

10-Feb-2026

Freshworks, Inc. (FRSH)

Q4 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, everyone. Thank you for joining us, and welcome to the Freshworks Fourth Quarter and Full Year 2025 Earnings Conference Call. After today's prepared remarks, we will host a question-and-answer session. [Operator Instructions]

I will now like to hand the call over to Kate Scolnick, [ph] VP (00:27) of Investor Relations. Please go ahead.

Kate Scolnick

Investor Relations Contact, Freshworks, Inc.

Thank you. Good afternoon, and welcome to Freshworks' fourth quarter and full year 2025 earnings conference call. Joining me today are Dennis Woodside, Chief Executive Officer and President; and Tyler Sloat, Freshworks' Chief Operating Officer and Chief Financial Officer.

The primary purpose of today's call is to provide you with information regarding our fourth quarter and full year 2025 performance, and our financial outlook for our first quarter and full year 2026.

Some of our discussion and responses to your questions may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on management's beliefs about our business and industry, including our financial expectations and estimates, uncertainties in the macroeconomic environment in which we operate, and market volatility, and certain other

assumptions made by the company, all of which are subject to change. These statements are subject to risks, uncertainties and assumptions that could cause actual results to differ materially from those projected in the forward-looking statements. Such risks include, but are not limited to, our ability to sustain our growth, to innovate, to reach our long-term revenue goals, to meet customer demand, and to control costs, and improve operating efficiency. For a discussion of additional material risks, and other important factors that could affect our results, please refer to today's earnings release, our most recently filed Form 10-K, and other periodic filings with the SEC.

Freshworks assumes no obligation to update any forward-looking statements in order to reflect events or circumstances that may arise after the date of this call, except as required by law.

During the course of today's call, we will refer to certain non-GAAP financial measures. Reconciliations between GAAP and non-GAAP financial measures for historical periods included in our earnings release, which is available on our Investor Relations website at ir.freshworks.com. I encourage you to visit our Investor Relations site to access our earnings release, supplemental earnings slides, periodic SEC reports, and a replay of today's call, or to learn more about Freshworks.

And with that, let me turn it over to Dennis.

Dennis M. Woodside

Director, President & Chief Executive Officer, Freshworks, Inc.

Thanks, Kate.

I am thrilled to share that Q4 marks a historic inflection point for Freshworks. For the first time in our company's history, we achieved profitability for the full year and generated record free cash flow, a testament to our disciplined execution, product innovation, and operational excellence. I'm also happy that we remain on track for sustained growth and profitability exiting 2026.

First, I'll start by summarizing the year. Our business performed exceptionally well in 2025. Quarter-after-quarter, we achieved or exceeded our top and bottom line expectations throughout the year. In employee experience, we continued winning in the mid market and enterprise. We successfully are evolving Freshservice into a world-class unified service platform. By natively integrating Device42 and acquiring FireHydrant, we have brought ITSM, ITOM, ITAM, and ESM under one cohesive roof. This one platform advantage has enabled us to aggressively win bigger deals. We're winning the mid market with a continued roster of displacements. Whether it's equipment shares, high growth debut on Nasdaq or a global sustainability consultancies global scale, we are winning.

Most notably, a global semiconductor company recently abandoned a decade-long ServiceNow environment for Freshservice, projecting a 30% cost savings, and 20% to 30% faster resolution times, powered by Freddy AI. Freddy AI is proving that AI at Freshworks is a tangible revenue engine. Customers like iPostal1 are using Freddy AI Agent studio to resolve 54% of queries automatically, and seeing a 99% improvement in interaction speed. When Vermeer Corporation cut their resolution times by 50% using Freddy AI. They drove customer satisfaction up to 95%, and sparked enterprise wide adoption. We brought stabilization to the CX business. We did this by continuing to simplify our core Freshdesk product experience to make it easier to implement and maintain. We improved time-to-value, customer retention; and our customers are also staying longer because they are seeing tangible results with AI features in Freshdesk.

Now, let's recap Q4. Q4 was a significant capstone to our fiscal year. Freshworks delivered an outstanding quarter with results that surpassed expectations once again. We have outperformed our estimates across growth,

and profitability metrics for five consecutive quarters, and in Q4 we also achieved profitability. We grew Q4 revenue over 14% year-over-year on an as-reported basis, nearly \$3 million above the high end of our estimates. We ended the year at \$907 million in annual recurring revenue, which represents 18% growth year-over-year on an as-reported basis, and over 14% growth on a constant currency basis.

Non-GAAP operating margin expanded to 19%, nearly five points above our estimate. Our free cash flow margin was 25%, and this was the sixth straight quarter we achieved Rule of 40. We saw an upmarket momentum surge with our enterprise cohorts outpacing overall growth, proving our ability to consistently win and scale within the world's most complex organizations.

As of Q4, we now have over 1,500 customers with greater than \$100,000 in ARR, an increase of 28% year-over-year; and over 3,700 customers with greater than \$50,000 in ARR, an increase of 23% year-over-year. For our first strategic priority in employee experience, we crossed the \$0.5 billion milestone as of the end of 2025, reaching \$510 million in ARR. That represents 26% year-over-year growth on an as-reported basis and 22% year-over-year on a constant currency basis. Now, we are witnessing a generational shift where mid-sized and larger enterprise organizations expect sophisticated software that can handle their complex needs, and get fast time to value.

Freshservice is uniquely positioned to fill this gap left by legacy providers like ServiceNow. We are capturing a growing share of organizations that demand robust AI native service management that can be deployed in weeks, not years. We believe this is a massive and growing opportunity for us. We saw great success in our Device42 offering as a solution for larger enterprises with complex IT asset management needs. Device42 ended 2025 with over \$40 million in ARR as a result of quality new deals, and expansion including cross-sell from our Freshservice customer base.

In Q4, we saw a 30% attach rate of Device42 to our top 50 new EX deals, including our three largest deals in the quarter. We have a wide range of customers like Holiday Inn Club Vacation (sic) [Holiday Inn Club Vacations] (08:19), Dell EMC, and SoftBank Group, who used our Freshservice Advanced ITAM platform to provide them with a detailed and unified view of their entire infrastructure, supporting their most critical IT services.

Our ESM product, known as Freshservice for Business Teams, contributed greatly to our Q4 success. ESM continues to be one of our fastest growing businesses, and exceeded \$40 million in ARR in Q4, nearly doubling ARR year-over-year. Today, one in four eligible Freshservice customers also uses Freshservice for Business Teams for their non-IT needs. We believe both our ITAM and ESM businesses are well on track to achieve our target of over \$100 million in ARR.

We are bolstering the scope of our EX business with the acquisition of FireHydrant in early January of 2026. FireHydrant, a leader in AI-powered IT incident management and response software brings large customers like British Petroleum, Palo Alto Networks, and Snyk Limited into the Freshservice ecosystem. This acquisition opens an \$8 billion addressable market in IT Operations Management, or ITOM, and sets the groundwork for our expansion into AI ops. We will provide updates as we progress through integration of FireHydrant into Freshservice unified platform over the course of this year. With all these components, we provide a unified service operations platform for sophisticated global IT teams and beyond. Our ITSM is enterprise grade for service management.

Device42 provides world-class asset management capabilities soon to be in the cloud. Freshservice for Business Teams enables any department in any company to deliver amazing service. And FireHydrant forms the basis for growth in ITAM. We are really excited to have all these pieces of the puzzle together now.

Our second strategic priority, Freddy AI, continued to advance in 2025 with over 8,000 customers using Freddy AI. AI is not just a feature in our products, it's a standalone revenue line delivering measurable value to our customers, which ended 2025 with over \$25 million in ARR, and remains on a path to reach \$100 million in ARR by 2028. Freddy AI Agent conversations were up over 80% at \$3.5 million in Q4 in CX, and Freddy AI Agent deflected more than 50% of tickets for CX and EX customers.

Since Freddy Insights became generally available to EX customers in June of 2025, 1,000 customers have already adopted, and are active on the product. In customers with more than \$30,000 in ARR, we continued to see Freddy AI Copilot attach rates of over 50%, and Copilot customer growth more than doubled year-over-year.

Another clear indication that AI is driving long-term value for our customers is the net dollar retention rate for Copilot customers in Q4, which improved significantly from 112% last quarter to 116%, and remains significantly higher than our overall base for both EX and CX.

For our last strategic priority, we drove continued execution in our customer experience business, and our AI-driven Freshdesk Omni platform roadmap. In Q4, we continued to see healthy demand in our flagship Freshdesk business. We ended the year with \$395 million in ARR, and 9% year-over-year growth on an as-reported basis, and 5% growth on a constant currency basis. We continued to improve retention quarter-over-quarter as a result of product simplification, adoption efforts, and innovation. We believe Freshdesk Command Center, the unified Freshdesk Omni workspace we launched in December positions us well to sustain growth, quickly deliver new AI native capabilities across our entire customer base, and deliver increasing value for all customer service needs.

We enter 2026 with clear goals that are built upon our three strategic pillars. First, expanding EX, continue to increase our 20%-plus ARR growth rate in EX, fueled by continued focus and investment in our unified employee experience service platform. Second, monetizing AI at scale. Continued disciplined innovation in AI as a current revenue driver, and stay on track to deliver \$100 million in AI-driven ARR over the next three years. And third, improving retention in CX, focused on our unified platform to drive retention and efficiency in our customer service business.

Freshworks' 2025 results bring me confidence in our march towards \$1 billion in annual recurring revenue this year, and \$1.3 billion by 2028. The opportunity ahead of us is tremendous, and I want to thank our customers, partners, and employees for an incredible 2025, and for the collaboration ahead in 2026. The best is yet to come.

Now, I'll hand it over to Tyler to walk through the financial results in detail.

Tyler Renwick Sloat

Chief Operating Officer & Chief Financial Officer, Freshworks, Inc.

Thanks, Dennis. And thanks, everyone, for joining on the call and via webcast today.

We closed 2025 with a strong fourth quarter, exceeding expectations across both revenue and profitability. These results capped a year of significant financial progress and continued innovation that reinforces our confidence in our long-term strategy. As we build meaningful momentum into 2026, we are well positioned to drive top line growth with a clear focus on winning in a very large EX market executing an efficient operating model, and delivering strong cash generation.

For our call today, I'll cover the Q4 and full year 2025 financial results, provide background on the key metrics, and close with our forward-looking commentary and expectations for Q1 and full year 2026. As a reminder, most

of our discussion will be focused on non-GAAP financial results, which exclude the impact of stock-based compensation expenses, restructuring charges, the release of our deferred tax, asset valuation allowance, and other adjustments. We will also talk about our adjusted free cash flow, which excludes the cash outlay related to restructuring costs. To provide greater transparency into our underlying business performance, we will also include constant currency comparisons throughout today's call.

Starting with the income statement. Q4 total revenue increased to \$222.7 million, growing 14% year-over-year on an as reported basis, and 13% on a constant currency basis. Professional services revenue ticked up modestly quarter-over-quarter to \$2.5 million as a result of strong bookings and earlier than expected project kickoffs and milestones achieved in the fourth quarter.

Our EX business crossed the \$0.5 billion dollar ARR mark in Q4, reaching approximately \$510 million in ARR, representing 26% year-over-year growth on an as reported basis and 22% on a constant currency basis. We finished the year strong across the EX portfolio, with both ESM and Advanced ITAM each exceeding \$40 million in ARR. Our CX business is at \$395 million in ARR, reflecting year-over-year growth of 9% on an as reported basis and 5% on a constant currency basis. We continue to drive solid growth in CX as we focus on unifying our technology and customer base around our AI-led Freshdesk Omni platform.

Moving to margins. We maintained a non-GAAP gross margin of 86.8% in Q4. Included in the Q4 cost of service is a \$1.5 million credit from our AWS contract. Excluding this item, non-GAAP gross margin for Q4 was in line with prior quarters in 2025. Non-GAAP operating income for Q4 was \$41.6 million, representing a non-GAAP operating margin of nearly 19%, which was ahead of our prior expectations. These strong results were driven by top line outperformance and continued gains in operational efficiency.

GAAP net income for Q4 was \$191.4 million. In Q4, our GAAP net income was favorably impacted by two items. First, there was a favorable impact of \$41.1 million from a one-time reduction for fiscal year 2025 stock-based compensation related to our Executive Chairman's departure. Additionally, there was a favorable impact of \$151.7 million from a one-time income tax benefit for the release of a valuation allowance on our US deferred tax assets. This is a result of our improved profitability over the course of fiscal 2025, leading us to conclude that our valuation allowance on these deferred tax assets is no longer necessary. Achieving GAAP profitability for the first time in our company history is a significant milestone that demonstrates the healthy and profitable trajectory of our business.

Looking ahead, we remain on track to hit sustainable GAAP profitability in Q4 of 2026. Reflecting our trajectory of consistent profitability, we are adopting a long-term projected tax rate of 24%. We believe this rate provides an accurate representation of our long-term tax profile and should be utilized for all non-GAAP financial modeling. There is no cash impact associated with these one-time benefits, and they are excluded from our non-GAAP net income.

Moving to operating metrics. Net dollar retention was 108% on an as reported basis, and a strong 104% on a constant currency basis, in line with prior expectations. This includes a headwind of around 70 basis points from Device42, similar to prior quarters. As we look ahead, the strengthening demand and momentum we see within our EX business gives us increased confidence in our expansion trend. As a result, we expect net dollar retention to improve to approximately 105% on a constant currency basis in Q1 2026.

We ended Q4 with nearly 75,000 total customers. As noted last quarter, we continue to focus our efforts on moving upmarket and will discontinue reporting this metric on a quarterly basis, as we believe larger customer measures better reflect the trajectory of how we manage our business. The number of customers contributing

more than \$5,000 in ARR as of the end of Q4 grew 10% year-over-year on an as reported basis and 8% on a constant currency basis to 24,762 customers. This customer cohort continues to represent over 90% of our ARR. The number of customers contributing more than \$50,000 in ARR grew 23% year-over-year on an as reported basis, and 19% on a constant currency basis to 3,760 customers. This cohort now represents nearly 55% of our ARR. For our larger customer cohorts, the number of customers contributing more than \$100,000 in ARR grew meaningfully to over 1,500 customers, representing 28% year-over-year growth on an as reported basis and 22% on a constant currency basis. We also closed 2025 with 15 customers paying us over \$1 million in ARR.

Now, let's turn to calculated billings, balance sheet and cash items. Calculated billings were \$259.6 million in Q4, representing strong year-over-year growth of 17% on an as reported basis and 13% on a constant currency basis. Our calculated billings were impacted by slightly lower contract duration from Device42, and fewer pull-in renewals than we've historically seen in Q4. Looking ahead, we expect billings to be in line or slightly better than revenue growth for 2026. For Q1, we are estimating calculated billings growth of approximately 13% year-over-year on an as reported and constant currency basis. For the full year, we are estimating calculating billings growth of approximately 14% year-over-year on an as reported and constant currency basis.

Turning to our cash items. We generated \$56.2 million in free cash flow in Q4, outperforming expectations due to strong cash collections and disciplined execution. This resulted in a free cash flow margin of 25%, which represents a nearly 4 percentage point improvement year-over-year. For the year, adjusted free cash flow margin was 27%, representing an over 5 percentage point improvement compared to the prior year.

We are proud of the excellent progress we have made in our cash generation over the last three years, going from negative free cash flow in 2022 to over \$223 million in 2025. Looking ahead, we expect to generate free cash flow of \$55 million for Q1 of 2026, and see linear quarter-to-quarter improvements thereafter, reflecting our focus on consistent operating performance and disciplined expense management. For the full year 2026, we expect to generate approximately \$250 million of free cash flow. We expect this will represent a free cash flow margin of 25% and 26% for Q1 and full year 2026, respectively.

Fully diluted share count as of December 31, 2025 was approximately 308 million shares, a decrease of 6% year-over-year. The fully diluted calculation includes 283 million basic shares outstanding, which also represents a decrease compared to the prior year. We continue to manage and offset share count dilution by net settling vested equity amounts.

During Q4, we used approximately \$11 million for that purpose. In 2026, we will continue to net settling vested equity amounts and expect Q1 cash usage of approximately \$11 million and for the full year, cash usage of approximately \$54 million at current stock price levels. This activity is reflected in our financing activities and is excluded from our adjusted free cash flow calculations. We ended the quarter with cash, cash equivalents, marketable securities and restricted cash of nearly \$844 million.

Now, on to our forward-looking estimates. As a reminder, our non-GAAP net income projections assume a tax rate of 24%. For the first quarter of 2026, we expect revenue to be in the range of \$222 million to \$225 million, growing 13% to 15% year-over-year. Non-GAAP income from operations to be in the range of \$33 million to \$35 million. And non-GAAP net income per share to be in the range of \$0.10 to \$0.12, assuming weighted average shares outstanding of approximately 287.4 million shares.

For the full year 2026, we expect revenue to be in the range of \$952 million to \$960 million, growing approximately 13.5% to 14.5% year-over-year. Non-GAAP income from operations to be in the range of \$181

million to \$189 million, and non-GAAP net income per share to be in a range of \$0.55 to \$0.57, assuming weighted average shares outstanding of approximately 291.5 million shares.

Our financial outlook is based on a few assumptions that we would like to call out for modeling purposes. First, we are increasing our fiscal year 2026 revenue growth expectation from what we outlined at our Investor Day last September, reflecting the strength and growth opportunities we are seeing in the business, particularly [indiscernible] (23:53) in the second half as we further build on that momentum. Using the midpoint of the range for Q1 estimates, we expect revenue growth rates of approximately 14% in Q1, Q2 and Q3; and 14.5% in Q4. As a reminder, last year's Q3 revenue had a \$1 million benefit from Device42 that we do not anticipate this year.

In December, we announced our acquisition of FireHydrant and closed the deal on January 1. We believe the acquisition will meaningfully enhance our ITOM capabilities, allowing our customers to quickly respond to incidents. We expect FireHydrant to have an immaterial impact on our Q1 and fiscal year 2026 revenue growth, and approximately 1 point of headwind on our Q1 and fiscal year 2026 non-GAAP operating margin.

We have taken these factors into account in our estimates. For our non-GAAP operating margin, we expect approximately 15% in Q1 using the midpoint of our guide. For the subsequent quarters, we expect operating margins to increase by approximately 200 basis points in Q2 and will exit the year at roughly 23.5% in Q4. This reflects the shift in the timing of our annual merit increase process, as well as other administrative changes. As we have previously mentioned, we also continue to be on track to achieve GAAP profitability exiting the year. Finally, our forward-looking estimates are based on FX rates as of February 6, 2026 and do not take into account any impact from currency moves.

To close, 2025 was a year of meaningful progress as we sharpened execution and strengthened our financial foundation to support our growth engine. As we look ahead to 2026, we see a compelling opportunity to build on this progress by continuing to invest with discipline, expand our uncomplicated AI-powered EX and CX solutions, and scale the business in a durable and profitable way. With a clear strategy, a strong operating model and a motivated global team, we are confident in our ability to drive sustained growth in our business.

Thank you for your continued support and confidence in Freshworks. And with that, let us take your questions. Operator?

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from David Hynes with Canaccord Genuity. Please go ahead.

David Hynes

Analyst, Canaccord Genuity LLC

Q

Congrats on the quarter. Nice to see this durable IT EX growth. I'm going to actually ask about the CX side of the business. I think there was some optimism that AI could drive a little bit faster growth there, but it didn't play out in Q4. Could you talk about some of the factors, maybe creating some headwinds on that side of the business and kind of what you're doing to rectify those?

Dennis M. Woodside

Director, President & Chief Executive Officer, Freshworks, Inc.

A

Yeah. Well, first of all, thanks for the question. As you know, our investment really is focused on that EX side of the business. And then, of course, AI. The big move that we've made recently on the CX side has been to unify our conversational and ticketing capabilities in a new platform, which we released in Q4. And we're in the process now of upgrading all of our customers onto that. That'll give us a single code base to innovate off of, which we know will allow us to move faster on that side of the business, and drive both retention and expansion.

I wouldn't say there was any, like, meaningful trend in Q4. Remember, we lapped an initiative that we had last year called free-to-paid, so that accounted for some of the growth change. But we're managing that business to kind of grow where it is now, which is in that mid-single digit range. While we invest over in that EX side, which is where we're seeing the growth, where we're seeing the move up market work quite well for us.

So, I wouldn't think that – I don't think that Q4 was anything outside of our expectations. And if you look at our plan for next year, it's pretty consistent with where we think for this year, where we think we're going to grow that business this year.

David Hynes

Analyst, Canaccord Genuity LLC

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Yeah. Okay. Make sense. And then, Tyler, maybe a follow-up for you. Look, if we think about kind of intermediate term targets that you have out there, call it 14%, 15% growth. Today, you're getting about a third of that from that revenue retention, right? I think it's 104% on a currency adjusted basis. Does that feel like the right ratio to drive durable 14%, 15% growth, like a third from expansion and two-thirds from net new? Or do we need to see NRR inflect higher to drive that growth durability?

Tyler Renwick Sloat

Chief Operating Officer & Chief Financial Officer, Freshworks, Inc.

A

So, where we're at right now, DJ, I think, that is the rate that it's at. But as we've talked about, our EX business is growing a lot faster than our CX business, as well EX has a better net dollar retention kind of makeup to it, along with the fact that we're been adding different mechanisms to grow within EX portfolio, specifically ESM products, our Device42 products. And then, now with our recent acquisition of FireHydrant later in this year, hopefully a new SKU on the ITOM side. That's all on top of the Freddy Copilot ads that we have.

As the mixed shift continues to change, we're going to expect to see that we're going to see some benefit from net dollar retention. We did say, for the first quarter really, that we're going to see some upside on that dollar retention in Q1, moving up to 105%, is what we said. And that's the first time we've seen that in a while. And that confidence is driven really largely on the results that we're seeing on the EX side.

David Hynes

Analyst, Canaccord Genuity LLC

Yeah. Makes perfect sense and good to hear. Thank you, guys.

Dennis M. Woodside

Director, President & Chief Executive Officer, Freshworks, Inc.

Thanks, DJ.

Operator: Your next question is from Elizabeth Porter with Morgan Stanley. Please go ahead.

Oscar R. Saavedra

Analyst, Morgan Stanley & Co. LLC

Hi. You got Oscar Saavedra, on for Elizabeth. Thank you for taking my question, and congrats on the strong performance on the EX side of the house. Really nice to see it crossing \$510 million. I wanted to touch on Device42. You highlighted the 30% of attach rate across your top 50 new EX deals. As we think about 2026 and the updated guide you gave for 2027, how should we think about that attach rate trending? Should we think about it going higher? And then what's the typical incremental [indiscernible] (30:58) uplift when you included those versus Freshservice alone? Thank you.

Dennis M. Woodside

Director, President & Chief Executive Officer, Freshworks, Inc.

Yeah, I'll take the first part of the question. I think Device42 is a piece of a bigger puzzle. We've built a platform that can power all the needs of a mid-market IT department, from ITSM to ITAM, now we're building out ITOM and then ESM. So, Tyler mentioned this. Those are the growth levers that we see enabling us to sustain this mid-20 growth rate for EX for a long time to come. We said at our Analyst Day back in September, ITAM is a business that is on track to drive \$100 million in ARR for us over the next couple of years. We crossed \$40 million this past quarter. The Device42 product is integral to our continued motion up market, because larger organizations need that asset management capability really to power their IT department. So, it's not just an attach on a net new sale; it's important for retention, it's important for expansion, and it's really been, so far, a huge success for us in terms of enabling us to kind of continue to move up market.

Tyler can comment on some of the specifics in terms of...

Tyler Renwick Sloat

Chief Operating Officer & Chief Financial Officer, Freshworks, Inc.

Yeah. And, Oscar, I just want to add also, we still have not launched the native cloud offering of Device42, that which is which we've been working on since kind of we brought on the company, and that's still on track to launch at the beginning of Q2 here. And that's going to be an initial phase of cloud, because what we've been selling so far is still the on-prem. The ARPU of Device42 we haven't disclosed, but you could tell from our Q3 disclosure about the \$1 million that we had in Q3 of last year that we don't expect to repeat necessarily; that was a standalone Device42 deal. It wasn't a \$1 million deal because of the term license we recognized more upfront, but

it was very significant, as you can imagine. And so, the ARPUs can go anywhere from the \$20,000 level all the way up to the multiple hundreds of thousands for Device42, depending on the size of the organization that we're serving. But what you're seeing is that this is just another piece of a broader platform that we feel that is a holistic offering across all of EX. And adding ITAM to it is something that our customers have been asking for that we're really excited about.

Oscar R. Saavedra

Analyst, Morgan Stanley & Co. LLC

Thank you very much, guys.

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Operator: Your next question is from Alex Zukin with Wolfe Research. Please go ahead.

Alex Zukin

Analyst, Wolfe Research LLC

Dennis, maybe first one for you. Just as you think about Freddy AI tailwinds to growth that you saw in calendar 2025 and you look at those for calendar 2026, maybe just help us understand kind of what those could be. And also, to the extent that folks plug in alternative solutions, agentic solutions into your platform, maybe just remind us how do you monetize or how can you monetize that as well. And then I've got a quick follow-up for Tyler.

Q

Dennis M. Woodside

Director, President & Chief Executive Officer, Freshworks, Inc.

Yeah. So, AI for us, as we kind of shared in the remarks earlier, we crossed the 8,000 customer mark for customers that are paying for AI. In terms of revenue, we crossed \$25 million in ARR as well, and that nearly doubled year-over-year. So, we've got good momentum. We've got, I would say, a good start. We've still got 75,000 customers, so we have a long way to go in terms of driving full penetration.

A

We launched our AI Agent studio in late November, so that is in the market now. We've got hundreds of customers using that product to create their own agents on the customer support side. And we're bringing that into EX later in the first half of this year. So, in some ways, we're really getting started on the agentic side, because our pricing prior to that was all focused on the old structured bots. We increased our pricing to \$0.50 an interaction from \$0.10 an interaction. We're just starting to see that flow through in terms of ARR. And as that product scales, we think that that's going to create significant upside in our overall AI business.

Copilot continues to grow. We continue to see productivity improvements at 30%-plus among customers that use Copilot. So that, I think, is going to continue to drive increased penetration as capabilities there improved. So, all of these are either upsell to existing customers or included in deals, especially in large deals where over half of our customers are taking AI from the start. And it's really core to our sales motion now. It's what customers expect. And as far as the customers that might be experimenting with over-the-top solutions, we don't see it that much. We tend to be the first port of call for that mid-sized enterprise company that's looking to understand how AI can benefit their business, both on the IT and the CX side. Of course, we've got to put out a competitive product, but we've got the right to win with every one of those customers.

Alex Zukin

Analyst, Wolfe Research LLC

Understood. And then maybe Tyler on the guidance. Obviously, nice to see outperformance there versus consensus in terms of both the billings guide for next year as well as the revenue guide. Maybe just remind us, and compare and contrast the level of conservatism that you're putting in there versus a year ago, kind of how we

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should think about that, particularly as we get through the year. And then any color on billings seasonality. You gave us kind of the revenue seasonality, but some billings seasonality would be helpful, too.

Tyler Renwick Sloat

Chief Operating Officer & Chief Financial Officer, Freshworks, Inc.

A

Yeah. I mean, for the conservatism, Alex, as you know, first guide of the year is the toughest for the whole year, because you have the least amount of visibility. Now, clearly just a quarter-and-a-half ago at Investor Day, we had guided to 13% to 14% growth for all of 2026, and essentially we're saying that's now 14%. We wouldn't put that out there if we weren't confident in that. We are really excited about our EX opportunity. It's a strategy that we've been very clear about for a year-and-a-half now that we're executing against, and it's working. And we're clearly the leader in that segment of the market that we're attacking right now. We're going to continue to go attack that and make that our priority. So, clearly, we wouldn't put out the number right now if we didn't feel good that we can go execute against it. And hopefully, as we go throughout the year, we'll be able to update as we perform.

Alex Zukin

Analyst, Wolfe Research LLC

Q

Thank you, guys.

Operator: Your next question is from Scott Berg with Needham & Company. Please go ahead.

Scott Berg

Analyst, Needham & Co. LLC

Q

Hi, everyone. Thanks for taking my questions here. Tyler, I just wanted to follow up on the guidance question there. You're clearly getting some momentum with Freddy, in particular from the AI perspective? How do we think about the impact on guidance this year? I know it's still a small amount, \$25 million in ARR exiting the year, but should we expect a material contribution to that next year from what you're seeing in pipelines? You're still a little [ph] measured there (38:49)?

Tyler Renwick Sloat

Chief Operating Officer & Chief Financial Officer, Freshworks, Inc.

A

Yeah. So, Scott, I think our biggest opportunity on Freddy is still on our existing installed base. If you actually look at the numbers we've put out on attach rates on new business, specifically for larger deals, we're still over 50%. It means as companies are choosing us as a new customer, part of the reason they're choosing us is because what they see on our Freddy capabilities. And that is real time. And as a reminder, the dollars we put out on our AI revenue is purely [ph] alone – (39:20) the SKUs that we sell, and so it doesn't include things like AI agent on EX right now, because that's included on some of our plans. We're not trying to do an allocation there.

The products are working. We have 8,000 customers now. The growth rates there are good. And we still feel we're very confident that these can each be \$100 million product, AI Agent and Copilot in the next three years. And we think that's going to continue to be a lever of growth. That being said, the other areas that we have, including ESM where we've really only had that as a standalone product for one quarter, we're very excited about that as well on our capability to go expand with existing customers, but also land there. And we just have to keep proving that out and think that could actually be a really good tailwind into the year.

Scott Berg

Analyst, Needham & Co. LLC

Q

Got it. Helpful there. And then, Dennis, your market sales motion is clearly going well as you move your ITSM kind of products and solutions up there with Device42, et cetera. I mean, by my math, your customers are above \$50,000. I think you grew that net new comp by over 30% or roughly 30% year-over-year. I guess, as you look at 2025 versus 2024, and I know you had Device42 for the entire year, but outside of that, is there anything else to really call out that's kind of driving some of the extra strength up market?

Dennis M. Woodside

Director, President & Chief Executive Officer, Freshworks, Inc.

A

Yeah. Well, there are a number of things. First of all, that mid-sized enterprise is looking for choice, and they're looking for a platform that satisfies all of the different needs that you have in running a mid-sized enterprise IT department from ITSM to ITOM to ITAM to ESM, and that's what we've built over the last couple of years. If you think about a lot of the decisions that were made two or three years ago to stay with [indiscernible] (41:16) ServiceNow, we were not in the market the way we are now, and those customers are coming up for renewal. They're looking around. They're seeing the recognition that we have from Forrester and Gartner. They're seeing all the customer references that we now have from large meaningful companies that have made the switch. They're talking to the CIOs of those companies that have made the switch. So, we've got a really positive referral cycle going. And they're seeing the value. And so, that market, by our estimates, the mid-market in the TAM we're competing is as large as the true enterprise. Think of the G2k. It's a lot more companies, but it's a massive TAM.

And in many ways, we're just getting started in terms of getting that referral network going, the messaging going, all that, and that's just creating this momentum. That market for us is enormous. And I know there's a lot of talk about the impact of AI, and how is AI going to affect fee-based pricing. For us, it's a shared game. So, we're taking seeds with every win that we make. We've always been in a competitive market. We've always had to take share from bigger players, and that's what we continue to be able to do.

If you look at the growth rate for ESM at 22%, we think we're the fastest growing player in that mid-sized market. And so, some of these fears that seats are going to erode because of AI, we've got multiple ways of monetizing the relationship we have with the customer. But more importantly, we're not the incumbent that has a lot to lose. We're the attacker who's taking share, and that is going to continue to be true for some time. So, we think that the market that we're playing in that EX side, you add AI to that, you add these capabilities that we've been building out, it's just a huge opportunity for us, and that's why you see us talking about the investment that we're making there. We're running CX lean to enable us to invest in that EX opportunity and really leaning into it, and that's what you're just going to see every quarter this year.

Scott Berg

Analyst, Needham & Co. LLC

Q

Excellent. Nice quarter. Thanks for taking my questions.

Dennis M. Woodside

Director, President & Chief Executive Officer, Freshworks, Inc.

A

Thanks, Scott.

Operator: [Operator Instructions] Our next question is from Rob Oliver with Baird. Please go ahead.

Rob Oliver

Analyst, Robert W. Baird & Co., Inc.

Q

Great. Thanks. Good afternoon. Dennis, for you. And this is, I guess, a follow-up to Scott's question. So, on that Freshservice plus Device42 side, clearly you guys have shown some meaningful large wins standalone on Device42, and sort of proving it out, and simultaneously, you guys are seeing a ton of momentum upmarket on the Freshservice side. Can you talk a little bit about the combined go-to-market there? Where you are today, where you need to be in terms of your ability to have all hands on deck, and kind of rowing oars at the same pace in order to compete for these deals? And is that something that's already done and ready to go today as we enter 2026? Thank you.

Dennis M. Woodside

Director, President & Chief Executive Officer, Freshworks, Inc.

A

Yeah. So, I think we're all feeling pretty confident in the sales and marketing motion. If we internally look at our win rates, there's consistent improvement quarter-over-quarter in our win rates against our largest competitors. Really good predictability in the business compared to where we were 18 months ago. And you see that in our numbers, you see that in our ability to consistently beat the top end of our estimates. So, I think the sales motion we've got nailed down. I think where we're really focused is stitching all the product pieces together in a way that makes sense for our customer.

So, the first step there is bringing Device42 fully to cloud, and that's happening later this quarter. And that's going to open up a slightly different market for us because if you're a cloud-first company, you don't want an on-prem solution, and that's what Device42 has been up till now. So, that will open up another set of customers for us.

FireHydrant, the next piece of that. Now, we've got to build out the integration plan. But we have a lot of customers that work with us that are looking for a more modern solution for IT operations management, incident response, and ultimately much more proactive incident detection. Our primary customer is over in the IT department, but a lot of these customers are over in the technology organization, and that's an interesting adjacency for us, where customers are using Freshservice to, in some cases, become alerted to instances as they're happening. In other cases, they're using Device42 to understand the kind of the relationship of assets to one another and get ahead of problems before they happen there.

So, ITOM is a natural complement. A lot of our customers are looking for an integrated solution. That's what we're going to deliver in the back half of this year. And that's another natural next step. And then ESM, our ESM capabilities are getting better all the time. We said it used to be one in five. Now, it's one in four of our eligible customers are using ESM. That's great. But that means we have a lot more customers to go after in departments like finance and legal and HR.

So, building out the capabilities there, bringing agentic AI into those workflows, those are huge opportunities for us. And now, we can offer our ESM product to companies that might not have Freshservice, that might be stuck for a little bit longer on a legacy solution for their IT department because of contractual reasons, but want to lessen vendor dependency on that incumbent, wants something that's more flexible for them, that meets their needs better; and ESM is a great entry point into those types of customers, where we can prove ourselves, earn the trust of the customer and then when that ITSM contract's up for renewal, we can win it. So, we've got a lot of levers on that side of the business. And there's a lot more that we're excited about going into to build – continue to build out that platform to serve larger and larger customers.

Rob Oliver

Analyst, Robert W. Baird & Co., Inc.

Q

Great. Appreciate all the detail. Thank you, guys.

Operator: Your next question is from Patrick Walravens with Citizens. Please go ahead.

Austin Cole

Analyst, Citizens JMP Securities LLC

Q

Great. Thanks for taking the question. This is Austin Cole, on for Pat. Dennis, you mentioned just the work to do to help penetrate the customer base with Freddy AI, and it sounds like there's a lot of momentum there, but what do you kind of see as the two or three big bucket items in terms of increasing that penetration?

Dennis M. Woodside

Director, President & Chief Executive Officer, Freshworks, Inc.

A

Yeah. So, the focus now is very much on building out the agentic capabilities of our AI Agent studio. We focused initially that set of launches on CX just because there's much more queries to be handled through AI on a customer support use case than an employee use case. But the employee use case is super important too. And we'll be coming out with prepackaged workflows and automations later in the first half of the year that's focused there, but that's a really good business for us because it just scales with usage. And we've already seen customers that have adopted on the CX side. Once they get going, the usage spirals up for them, they get the benefit of deflecting a ton of inbound, they answer questions faster, CSAT often goes up, and they're perfectly happy paying the session-based pricing that we have set in the market.

So, I think that on the AI side, agentic, L1 agentic in particular is, I think, a growth lever that we're going to really see, if it takes off this year. Copilot is a little steadier, right? That's a very clear value proposition. Got lots of customer examples that are working for us. And so, that also is scaling. About half of our customers among the 8,000 are Copilot customers. We've got a long way to go. And then we're investing in AI across the product portfolio to be much more proactive in delivering service. Insights is an example of that where a manager can come in, they can see their service desk, understand exactly what's going on. The AI suggests areas to look into, anomalies, those sorts of things. The agent can troubleshoot in a natural – or the manager can troubleshoot in a natural language way to understand any kind of issues or problems in the data. They don't have to hunt and peck through a bunch of power BI dashboards. So, that proactive service delivery is really where we see AI taking us, and there's a lot of places we can go from there.

Austin Cole

Analyst, Citizens JMP Securities LLC

Q

Great. Thank you.

Operator: Your next question is from Brian Peterson with Raymond James. Please go ahead.

Johnathan McCary

Analyst, Raymond James & Associates, Inc.

Q

Hi. Thank you. This is Johnathan McCary, on from Brian here. So, kind of dovetailing off that last question. So, I wanted to ask about, sort of, are you just seeing a halo effect in the business where you're having a customer that's coming live on the CX or the EX side? I realize there's some difference there on the ideal customer profile, but they're seeing a lot of value from the Freddy products on the one side of the business, and that actually brings them back to the table and unlocks the cross-sell opportunity on the other side?

Dennis M. Woodside

Director, President & Chief Executive Officer, Freshworks, Inc.

A

We're definitely seeing the impact of AI in terms of driving greater expansion and retention. So, our NDR for customers that are taking our AI paid SKUs was 116% last quarter, and I think that's up from like 112% the prior quarter. So, you think about that. Eventually, all of our customers are going to use AI, we know that. If we can continue to drive that penetration and continue to see those kinds of results, that's fantastic for our business. It tells us that our customers are seeing value both on EX and CX from the AI capabilities that we're bringing to market, and they're expanding at a much faster rate than those without AI. So, it's a critical imperative for us to get as many customers as possible on. In terms of like, what are the things that we have to do to get there, a lot of it's about education, right? We have a broad spectrum of customers. Right now, I'd say AI adoption isn't confined to any specific industry or any specific size of customer. It's pretty broad, but there's still a lot of customers out there that are hesitant or need to be educated on how their data is being used and all that stuff. And that's what our go-to-market teams do every single day. And that's why you're seeing the 50% attach rate on new deals, that's why Tyler is constantly pushing the teams to drive penetration to the existing base, because we know once customers get onto our AI, they see the value, they see the business cases very clear, and that just enhances their relationship with us and leads to a lot of positive upside.

Operator: Your next question is from Taylor McGinnis with UBS. Your line is now open. Please go ahead.

Taylor McGinnis

Analyst, UBS Securities LLC

Q

Yeah. Thanks so much for taking my question. Tyler, just on the guide, if I look at the 4Q numbers, it looks like 13% constant currency growth across revenue and billings. And then the high end of the guide going into 2026 implies an acceleration. So, could you just unpack for us what gives you comfort in that outlook when you think about each of the individual pieces? And as a second part to that, when we look at the CX business and knowing that you guys are making this platform change, is there the potential to see any tailwinds from that as we get through 2026? Thanks.

Tyler Renwick Sloat

Chief Operating Officer & Chief Financial Officer, Freshworks, Inc.

A

Yeah. Hey, thanks, Taylor, for the question. So, you're right. We are guiding to some slight acceleration, right, even into the back half of the year on the revenue side. And it really is just coming off of the confidence that we have driven by EX performance, and we just had another great quarter and we strung four great quarters together. And we know that the attributes of that customer base are really, really strong. And now, we're starting to push a whole bunch of other products into that customer base and some that we never had before. And so, the confidence is really driven by the execution and the continued momentum and things like pipeline, right, where we're seeing more \$100,000 deals than we've ever seen in pipe currently. And this all gives us a lot of confidence.

To be honest, on the CX side, we've been very, very clear now for a number of quarters, like our main focus is to bring all of our customers on to our new platform, our new Freshdesk Omni platform. And we're being relatively conservative in our expectations on growth from the CX side of the house until we get through all of that. Now, that being said, we're still closing new customers every single quarter, a lot of them; the AI adoption is continuing, and we're getting really good feedback. But from what we've built in, we're being relatively conservative in what we expect in terms of CX growth. A lot of the confidence or all of the confidence is coming from EX and our expectations there.

Taylor McGinnis

Analyst, UBS Securities LLC

Q

Great. Thanks for the color.

Operator: Our last question will be from Billy Fitzsimmons with Piper Sandler. Please go ahead.

Billy Fitzsimmons

Analyst, Piper Sandler & Co.

Q

Hey, guys. Thanks for squeezing me in. Clear from the metrics, healthy momentum up market. And I want to focus on maybe mid-market specifically. And I won't focus on mass market because obviously it's probably hard to disaggregate that given the shift in strategic priority. But in terms of mid-market, I bring this up because in a couple prints this cycle there are some narratives around kind of the health of, call it, sub-enterprise type customers and some other companies in the software space called that weakening macro or potential higher cost of customer acquisition. Just curious if you can kind of comment on some of the metrics you're seeing in real time for the, call it, like sub-enterprise type customers exiting 2025 and kind of what you're baking in in 2026 in terms of the guide. Thanks, guys.

Dennis M. Woodside

Director, President & Chief Executive Officer, Freshworks, Inc.

A

Yeah. Yeah. So, we'll just define – the way we define mid-market, call it a 5,000-person company, that's kind of a sweet spot, maybe \$1 billion to \$3 billion in revenue. That's what we're growing our business off of. That's what the sweet spot for us. That's where our growth is coming from right now. So, we're not seeing anything negative at all. In fact, as Tyler alluded to, we entered this quarter with the best pipeline we've ever had from that segment of the business. That's what our field market, field motion is primarily focused on. And that's where we have a really strong position in EX in particular, where increasingly those customers are turning to us as the solution that makes sense. So, we think that that's a large segment over time that is going to continue to grow with us. If anything, if those customers are squeezed for cost or efficiency or anything like that, they're going to turn to us more than they would to a legacy platform, like a [indiscernible] (57:03) ServiceNow, which are much more expensive, not just from a licensing cost, but they're expensive to run, they're expensive to keep up and running and keep current with their business processes. Their AI takes longer to implement. All that is much easier on our platform, that's why the growth is coming from there. You can see it in our over \$50,000 customer count and the percentage of our revenue that's coming from over \$50,000 customers. Tyler alluded to the number of customers over 1 million.

I mean, all that is coming from that mid-market, which is where we're orienting the company. That's where we're focusing on. That's where our growth is going to continue to come from. And those customers expanded higher rates. They retain at higher rates. Everything's good there. We're in the middle of that journey to move the entire company to focus on that part of the market. It's super important for us.

Billy Fitzsimmons

Analyst, Piper Sandler & Co.

Q

Crystal clear. Appreciate it.

Dennis M. Woodside

Director, President & Chief Executive Officer, Freshworks, Inc.

A

Thanks, Billy. Thank you.

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

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