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Freshworks, Inc. (FRSH)

Canaccord Genuity Growth Conference

CORPORATE PARTICIPANTS

Dennis M. Woodside

President & Director, Freshworks, Inc.

OTHER PARTICIPANTS

David Hynes

Analyst, Canaccord Genuity LLC

MANAGEMENT DISCUSSION SECTION

David Hynes

Analyst, Canaccord Genuity LLC

Thank you, guys, all, for being here and we're delighted to have Freshworks.

Dennis M. Woodside

President & Director, Freshworks, Inc.

Thanks for having us.

David Hynes

Analyst, Canaccord Genuity LLC

We have President, Dennis Woodside. We're going to this as a fireside chat. I have a list of questions that I got through the session, but if anyone in the audience at any point has a question, raise your hand, I can work it into the conversation. But, Dennis, maybe just to kick things off, so it's about a year, I think.

Dennis M. Woodside

President & Director, Freshworks, Inc.

Yes. It'll be a year, September 1.

Dennis M. Woodside

President & Director, Freshworks, Inc.

September 1. We're coming up on a year at Freshworks.

QUESTION AND ANSWER SECTION

David Hynes

Analyst, Canaccord Genuity LLC

Q

Maybe just start you talk a little bit about your background.

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

Sure.

David Hynes

Analyst, Canaccord Genuity LLC

Q

What attracted you to Freshworks, and how are you feeling about the opportunities this year?

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

Great. So I'm Dennis. I'm President of Freshworks. I've been – been here a year. My background is in technology. I spent 25 years in tech. I spent 11 years at a small company called Google.

David Hynes

Analyst, Canaccord Genuity LLC

Q

I heard of them.

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

Heard of them probably. Joined Google in 2003 pretty small company, ran sales in North and South America when the business was around \$10 billion in revenue, or my business was about \$10 billion in revenue. We bought a company called Motorola Mobility, which was a public company. I became the CEO of that company in a pretty complex set of transactions. We wound up bringing in new management team, putting in a new strategy, and ultimately selling the company. Once we sold the company, I left Google.

It had been 11 years at that point and went to Dropbox where I helped take the company public as the COO. We grew revenue from a couple of hundred million to \$1.4 billion before going public and raising a \$1 billion in 2018. Joined a sort of a wild card plant-based food start-up called Impossible Foods help grow that to a couple of hundred million in revenue. And one of the lead investors in Dropbox is Sameer Gandhi, who's at Excel. He introduced me to Girish, who's the founder of Freshworks and – about 1.5 year ago. And I was just blown away by the progress that Freshworks had made in very large markets, which I had some familiarity with from being on the Board of Service now. And he was looking for a partner to work with him and scale the business.

So, we got along well. I – He and I now co-lead the business. The management team reports totally into me and to him, I'm on the board. I focus more of my time on from product on down to go-to-market. He focuses a lot of his time on product and up and engineering. So as an example, he is in Chennai now, working on our sales and marketer product. He led a lot of the work personally that we have done around AI over the last year and – while I've been focused more on getting the business in a good footing and really scaling the business.

David Hynes

Analyst, Canaccord Genuity LLC

Q

Yeah.

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

So that's a little bit about me. Yeah.

David Hynes

Analyst, Canaccord Genuity LLC

Q

Yeah. That's a great kind of backdrop for kind of where you're going to be focused. So to that end, talk about kind of what you saw in the go-to-market organization when you came to Freshworks, like, where do you see the most significant opportunities and kind of where are you focusing your time?

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

Yeah. So let me just tell you about Freshworks for those who don't – might not be as familiar. We are a – about – guiding to \$592 million in revenue this year. We were born in Chennai and the first products that we launched were focused on support technology, support desk. The initial products, and what Girish really was focused on was smaller businesses that had no real solution for managing a small support team. He made the product available online and created a product-led growth motion to just drive business and the product took off from – really from day one; very much focused on SMB to start, but increasingly was dragged in the larger and larger businesses as you saw with in Atlassian or Dropbox, a number of these companies.

So over time, built a field motion, built a team that was focused on the field and today, we have 65,000 – 64,000 customers worldwide, ranging from very small businesses all the way up to Amex Travel Services, Discover Cards and a number of others. In that time, we also built an IT product for IT helpdesk. If you think about the workflow kind of similar to what happens in customer support, that product today is our fastest growing product.

And we have ITSM solution, ITOM solution and now ESM solution, which we can talk about a bit, but serving – also serving that solid mid-market into the lower end of enterprise at this point. And we have a smaller, newer product that's focused on sales and marketing automation. So, our value proposition really is to provide a single customer record across all of these interaction points, and that strategy really is working.

David Hynes

Analyst, Canaccord Genuity LLC

Q

Yeah, maybe you could talk about kind of what you saw in Q2.

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

Yeah.

David Hynes

Analyst, Canaccord Genuity LLC

Q

How you're feeling about the demand environment.

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

Yeah.

David Hynes

Analyst, Canaccord Genuity LLC

Q

And I know that conversation bifurcates kind of the inbound us and v-motion versus the direct motion but, however you want to take it.

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

Yeah. So on – on – I would say just go-to-market generally coming into the company. One of the things that was interesting to me about Freshworks is for a company of our size and scale, we are not very well-known or we don't have the same name recognition of companies of our size that – that were born in the valley and partly that's because we were born in India. So that's a huge opportunity for us to drive – drive awareness and consideration of [ph] ten (00:05:27) among the CIO or among the customer service leader.

So over the last year, what I've been focused on is getting the fundamental economics of the business right. So we went from burning cash to the last quarter, cash – generating \$18 million in cash, good cash flow margins and then getting the team in place that can scale us more and more into the mid-market, right, where we still have a large SMB base, 40% of our revenue is SMB. But our growth and our future, really, is in that mid-market. And we define mid-market of around five – companies of around 5,000 employees.

So getting the team in, I think we hired close to 40 senior directors and up, who come from the likes of Salesforce, Atlassian, Zendesk, who have seen that kind of growth play, in various field roles, in product roles, and getting that team really organized against that mid-market opportunity. So we made a lot of changes in the salesforce in the first half of the year in January, really orienting them around hunting or farming, creating a kind of different incentive programs because we wanted the sellers to move much more upmarket and that strategy started to pay off in Q2.

We saw an acceleration of revenue in accounts that were – that are generating greater than \$50,000 in ARR. That's one of the metrics that we look at. I think that grew 33% year-over-year. That's up from 30% the prior quarter. We saw continued success in getting at-bats in larger and larger deals. So we had our best quarter ever for \$30,000 deals, \$400,000 deals. And if we look at our pipeline, for us, those are solid deals that you can close in 90 days or so. So that looks really solid going forward.

So we're beginning to see that change in strategy, really focusing on mid-market, getting the right people who can sell into the mid-market, into the organization, getting the right processes in place so that they can be effective. We're beginning to see that pay off. And you saw some of that in Q2.

David Hynes

Analyst, Canaccord Genuity LLC

Q

Yeah. Is the product lead different with a mid-market sale? Like, I feel like the – the in-bound SMB motion is probably driven by desk and your support product. Mid-market, it feels like it's more kind of ITSM-led.

Dennis M. Woodside

President & Director, Freshworks, Inc.

Yes.

A

David Hynes

Analyst, Canaccord Genuity LLC

So maybe just talk about that and kind of how you feel the ITSM product is positioned.

Q

Dennis M. Woodside

President & Director, Freshworks, Inc.

Yeah. So our field motion is more of an ITSM-led motion, although we have plenty of customers who buy both of our – like top 20 customers, half are buying both ITSM and our customer support product. But what we found is that there's really a gap in the market. You have ServiceNow, who's focused on the G2000, the 2000 largest companies in the world. And then you have BMC [indiscernible] (00:08:08) share, who are all private equity-owned and not innovating as much, not investing as much in their products, not as cloud-first at all.

A

So that leaves a huge gap for a company, an example, a steel company that we won this quarter. A sophisticated IT department probably has about 20,000 employees, IT department of several hundred coming off of a ServiceNow deployment where they just didn't find the value. The total cost of ownership is much higher and because we've had to design for that small business, our product has to work out of the box quickly. And so we talk about a lot about time-to-value and ease of configurability as value points in the sales process that tend to resonate quite well.

So, that's an example of a solid mid-market customer. We get a lot of cross-sell opportunities. Another example is a company called Trainline. Trainline started out as a customer support customer. They serve millions of customers both in the US and Europe, who are looking at train schedules and so forth, buying train tickets. And so we had done a good job for them on the customer support side. They were looking for an ITSM solution and we won – we won their IT department over. So, we're seeing the cross-sell starting to happen in a meaningful way. But typically we are leading with IT in the field and then we have a specialist team that will bring in when we see a customer support opportunity or a sales and marketing opportunity.

David Hynes

Analyst, Canaccord Genuity LLC

Yeah. And as we think about the expansion opportunity in the mid-market, if you're landing with ITSM, is it mostly – is the cross-sell going to be driven mostly by kind of the internal service management use cases, the ITOM, the ESM or like how do you see the opportunity for, desk and sales to cross-sell into the mid-market as well?

Q

Dennis M. Woodside

President & Director, Freshworks, Inc.

Yeah. So – so, typically, that's – I think the opportunity that we have going forward is to be much more programmatic about that cross-sell.

A

David Hynes

Analyst, Canaccord Genuity LLC

Yeah.

Q

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

We focused a lot of – a lot of energy and a lot of my kind of time in communicating with investors is all about landing. We have got to let we're really focused on landing that mid-market account. And we've been at that for, three quarters. As we lap those accounts, they come up on their renewal. That's a great time to introduce them to the service product or at least – or at least know whether – whether they have a support need and bring that in. IT is involved in those sales. It's a different decision maker often. Often it's a more complex sale or it takes a little bit longer. But we are seeing those opportunities for – for growth.

The other area for growth from IT is our ESM product. So, that's employee service management (sic) [enterprise service management] (00:10:50). So, think about what we do for IT as we manage a helpdesk and their helpdesk all throughout the organization, there are people who need responses from their HR Leader or from their HR team or you have a facilities request and our software can handle all that, can automate all of that. And so we are finding success in moving from IT into other departments with a product called Freshservice for Business teams that we launched last year. An example there is Databricks. We started there on the IT side and now we are powering three different departments, helpdesk needs.

David Hynes

Analyst, Canaccord Genuity LLC

Q

Yeah, yeah. Can you talk a little bit about what you're seeing with retention dynamics, kind of NRR trends? It feels like we're seeing signs of stabilization there, make – maybe there is a bit more pressure, but just talk about kind of how it feels in the field and how it's translating into the numbers.

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

Yeah, so it really varies depending on where you are in the world and what your – what size customer you're talking to and which product you're talking about. We see very strong dynamics in our larger accounts. So one of the stats that we talked about on the earnings call a couple of weeks ago was for accounts that spent more than \$50,000 with us, the NRR is actually 112%, compared to 108% on a company-wide level. So there's quite a bit of variance in the business, but that – that number is very encouraging because that's what we're going, right?

On the SMB side, it's going to be lower. And then on – from a product standpoint, IT tends to be quite high as well. So we like the fact that IT is the faster-growing business currently because the dynamics all are really positive once we get an IT customer. The customer support side has been more affected by contractions in customer support teams. So we have a number of customers, who in the last year or so cut back the number of agents that they have and because their demand is not as high as what they thought it would be and that results in license reduction. So those are the general dynamics that are going on. We see – we do see a little bit of a decline going forward in our NDRR in terms of our guide, but we think it will stabilize in the next couple of quarters.

David Hynes

Analyst, Canaccord Genuity LLC

Q

Yeah. Yeah. Got it. So you mentioned [ph] geez (00:12:57) and Chennai...

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

Yeah.

David Hynes

Analyst, Canaccord Genuity LLC



...working on with the product team. You guys have a large footprint of employees in India. Could you talk about kind of what that enables you to do from a product development standpoint and efficiency standpoint and maybe any challenges in managing kind of such a global footprint?

Dennis M. Woodside

President & Director, Freshworks, Inc.



Yeah. So 4,000 – I think this is one thing that's really unique about us that enables us to move much faster than our competitors. So 4,000 of our 5,100 employees are in India: in Chennai, Bangalore and Hyderabad. And in India, we are the first SaaS company to come public out of the country. So the brand for – as an employer, is incredibly strong. So we can pull people from the Microsofts and Googles and all the rest, and get great engineering talent. The cost of engineering talent there is between a quarters to a fifth of what it is in Silicon Valley. And the productivity – let's say the productivity is 80%. Well, that math works, okay?

David Hynes

Analyst, Canaccord Genuity LLC



Yeah, yeah.

Dennis M. Woodside

President & Director, Freshworks, Inc.



So even if our engineers might be a little bit less productive, the whole balance works really well for us. So what does that do? Well, we have – of our 4,000 people in India, 1,800 are technical. And we can put people on projects and move really fast. So AI is a good example where just like the rest of the industry, we had an AI product and project and team, but then ChatGPT starts coming out and we really decide, okay, we got to go all in. We went from kind of whiteboard to beta to about to be launched in less than six months. And we – 2,000 – we have more customers in our data than I think any other SaaS company now. 2,000 customers, we're doing something like 20 million – we've already done something like 20 million interactions through an AI-assisted product for those customers.

We would not have been able to do any of that have we been based in the US. We wouldn't have just the sheer number of engineers to put on that kind of a project. So we think it's a big advantage for us. We also have our sales team that is focused on SMB is almost entirely in India. So our SMB business is productled for the most part, but there's human touches along the way. And again, that cost advantage is quite substantial. You would not be able to do that if we were all in the US. I think in terms of challenges, time zones are challenge, right? And we – all the exact spend quite a bit of time in India to make sure that we stay connected. But those are things that we think are far outweighed by the benefits of having that kind of a team.

David Hynes

Analyst, Canaccord Genuity LLC



Yeah, yeah, it makes sense. You alluded to some of the AI work that you guys are doing. It's a good segue way to talk about kind of the portfolio of the solutions. Kind of how revolutionary does this feel in terms of what you can do for your customers? Like I would argue, you guys are in markets that are very logical for, significant productivity gains driven by AI. So if you talk about the three products and then we can get into the strategy for monetization, all that sort of stuff.

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

So we think every company in the world is going to need AI to operate their business, period. Every company in the world is becoming digital. Every company wants to automate mundane processes and give their customers better experiences when they interact. And AI enables you to do that. Companies are going to look to platforms like us to provide that kind of a solution. They're not going to run around and find a point solution for their customer support team, a point solution for their IT team, et cetera. So we've really invested pretty heavily, and we've had AI in our products since 2018. The brand we use is called Freddy AI. Freddy is just a friendly name.

David Hynes

Analyst, Canaccord Genuity LLC

Q

Yes.

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

Trying to – try to make it friendly. But we're focused on three areas and three different use cases and personas. The first is self-serve. So for consumer, let's say Allbirds – Allbirds is a customer of ours. Customer wants to understand, hey, where are my shoes? What happened? I didn't get my delivery, or I want to exchange my shoes for a different size. You can handle all that with AI. So our self-serve product enables that.

The second is called Freddy Copilot. That's for the agent. So if I'm an agent, one of the biggest challenges for customer support teams is the – about the turnover for a typical call center is 35% or more, so training a rep, getting them up to speed on the products, the tone that you want to use with customers is really hard and AI can accelerate that dramatically. So you can get an agent on the frontline, who might not have had the complete training and AI supplements that – that agent's knowledge with what it knows about the products and the customer and so forth. So we have products that are called like – that provide assistance to agents when they're interacting with customers, suggests answers, corrects the tone of the interaction, all things that – that – that really improve the productivity of the call center.

And then the third is Freddy Insights. That's for the manager. So as a manager of a – like I used to run customer support at Dropbox and we have – one of the things that you would want to know is what went wrong last week or what's going on, what are the trends in the data? And usually, you'd have to have an analyst kind of go back through a bunch of data and figure that out. We can automate all that and do all that through AI. So I show up for work and the AI is telling me, hey, you might not be aware, but this we had a spike in returns from this region or for this product last week. We need to look into it.

David Hynes

Analyst, Canaccord Genuity LLC

Q

Yeah.

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

So those are the three prongs that we're going after. Like I said, we're learning a lot from this data. We have settled on how we're going to monetize, we're going to charge an adder on top of our licenses – our seat license of \$29 per seat per month. We will launch that in the second half of the year for the Copilot product.

David Hynes

Analyst, Canaccord Genuity LLC

Q

Yeah.

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

And then we'll see where the Freddy Insights and Freddy Self-serve (sic) [Freddy Self-service] (00:18:57) go.

David Hynes

Analyst, Canaccord Genuity LLC

Q

And...

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

Yeah. We're pretty far along in getting products actually into GA, into the market.

David Hynes

Analyst, Canaccord Genuity LLC

Q

Yeah. And I got the sense for – correct me if I'm wrong, that the self-serve product would be more of a usage-base product or you buy like a certain amount of capacity.

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

Yeah.

David Hynes

Analyst, Canaccord Genuity LLC

Q

Is that the idea?

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

So today, we have bots that automate – automate away like queries like where's my shoes. Those bots can be enhanced by AI and today you have to program the bot. So you have to manually – and this is how bot automation works in the industry today. But there's no reason that you can't use AI to bit – to suggest bots for your business based on the corpus of information that the AI is reading over that's specific to your business and then put those bots into production. And there's – and we also can use automation or AI in the bots themselves to converse with customers in different ways. So we'll monetize those through the – what we call, a bot session. So we charge per bot session and that is very much like a usage type of a model.

David Hynes

Analyst, Canaccord Genuity LLC

Q

Yeah. Okay. Is there any way to think about like how much inbound activity to a support desk could be automated away through these types of bots?

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

Yeah. I mean, the software has been automating customer support since its inception, right? And agent – if you think about the number of agents that are necessary in a complex business, it's been going down for a long time. So this is just going to accelerate that as well. When we do the math, the cost of an agent in the US is roughly \$60,000 to \$80,000 fully-loaded. The cost of the software to enable that agent is a couple hundred bucks, right?

David Hynes

Analyst, Canaccord Genuity LLC

Q

Yeah.

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

And to potentially replace that agent is a couple hundred bucks. So the tradeoff for the business is do I pay a couple hundred bucks for the software or do I pay \$60,000 for the agent, right? It's pretty clear.

David Hynes

Analyst, Canaccord Genuity LLC

Q

I can do the math.

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

Yes. Now, that works for us because if you just do the math for us, if we get the \$29 adder for the agents that – that remain, and there will always be agents, there's always going to be more complex areas and that's really a more rewarding career than as answering the things that can be automated away. That's how we're going to continue to monetize.

David Hynes

Analyst, Canaccord Genuity LLC

Q

Yeah.

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

But yeah, it could be a meaningful force of agents over, let's say, a five-year timeframe that you just aren't going to need.

David Hynes

Analyst, Canaccord Genuity LLC

Q

Yeah. Yeah. And just to be clear, Tyler, I think explicitly said in the call that like none of the potential for AI is factored into guidance in the back half of the year...

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

No. That's right.

David Hynes

Analyst, Canaccord Genuity LLC

Q

...and it's kind of what we see is core business only and maybe this would be additive, but I think it's probably more of a 2024, 2025 story, I guess?

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

Yeah. I think once we get – once we are in the market and we're seeing usage and we're seeing adoption, then we'll better read on how to factor this into our guidance and our plans.

David Hynes

Analyst, Canaccord Genuity LLC

Q

Yeah. Maybe we could transition the numbers for a minute and just talk about kind of philosophy of balancing growth and profits in this environment. I mean, you guys have been showing some really nice operating leverage off late. So, how are you thinking about it going forward?

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

I think coming in, another thing that attract me to the business is just the core economics are really strong with 80% – I think 85% gross margins, very high gross margin business and this lower cost R&D center and service center and support center and sales center in India. So, we spent the year just sort of tweaking the model to get to that point where we're solidly cash flow positive. We've guided this \$60 million in free cash for the year. And looking forward, we don't see reverting back on that. We have plenty of money in the P&L to invest in growth and continue to investing in growth.

We're not happy. I'm not happy with 20% – our current growth, 20% growth, when we can do a lot better over time. I think there's still a lot of things we can do from an execution standpoint. I mean the three big levers I focus on is winning new business; made a lot of progress since beginning of the year there. Expansion, we're really just getting started in the art of expansion and we have all these multiple new SKUs such as AI, such as ESM that we can now sell in that we didn't have a year ago, but really getting great at that part of expansion in the mid-market is super important.

And then the third is, and we haven't talked as much about it. But going back to SMB, our SMB model, we innovated, but we innovated like 10 years ago really on how we attract customers and work them through a trial and then convert that trial. There is a lot more we can do to automate that process, apply AI to that process, and squeeze a much higher yield out of that trial to convert funnel. And so that's the third leg really of growth that we're going to be focused on, which is product-led growth. We've made some changes in the team – the leadership team there. I know that we can do a lot better there.

So I think those three are really big opportunities for us and then there's other things that will assist that. I think that kind of add to that growth partners, right? We haven't done a whole lot with partners and there's a lot more we can do there. So I think there's a lot more growth ahead, but we've got the basic economics in place to scale.

David Hynes

Analyst, Canaccord Genuity LLC

Q

Yeah. Yeah. I was going to ask you if you think that there's a reacceleration in growth story to play out here, but you kind of answered it before you [indiscernible] (00:24:07).

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

You saw a little bit of – you saw a little bit of that in our calculated billings, which did show a little bit of an acceleration, I think, to 22%. But that's what I want to do, right? That's the goal.

David Hynes

Analyst, Canaccord Genuity LLC

Q

Yeah. I see your clock clicking at zero here and maybe just a concluding thought, fresh eyes on the business. What do you think investors might still underappreciated about the Freshworks story?

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

I mean, I think a lot of investors still perceive us as SMB and as a fast follower. I think with AI, we're not following, we are in the market ahead of many of our competitors, we're proving that we are not just a fast follower, we're not SMB. We are a solid mid-market company with plenty of large customers. Our products scale to millions of interactions and thousands of licenses and I think that's what the message is that we want to get across.

David Hynes

Analyst, Canaccord Genuity LLC

Yeah. Yeah. That's a good spot to leave it. Dennis, thank you very much for being here.

Dennis M. Woodside

President & Director, Freshworks, Inc.

Thank you.

David Hynes

Analyst, Canaccord Genuity LLC

I enjoyed the conversation.

Dennis M. Woodside

President & Director, Freshworks, Inc.

Thanks.

David Hynes

Analyst, Canaccord Genuity LLC

And good luck.

Dennis M. Woodside

President & Director, Freshworks, Inc.

Thank you.

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