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Freshworks, Inc. (FRSH)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Freshworks' First Quarter 2025 Earnings Conference Call. At this time, all participants are in listen-only mode. After the speakers' presentation, there will be a question-and-answer session. Please be advised that today's conference is being recorded.

I'll now hand the conference over to your first speaker today, Joon Huh, Head of Investor Relations. Please go ahead.

Joon Huh

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

Thank you. Good afternoon, and welcome to Freshworks' first quarter 2025 earnings conference call. Joining me today are Dennis Woodside, Freshworks' Chief Executive Officer and President; and Tyler Sloat, Chief Operating Officer and Chief Financial Officer. The primary purpose of today's call is to provide you with information regarding our first quarter 2025 performance and our financial outlook for our second quarter and full year 2025.

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 our 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, the timing of future repurchases of our Class A common stock, 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 rate, to innovate, to reach our long-term revenue goals, to meet customer demand, and to control costs and improve operating efficiency. For 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 are 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, 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.

Thank you, Joon. Freshworks had another fantastic quarter. We outperformed all our financial metrics for growth and profitability in Q1. We continue to see that our uncomplicated customer and employee service solutions are winning against outdated legacy software vendors. Companies are choosing our AI-powered solutions to remove complexity, improve efficiency, and unlock growth. We continue to demonstrate our ability to drive growth and profitability for the business.

In Q1, revenue grew 19% year-over-year to \$196.3 million and we delivered a non-GAAP operating margin of 24% and adjusted free cash flow margin of 28%, beating our financial estimates once again. Adding our revenue growth and adjusted free cash flow margin for Q1, we achieved a Rule of 47 in the quarter. In driving profitability, we significantly expanded our non-GAAP operating margin by more than 10 percentage points compared to last year.

We added over 1,000 net customers in the quarter, including large customers, such as Freudenberg Group and All3Media. We also expanded with our customers as we maintained a net dollar retention of 105% on a constant currency basis, in line with the last two quarters. We ended the quarter with over 73,300 customers.

We've continued to deliver strong revenue growth each quarter and drive profitability as we execute on our strategy. As a reminder, our three strategic imperatives are: one, investing in employee experience, or EX, which is our largest, fastest-growing business, in ITSM, ITAM, ITOM, and ESM; two, delivering AI capabilities across our products and platform that drive productivity improvements for our customers; three, accelerating growth for our customer experience, or CX, solutions.

Here's how ongoing execution of our strategy led to strong Q1 results. First, on employee experience, our focus to drive upmarket growth is paying off. Q1 was another strong quarter for our EX business. We surpassed \$420 million in ARR and grew 33% year-over-year on a constant currency basis. We ended the quarter with approximately 18,700 customers in EX. We believe that several factors are driving growth in EX: our continued upmarket success, our expansion with employee service management, the ongoing demand for Device42 from our accounts, and our success in specific industry verticals, such as professional sports and educational institutions. More than 75% of the ARR in our EX business comes from mid-market and enterprise companies.

Large companies and organizations, like Dave & Buster's, ITV in Europe, the State of Hawaii, and Dynatrace, have cited the fast time to value that our Freshservice products deliver. New mid-market and enterprise companies, like Travis Perkins and the largest homebuilding supply wholesaler in the UK, are turning to Freshworks and leaving our IT competitors on a regular basis. Sophos, All3Media, Nexstar Media Group, Kayak, all chose Freshworks over legacy solutions.

For example, cybersecurity leader Sophos needed a user-friendly ITSM solution with less complexity and a lower total cost of ownership. These differentiators, coupled with the ability to procure via AWS Marketplace, made switching from the legacy provider to our uncomplicated solution an easy decision.

Another example, the largest title company in the US chose Freshservice to replace ServiceNow, which was their legacy provider of nearly a decade. Frustrated with poor user experience, low adoption, and manual inefficiencies, they opted for our uncomplicated, intuitive solution that could be easily managed and trusted by internal teams. Since switching to Freshworks, they have noted achieving faster ticket resolution, improved SLA compliance through modular workflows, and significant cost savings.

The second factor driving our EX business is success in enterprise service management. ESM has become a key lever for expansion and an important component in new and existing deals. Customer adoption for Freshservice for Business Teams has nearly doubled over the past 12 months. Customers are using Freshservice in other areas of their businesses, including HR, marketing and finance, to deliver amazing service experiences.

For example, EDF Renewables, a leading power provider with more than 35 years in renewable energy and nearly 5,000 employees in over 20 countries, wanted to streamline their IT service management, asset

management and change management processes. EDF chose Freshservice because of its ease of use, seamless integrations, and codeless customization. They are leveraging workspaces within Freshservice to manage different departments outside of IT, like facilities, ensuring that each department has a tailored environment to operate in. The integration with Microsoft Teams and the use of AI agents reduce manual intervention in routine tasks, resulting in higher employee satisfaction.

The third EX growth driver is our advanced ITAM offering with Device42. In Q1, two of the top five largest deals had a Device42 component. For example, a large multinational tech company recently chose Device42 with Freshservice for Business Teams and Freddy AI Agent over ServiceNow. They wanted a scalable, agile AI-native offering that would deliver faster time to value. Our integrated platform, powered by Freshservice and Device42, provides a unified, modern experience for IT and employees.

Our EX success is also being driven by our momentum in specific industries. We're expanding our professional sports leadership position outside of the US to include top Bundesliga football clubs in Germany: VfB Stuttgart, VfL Bochum, and TSG Hoffenheim.

In education, we added Kent State, who has achieved a 95% CSAT with Freshservice; and D'Youville University, who has seen improved asset management accuracy and reduced average resolution times to under 24 hours since using our solutions. Simply put, Freshworks helps midsize and larger enterprise organizations scale and compete at a global level.

Next, on AI adoption. Customers have moved from AI experimentation to realizing tangible business value and returns on their investments. Freddy Copilot was included in three of the top-10 new deals in Q1. Nearly half of all new large deals over \$30,000 ARR had Copilot attached in Q1.

For new SMB customers, we continued to see double-digit attach rates with increases quarter-over-quarter. We ended the quarter with more than 2,700 Copilot customers, reflecting quarterly net adds of more than 500, or 23% growth quarter-over-quarter. Organizations are adopting Freddy AI because they see Freshworks successfully taking customers from AI experimentation to execution.

Bensons for Beds, which uses Copilot with both Freshdesk and Freshservice, saw a 54% improvement in resolution times. Our AI offering has proven to be rapid, measurable, and transformative for a business balancing growth with seamless customer and employee experiences.

In education, school administrations are increasingly using AI to handle repetitive tasks and streamline operations so that they can improve student outcomes. San Ramon Valley High, for example, uses Copilot with Freshservice to save 50% of their IT management time every year.

Freddy AI Agent became generally available for CX customers in Q1 and represents the next generation of self-service capabilities. We added approximately 250 customers and finished the quarter with over 1,600 customers using Freddy AI Agent. In CX, AI agents were instrumental in the deflection of L1 queries and creating triage of multiple issues to help improve overall customer service operations for our customers.

As Freddy AI Agents became generally available for EX customers in Q2, we expect to see improved momentum in these numbers going forward. We already have approximately 1,000 customers using Freddy AI Agent for EX needs.

A leader from a top healthcare company shared that AI agents cut response times in half from 4 minutes to just 2, while autonomously handling over 70% of inquiries. This allowed human agents to focus on complex issues, boosting first call resolution by 30% and raising CSAT from 82% to 94%, all while cutting operational costs by 25%.

Finally, for managers, we launched Freddy AI Insights into public beta at the end of Q1. Freddy AI Insights is an AI-powered intelligence partner for leaders, delivering fast, proactive and actionable insights, enabling smarter decisions, agility, and sustained growth. I look forward to sharing more in upcoming quarters.

Here at Freshworks, we use AI to drive performance and accelerate results across our own business. Our finance team uses AI to analyze our cloud infrastructure spend and identify savings opportunities. Our billing team uses Freddy Copilot to summarize billing inquiries. Our engineering teams have developed an AI agent specifically for highly technical escalations.

We continue to push the boundaries on what's possible today, because AI is delivering results and driving efficiency, and we were recently recognized by Gartner once again as an Emerging Leader in their Innovation Guide for Generative AI. We are in the next stage of generative AI and have moved from output to outcome. While some other vendors may sell vaporware, Freshworks is the ROI-driven AI solution, turning AI hype into real results.

Turning to CX, we saw growth and retention in our flagship business and one of our two core offerings. We ended the quarter with approximately 59,000 CX customers, generating over \$370 million in ARR, reflecting 7% year-over-year growth on a constant currency basis, similar to the prior two quarters.

Our CX win rate against competitors like Zendesk increased sequentially over the prior quarter. We know that exceptional customer experiences drive loyalty, while complexity drives them away. Customers are choosing Freshdesk over others because our product is easy to use, provides a lower total cost of ownership, and delivers new AI features to improve productivity and efficiency. Companies of all sizes, such as Tucows, Maisons du Monde, Landmark Group, and Cineworld are leaving legacy software competitors and coming to us.

NASDAQ Europe has relied on Freshdesk for over four years to deliver high-quality support to clients across multiple countries. With several Freshdesk instances, their teams depend on the core automation features and SLA policies to consistently meet their high customer service standards. In 2024, NASDAQ Europe achieved a 97% resolution SLA and a 93% CSAT. Freshdesk's uncomplicated and efficient platform continues to be a critical part of their support infrastructure as they scale and serve complex crossborder markets.

Our CX products are expanding in numerous ways. First, CX customers are adopting our AI products. Customers have seen a 40% to 45% productivity improvement due to reduction in ticket resolution and response times from Freddy AI Agents. For example, Panasonic North America chose Freshworks as part of their strategy to drive continuous improvement. Freddy AI Agent handles over 75% of their customer queries, a path to reduce customer effort scores and increase customer satisfaction.

Another CX customer, Drive, uses Freddy AI Agents to deliver detailed explanations, relevant article links, and clear and actionable information to their customers, which has significantly reduced response times.

Another expansion path is CX customers also buying our CX solutions and vice versa. We continue to see cross-sell success with customers like Trinity College, finance company PremFina, and the popular German football club VfB Stuttgart, who initially used Freshdesk to provide stellar customer experiences, then expanded to EX.

On the product front, we launched several improvements to Freshchat in Q1, including enhanced integration with Apple Messaging (sic) [Messages] (00:17:29) for Business. Customers can now use Apple Messaging (sic) [Messages] (00:17:32) for Business as a support channel and provide exceptional customer service with Freshchat, Freshdesk, and Freddy AI Agents.

We also released the Freshchat OAuth authorization, which makes it easy to integrate apps and reduces security risks. We believe these product improvements drive improved customer experience and retention.

We recently announced enhancements to our global partner program with expanded reseller and services offerings, designed to give partners more predictability in building long-term Freshworks practices. We have more than 500 transacting partners, including global partners such as Gorilla Services, SHI International, Unisys, Xcession, and Climb. In recognition of our growth and innovation, Climb recently named Freshworks its Strategic Vendor of the Year.

We're leveraging partners at every step of the customer relationship. For example, we teamed up with a preferred partner to help one of our longtime EX customers drive a major IT operations initiative. Our collaborative approach helped reduce our customers' resolution times by 30%. As partners become a larger part of our business, we expect to see increased efficiencies in our go-to-market efforts and overall business.

Once again, I'm excited to capture the opportunity in front of us. Particularly in the current economic environment, we expect our enterprise-grade software to be a strong competitive advantage, because it delivers results fast and has a lower total cost of ownership. We'll provide more product updates at our virtual Refresh Summit in June, and updates to our long-term strategic plan at Investor Day in September, where we will expound on our vision to help customers realize their full potential with the transformative power of AI. Thank you to our customers, partners, employees, and shareholders for your ongoing support.

Now, let me turn it over to Tyler to go through the operational and financial details.

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. As you just heard, we had a strong start to the year in Q1 with robust financial performance that reflects our operational discipline and focused execution of our strategic initiatives. We once again exceeded our revenue growth estimates and improved our profitability measures as we expanded our non-GAAP operating margin nearly 300 basis points, quarter-over-quarter, to 24% and grew our adjusted free cash flow 43% year-over-year to \$55.4 million, which resulted in a strong adjusted free cash flow margin of 28%.

For our call today, I'll cover the Q1 2025 financial results, provide background on the key metrics, and close with our forward-looking commentary and expectations for Q2 and full year 2025. 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, and other adjustments. We will also talk about adjusted free cash flow, which excludes the cash outlay related to the restructuring costs.

First, in contrast to the prior quarter, FX changes were a tailwind in the quarter driven by a weaker US dollar. While Q1 revenue impact was minimal, there was a 1 percentage point positive impact to ARR growth, or a \$7 million increase to ARR. During the call today, we will include constant currency comparisons to provide a clearer view of our underlying business trends.

Starting with the income statement, Q1 total revenue increased to \$196.3 million, growing 19% on an as-reported and constant currency basis. Professional services revenue contributed \$2.1 million in the quarter, reflecting the ongoing shift of services revenue to our growing partner network. Our EX business has increased to over \$420 million in ARR, representing growth of 33% year-over-year for both as-reported and constant currency, and as we continue to drive our upmarket strategy.

Our CX business increased to over \$370 million in ARR, reflecting growth of 8% on an as-reported basis and 7% year-over-year on a constant currency basis, in large part due to steady execution and positive momentum from our SMB customers to start the year.

Moving to margins, we maintained a strong non-GAAP gross margin in Q1 of 86%, as we made ongoing improvements in delivering our solutions efficiently and scaling our business. This represents an improvement of approximately 100 basis points compared to the prior year.

Our non-GAAP operating income for Q1 came in at \$46.4 million, representing a non-GAAP operating margin of 24% and ahead of prior expectations. The improvement in profitability was driven by our top line outperformance as well as lower personnel-related expenses as some of these costs moved to future quarters. We also had favorable timing of expenses with specific spend expected for later this year.

Moving to operating metrics, our two key business metrics are net dollar retention and customers contributing more than \$5,000 in ARR. Net dollar retention performed better than our expectations coming in at 105% on both an as-reported and constant currency basis. Looking ahead, we estimate our net dollar retention of approximately 105% on an as-reported basis and 104% on a constant currency basis for Q2.

For our second key business metric of number of customers contributing more than \$5,000 in ARR as of the end of Q1, this metric grew 13% year-over-year on both an as-reported basis and constant currency basis to 23,275 customers. This customer cohort continues to represent 90% of our ARR. For our larger customer cohort contributing more than \$50,000 in ARR as of the end of Q1, we saw growth of 24% year-over-year on both an as-reported and constant currency basis to 3,217 customers. This cohort represents 50% of our ARR.

For total customers, we added over 1,000 net new customers in the quarter as we saw a partial benefit from our free-to-paid initiatives that we began towards the end of last year. We ended Q1 with over 73,300 customers.

Now, let's turn to calculated billings, balance sheet, and cash items. Our calculated billings grew to \$203.3 million in Q1, representing an as-reported growth of 16% year-over-year and 17% growth on a constant currency basis. We saw higher bookings performance and increased pull-in activity that contributed approximately 2 percentage points of growth in Q1.

Looking ahead to Q2 2025, our initial estimate for calculated billings growth is 11% to 12% on both an as-reported and constant currency basis. For the full year 2025, we expect calculated billings growth to be approximately 13% year-over-year on an as-reported basis and 14% on a constant currency basis, which is in line with our expectations from last quarter.

Moving to our cash items, we generated \$55.4 million in adjusted free cash flow in Q1, outperforming our estimates thanks to strong collection activities and continued improvements in our operational efficiencies. This resulted in an adjusted free cash flow margin of 28%, which represents a 5 percentage point improvement year-

over-year. As a reminder, these results do not include a one-time use of cash of \$1.5 million related to restructuring costs.

For the full year 2025, we are expecting to generate approximately \$210 million of adjusted free cash flow with approximately \$50 million in Q2 and slightly higher amounts in Q3 and Q4. In Q1, we repurchased an additional \$111.8 million of our shares at an average price of \$16.60 per share. Since the beginning of the program, we have repurchased more than 7.7 million shares using \$127.3 million through Q1. We remain committed to executing on an appropriate capital allocation strategy and delivering long-term value for our shareholders.

In addition to the repurchase program, we continue to manage and offset share count dilution by net settling vested equity amounts by using approximately \$17 million during the quarter. This activity is reflected in our financing activities and is excluded from our free cash flow calculations. Looking ahead, we will continue to net settle vested equity amounts and expect Q2 cash usage of approximately \$13 million at current stock price levels. For the full year, we expect to use approximately \$55 million to net settle vested equity amounts. We ended the quarter with cash, cash equivalents, and marketable securities of \$1 billion.

Turning to our share count as of March 31, 2025, we had approximately 325 million fully diluted shares, which represents growth of less than 1% year-over-year. The fully diluted calculation includes 298 million shares outstanding, which is a slight reduction compared to the prior year and quarter. This calculation also includes 24 million shares related to unvested RSUs and PRSUs, and 2 million shares related to outstanding options. We plan to thoughtfully manage share count dilution with net settle activities and share repurchases into the future.

Now, on to our forward-looking estimates. For the second quarter of 2025, we expect revenue to be in the range of \$197.3 million to \$200.3 million, growing 13% to 15% year-over-year on an as-reported and constant currency basis. We expect non-GAAP income from operations to be in the range of \$27.8 million to \$29.8 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 299.7 million shares.

For the full year 2025, we are raising our revenue expectations to be in the range of \$815.3 million to \$824.3 million, growing 13% to 14% year-over-year, adjusting for constant currency using FX rates from Q2 of last year. This reflects growth of 13% to 15% year-over-year. We expect non-GAAP income from operations to be in the range of \$139.5 million to \$147.5 million, and non-GAAP net income per share to be in the range of \$0.56 to \$0.58, assuming weighted average shares outstanding of approximately 299.1 million.

Our financial outlook is based on a few assumptions that we would like to call out. First, our forward-looking estimates are based on FX rates as of April 25, 2025, so any future currency moves are not factored in. Second, as a reminder, we will anniversary the Device42 acquisition in early June. As such, we anticipate revenue growth rates will be higher in the first half of the year compared to the second half. For operating metrics, including customer numbers and net dollar retention, we will anniversary these comparisons in our Q2 results.

In addition, and consistent with prior years, we expect Q2 expenses to increase in connection with our annual merit cycle as well as shifting of investments in sales and marketing, which will impact our operating margin quarter-over-quarter. Lastly, we acknowledge that we are in a period of market volatility and economic uncertainty. While we have not seen meaningful impact to our business from these factors to date, we continue to monitor things closely. If parts of the economy do turn worse, we believe we are well-positioned given our value proposition to customers.

To summarize, we are pleased with our strong performance in Q1, which reflects effective execution of our strategic initiatives and the dedication of our teams. We are focused on creating uncomplicated and innovative products for our customers while driving long-term profitable growth for the business. Thank you for your continued support and we look forward to updating you on our progress for the rest of the year.

And with that, let us take your questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we will conduct a question-and-answer session. [Operator Instructions] And our first question comes from the line of Rob Oliver of Baird. Your line is now open.

Rob Oliver

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

Q

Great. Thank you. Good afternoon. Appreciate it. Dennis, it seems like from the early software reports here that the resiliency of software as a business model, but also as adding efficiency here in tough times is kind of playing out. It sounds like that's really playing out for you guys. So, a couple of parts to my question. One is on Device42. It seems that's now really driving platform wins. Last quarter, you said that the pipeline there had doubled sequentially. And I don't know if I caught a comment relative to pipeline, so would love to get an update there.

And then on CX, I know you made some changes in CX as well, and it sounds like that's really starting to pick up also. And I'd be curious if you're still seeing in that business both growth in agents as well as seats, or if you're starting to see some of the efficiency created by the agent purchases start to offset some of the seat purchases. I realize that's a lot. Thanks, guys. Appreciate it.

Dennis M. Woodside

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

A

Thanks, Rob. So, let me just go tick through those. I think, first of all, in terms of the overall demand and our positioning, we did not see any material change in demand in Q1 from Q4 trends, pretty much the same, I would say, beginning part of the quarter, this quarter, same thing. And if you think about our value proposition and what customers need in tighter times, businesses are going to get – need to get more efficient, and our AI solutions absolutely help them do that. We've got over 30% improvement in productivity from Copilot. We're seeing deflection rates of 50% to 70% from AI agents. So, that's a positive for us.

They want lower cost overall. And if you look at our positioning, our products in general are about half the total cost of a ServiceNow deployment or a Zendesk deployment or a Salesforce deployment. And that's when you take into consideration the time it takes to get the value, consultants you need to get a product up and running, and then maintaining the product over time. So as those deployments come up for renewal, we're seeing it in our big wins, customers are looking for an alternative. They're looking to bring us in, and we're winning our fair share of deals there. And they want uncomplicated solutions that scale and that are enterprise-grade. And we've clearly built that. So, regardless of the demand environment, we think we're going to be in good shape.

On Device42, we had a great quarter for Device42. I would say that the majority of the business there is coming from us selling Device42 into our existing base at renewal for upsell as well as new deals. It's helping – we did this – we bought the company to help us win new business, and we're seeing that two of our top-five deals were Device42 deals and to enhance the value proposition for our existing customers. So, really, the best quarter in

terms of number of deals that we've seen. We've really only been selling together for two quarters, two and a half. But increasingly, it's an integrated sale, which is why, going forward, we're not really going to be speaking about it as a completely separate business.

And then on the third point, CX, we continue to see agent count go up. We continue to see adoption of our AI solutions increase, both for Copilot and for AI agent. We're very optimistic about where AI agent is going. Insights, as I mentioned, has over 500 customers in the beta. I think we had close to 1,000 customers at the latest point. So, we're pretty excited about how those products are going to continue to add value for us. And I'm really proud about the investment that we've made and the results we're seeing on AI. So, thank you.

Rob Oliver

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

Q

Great. Really appreciate it. Thanks, guys.

Operator: Thank you. One moment for our next question. Our next question comes on line of Elizabeth Porter of Morgan Stanley. Your line is now open.

Elizabeth Elliott Porter

Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you so much. You mentioned some interesting OpEx efficiencies driven by some of the internal use of AI. I was wondering if you could provide kind of more granular color on what you're seeing and how you might be changing your own internal spending plans, if at all, based on what you're – on the efficiencies you're seeing today. And then, just lastly, just confidence in expanding the margin in that uncertain macro.

Dennis M. Woodside

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

A

Sure. Thanks, Elizabeth. So, we've been on an AI journey for a number of years now, and today we have over 70 instances of AI products, our own products, third-party products, that are enhancing our team's productivity and helping drive productivity and margin. I mean, if you look back at the last – we were looking at this earlier – last two years in terms of our cash flow margin, we've gone from sort of mid-single digits to where we are today over the last 18 to 24 months. And if you look at head count in aggregate, head count's actually come down by close to 20%.

Now, none of that's explicitly driven from any single project. It's really about optimizing the business overall, but AI plays a huge part in that. We're using AI in engineering for coding. We're using it all throughout our support operations. We're seeing the kind of high deflection rate in the 80-plus percent range for certain classes of queries. We're seeing our Copilot product assist us in areas like billing and customer support. So, we're going to continue to press AI across our entire operation, and we think that that will continue to drive margin expansion. And you see that in the guide.

And Tyler, anything else that you would add on that?

Tyler Renwick Sloat

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

A

Yeah. I think your second part of your question, Elizabeth, was just spending in general. We've always prided ourselves on being relatively efficient. In fact, we took actions last year to really drive a lot of efficiency into the business, and we're going to continue to do that. I think we might be a little bit of an anomaly that we said, hey,

we expect some increases in spend and some timing into Q2 and Q3 and Q4. And part of the reason for that is we actually think when times get really uncertain, that might be an advantage for us. And we will lean into opportunities to try to grow faster, specifically investing in sales and marketing.

Elizabeth Elliott Porter
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you so much.

Operator: Thank you. One moment for our next question. And our next question comes from line of Scott Berg of Needham & Company. Your line is now open.

Scott Berg
Analyst, Needham & Co. LLC

Q

Hi, everyone. Really nice quarter. Thanks for taking my questions. I have two. I don't know if Dennis or Tyler want to take it, but there was a quote in your press release, talked about new global – have a new global partner program with expanded offerings for resellers. I didn't hear much of the commentary on that. Can you help us understand maybe what changes you're making to your partner program and any potential impacts for fiscal 2025 here? Thank you.

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

A

Yeah, I'll take it. So, we made a change to the program overall at the request of the vast majority of our partners, where we're moving to something that's much more industry standard, where we basically have a transfer pricing model for our resellers. And then they can build services around that. They can price as they wish. If they want to price on a per seat basis, they can. If they want to add services into that, they can. And that's what we were hearing that we needed to do across the board to create more opportunities for our partners to build businesses on an ongoing basis around our products.

I think the things that we're seeing, we continue to see a lot of interest from the partners across the board that are bringing us into mid-market companies. So, in Q1, we signed a deal with Unisys, which we've already been working with them throughout the quarter. We've got a nice pipeline of mid-market customers for our EX set of solutions there. And so, I think we have a lot of opportunity in partners. I'm excited about where that's going. And we'll continue to invest there.

Scott Berg
Analyst, Needham & Co. LLC

Q

Got it. Very helpful. And then your operating margin guidance, Tyler, I know you talked about timing of some expenses was favorable in the quarter, moving to the back half of the year. The operating margin step down to Q2 is, I guess, a little bit more significant than anything we've seen in the model over the last several years. Is it purely just based on timing, or are there some other maybe investments going on in the model that's maybe worth noting in the quarter? Thank you.

Tyler Renwick Sloat
Chief Operating Officer & Chief Financial Officer, Freshworks, Inc.

A

Yeah, it's a combination of both, Scott. I think there's always timing from Q1 to Q2, but mainly changes in our compensation. So, our annual focal process hits at the end of Q1, so we get kind of an uplift. And so, that

happens every single year. Secondly, we did have some timing just on spend and some expenses that just got pushed out of Q1 into kind of Q2 in the back half. Some of those are related to sales and marketing. And so, it's nothing – we're really actually quite pleased with how we're doing from the efficiency perspective. We had a really significant beat against what our forecast was for Q1, but some of that was timing.

Scott Berg

Analyst, Needham & Co. LLC

Excellent. Thank you. Nice quarter again.

Q

Tyler Renwick Sloat

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

Thanks, Scott.

A

Operator: Thank you. One moment for our next question. Our next question comes from the line of Pinjalim Bora of JPMorgan. Your line is now open.

Pinjalim Bora

Analyst, JPMorgan Securities LLC

Oh, great. Thanks for taking the question. Congrats on the quarter. Dennis, maybe talk about the – I think I heard you launched Freddy Insights at the end of Q1. I don't think we are – at least I'm not aware of kind of the pricing for that product. Maybe talk about how you're thinking about pricing and monetizing Freddy Insights. And overall, if you take a step back, it seems like you're being successful fairly on the AI side. When do we start hearing kind of the contribution from AI to the business overall to the kind of the growth of the – growth in ARR or any of the business metrics? And I have a follow-up for Tyler.

Q

Dennis M. Woodside

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

Thanks, Pinjalim. So, let me just refresh you on the overall pricing model for AI that we have today. So, we have AI Agent, and AI Agent, most of the queries today are coming on the CX side. And for CX, we monetize on a consumption basis. Remember, you buy session packs, 100 session packs, and you – or 1,000 session packs, and you buy – and as you consume them, you purchase more. For AI Agent, that's an adder, a seat adder. The sticker price is \$29 a seat per month on top of the regular license price. And then for AI Insights, we're incorporating that – today, that's available in beta for EX. We're incorporating that into our enterprise plan to encourage adoption of the enterprise plan, which, of course, is the highest price plan.

A

So, we expect that we'll have a mix of monetization methods for different aspects of AI. We also expect that we'll experiment with different methods as we hear feedback from customers. Some customers appreciate the certainty of a seat license model. Others are much more – or are comfortable with consumption, because they are used to that in other services. I think in terms of when will we be able to talk about it separately, right now, AI is such an integral part of our sale, people [ph] aren't (00:42:48) buying or making decisions on switching from a legacy provider without really having a good understanding of the AI roadmap and AI capabilities. So, it's really driving the business overall. And I think we'll have to give some thought into how we – if we do break it out, how we talk about it, and we'll have more to say in September at the Investor Day.

Pinjalim Bora

Analyst, JPMorgan Securities LLC

Q

Understood. Tyler, on the NRR dynamic, seems like it's been stable. That's great to see. But when I think about kind of the four-quarter average calculation on that, you're kind of giving up some of the higher numbers, but still able to maintain a stable NRR, which makes me feel like your in-quarter probably is expanding faster than your reported number. Any way to understand what is that in-quarter at this point? Or am I theoretically correct in that direction? And ITSM, I think you talked about 110% a couple of quarters back. Has that been holding up in that general zone?

Tyler Renwick Sloat

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

A

Yeah. So, hey, Pinjalim, yeah. So, we obviously – well, you know how it's calculated, right? It's a four-quarter look-back on the net dollar retention. We continue to make really good progress on churn, and that's just kind of been steady. You're right. On net dollar retention, we have kind of seen it level. 105% is a little bit better than what we had forecasted. We had said 104%. We're saying 104% to Q2. Again, it's an estimate of – we know the churn. We have three-quarters of data, but the expansion rates in churn are just the ones we have to wait for in the quarter to get to.

But in general, we're actually pleased with the progress that we've made and we see some good results. Expansion motion on agent addition, we've been talking about that for years in terms of that coming down, and we're starting to see offsets in terms of the other products that we have to bring to our customers to offset the agent addition expansion, which is also going positive.

The second piece of your question, Pinjalim, remind me.

Pinjalim Bora

Analyst, JPMorgan Securities LLC

Q

The ITSM disclosures.

Tyler Renwick Sloat

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

A

Oh, yeah. I'm sorry, the byproduct. Yeah, I'm sorry, the byproduct. We haven't updated that in the last couple of quarters. That's, again, something we will talk about at Investor Day in terms of looking kind of deeper into the byproduct information both – and net dollar retention will be part of that.

Pinjalim Bora

Analyst, JPMorgan Securities LLC

Q

Understood. Thank you.

Operator: Thank you. One moment for our next question. Our next question comes from the line of Alex Zukin of Wolfe Research. Your line is now open.

Alex Zukin

Analyst, Wolfe Research LLC

Q

Hey, guys. Thanks for taking the question. I guess, Dennis, I mean, outside of the mentioning maybe some pull-forwards in billings or pull-ins in billings that you saw, you really aren't seeing any of the macro changes yet. So, I guess, why is that? How do you see that playing out? What are you maybe hearing in conversations around macro for the full year? And Tyler, maybe just go a bit deeper on those pull-ins. And were they from Q2? Were

they from later in the year? And maybe just qualify how, if at all, you've included kind of more risk adjustment around macro uncertainty in the guidance.

Dennis M. Woodside

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

A

Thanks, Alex. So, look, first of all, we operate in a must-have categories. If you have a customer support team, if you have an IT team, you have to automate their operations. You have to bring AI in and get as much out of the people as you can, and it's just not optional. So, a lot of software categories are optional, and so it's easier to defer decisions or not have something or survive with whatever old legacy system you have. So, I'd say that's one.

I think the second is a lot of our competitors are way more expensive, and you see that with these big wins that we have, like Travis Perkins, which is equivalent to the Home Depot of the UK, the big sophisticated customer. They were customer of ServiceNow for 10 years plus, and they're looking for something that's easier for them to manage themselves without having experts on staff that just understand the system and can babysit it, and that's what our product does.

You can manage it without the kind of overhead that other systems require. So, when they're looking to save money, when they're looking to become more efficient, of course they're going to look at alternatives to their existing providers. And three years ago, two years ago, maybe when they signed their renewal, our product was not as robust and mature as it is today.

So, we actually think that that's a great position to be in going into kind of a tighter time. And I think that that's just true across the business. Now, that can change, but as of now, we really didn't see anything that's recognizable that indicates that the macro's having a big effect on us so far.

Tyler Renwick Sloat

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

A

Yeah. And on the question on kind of the timing of billings, Alex, we said, hey, we got about 2% benefit in Q1 from both over-performance, but also pull-in, and that pull-in really is from Q2. Some of that stuff happens every quarter. It really has to do with kind of when expansions are happening during contract terms and things like that, and it's relatively unpredictable, and then sometimes early renewals. And that takes away from a little bit of the forecast from Q2, but for the full year, we're still seeing the same – we guided to the same number in terms of the billings forecast that we had already done coming into the year.

The second part of that question is what's derisked. Everything that we're talking about is based on the full information that we have today, and that would include kind of any of the uncertainty that's out there. Now, if things get considerably worse or buying behaviors change from anything new, then obviously we'll update that, but we're not seeing that right now.

Alex Zukin

Analyst, Wolfe Research LLC

Q

Perfect. Thank you, guys.

Operator: Thank you. One moment for our next question. And our next question comes from the line of Brent Thill of Jefferies. Your line is now open.

Brent Thill

Analyst, Jefferies LLC

Q

Thanks, Dennis. Can you address the market strength? You called out a number of these enterprise wins. What are you seeing? How would you characterize the pipeline? Just give us an overall sense of what you're seeing. And I had a quick follow-up.

Dennis M. Woodside

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

A

So, the pipeline looks good. Again, you see it in the numbers from last quarter or just some of the examples in terms of our wins. Kayak, they replaced JIRA. Kent State, big public university, they came in with Freshservice. As I said, Travis Perkins replaced ServiceNow. We had a big US technology player, 10-year customer of ServiceNow, they replaced them. Amex Business Travel upgraded to D42. Coherent, Alterra Mountain Company, ChampionX, all these are replacing legacy players with our products. So, we've got great momentum. And if I look at our pipeline, it looks kind of like the last quarter, right? It's strong both on the upsell and on the new business side.

So, again, I'm not really seeing much change from what we started seeing Q3, Q4 last year to building. And I think for that mid-market customer, like the ideal is 5,000 person, but it ranges up to 20,000 people, that segment is not well-served by the big enterprise players or the legacy players. They haven't historically had a choice. Now, they do. And I think that momentum is starting to build. The customers are starting to talk to one another. They're starting to recognize that there is a choice out there and that we're it. And so, that's fantastic on that side of the business. And we look to continue that.

Brent Thill

Analyst, Jefferies LLC

Q

Okay, great. And then, just a quick follow-up, some of your partners have called out some changes in the sales team with Abe departing. Can you just refresh us on what is happening there? Is this a distraction? How do you think about managing that transition?

Dennis M. Woodside

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

A

Sure. So, Abe left the company earlier this month for personal reasons, and we respect that. And throughout, he landed the quarter, obviously we did well in Q1. Ian Tickle, who is our Head of International, he has stepped in on an interim basis and has picked up the mantle with no real losses. He's been a fantastic leader who joined us last year. He was a CRO of Domo and has had a long career in enterprise sales. So, we continue to see the progress that we've made in the go-to-market motion across the board, and we really didn't see any disruption, and I don't anticipate any.

Brent Thill

Analyst, Jefferies LLC

Q

Okay, Dennis, I just want to clarify, this change, this is an interim change, and you're looking for a full-time Head of Sales? Is that correct?

Dennis M. Woodside

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

A

That's correct. That's correct.

Brent Thill

Analyst, Jefferies LLC



Okay, great. Thank you.

Operator: Thank you. One moment for our next question. And our next question comes from the line of David Hynes of Canaccord Genuity. Your line is now open.

David Hynes

Analyst, Canaccord Genuity LLC



Hey. Thank you, guys. Dennis, AI attach on new deals is obviously doing really well based on the stats you shared. Maybe you could touch on the strategy for driving even better adoption in the installed base, particularly on the CX side and just how you think you're positioned for that opportunity.

Dennis M. Woodside

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



Yeah. So I think it's, on the one hand, we can look at the business and say, hey, 2,700 customers, up 500 year-over-year for Copilot, 1,500-plus for AI Agent. But what I say, I keep reminding the team we've got 73,000 customers. So, there's a long way to go. I think part of that is just how businesses are adopting AI. It's very similar to any other new technology where you're going to have the early adopters who are comfortable experimenting and they're comfortable trying new technology. Also, those that have a bigger opportunity are the ones to jump in first, like PhonePe is a big customer of ours in India that's a big early adopter of all things AI.

And then you're going to have other customers that have other issues, regulatory issues. They want to get comfortable with how we're treating information. They want to test the product. They want to deploy in a POC before rolling out more broadly. So, we're working through all that with our customers. And where they're seeing success, they're broadening out and broadening their deployments. And that's really the work that's ahead of us as a team. So, I think that adoption curve we're going to continue to work on.

We've got several exciting products that are coming out in June at our June 11 Refresh event. For those who can't attend, that event's going to occur in London, but there'll be a virtual version of it on the 12, where we'll share a bunch of new product introductions, which we think will accelerate AI adoption even further across that base. And then, every quarter, we're getting better at selling in AI, at demonstrating success. We have more and more success stories to talk about with prospects and with our existing customers who haven't yet adopted. So, I think it's really just a matter of time before we kind of continue to drive those numbers up and see broader and broader adoption of our AI products.

David Hynes

Analyst, Canaccord Genuity LLC



Yeah. Okay. Makes sense. And then, Tyler, a follow-up for you, do you have an organic growth rate on that EX ARR number? I think you've shared that with us in the past. I'm not sure I caught it this quarter.

Tyler Renwick Sloat

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



Yeah, David. Hey. Coming into the year, we actually said we're not going to be breaking out organic and inorganic. And the main reason is actually a positive reason that the Device42 kind of co-sell motion has been doing really, really well. And so, majority of the business that we're closing now is all combined. And so, some of

those numbers don't make sense to break out anymore. We call that out coming into the year that Q4 was the last time we're going to do that.

David Hynes

Analyst, Canaccord Genuity LLC



Okay. I forgot. Thank you, guys.

Operator: Thank you. One moment for our next question. And our next question comes from the line of Patrick Walravens of Citizens. Your line is now open.

Patrick D. Walravens

Analyst, Citizens JMP Securities LLC



Oh, great. Thank you. And let me add my congratulations. So, Dennis, I had another CEO yesterday tell me something I'd love to hear your reaction to it and see if this is similar for you. He said he's never seen anything go as fast in technology as AI. And four months ago, a lot of the functionality was sort of like science fiction, but now it's table stakes. And in particular, he said the RFPs that are coming through now, they've got all these AI functionality requirements in the RFPs that weren't there four months ago. Are you seeing the same sort of thing in your space? Do you even have RFPs?

Dennis M. Woodside

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



We absolutely do have RFPs. So, typically, in CX or in EX, any customer that's looking for a new solution to replace their existing solution, or maybe they don't have a solution, every customer is asking about AI, because they understand it's integral to what these platforms need to deliver. And yes, we do have lots of RFPs all the time. And I don't know the exact number, but I would hazard a guess that 80% plus AI is a consideration. I can't remember a conversation I've had in a sales situation or an upsell where AI is not a topic that our customers want to understand. They want to understand the roadmap. They want to understand what we're going to be offering and how we can help benefit their business over time.

It's absolutely table stakes. And that's why I'm excited about how we've been able to monetize it here and how we've been able to drive from a year, year and a half ago where we first launched that Copilot SKU into GA, we've been able to drive pretty broad adoption. So it's totally table stakes in this space, and I suspect most of the software.

Patrick D. Walravens

Analyst, Citizens JMP Securities LLC



All right, great. And then the follow-up is I had a different CEO tell me that one thing that's made life more difficult for him is that he used the word vaporware from his competitors. Obviously, they're – pitching his own book a little bit there, but he's like, it's just gotten so noisy because everyone's using the same words, everyone's talking about agentic AI and agentic workflows, and we really have it, but other people don't really have it, but it's just gotten harder because it's really noisy. It sounds like you guys are managing through that, but are you seeing the same thing in terms of the noisiness and how do you get through it?

Dennis M. Woodside

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



Well, I think a couple of things. So, for existing customers, we are one of the first places that they're going to turn for AI related to service automation, and that's the job of our teams to make sure that they understand what solutions they already have or they already have access to, some cases they're already paying for, that they can get value from. And so there we have an unfair advantage in that kind of noisy environment.

For a new customer coming in, again, think about the motivation for a new customer coming to us today, whether it's CX or EX. They're not satisfied with their existing platform typically for some reason, and they're looking for a modern AI-first platform that is going to help them scale. Typically, these decisions are multi-year decisions. You're not going to want to switch your ITSM or your customer support platform every year. And so, they want to understand what's the history of innovation, what kind of innovation should I expect going forward, do I believe in the roadmap, do I believe they can deliver.

They're going to want to talk to customers that are seeing real value from the AI. And that's why the fact that we've got 1,500 on AI Agent, close to 1,000 on Insights and 2,700 on Copilot, that is a huge advantage for us now, because we have real customers with real value, tons of case studies that we can point them to. And what I do is I just connect them with a CIO. Don't take my word for it, but talk to our customers because they're seeing the value.

So, we think we're at that point in terms of our scale where we have a real advantage over some startup coming in that has, like you said, one or two customers and a demo. And that's where we have a real advantage and we're seeing it.

Patrick D. Walravens

Analyst, Citizens JMP Securities LLC

Q

Awesome. All right. Thank you.

Operator: Thank you. One moment for our next question. Our next question comes from the line of Brent Bracelin of Piper Sandler. Your line is now open.

Brent A. Bracelin

Analyst, Piper Sandler & Co.

Q

Thank you. Good afternoon. Dennis, new customer logos, I think, more than doubled what you saw during Q1 last year. You've had now three quarters where the net retention, trailing metric stabilized, in-period improved. How much of the strength that you're seeing here would you attribute to the external environment getting better versus maybe some internal things, company-specific things that you're doing around go-to-market, new product, AI? Just trying to better understand the strength that you kind of saw the last two quarters and how much of it's external versus internal? Thanks.

Dennis M. Woodside

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

A

Yeah. So, I've been CEO now for a little under a year, and I wouldn't – I think the external environment's been somewhat constant. If not, maybe there's – if you just read the headlines, negativity in the last couple of months, but I don't think it's the external environment that's changed. We've very much been focused on continuing to move the company upmarket and to build products that appeal to that mid-market customer, again, 5,000 to 20,000 employees, not well-served by the existing incumbents. We built the go-to-market to go after that, built the partner network to go after that. That's paying off. You see it in ARPA, which is up meaningfully year-over-year as well, as well as customer [ph] accounts (01:00:42). So, that's one.

And I think the second focus internally that we've had is on creating AI products that actually work out of the box, easy to use, easy to deploy, and fast time to value, consistent with our overall value proposition. And that's resonating as well. You see it in all the monetization metrics that I was sharing before, the customer [ph] accounts (01:01:04) that I was sharing before. So, those two things I think matter more than the environment. I don't think the environment has gotten better in the last 12 months. And there are signs that going forward it might get worse.

Brent A. Bracelin

Analyst, Piper Sandler & Co.

Q

Very clear there. And then, Tyler, just a quick follow up for you. OpEx has actually been down on an absolute basis for two consecutive quarters. That's helped push margins above 20% here for two quarters. But you did mention the change, an appetite to maybe lean in as this external environment maybe gets a little more challenging, try to accelerate share gains. Walk me through how closely you're going to be managing expenses. That sounds like you have an appetite to lean in, but also an appetite to watch things closely. Are you watching things on a monthly basis, a weekly basis? Just walk me through where you're going to lean in and how closely you're watching it. Thanks.

Tyler Renwick Sloat

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

A

Yeah, we are watching it pretty closely. I think some of the bets that we plan to make, they don't have overnight returns. So, those are things where you're laying a groundwork versus some of the pipeline things we can do actually have pretty near-term returns, and so we'll place bets across the field. Now, I said, hey, there's two things happening. One is timing, right? So, we had some expenses that are just getting pushed, but we're still going to make them. The other is that we have our annual compensation kind of uplift that kicks in in Q2.

The lean-in part that I was talking about is, yes, we do think that when times are kind of volatile and then companies are really looking to have the must-have products, but at a great value, this is our opportunity to lean in. And so, we will continue to invest in sales and marketing, but we do look at making sure we're trying to make efficient investments, and we'll be monitoring that on a regular basis.

Brent A. Bracelin

Analyst, Piper Sandler & Co.

Q

Got it. Great to hear. Thank you.

Dennis M. Woodside

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

A

Thanks.

Joon Huh

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

Great. Thank you so much, everybody, for joining us, and we'll see you next time. Thanks.

Operator: Thank you. This concludes the question-and-answer session. Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.

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