this out.

The other thing that we've actually modeled out is costs, right, because that's, I think, another big unknown that companies are going into this. And it's all about the compute power. We are using Microsoft as our back end and then we use Amazon for our hosting. And we've made our estimates. We have great margin structure right now at 83%, 84%. And we don't think this is going to impact that. It might slightly, but there's a little nuance to the margin structure anyway. And so, we will have to learn as we go. And I think there's – I think it's going to be the same for all of these companies, right? If anybody's coming out and saying they figured it all out, then I'd love to talk to them.

Taylor McGinnis

Analyst, UBS Securities LLC



Yeah. [indiscernible] (00:18:25) think about the adoption ramp of this, I know you mentioned a little bit this earlier – mentioned earlier different products, and when you think that they could start to be bigger drivers. But in terms of what we're seeing more near-term like, do you think that this could start to be a material driver of growth like within 2024 or is this probably a few years out? I know you guys...

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.



Specifically to AI stuff or?

Taylor McGinnis

Analyst, UBS Securities LLC

Q

The AI stuff, yeah. So, I would imagine because you guys have had things like chat bots, right, for a while. So, this isn't necessarily new.

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Yeah.

Taylor McGinnis

Analyst, UBS Securities LLC

Q

So, has a lot of this talk around generative AI been a catalyst for conversations with Freshchat and maybe your new customer service offering like...

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Yeah.

Taylor McGinnis

Analyst, UBS Securities LLC

Q

...could those actually be maybe more material drivers where the other stuff might take a little bit longer?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Yeah. So, Freddy Self Services is the first one we put out, and we actually don't sell Freddy Self Services kind of embedded within chat. We changed the pricing for chat at the end of Q2. So, we lowered the entitlements that customers have in terms of how much chat sessions that they have – that they're entitled to when they buy the product. And then we increase the price for add-ons. That will take some time to flow through as usage increases. I would love to be able to update our investor base in the middle of next year on what we're seeing. I don't think anything's going to happen before that. And hopefully, we'll have some traction at that point in time that we could get some updates and even if it's usage as opposed to even monetization, right, because monetization will come after. But that's my estimate for that one. On Copilot, if it launches in Q1, it'll probably be towards the end of the year that we'd be talking about it.

Taylor McGinnis

Analyst, UBS Securities LLC

Q

Yeah. Makes a lot of sense. Maybe shifting gears to another key topic, which is the CY 2026 outlook that you have, so of the \$1 billion target. So, I think in order to get there, you have to assume a CAGR of around 20%, which is where you guys are growing today. So one key question investors always ask is, what gives you guys comfort? Macro is very uncertain. Things could change like that. So, what are you seeing that's overpowering some of these macro headwinds that you're seeing that gives you confidence in that outlook?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Yeah. You kind of asked earlier about just SMB pressure, have we seen it, have we weathered it. And I think we've been through a lot of it. That 20%, which kind of gets you to the fiscal 2026, \$1 billion, that is what we think

is our baseline. And the six levers of growth that we kind of outlined on top of that would be incremental. We clearly have to execute to get there. But the reality is like we're playing in three massive TAMs, and have been able to create three products that could get to scale. And I think we're using reasonable growth rates specifically for our customer support product as well as our sales and marketing product. If you look at our investor presentation, the growth rates that we're assuming, they're not incredible. And internally, nobody's really happy about 20% growth, right? I don't think that's super exciting. It is what we've been achieving right now. So, we have to figure out how to go execute a little bit better. But I think it's more of a execution thing as a market thing and the products are there and the products really work and the customers love them. And so, it's about bringing those products to market.

We haven't seen great traction at larger businesses and we've earned the right to go engage with larger customers. Our 50,000 and above customer number still growing healthily over 30%. We're starting to see more annual deals, which is helping with churn, which continues to come down. And so, these are all great things that we just got to continue to go execute on. And then, the levers of growth on top of it, which I think we have opportunities there.

Taylor McGinnis

Analyst, UBS Securities LLC

Q

Yeah. And if we break that down a little bit more, so if we look at the CS piece in particular, so the Customer Service piece, I think the CAGR assumes something in the high-single digits versus the low to mid-teens that you guys are growing at today. So, I'd love to dig into like what the assumptions are within that is part of that just, hey, this is a more mature market, right? Is that reflective of the high-single digits? I know you don't have it sounds like AI and some of these other tailwinds really embedded into that. But in terms of where we stand today and looking at that growth rate, we would love to understand the assumptions there. And if there is any assumptions related to generative AI, maybe displacing seats that you guys are trying to be...

Taylor McGinnis

Analyst, UBS Securities LLC

Q

Yeah.

Taylor McGinnis

Analyst, UBS Securities LLC

Q

...conservative about, like I would love to unpack that.

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

So, we didn't model in the last piece, right?

Taylor McGinnis

Analyst, UBS Securities LLC

Q

Okay.

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

We didn't model in how much would be taken over from, say, Copilot and whatnot. That market has gone through a lot of fragmentation, right? Some of the bigger players and our competitors have been taken out, the growth has

been tough. Part of that has been driven by just new technologies that are out there, whether that new technologies which we've been talking about is like just purely conversational, moving away from traditional ticketing. And so, our Customer Service Suite, the product we launched at the end of Q2, it is a conversational product first, ticketing second, and that's what we kind of did with the re-architecture of the product. We do think that that is the future.

And we've been talking about omni-channel first and leading with conversational and we've been trying to stay ahead of what the trends are. At the same time, there's a bunch of point players that kind of popped up, a lot of them just doing bots or a lot of them just focusing on maybe some of the social aspects of support. We have now – we feel like we've gotten to a point where we now have all of that stuff. We put it all together under one platform, and so that's what we're leaning in on. The market's fragmented. I think you're going to see a bunch of that fragmentation. I think some of the players that have been purely focused on bots are going to be in trouble now, because now the new technology through specifically ChatGPT and everything else is allowing other customers to participate in that. Things like bot builders, you don't need an army to build them. And so, we'll see how it all plays out. We put out those numbers because that's what we see today. We don't want to be super aggressive on assuming things are just going to come right back. But we do have opportunities to grow on top of that.

The other thing that we assumed is that our agent addition expansion motion is going to kind of stay where it is and it's not going to actually recover. Clearly, if companies start growing again, which I don't see happening in the near term, but I do think that's going to happen, that's just going to be on top of all of it.

Taylor McGinnis

Analyst, UBS Securities LLC

Q

Yeah. That's really helpful. And then, the other growth driver that is key here is is that I think you guys are assuming that the greater than 50,000 in ARR net adds is going to be greater in the future than what we're seeing today. I know – we talked earlier you guys have implemented a lot on the go-to market motion to push that. But what gives you guys confidence that you're going to continue to see that uptick? I think this last 3Q might have been a little bit lighter relative to what you saw in 1Q and 2Q. So, maybe you can comment on that that related to seasonality a little bit of an anomaly, but would love to hear about the underlying trends there.

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Yeah. I answer last part first. I think there is a little bit seasonality but then also FX played a role in that that the dollar kind of lost some strength and then – as a result, that impacts that number a little bit. But I didn't see anything that was concerning on the greater than 50,000. We also laid out that the majority of our greater than 50,000 customers are customers that expand into it. So, we still have customers that are expanding at a really healthy clip and growing into that customer base.

I think that the confidence that we have there is really across kind of a couple of things. Number one, it's going to be driven by Freshservice, and our growth rates are going to be driven by Freshservice and we put that out in the numbers. And that by inherently on the company size that we're dealing with there mean that a true SMB doesn't need the Freshservice product. So, we're really dealing in the midmarket. Those deals are going to tend to be larger and that that product is doing really, really well.

Second, ARPU continues to increase across all of our product lines. And I think the other place that we're going to see our growth is coming from increased ARPU in general. And then, third, as you mentioned, just larger deals and we've actually started to build that muscle internally, which is part of it is not about are the customers there, are you able to go service them and go sell to them. And that is one thing that we're learning over time, right. As a

company has grown up as almost all inbound to start with an SMB, focus, building out that feel motion, everything that's needed around it, it's still a journey. And we've been hiring a lot of great talent who've been there, done that, and now kind of building out the piece parts to go execute against that. And so, yeah, we are confident that that's where the growth is going to come from. We obviously have to go execute to go get that growth. And we do have the levers on top of what we think is our baseline to kind of accelerate that, but we have to see this play out quarter-over-quarter.

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Yeah. And it's going to be a two-part question. But you mentioned on the Freshservice side that being the biggest driver. So, when we look at that piece, it looks like the guide assumes that you'll maybe growing a CAGR in the low 30s versus, I think, closer to the low-40s that you guys are growing at today. So, I know some of the pushback there has been, well, it doesn't seem as big of a de-sell. So, in terms of it could just be as simple as some of the demand tailwinds that you spoke about earlier is really being the drivers right behind that business, but maybe you can touch on there.

And then, the second part of the question is, I think one question that we get a lot is, is there true cross-sell synergies between Freshdesk and the Freshservice side? Can you take advantage of the base that you already have today and like, are those two truly separate are there cost synergies between them? What does that mean for long-term margins? Lots in there, but [indiscernible] (00:27:51).

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Yeah. No, I guess – it's funny because the Freshservice that we do think part of the larger numbers rises are to maintain that growth rates high. Because I had investors say, well, why wouldn't – you're being way too conservative, [indiscernible] (00:28:03) should go a lot faster. The market there is huge, right? And we're not that big of a company. So, we should be able to go achieve those growth rates. And it's not like we have to go steal a lot of market from anybody. And so, that's why we feel a little bit confident there. On the – what was the second part of the question? I...

Taylor McGinnis

Analyst, UBS Securities LLC

Q

No. I know I threw a lot at you in one question, but the second part was just on the cross-sell.

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Oh, cross-sell motions. Yeah. The Freshservice to Freshdesk and Freshdesk to Freshservice, there isn't a natural synergy between those products, meaning that there are a couple of use cases that they are integrated. And those use cases specifically, say, for software companies or tech companies that if something happens to the customer base, it comes in, and you have to have like an ITOM incident management response and those use cases are easier to sell. But that's not really the reason to buy.

I think our opportunity is that Freshservice has been doing so well. It's loved by our customers that customer is the CIO, and that CIO usually has a lot of influence over the other buying decisions that are being made. And if one of those buying decisions is R&D support solution, we should be in that conversation specifically, if we are already a trusted vendor. When I talk about the field motion that you need to build out, kind of this muscle and this

expertise, that's something we've never really had in terms of customer relationships and being or have executive sponsorship, something we're working on that we think we can be able to leverage better in the future.

Taylor McGinnis

Analyst, UBS Securities LLC

Q

Perfect. And I'll give you one final question just on margin. So, as we look at your CY 2026 revenue guide, I guess, how are you thinking about balancing margins and growth, and then, to the extent that Freshservice becomes bigger, you might have – there might be more incremental investments that you have to make to push the up market motion. How do you think about all of that playing out?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Yeah, on the sales and marketing side, which is the last piece, I feel like we built out that infrastructure. We've made a lot of the investments already and it's now tweaking those investments. In terms of margin structure on the 2026, where we said \$1 billion, the other thing we said was we're going to hit Rule of 40 by 2025 and be 20% growth, 20% free cash flow margin. And then beyond that, the capability to increase cash flow margins is there and we'll just have to see where we go. I would prefer that that Rule of 40 actually shifts more to growth, right? And we will spend more, if we think we can grow faster. We just need to be able to do it efficiently. And so, we would make the option if we could get it to 25%/15% on growth, we would absolutely do that and we've been very open with investors about that. But in terms of incremental investments, specifically in sales and marketing, it felt like we've already built the infrastructure. We just need to go make it really efficient.

Taylor McGinnis

Analyst, UBS Securities LLC

Perfect. Well, that's all the time that we have. Tyler, thanks so much for joining us today. I really appreciate it.

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

Thanks for having me. Great.

Taylor McGinnis

Analyst, UBS Securities LLC

And thanks, everyone, in the audience as well too.

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

Awesome.

Taylor McGinnis

Analyst, UBS Securities LLC

Perfect.

Unverified Participant

Thank you.

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