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Freshworks, Inc. (FRSH)

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CORPORATE PARTICIPANTS

Dennis M. Woodside

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

OTHER PARTICIPANTS

Oscar R. Saavedra

Analyst, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Oscar R. Saavedra

Analyst, Morgan Stanley & Co. LLC

Yeah. So, good morning. Thank you, everybody, for joining us in day three of the Morgan Stanley TMT Conference. My name is Oscar Saavedra. I sit in the software equity research team here at Morgan Stanley and I am here on behalf of Elizabeth Porter. I am pleased to have with us today returning guest, President and CEO of Freshworks, Dennis Woodside. Thank you for being here.

Dennis M. Woodside

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

Yeah. Thanks for having me.

Oscar R. Saavedra

Analyst, Morgan Stanley & Co. LLC

Before we get started, for important disclosures, please see the Morgan Stanley research disclosure website at www.morganstanley.com/researchdisclosures. If you have any questions, please direct them to your Morgan Stanley research – I mean, sales representative. And with that, let's get started.

Dennis M. Woodside

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

All right.

QUESTION AND ANSWER SECTION

Oscar R. Saavedra

Analyst, Morgan Stanley & Co. LLC

Q

Yeah. Thank you for being here, Dennis, again. Maybe a good way to start would be to sort of level set the conversation, especially for folks who may be newer to the Freshworks story. Can you give us a quick overview of the key problem that Freshworks is solving for customers today? And as you move more into mid-market and enterprise, what's sort of driving more of those companies to pick you as – for their IT service management?

Dennis M. Woodside

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

A

Yeah. So, I've been CEO now for about 22 months and in that time, we've really undergone a pretty meaningful transformation. Our business now is predominantly a EX business serving an IT department of a mid-market company, mid-market lower end of enterprise. Think about a 5,000-person company like New Balance or larger companies like Nucor steel, Steel Dynamics, Bridgestone tire. These are companies that have very complex IT needs. They need a system that bridges ITSM and IT operations management and asset management. And then they also need helpdesk capability outside of IT, workflow capability outside of IT, but they don't have the same resources as a Fortune 50 company. They need to be more nimble. They have typically smaller IT teams. They typically are more budget-constrained. They need a product that's offering them much faster time to value than the incumbents, than a ServiceNow or an Atlassian or Ivanti Cherwell, and it needs to be AI-enabled. So, that's where we've really taken the business.

Our EX business today crossed over \$0.5 billion last year in ARR. It's growing at about 26% year-over-year. So, that's the growth engine of the business. What we've layered on top of that and now really is integrated into the product is AI. Of our 75,000 customers, 8,000 are using AI. They've got good penetration, about 10% of our customers, a long way to go to continue to drive that, but we have AI products for first line support for the agent to enable the agent to be more productive and for managers. And that's really been a big growth engine for us as well, crossed \$25 million in ARR last quarter, nearly doubled year-over-year.

And then the third part of the story is really where we came from, which is customer support and our CX business. The primary product there is Freshdesk. That's a little over a \$400 million ARR business. Growth last quarter was about 8%. We're undergoing a pretty meaningful transition from a set of four separate products within that family to a single product called Freshdesk Omni, which allows you to have conversational interactions with your customers. Much easier to upgrade, much easier to add AI. That upgrade is ongoing right now. We'll have about 40,000 of our 55,000-ish customers migrated to that new platform by the end of April.

So, that's a thumbnail sketch of the business. I think the growth really is in that mid-market customer. That market is huge. It's relatively underserved by the larger incumbents and that's really what we're going for. We're going to build a big business here.

Oscar R. Saavedra

Analyst, Morgan Stanley & Co. LLC

Q

Got it, got it. That's a very helpful sort of overview. Maybe building on that, talked pretty openly for a while now that focus on employee experience. It's showing, like you said, \$510 million in ARR, growing 20% year-over-year constant currency. It's approximately 56% of the business, growing much faster than the rest. Maybe looking

back, what was the original insight that sort of made you say, hey, like this is where we should focus on. And then as you lean into that from what you've learned, like is EX structurally a more advantageous market or is it more a function of you found sort of a wedge and have been uniquely able to execute against that [indiscernible] (00:09:58)?

Dennis M. Woodside

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

A

Yeah. So, EX is structurally a much more advantageous market for a couple of reasons. First, from a competitive standpoint, you have ServiceNow serving the largest enterprises and they do a very good job there. You have then a fragmented set of legacy players like Ivanti Cherwell, BMC that come from an on-prem world. They haven't necessarily innovated at the same rate as we have and then you have Atlassian, which has a good presence in much more developer-centric companies, but then you have a lot of other companies – customer, prospective customers out there that just aren't well-served by the models that exist. And our product for that mid-market customer is the best product in the market. It offers the fastest time to value. It's the lowest overall total cost. It's the most complete solution on a single co-base across what an IT department needs. They need service management to answer questions from their employees, increasingly AI-driven. They need that asset management. They need to understand all the software and hardware in their estate, the relationships that all those assets have with one another. They use that to root cause problems when systems go down. They need operations management, which is the ability to respond to outages and instances and resolve them quickly and increasingly that's predictive and AI-enabled. And then they want to be able to extend that outside of the IT department to finance and legal and HR and so forth.

So, that's what we've built and for that mid-market customer like a New Balance, that solution really makes sense for them. It's nimble, it's fast, it's easy to get up and running. You don't need like consultants or specialists to actually keep it up and running as your workflow changes. It becomes the system of record for IT with all the interactions between both assets, software, and people all embedded in our system. And so, as AI comes in, that information, that data, all those workflows become super important to training AI to resolve questions without the agent altogether. So, that's where we're heading and that's really what's been powerful about that part of the business. That's the future of our business.

Oscar R. Saavedra

Analyst, Morgan Stanley & Co. LLC

Q

Got it, got it. Maybe staying with what's driving customer decisions, I want to zoom out and maybe talk about the AI debate, right? There has obviously been a lot of investor concerns around AI disrupting the SaaS landscape. One argument you hear is if enterprises can just spin up internal applications quickly with AI, maybe they won't need to buy as much software from vendors like you. When you hear that, what do you think people are missing? And specifically to Freshworks, what is it about your product that you view as difficult to replicate? Maybe lastly, how does that shape your thinking in how you best deliver value in a world?

Dennis M. Woodside

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

A

Yeah. So, I think there's three arguments that are very prevalent, one is that seats are going to go away; two, is that the LLMs are going to take all the business; and three, the startups are going to take the business. We have to be super paranoid about all three, but we think we've got actually a very good answer to all three. I think on the first with seats, we're seeing as our AI becomes more and more effective, it is taking the questions that otherwise would be answered by humans and it's answering them itself, both just a simple Q&A and agentic. That is monetized in a very different way for us. It's monetized on a consumption basis, and that model scales quite

nically. So, we're pretty comfortable with how that model's going to evolve over time to enable our customers to get more value out of the software that they have.

Now, to the startup point, the reason that that works so well in our system is because our AI has access to all of the underlying data, all of the underlying workflow. It's trained on all that underlying data, customer-specific as well as the entire corpus of customers that we have. So, a startup can come and they can potentially suck information out of a system of record to train their model for that specific customer, but they're not going to have access to 75,000 customers and the corpus of information that we have. And a ticket, which is the information a startup might have through an API call, is a small portion of the total amount of data that is resident in our system. A lot of the data that's in our system is not surfaced through a simple API call or in a ticket. That's the data that actually makes us able to answer questions better, take action better than a startup that's trying to build on top. So, seats, it's all about pricing and packaging. Startups are competition, but we have a basis for competing. We've got such a large repository of data we can train our AI on and then the LLMs, we just – I think that's the one where we just don't see it. You see some customers building very specialized applications through an LLM, but you don't see them trying to replicate the functionality of a full-fledged IT suite that's powering the entire IT department. There's all kinds of things you would need to do around security and we have over 1,000 integrations for the EX products. That's very hard to do. It's taken us over a decade to build all that and furthermore, customers don't want to do that.

If you think about our classic customer, one of them is called Vermeer Corporation. They're based in Iowa. Typical customer for us, 5,000 people. Company has been around 100 years. They make wood chippers. They make agricultural-heavy machinery. Their business is not building their own ITSM. It's the last thing they want to do. If they have any spare capacity, they're certainly not going to go [indiscernible] (00:15:45) that. So, I don't see that that is necessarily what is going to change our world, especially with that mid-market customer that has a lot of other things that they can do with their very spare IT resources. Of course, we watch it, we partner, and we have – we built our AI so we can switch to any LLM that we want. We have – for different use cases, we call on different models. We call in some cases on our own models, on small models where the economics justify it. In other cases, we'll call on Azure OpenAI. Other cases, we'll call on other models as well. So, we have access to the state-of-the-art from a model standpoint. It's really about creating the kind of environment for our customers where they can actually get work done and that's what they want.

Oscar R. Saavedra

Analyst, Morgan Stanley & Co. LLC

Q

Got it, got it. Maybe putting the finer point on the head count risk part of the equation, when you talk to customers, what are they telling you? How are they actually thinking about the balance between their AI investment and also leveraging the increased productivity with their hiring plans?

Dennis M. Woodside

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

A

Yeah. So, let me just give you some data on the head count side. So, we've had Copilot in market for about 18 months and so with thousands of customers that have bought Copilot, that's the product that allows – that improves the productivity of agents by answering questions basically for them, giving – suggesting answers to them. It allows them to summarize conversations very easily, a bunch of functionality for the agent to make them more productive.

Our NDR for customers that have adopted Copilot for at least a year is 116%, right? NDR for the company is 105%. NDR for EX is 110%. So, customers that have used Copilot, that have adopted Copilot, they're actually

expanding at a faster rate. Now, whether that's seat expansion or AI expansion, we have asset pricing for Device42, it doesn't really matter, but the point is they're actually expanding their business with us, right?

So, we can talk about seat count. I look at that as a really positive sign because we still are pretty low in the penetration of our AI. The earliest adopters of AI, they have found real value out of it, and they've grown their relationship with us over time. So, I think that that's kind of where I would start from in terms of the argument on seats. What was the other part of your question?

Oscar R. Saavedra

Analyst, Morgan Stanley & Co. LLC

Q

Just sort of how the customers are rationalizing [indiscernible] (00:18:16) with their hiring plans.

Dennis M. Woodside

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

A

Yeah. So, I think we see a couple different modes. I'd say three. There are classic customers that are growing quite quickly that have decided we're just not going to hire more customer support reps in particular. There are classic customers that are saying, hey, for cost reasons, I've got to reduce staff and then there is classic customers that are saying I'm going to take what used to be a call center and turn them into a revenue center. It just depends on the customer and either way, we can serve those needs, and we can make money because we're monetizing AI in multiple different ways. Like I said, the consumption model for the L1 agent for Copilot, it's an adder on the seat license and then when you get into other products like asset management, it's an asset-based fee. So, multiple different ways of monetizing and also we're constantly looking at this. I don't think that if you come back in two years, the monetization is going to look the same at all. I think we're going to be looking at seat models. We're going to be looking at token pricing. A lot of things will change in the next couple of years, but we're pretty confident in our relationship with our customers, in the value that we're providing to the customers, that we're going to figure out a model that works for them and for us.

Oscar R. Saavedra

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Okay. Maybe zooming out one step further, let's say AI doesn't replace the need for Freshworks. The investor worries still on the value capture, right, and that AI will still chip away at the pricing power over time. And so when you think about the next, call it, three to five years, like how do you see AI affecting the margins of what has historically been a high-margin business and how do you...

Dennis M. Woodside

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

A

Yeah. I don't think AI is going to chip away at the value. What AI is doing is allowing our customers potentially to substitute software for people and that's a huge value exchange. And for our customers, it's the cost of a IT rep or the opportunity cost of an IT rep doing a low-value activity is huge. So, if we can take those low-value activities away from those very high-value IT agents so that the IT agent who's trained in the systems of the company can do higher value work, they can work on projects that are more closer to revenue, all that stuff, that's hugely valuable to the customer and we'll be able to capture value from that. So, I just don't – I don't agree that AI is [indiscernible] (00:20:37) going to erode pricing power. It actually gives us an opportunity to create more value for our customers ultimately and that's – and they're going to be willing to pay for that. Okay.

Dennis M. Woodside

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

A

Again, look at the NDR, right? Copilot NDR is actually much higher than the company overall. That shows that our customers are getting value.

Oscar R. Saavedra

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Yeah, no, makes total sense. Maybe bringing it back to the business in EX and what you're seeing competitively, it's been growing really nicely mid-20%. You talked about improving win rates recently and including the replacement of decades-long incumbents. When you take a step back, what is driving beyond the sweet spot of the 5,000 to 20,000 employees, maybe the higher enterprise, what is driving them to reevaluate their ITSM approach [indiscernible] (00:21:26)?

Dennis M. Woodside

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

A

Yeah. So, first, in that mid-market, so let's define the mid-market, roughly 500 to 20,000 employees. That's about the same size. It's a lot more companies, but that's about the same size as the true enterprise segment, like 20,000 and up. So, that's just to give you a sense of scale. That's a huge opportunity just right there. If you are a Seagate or a Nucor or the New Balance and you needed to make a decision, let's say, five years ago on what's your core IT platform, your platform that's powering IT, you could go cloud first, which was ServiceNow or you could be on-prem, right? A lot of the legacy players didn't have cloud versions of their software yet or they were in the process of building them. So, of course, if you're kind of looking forward, you would go with ServiceNow. We didn't have a product that was anywhere near that capability yet.

Now, today we do and customers are seeing that and we have lots of reference cases. There are some industries where like if you look at heavy industry doing incredibly well. If you look at – we have 1,000 universities. We have 1,000 professional services firms. Like in law firms, we're the de facto standard. We have a third of the NFL teams, a third of the MLB teams. We have a bunch of professional sports leagues, third of the F1 teams. So, we have proof, right? We have lots of customer references now and so customers that are coming up, contracts coming up ending, they're starting to say, you know what, I'm going to look around because this is expensive. And it requires real resources on my team just to keep the system up and running. And in some cases, if they want to go to AI, they got to switch SKUs and that's another upgrade, that's another cost. So, that's provoking a bake-off and an RFP process. And we get in the mix and we're winning more and more of these big deals. We entered – if you look at our business from 50,000 and up accounts, that grew 28% last quarter. If you look at our pipeline coming into this quarter, it was the best pipeline we ever had for \$100,000-plus deals. Last Friday, we closed the biggest deal in company history, which is a large – very large health system with millions of customers themselves. And that – again, that was a win against our biggest competitor. So, we're pretty confident in our ability to win in that segment. It's really ours to lose.

Oscar R. Saavedra

Analyst, Morgan Stanley & Co. LLC

Q

Got it. And when you think about like the go-to-market investments that you have to make to sort of go after those opportunities, like how are you thinking about that?

Dennis M. Woodside

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

A

Well, I think we've spent the last 20 months since I became CEO really building that go-to-market muscle and building the kind of the team that can actually go after those larger and larger deals. And that's everything from the sales reps to the account management, customer success, building out the engineering team that can serve

those larger and larger accounts. We brought in engineering leaders from Atlassian and ServiceNow and all the big players to ensure that we can continue to move up market. And you just see it in the numbers, right? You see it in that growth rate of the larger accounts. You see it in the wins every quarter that we keep announcing. So, I'm pretty confident that's going to continue.

Oscar R. Saavedra

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Another interesting part of the EX business is Device42.

Dennis M. Woodside

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

A

Yeah.

Oscar R. Saavedra

Analyst, Morgan Stanley & Co. LLC

Q

It's showing up more and more in the story, has now reached over \$40 million in ARR and it seems to be getting pulled into a growing portion of larger deals. How do you think about Device42's role over the next few years both as part of landing new customers as well as a driver for further expansion into your installed base?

Dennis M. Woodside

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

A

Yeah. So, from a product standpoint, when we go into an account to sell, our prospects and our current customers, they don't just buy helpdesk, right? They're buying a system to power their entire IT department. So, they want the IT service management module to work well with IT operations management and asset management and then ultimately outside of IT as well. So, that's what we've built over time. Device42 is an important part of that because Device42 is very good at, in particular on-prem asset detection, asset management, relationship mapping. And that information about – I mean, we were managing literally tens of millions of assets. We have some customers that are by themselves managing millions of assets in Device42. That by itself is super important for AI because you understand the relationship between all these pieces of software and hardware. You can understand when an item fails, how does that impact the rest of items in the catalog. That's super important. So, most customers in that mid-market space, when they're evaluating a switch of a platform, they're looking at all of that.

So, Device42 has allowed us to win more and more of these bigger deals. It's in about a third of our largest deals in new lands. The big deal that I just talked about, largest deal we've ever done last week, that has an asset management module associated with it as well as AI. And so increasingly, the relationship that we have with our customers from day one is across multiple departments within IT. It's powering multiple use cases. It's not a straightforward seat model because you have seats for agents, but for Copilot, it's consumption-based. For asset management, it's asset-based and then we bought another company called FireHydrant, which is operations management. And that's also based on calls or incidents. And that allows the IT department to detect instances before they happen, get ahead of it, and when they do happen, manage them. Also needs a strong tie into the asset base in order to do that. So, the system really is coming together as a complete system that can compete in that larger and larger account segment. And that's been really important for us. Device42 by itself crossed \$40 million in ARR, but that's not the whole story because it has allowed us to continue to move up market and continue to win these larger deals.

Oscar R. Saavedra

Analyst, Morgan Stanley & Co. LLC



Got it, got it. Maybe to close the loop on EX, maybe you can talk about Freshservice for Business Teams. You recently made something that you can sell directly into HR, finance facilities, and legal even if IT is using a different system. Can you share any early feedback on that direct sales motion and over time, do you see this ESM product primarily as a stand-alone expansion or does it also help create a path to broader ITSM [indiscernible] (00:28:19)?

Dennis M. Woodside

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



Yeah, it's both. So, the product that we have Freshservice for Business Teams, it's a segregated workspace for an HR team. So, an HR team, common use cases, onboarding and offboarding employees. We have an example. We have a security guard company with like, I think, 15,000 security guards. Lot of turnover. They have to onboard security guards all the time. That's a very IT and HR-intensive process. You have to provision a device or you have to provision software, so forth, and so that – we've been pulled into those use cases over time and built a separate product just for that. We launched that product about three years ago. The market outside of IT is almost as large as the market in IT if you look at the TAM for that use case.

So – and we're just getting started there. We crossed \$40 million in ARR for Freshservice for Business Teams. That business is growing incredibly fast, but if the TAM as equally as large, that's still less than 10% of our total EX revenue. So, that opportunity is huge. We see the stand-alone SKU as an ability to get into a customer that maybe their contract is not up for renewal with their incumbent ITSM for another year or so, but they don't want to increase that vendor dependency on that same vendor because they might be thinking about, well, you know what, in the future we might make a change. So, for departments outside of IT, they might provision that Freshservice for Business Teams alongside whatever current system they have and then when the contract comes up, we've proven value to that other department and we can get into the core IT department. So, that's how we're looking at the stand-alone portion, but by and large, the majority of our business is it's all attached now. And it's all – I mean, New Balance is a good example where we started in IT, did a great job for the IT department, they get asked for a similar product to manage workflow and automate AI outside of IT and they bring us into that other department.

Oscar R. Saavedra

Analyst, Morgan Stanley & Co. LLC



Got it, got it. Maybe going back to Freddy AI, there's a target for that to become \$100 million ARR business over time. You shared some good proof points, around 8,000 customers using AI, exceeding \$25 million in AI ARR, nearly doubling year-over-year. What needs to go right for you to reach that \$100 million in ARR target and what does that mean for adoption across your installed base?

Dennis M. Woodside

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



I think we're going see, as I've said earlier, a lot of different pricing models come with AI. There's going to be experimentation around different price models. The models we have today are consumption-based on the L1 agent, seat-based for Copilot, and then we embed insights into our highest plan, our enterprise plan. I can see over time that evolving to potentially the token-based for some of those products. I could see us evolving so that we actually expose more functionality that's currently in Copilot in other parts of the plans to entice customers to move into a paid experience with the product. And we – on the agent side, we launched in November our agentic

AI studio for the customers for product line. The pricing there is about \$0.50 per session, which loosely equates with the resolution and that naturally scales with consumption over time.

So, I think all those together, Copilot alone could be \$100 million business. The AI agent alone could be \$100 million business no doubt in the next couple of years. It's really a matter of us continuing to innovate, continuing to deliver value. Our customers need to come along. It takes – the actual adoption by the customer takes time. They need to get comfortable with the fact that an agent, an AI agent is going to handle what formerly was an interaction that a human handled. Some customers are ready now. Some customers are going to take some time. So, I think those things are all coming together. We're clearly on that path to getting it to \$100 million business.

Oscar R. Saavedra

Analyst, Morgan Stanley & Co. LLC

Q

Got it. And on that point about pricing \$0.50 per interaction, that's an increase from \$0.10 previously.

Dennis M. Woodside

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

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Yeah, yeah.

Oscar R. Saavedra

Analyst, Morgan Stanley & Co. LLC

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So, wanted to get your thoughts on what you saw that sort of let you know, like what proof points you saw that, hey, customers are willing to pay.

Dennis M. Woodside

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

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Yeah, well, the experience prior to them was not an agentic experience. So, what we launched were out-of-the-box agentic experiences for four verticals: travel, fintech, e-commerce, and logistics. And so out-of-the-box, you can create an experience like changing my flight or returning an item and so forth without any kind of human intervention. And that's really valuable for our customers, right? That's real time and money that their humans are spending on pretty low-value activity that they don't necessarily want to be spending their time on. So, our pricing is really now in line if not much more competitive than, let's say, a Fin or a Salesforce. I think Fin's at \$0.95 and Salesforce was at \$2 per session or per interaction so...

Oscar R. Saavedra

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Okay. Maybe the other part of the business, the customer experience, you've been pretty clear that the bigger focus is employee experience, but you're also working through that platform migration. Can you give us an update of where you are in that migration to Freshdesk Omni and as we think about how you're running the business today from a product development standpoint, how are you allocating investments between EX and CX today?

Dennis M. Woodside

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

A

Yeah. So, as of today, about two-thirds of our investment is on – two-thirds to three quarters of investment is on EX and about a third to a quarter is on CX in terms of engineering resources, marketing, sales, and all that. The CX business, our product line was we basically have four products that were serving a very similar need. We've

unified that into Freshdesk Omni that provides conversational experiences. So, if I want to interact with – if I'm a customer, want to interact with my -one of our customers through chat or WhatsApp or any other surface, you can do it all in one place. The agencies, all the interactions in one pane. [ph] They don't have to context (00:34:50) switch. The admin can actually manage a single experience. We didn't have that before. Now, we do. So, that's what launched in November.

Like I said, we're expecting to have over 4,000 customers migrated, upgraded into that new experience by the end of April. It's priced. We also changed the pricing for all of our products. We took the price up for Freshdesk Omni because the value really is there. So, we want to get through that migration. We think that retention should be higher, expansion should be higher because it's just much easier to experience the next kind of the better product or the next product within the product line. And so that migration and that upgrade is actually going quite well. I think for the way we're managing that business is it's more of an SMB business. It's more of a high-velocity transaction. It's actually very measurable because most of the sales are just coming inbound and we close them very quickly, but they're smaller deals and the target market there is more of an SMB. That's where that product is really resonating.

So, I think it's going to continue to be a good business for us. I think we're going to continue to use the kind of the cash that that business generates and invest it into the EX business because over time, that's a business that's addressing a much bigger market. We have a much clearer right to win. We have a product that really is resonating and the customers expand at higher rates, retain at higher rates, all goodness on that side of the business.

Oscar R. Saavedra
Analyst, Morgan Stanley & Co. LLC

Q

Got it. I mean, that platform strategy plays out and I think you previously mentioned that your win rates there are improving...

Dennis M. Woodside
Director, President & Chief Executive Officer, Freshworks, Inc.

A

On EX.

Oscar R. Saavedra
Analyst, Morgan Stanley & Co. LLC

Q

...on non-CX.

Dennis M. Woodside
Director, President & Chief Executive Officer, Freshworks, Inc.

A

I mean CX is – again, it's an inbound business. It's not the same. You're not actually going head-to-head in a field sale in the same way.

Oscar R. Saavedra
Analyst, Morgan Stanley & Co. LLC

Q

Okay, okay, okay. Maybe are there like any signals that you're looking for that may surprise you to the upside that maybe tell you like, hey, maybe invest a little more in CX or that...

Dennis M. Woodside

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

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I think we'll see how the upgrade goes to the new Freshdesk Omni and then we'll decide, but again, I think it contributes to the overall profitability story. Remember, we did 27% free cash margin last year. We had our first GAAP profitable year last year. We're aiming for a GAAP profitability the second half of this year as well on a consistent basis. We generated or we're forecasting to generate close to \$250 million in free cash this year. We have \$700-plus million in cash on the balance sheet, and we just did a \$400 million buyback. So, the CX business is a contributor to the overall profitability story, which really is that we're being efficient with our use of cash. In terms of our kind of our stock price, we see a huge opportunity to go in, into the stock right now given the current levels that's why we announced the buyback. And I think it really – the way to think of the business going forward in three or four years, it's going to be an EX-dominant business and that opportunity is the one that we're really going after.

Oscar R. Saavedra

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Okay. And when thinking about the up market expansion, are there any particular verticals or segments of the market where you're seeing the strongest traction today? And how is that sort of shaping up what you invest next?

Dennis M. Woodside

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

A

Our customer base is not concentrated in any single industry. 45% of our revenue's in the US, 40%'s in Europe, and then 15%'s around the world. I wouldn't say that there's any specific area that we're sort of like focusing the product on, doubling down on. We do very well in certain verticals. Of course, we kind of lean in there from a sales and marketing standpoint, but every company in the world, every mid-market company in the world needs a system to manage all of their IT operations, their assets, their incident response, their service management, and that's what we provide. So, that opportunity is huge.

Oscar R. Saavedra

Analyst, Morgan Stanley & Co. LLC

Q

Got it. And you previously highlighted the partners becoming more important part of the process. Particularly as you support larger and more complex deployments, how is that strategy evolving?

Dennis M. Woodside

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

A

So, we have thousands of partners. I think what we're doing, what we've done in the last year is try to be more selective about the partners that really are going to help us push up market. Historically, we had lots of partners that were more of the SMB end of the market. Those are still important, but increasingly investment is around partners like Unisys, which have a much bigger customer base. They have a lot of mid-market customers. Those mid-market customers are open to considering a different solution than what they have now, and they're building a business around our product.

Oscar R. Saavedra

Analyst, Morgan Stanley & Co. LLC

Q

Got it. And maybe just to close out, as you look at 2026 and beyond, are you sort of more excited about and what are you keeping your eye on in terms of potential risk?

A

Dennis M. Woodside

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

I think we spent a lot of time on how AI evolves and what can AI do beyond just answering and addressing [indiscernible] (00:40:04) simpler questions, how can AI actually help with more complex problems, how can AI be much more predictive in understanding what's going on in an IT environment or in the customer support environment and be involved more in helping craft decisions that advance our customers' businesses. That's what they're looking for.

Oscar R. Saavedra

Analyst, Morgan Stanley & Co. LLC

Awesome. Thank you very much.

Dennis M. Woodside

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

Thank you. Thanks.

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