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# Freshworks, Inc. (FRSH)

Needham Growth Conference

## CORPORATE PARTICIPANTS

**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

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## OTHER PARTICIPANTS

**Scott Berg**

*Analyst, Needham & Co. LLC*

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## MANAGEMENT DISCUSSION SECTION

**Scott Berg**

*Analyst, Needham & Co. LLC*

All right. We can get started here. Thanks, everyone, for joining us here today. My name is Scott Berg. I lead our enterprise software and SaaS research efforts here at Needham. Today, we have a very familiar face. We've done this maybe once or twice.

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**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

I think so.

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**Scott Berg**

*Analyst, Needham & Co. LLC*

Yeah. I know.

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**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

I think so. Yeah.

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**Scott Berg**

*Analyst, Needham & Co. LLC*

We have Freshworks with us. We have the company's – I guess I didn't realize about your title at the moment – SVP of Finance, Investor Relations, and Treasury.

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**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

Oh yeah.

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**Scott Berg**

*Analyst, Needham & Co. LLC*

I knew the IR and the Treasury part. I guess I didn't realize the SVP of Finance [indiscernible] (00:00:14).

**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

Oh, yeah. Yeah. Yeah. That's my official title. I guess that's what they call me [indiscernible] (00:00:18). Yeah.

**Scott Berg**

*Analyst, Needham & Co. LLC*

That's awesome. I just – I didn't know until I saw that here. So, I just like to call you Joon.

**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

Yeah.

**Scott Berg**

*Analyst, Needham & Co. LLC*

So, yeah, sorry.

**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

All right. Well, thanks for having us.

**Scott Berg**

*Analyst, Needham & Co. LLC*

Good. Yeah. No. That's awesome. Why don't you give an overview of Freshworks for those that are less familiar with the name?

**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

Sure. So, we are a software provider. We provide people-first, AI-powered service solutions for employee and customer experiences. And so what that means is, we play in two big markets: Employee Experience, which is ITSM, ITOM, ITAM, and ESM, or Enterprise Service Management. This is our largest business today, and I'm going to use Q3 numbers here because we haven't reported Q4. That will be next month. But in Q3, it was \$390 million ARR, and growing it 40% reported or 30% organically because we did an acquisition in the middle of the year.

So, we're really excited about this business. This market, we're going after the mid-market and low-end enterprise. And so if you think about the customer size, we're talking about customers with employee size from 500, all the way up to 10,000 or 20,000. That's where the segment that we play in.

The second part of our business is CX or our Customer Experience. That is customer support, sales automation, and marketing automation. Customer support is the vast majority of that business, and it was built on a product called Freshdesk. And that business was \$360 million ARR in Q3, growing at nearly 10%. So, it rounded up to 10%. It was actually helped out a little bit by FX in the quarter for Q3.

What's interesting is that when the company was started, it was actually started as a customer support helpdesk and actually called Freshdesk back in 2010. And over time, after three or four years, the team realized that customers, something like one in four, were using the Freshdesk customer help desk solution for internal IT needs. And so they knew right then that there was a market need for a product that could be easy to use, easy to onboard, and affordable that they want to push out to the market, and that's when they launched Freshservice. And when we went public and when it was founded, it was on customer service. But today, because Freshservice has grown so much, and that has been a big part of our story, that's the biggest part of our business.

And so we have nearly 70,000 employees – or, sorry, customers today. I think it's – we said over 69,000 customers as of Q3. And so we're really excited about the opportunity. And as I said before, the differentiator between us and other folks in the marketplace is that we're easy to use, easy to onboard, and affordable.

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**Scott Berg**

*Analyst, Needham & Co. LLC*

Fun, fresh fact.

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**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

Yeah.

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**Scott Berg**

*Analyst, Needham & Co. LLC*

Three apps, I guess. We had Freshdesk present here, I think, it was in 2018.

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**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

Oh, okay.

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**Scott Berg**

*Analyst, Needham & Co. LLC*

[indiscernible] (00:03:20).

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**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

Okay.

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**Scott Berg**

*Analyst, Needham & Co. LLC*

Yeah.

## Joon Huh

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

Okay.

## Scott Berg

*Analyst, Needham & Co. LLC*

So that was my first introduction to the company at least, and it was Freshdesk at the time. So...

# QUESTION AND ANSWER SECTION

## Scott Berg

*Analyst, Needham & Co. LLC*

Q

All right. Let's talk about product through the industry. And by far, the number one question I still get today, which I'm sure you get quite frequently is, there's clearly been a view that the kind of newer GenAI technologies that are out there can disrupt your CX product for a variety of different reasons, just the whole Customer Experience kind of segment. Why is that the wrong view? And how is the company infusing these AI technologies today into the platform?

## Joon Huh

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

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Sure. So, we believe at Freshworks that AI and AI products will be table stakes for software companies going forward. You will need to have some sort of offering to stay competitive in a buying environment when customers are making choices. So, that's why we've actually invested quite a bit. And when we saw the innovations happen with GenAI, we assembled a team and got our strategy together and we're executing on it. So, what we have out in the market today is Freddy Self Service, Freddy AI Agent, and Freddy Copilot. All of those – well, Freddy Self Service and Freddy Copilot are GA. Freddy AI Agent is in beta today. And then we also have Freddy Insights, which is also in beta.

So, we've been actually investing here and making inroads and trying to stay on the leading edge of what our competitors are offering. And our view is that companies are not going to want to build this internally. Like, they won't have the resources. They don't have the manpower. They don't have the talent. They don't have the capital every year to continue to invest, to stay on the leading edge of innovation. That's what they want the software providers to do.

And so our view right now is, how do we get these products out into market? How do we get customers using them? Because once they do, they'll see value. And once they see value, we can start monetizing it.

So, for example, Freddy Copilot, we launched that last year in February, less than a year in, but we're pretty excited about the opportunity. It's moving ahead and, as of Q3, was ahead of our internal plans for monetization. But we're still focused on usage and adoption right now for our customers.

## Scott Berg

*Analyst, Needham & Co. LLC*

Q

Okay. So, I too share the view that I think most companies over a period of time will turn to vendors for this functionality. I kind of wrote about it today a little bit, coming off the NRF conference. But especially the small to mid-market or low-end enterprise customers that you all service today, or at least target, they typically don't have the resources to try to bring in an, I call it, army of developers to actually develop this functionality.

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**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

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Yes.

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**Scott Berg**

*Analyst, Needham & Co. LLC*

Q

But as you look at those three kind of products, how are you monetizing them or expect to monetize them on a go-forward basis? Is there transactional components? Is there subscription component? Kind of help us understand what that path looks like. And as you look at your \$1 billion target, do you have any assumptions in terms of how they contribute to the mix of something in that range?

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**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

A

Sure. So, why don't I start with that last question first, is that the ARR for AI today is relatively small. It's not material enough to break out right now. And hopefully over time, we do, right? But we're still early on. It's growing at a pretty good rate. And so we're – like I said for Copilot especially, we're pretty pleased with how that's going. Over time, we do think it's going to be a big part of our revenue, and hopefully we are disclosing what that is. But as I said, we're focused on usage and adoption with our customer base.

In terms of how we're monetizing it, we have a few different ways. So, for AI Agent and for Freddy Self Service, that's through bot sessions. So, when you buy Freshdesk Omni or Freshchat, you get a base level of entitlements for bot sessions for free. Once you use those up, you're going to buy more bot sessions. So, it would be – the pricing is right now for 1,000 sessions, \$100. So, \$0.10 a session. And we measure a session as a 24-hour period where a customer is having a conversation or a chat with the agent. And as you use those up, you're going to buy more. So, that's more of a usage-based model. Think of it that way.

And that application or use case is primarily for, let's call it, L1 type of deflection like – things like, hey, what's the status of my order? How do I change my account information? Things like that that you can easily deflect with a bot through one of those sessions.

The second product is Freddy Copilot. That's an add-on. So, you can add it on to Freshdesk. You can add it on to Freshservice or Freshdesk Omni. You can add it on to your suite license. It's \$29 per seat per month, and that's the list price. Obviously, if you're a large customer and you're buying a big deal, you're probably going to get a negotiated price. But that's the pricing of it today. So, that's a simple add-on.

And then Insights, the third product that's in beta today, we're still figuring out what the best sort of pricing model is for that. Is it outcome-based? Is it consumption-based? Is it flat fee? Is it based on number of employees? So, we're still going through it today.

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**Scott Berg**

*Analyst, Needham & Co. LLC*

Q

Yeah. We recently published a note on some checks, talking with some partners of yours. My guess is you read the note.

**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

Yeah.

A

**Scott Berg**

*Analyst, Needham & Co. LLC*

And...

Q

**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

I like the note.

A

**Scott Berg**

*Analyst, Needham & Co. LLC*

Well, that's good.

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**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

Yeah. Yeah. Thank you.

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**Scott Berg**

*Analyst, Needham & Co. LLC*

The differences in the partners was actually really kind of interesting to kind of compare their experiences with the company. All in a good way, but one was really large and one was smaller in terms of the number of companies and customers they were working with. But the one that worked with the largest number had talked about the biggest frustration with the AI functionality was around not getting notified when they're at the end of their bots.

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**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

Yeah.

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**Scott Berg**

*Analyst, Needham & Co. LLC*

Like, literally, it would stop working because they didn't know that the number of sessions that they bought was done. They have to go through and buy more. It didn't take that long, but a couple, three hours being off-line with that technology was actually a really big deal. I guess, A, have you solved that? Or, B, how do you solve it?

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**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

Sure. I think we are solving it, if it's not solved already. I actually – that note actually – what we do is, a lot of times we'll look at the notes, and things that are insightful that we want to share with our internal teams, I'll forward it around to our management team, and then it'll make it down to the product folks, too. And so you'll be happy to

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know that Chief Product Officer and the team, they're looking at it, making hopefully a simple add-on or – not a product, but a simple feature to the product where it'll just automatically add on those sessions for you.

**Scott Berg**

*Analyst, Needham & Co. LLC*

Q

Okay. I just thought that was kind of odd. Why would it just stop it like that?

**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

A

Of course. Of course.

**Scott Berg**

*Analyst, Needham & Co. LLC*

Q

And so it is what it is. How about additional AI functionality into the road map? Is there anything that you all have talked about outside of Insights? And, obviously, that's in beta, or I guess it's agents as well that's coming. Anything else that we should be aware of at the moment and you publicly kind of talked about?

**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

A

No. I would just say that we're trying to get AI into all of our products, and we're trying to get them used by our customers. So, one of the things that I talked about in some of the earlier meetings was that for our new customers, we're actually seeing pretty good attach rates. So, for large deals over \$30,000, in Q3, we saw over 50% attach rates for those deals, which is fantastic.

Now, it doesn't necessarily mean that if you have a 100 seat licensed deal that they would attach wall to wall 100 seats. That may be only 20 or 50 because they want to try it out and test it with those that are – that don't have Copilot.

But what it is showing is that there is an appetite to try out the new product and understand what the value is. And then on the existing customers, that's actually been a little bit harder because they're so ingrained into their workflows that we have to go back and retrain them and show them the value of what Copilot is.

And so there are some things on the go-to market, sales enablement side that we're working on cohort by cohort for the customers to help them see the value and recognize that this is something that they would want to use in their daily workflow.

In terms of additional innovation, yeah, even for AI Agent, obviously, we want to get that to GA. And then over time, AI Agent itself and Freddy Self Service, realistically if you're using this – it for the same use case, then that becomes ultimately either combined or subsumed into one type of product where it'll have the best of both worlds.

**Scott Berg**

*Analyst, Needham & Co. LLC*

Q

Sure. I think a lot of the debate surrounding AI functionality in the space in particular, and it's both your CX and, to some extent, the ITSM side is, how it has a chance to potentially reduce your revenues over a period of time, whether it's seat count, whether it's something – some other utilization number there. Why is that not accurate? What are you all seeing in your install base today that gives you confidence that adding these solutions, even if it

is reduced seat, maybe it's growth, maybe it's less count, but when you add these two together, it actually drives more revenue to what you all do?

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**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

A

Yeah. I think it goes back to what I talked about before, in that our belief that AI and AI services will be table stakes for software companies. And that's why we're investing so much in it. Today, as of – or when I say today, I'm talking about once again Q3 numbers, we didn't see any degradation on seats year-over-year in terms of what the seat counts were. So, this idea that, hey, it's going to eat into your seat counts and the growth could happen. Doesn't mean that down the road – we're pretty realistic that it may have an impact down the road, but we're not seeing it today.

And I think largely because what we're hearing from customers is that they're still a little unsure or reticent about how much they want to hand over the entire operations to AI or to an agent – an AI agent, right, because there's still some information that could be incorrect or hallucinations that can happen. And so to prevent that, they still want a human in the mix, and they still want an agent in the mix. And so I think that's one of the reasons why Copilot has done so well because it's really an assistant for the human agent. And – but we do know longer term, yeah, it could impact some of the seat count models or could impact the growth.

And so what do you do before that? Well, once again, you have to have valuable products on the AI side so that you're delivering business value to your customers. And once you do that, then you can monetize it.

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**Scott Berg**

*Analyst, Needham & Co. LLC*

Q

Okay. So, let's move to the service side of the world, in Omni. Your growth there is great. You just mentioned in Q3, 40% reported, 30% organic in that area. Certainly different growth algo than what you're seeing on this CX side. I think this is a space that investors are – they're familiar with through, obviously, ServiceNow is in that space. But outside of their exposure, there's not a lot of other public companies that are kind of doing this today, right, for a variety of reasons as what's driving the growth there in that space from what you've seen today. Why is it been such a great market for you all?

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**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

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Yeah. So, I think one thing is just that we have great product market fit. When you look at Freshservice, it really is an enterprise-grade product that can address all your IT needs. And it goes back to sort of what the mid-market customer is looking for and what the enterprise customer is looking for.

What we offer – and like I said in the beginning, we offer products that are easy to use. So, the users, the ITSM managers, if you get – if you look at the feedback that they talk about for Freshservice, it's very user friendly, easy to onboard. Meaning, it doesn't take forever to actually get the product up and running. It doesn't take a year to implement. In fact, it's much shorter or closer to three to six months to get that up and running.

And then we're affordable. Meaning, there is a certain amount of price difference between the – like a ServiceNow that's going after the upper end enterprise. So, there is a certain amount of value realization even up front. And so I think that's why the product has resonated in the market. And then we've done a better job on the go-to-market side, building up sort of the processes and the people around it.

So, Dennis Woodside, our CEO, he was named our CEO I think in May of last year. He had been our President for a year and half before then. And when he came onboard, one of the things that we did was focused more of our efforts on EX in terms of how we think about the business, what are the growth potentials, and then moving that business intentionally more upmarket because we did see that mid-market customers and larger customers wanted this type of product.

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**Scott Berg**

*Analyst, Needham & Co. LLC*

Q

Okay. In our recent note that we published on the checks, the feedback on Device42, which is the inorganic component of that, obviously, was super well-received. The commentary on that was quite positive. Why is this ITAM functionality so strategic to how you sell service going forward?

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**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

A

Sure. So, just for – so what everyone is on the same page, we bought a company called Device42. What they offer is advanced ITAM or IT asset management. So, think about all your hardware and software within your enterprise or within your company. It's tracking, managing, and able to discover devices and understand dependencies.

We had a lightweight ITAM solution at Freshworks even before the acquisition, but it was more geared toward customers in a cloud environment. It couldn't actually do it in a on-prem environment. So, for larger companies, if you think about it, when you're going after larger companies, guess what, they've been around for a while, and they may have on-prem environments, and so you need a solution that can address that.

We partnered with Device42 historically. They were sort of the leading independent provider out there. And we had a good working relationship with them, and our products worked well together. We looked at it internally. How long would it take us to build this, right? Like, we do a build versus buy analysis. And when you did that, it was something like 18 months that it was going to take for our teams to sort of build a product, get it out to market so that we can compete. And that's just felt like too long of a time when the opportunity is now, right, in the mid-market to go capture that business. In fact, there were certain deals where we would lose out because we weren't all under one umbrella. It was actually you'd have to negotiate two separate contracts. You had two different AEs that you're talking to. And despite the fact that you have a good partnership, the customer doesn't want to deal with that.

And so we said, hey, this is the right acquisition to do. We brought them in. That deal closed, like I said, I think in June of last year. And in Q3, that was our first full quarter and it's gone well. We've actually – we're doing well on the revenue side. I think in Q3, we had expected revenue of something like \$4 million, but it came in closer to \$8.8 million, which was fantastic. But a lot of that was due to the fact that they're term license. So, I'm sure something you're not a big fan of in terms of rev rec, but it does create...

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**Scott Berg**

*Analyst, Needham & Co. LLC*

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One term in my life, I was. Sorry.

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**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

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Yeah. So, it does create lumpiness in the results. And so we want to be very thoughtful about how we plan out that business. And so if you have a big multiyear deal, then you're recognizing a lot of that deal, the majority of that deal actually, in that first quarter. And so that bumped up revenue a little bit for Device42 in Q3, and we'll sort of see how it goes. But, yeah, we're excited about the opportunity. It helped us get to more what I would call enterprise-grade offering to attack a larger part of that market.

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**Scott Berg**

*Analyst, Needham & Co. LLC*

Q

Okay. If we go back to the desk side of the product equation, you mentioned growth there was rounding up to 10% this year. How much of the slower growth in that product do you think has come from this AI paralysis, what's going on in the market, customers kind of viewing these technologies or vendor options versus, I don't know, macro something else that might be driving a less demand than what you saw a year or two ago.

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**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

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Sure. So, I think for us, that business, it was 10% – rounded up 10% in Q3. So – for ARR. And some of it was helped by FX, right? That was actually a tailwind in Q3, so keep that in mind. But I think definitely, macro had an impact. And when you saw the contraction and macro slowdown, SMB was probably the market that felt it the most and the impact was more acute.

And if you think about the CX business, that is more SMB exposed. The majority of that business or ARR comes from SMB. SMB is – we define as 250 employees and below in terms of the customer size, and definitely had some impact from macro, definitely had some impact from the idea of AI disrupting it, right? And it's just a matter of what products do you have to offer to actually capture that value once AI takes off? Right. So, that had some of it.

And then honestly for us internally, there were some missteps that we probably took along the way that – and thinking about the business, and how to grow it sustainably, and how to grow it profitably and efficiently. So, we've made some improvements along the way, and I think it's getting better.

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**Scott Berg**

*Analyst, Needham & Co. LLC*

Q

Okay. On the flip side of that, you mentioned on your Q3 call that retention was, I believe, the best ever in the quarter there. Was any of that FX-related? I hadn't really considered that till right now. Or are you seeing something different in the business that's kind of driving retention?

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**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

A

I don't know if FX had a huge part in that. I think – I'm sure it had a little bit. But just – I don't know that we'll put up record retention rates every quarter. That's probably a pretty hard bar to overcome each – or achieve each quarter. But what happened there is that we had some initiatives in place that helped out, and so we're pretty proud of it. So we had record retention on customer service or customer support side of the House. And so that was fantastic, even though that's exposed mostly to SMB.

Couple of the initiatives in place that helped out. One was, we have this what I would call outreach, targeted outreach to our new customers. That has been happening for the first 30, 60 days. Once you buy the product, reaching out to them, whether it's a phone call or an e-mail, and helping them understand what the value – or

additional value you can find in the product is, if they haven't logged on, asking them and having a conversation on, here's how you can log on and find the information or data that you need.

And so we've done some targeted outreach that has certainly helped out on the flip side of that on churn, right? So, that's helped manage churn. And then we also had a new leader come in that – earlier in the year that had had experience doing a lot of the what I would call inbound motion or digital acquisition. And that's helped out quite a bit, too.

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**Scott Berg**

*Analyst, Needham & Co. LLC*

Q

Okay. Kind of the product area we haven't spent any time on, Freshsales. Are you continuing to invest in there? Do we see some, I don't know, excitement coming in that product over the next year or two? Or did it kind of slowly start to fade away?

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**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

A

Yeah. I think what's happened there on Freshsales and Freshmarketer, and those are our sales automation and marketing automation products, those are much smaller. And those – what we've done is, we've sort of combined the efforts with our Freshdesk category, which is customer support, and largely because if you think about the buyer, it's more what I would call front office. And so we combined a lot of the go-to-market efforts, a lot of the product efforts so that you could have a little bit more unified experience. It doesn't mean that we're necessarily pulling away from it. It wasn't a huge business as it was. But I think from a product leadership standpoint and executing internally, it's being managed under one large umbrella of CX.

And so we actually still do see deals occasionally in the field that require sales and marketer, and we'll close on that. But it's not like we have, what I would say, a huge outbound effort with SDRs or BDRs in field building pipeline, trying to close that type of business because in the field, that's primarily IT and EX today.

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**Scott Berg**

*Analyst, Needham & Co. LLC*

Q

Right. Recall from your Analyst Day, it was roughly \$25 million in ARR?

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**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

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Yeah.

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**Scott Berg**

*Analyst, Needham & Co. LLC*

Q

It was the right number? Is that growing since then?

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**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

A

Yeah. I think it's grown a little bit. We haven't given an update on it, but I think it's been like I would say a little bit, but not...

**Scott Berg**

*Analyst, Needham & Co. LLC*

But up a little?

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**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

Yeah. I don't think it's meaningful enough for us to break out. And quite honestly, the product development efforts and the engineering that's required for it in terms of an efficiency standpoint, it didn't make sense on where we're headed. And so we actually did move a number of folks from that CX engineering team over to our EX engineering team back in Q3, and another way of where we're investing more of our resources and doubling down on the EX side.

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**Scott Berg**

*Analyst, Needham & Co. LLC*

Yeah. In our partner checks that we wrote on, we also talked about a new product that you guys are kind of bringing out, at least it was new to us, some functionality in the HR space in particular. And you all historically had a product called I think it was Freshteam (sic) [Freshteam].

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**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

Yeah.

A

**Scott Berg**

*Analyst, Needham & Co. LLC*

That was kind of a lightweight solution in that space. Anything you can tell us about this product, kind of what it is, what it does, or still TBD?

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**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

Yeah. I don't know if I would call it necessarily a new product, but I would say it's an add-on innovation. So, it's not necessarily a separate add-on, but it's more feature capabilities and functionality that we're going to try to embed into Freshservice for Business Teams. So, that's our ESM product that – think of it as functions outside of IT, whether it be HR or finance or legal or procurement or something like that. Any function that requires a workflow, you can automate that through Freshservice for Business Teams and all-in-one platform.

A

So, for HR specifically, there are some areas where you could get it out of the box. So, for example, like employee journeys, right, when you think about sort of customers, when they look at their HR sort of plan and they say, well, there are certain areas where we know what needs to happen. Like, when you have a new hire in place...

**Scott Berg**

*Analyst, Needham & Co. LLC*

I figured it was – onboarding is a natural one.

Q

**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

Yeah. Exactly.

A

**Scott Berg**

*Analyst, Needham & Co. LLC*

Yeah.

Q

**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

Onboard.

A

**Scott Berg**

*Analyst, Needham & Co. LLC*

Or off-boarding.

Q

**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

Exactly. Off boarding.

A

**Scott Berg**

*Analyst, Needham & Co. LLC*

Yeah.

Q

**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

Or even cross-boarding, moving from one part of the business to another part of the business or moving locations. There are certain steps that you need to take, and you can get those automated, right? And so can we embed that already into the product so that when you go in to sell Freshservice for Business Teams to HR, they already have these features in place, right? So, things like that, or things like document collaboration, right? So – and things like improving the workspace limits. You want to create a workspace for HR that only they can access, right, but creating larger limits for it, who can get access to it, and getting more granular in those workflows.

A

**Scott Berg**

*Analyst, Needham & Co. LLC*

Sure. So, by my clock, it says I have 2 minutes and 18 seconds, and I'm halfway through my questions. This is awesome. [ph] I'll ask (00:27:20) two more, and then we're happy to turn it over to audience from the Q&A perspective. Let's talk about the riff from the third quarter.

Q

**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

Sure.

A

**Scott Berg**

*Analyst, Needham & Co. LLC*

Q

You already laid out some financial guidance next year around margin expansion. I guess why the riff? Just kind of natural as you grow, just trying to go through and rightsize the organization. Maybe there's another reason. Why don't you help explain a little bit of that? And relative to the margin leverage this year, I think it was 400 basis points relative based off of your current 2024 guidance. How much of that uplift is coming from that reduction in force?

---

**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

A

Sure. So, the reduction in force, that happened – I think we announced it at the last earnings call in November, and it was about 13% or 660 folks impacted globally. So, across all the different regions and across all the functions. And the main rationale was, we just want to streamline and get everybody aligned behind our strategic imperatives. So, we've talked about the three strategic imperatives before.

Invest more in EX. This is our fastest-growing business. Huge opportunity in front of us. How do we get our product road map even faster out to market and so that we – then how do we invest there? Two, innovate and drive AI innovation into our products, right, into all of our products. How do we stay on the leading edge of all the different trends that are happening? So, even in the past quarter or two quarters, everyone is talking about Agentic AI or AI Agent. We have a product out there. How do we stay on the leading edge and make sure that we're getting that to our customers? And then three, how do we re-accelerate growth for CX? How do we get that business moving in the right direction where it can grow at market rates and do it very efficiently, right?

So, those were the three imperatives that we came away with, based on the strategic review that we went through with the board earlier in the year. And this is all part of Dennis sort of thinking about the longer term strategy on how to sustainably grow the business. And the idea was, if the functions – or if activities weren't aligned to these three, then this was probably not the right place for you, right? Like, we didn't have room for, like, side projects or other things that distracted from those.

And so that was the lens that we looked at, the workforce reduction. It wasn't necessarily to hit a cost target. It wasn't. That's why we didn't put out like a cost savings number that we thought it would be on a run rate basis annually. In fact, we're going to reinvest some of that in hiring and in certain areas. But it was really to just get aligned behind those three and make sure that we're all working toward those goals. And we gave out the numbers on what the impact would be. The non-GAAP obviously would include these one-time impacts on expenses. And even for free cash flow, we would exclude that.

But, yeah, that was the rationale behind it. And then going forward, we did provide sort of prelim guidance for next year. That will help out somewhat in terms of the margin leverage that you're seeing in operating margin and free cash flow. But it's not – once again, it's not trying to get to a specific target that we had to do that.

---

**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

A

Well, I'm up against my own internal clock here. Let's open it up to Q&A if there is any. [ph] Andrew (00:30:51)?

Q

I guess [indiscernible] (00:30:51-00:31:09).

**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

Sure. So, the first part of the question, in general, they are. Some of the partners that I see on the CX side focused mostly on CX front office type of applications, and then others are on EX or IT. So, yeah, in general, I've seen that they do try to build their business on one practice or the other. There are some that have both, but that's one part of it.

The second part of your question in terms of what we're seeing in – for the partner side, sorry. The second part of your...

A

Q

Where they come from. Were they working on...

**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

So, yeah. So, on the EX side, it's going to be, some partners actually have a lot of business built up on the legacy platforms like BMC Remedy or on Ivanti Cherwell. And so we are seeing some partners where they say, well, we have all this business that we've built up, but it may be going away over time. And how do I build my business on a new modern product that is resonating in the space that I want to play in? And so they've shifted most of their business to us, and that's what we're seeing.

A

Q

How much [indiscernible] (00:32:20)?

**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

I don't think we've broken out the contribution of it. But someone else had asked, like, earlier what – how much of that is left to go, or how much of that legacy market? And if you look at sort of ballparking, and these are rough numbers based on internal estimates and whatnot, if you ballpark, it's something like \$1.5 billion to \$2 billion, something like that, if you look at the revenue of the legacy players. So, there's still a lot more to go after. But...

A

Q

**Scott Berg**

*Analyst, Needham & Co. LLC*

And there's still a bunch of greenfield opportunity.

**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

Absolutely.

A

Q

**Scott Berg**

*Analyst, Needham & Co. LLC*

There's a lot of midsize companies, 400, 500, 600 employees that don't have a formal product in.

**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

Absolutely. So, that's one part of legacy, the new business greenfield opportunities. And then obviously, there's – every quarter, there are some that come off of like the big guys like ServiceNow because it's – outside, it's too expensive for them, or it's not meeting exactly what they want to do.

A

**Scott Berg**

*Analyst, Needham & Co. LLC*

Any other questions?

Q

**Scott Berg**

*Analyst, Needham & Co. LLC*

Well, with that, we'll give everyone a few minutes back to their day. I think it's lunchtime. Enjoy your lunch. Joon, thank you so much.

**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

Thank you, Scott.

**Scott Berg**

*Analyst, Needham & Co. LLC*

Appreciate your time.

**Joon Huh**

*Senior Vice President-Finance, Investor Relations & Treasury, Freshworks, Inc.*

Yeah. Appreciate it.

**Scott Berg**

*Analyst, Needham & Co. LLC*

That's good.

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