

29-Jul-2025

# Freshworks, Inc. (FRSH)

Q2 2025 Earnings Call

## CORPORATE PARTICIPANTS

**Brian Lan**

*Director-Investor Relations, Freshworks, Inc.*

**Dennis M. Woodside**

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

**Tyler Renwick Sloat**

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

---

## OTHER PARTICIPANTS

**David Hynes**

*Analyst, Canaccord Genuity LLC*

**Scott Berg**

*Analyst, Needham & Co. LLC*

**Patrick D. Walravens**

*Analyst, Citizens JMP Securities LLC*

**Elizabeth Porter**

*Analyst, Morgan Stanley & Co. LLC*

**Alex Zukin**

*Analyst, Wolfe Research LLC*

**Brian Schwartz**

*Analyst, Oppenheimer & Co., Inc.*

**Brent A. Bracelin**

*Analyst, Piper Sandler & Co.*

**Rob Oliver**

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

**Brian Peterson**

*Analyst, Raymond James & Associates, Inc.*

**Matt David VanVliet**

*Analyst, Cantor Fitzgerald & Co.*

**Taylor McGinnis**

*Analyst, UBS Securities LLC*

## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day, and thank you for standing by. Welcome to the Freshworks' Second Quarter 2025 Earnings Conference Call. At this time, all participants are on in a listen-only mode. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Brian Lan, Director of Investor Relations.

Please go ahead.

---

### Brian Lan

*Director-Investor Relations, Freshworks, Inc.*

Thank you. Good afternoon, and welcome to Freshworks' second quarter 2025 Earnings Conference Call.

Joining me today are Dennis Woodside, Freshworks' Chief Executive Officer and President. And Tyler Sloat, Freshworks' Chief Operating Officer and Chief Financial Officer. The primary purpose of today's call is to provide you with information regarding our second quarter 2025 performance and our financial estimates for our third 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, to innovate, to reach our long-term revenue goals, to meet customer demand, and to control costs and improve operating efficiency.

For a discussion of additional material risks and other important factors that could affect our results, please refer to today's earnings release, our most recently filed form 10-K, and other periodic filings with the SEC. Freshworks assumes no obligation to update any forward-looking statements in order to reflect events or circumstances that may arise after the date of this call, except as required by law.

During the course of today's call, we will refer to certain non-GAAP financial measures. Reconciliations between GAAP and non-GAAP financial measures for historical periods are included in our earnings release, which is available on our Investor Relations website at [ir.freshworks.com](http://ir.freshworks.com).

I encourage you to visit our Investor Relations site to access our earnings release, supplemental earnings slides, periodic SEC reports, and a replay of today's call or to learn more about Freshworks.

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

---

## Dennis M. Woodside

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

Thank you. Brian. Freshworks delivered an outstanding Q2, surpassing expectations across growth and profitability. We grew Q2 revenue 18% year-over-year to \$204.7 million, expanded our non-GAAP operating margin to 22%, and delivered a strong adjusted free cash flow margin of 27%. Collectively, these results clearly illustrate our ability to balance strong growth with profitability.

We ended the quarter with over 74,600 customers, including leading global storage provider Seagate, leading international law firm Covington & Burling LLP, leading recruitment experts, Reed, and retail energy supplier, AEP Energy.

In Q2, we held our very successful Refresh Europe customer event, where we introduced product innovations within the Freddy Agentic AI platform and across our EX and CX portfolio, which I'll talk about throughout this call. Our strategy has focused on three key growth drivers: investing in employee experience or EX, delivering AI capabilities across our products and accelerating adoption, and driving continued expansion in customer experience or CX.

On the first strategic imperative, employee experience, EX continues to lead in growth, achieving over \$450 million in ARR, which represents 24% year-over-year growth on an as reported basis and 22% on a constant currency basis. With over 19,000 customers, our first lever in this area is growth in the mid-market and enterprise, together representing more than three fourths of ARR in EX. Our IT momentum underscores the value Freshworks brings to our customers. We continue to displace legacy competitors as organizations choose Freshservice because we reduce complexity, accelerate efficiency, and enable tangible growth through our AI-powered platform.

As an example, Steel Dynamics, one of the largest and most diversified US steel producers, replaced ServiceNow with Freshservice. Another example is Kayak, a leading global travel search engine, who chose Freshservice to replace Jira service management. Since implementation, Kayak has reported improved ticket volume, productivity and visibility. Kayak has also been using Freddy AI features like ticket summary generator and ticket field suggestions to help agents work faster with greater accuracy. The second EX growth driver and expansion lever is our enterprise service management solutions. Our customers are increasingly using Freshservice in other areas of their businesses outside of IT.

For example, Nexstar Media Group, one of the largest local broadcasting companies in the US, streamlined its employee support experience by migrating to Freshservice. Nexstar went live across three distinct workplaces, consolidating IT, digital, HR, payroll, and legal into a single unified platform in weeks.

Freshservice reduced complexity for the employees and over 200 support agents, and Nexstar achieved a 35% cost savings. Another customer, Michaels Stores, the leading creative destination in North America with over 1,300 locations, chose Freshservice to modernize IT and business operations as part of a strategic initiative to streamline operations and drive scalable growth. Michael's onboarded 900 agents, migrated over three years of ticket history, and deployed Freshservice across IT, HR and facilities to streamline incident management, asset tracking, employee journeys and vendor risk.

At the end of Q2, we released Freshservice Journeys, a powerful new tool designed to help HR teams automate and streamline the cumbersome process of managing employee transitions, including onboarding, offboarding, promotions and relocations. Qualfon's VP of IT Operations said Freshservice has completely transformed their onboarding process. What used to take days can now be done in hours. He also said it has enabled him to

reduce risk and deliver a more secure compliant offboarding experience at scale. We believe that our ESM solutions could be \$100 million plus opportunity for us and a meaningful long-term way to grow EX beyond IT.

Our third growth driver in EX is our advanced ITAM offering with Device42. Two of the top five deals in the quarter included Device42. Customers like Seagate deployed Freshservice to modernize IT operations and later expanded to Device42, tapping into the seamless integrations between the two products to unify asset discovery and service management.

Finally, we introduced Freshservice for MSPs, a new ITSM product for small managed service providers. This solution is built on the core Freshservice foundation and is designed to help growing MSPs seamlessly manage multiple clients without adding complexity or overhead.

In addition to these two product innovations, we release key features for Freshservice that are designed to improve productivity and reduce mean time to resolution, like the ability to make parallel approvals in a workflow.

Now onto our second imperative, delivering AI capabilities and driving adoption of AI. Customers are no longer just experimenting with AI, they're moving beyond the pilot phase, finding practical applications that drive measurable, transformative results. Over 5,000 customers are now paying for our Copilot and AI agent products, and ARR from these two SKUs crossed \$20 million in Q2, more than doubling ARR from a year ago.

In Q2, Freddy Copilot was included in more than 55% of our new large customer deals over \$30,000, and we saw double-digit attach rates for new SMB customers. We ended the quarter with over 3,300 customers, a sequential growth of 21% quarter-over-quarter. One such customer, a global law firm with nearly 50 offices in 20 countries and thousands of employees replaced ServiceNow with Freshworks and is using Freddy Copilot to drive efficiency and accelerate time to value.

Freddy AI customers are realizing tangible business value. Our recent annual Freshservice Benchmark report revealed that organizations using Freddy Copilot reduced resolution time by 76% and first response time by 41%. With Freddy AI Agent, organizations saw a ticket deflection rate of 65% and over 400,000 hours of agent time saved across IT and ESM.

Now, in June, we launched several Agentic AI innovations. First, we introduced Freddy AI Agent Studio for Freshdesk, a powerful platform to build and manage AI agents that take autonomous actions like issuing refunds, checking orders statuses, and updating customer records. Organizations can build dozens of Agentic workflows, define business rules, and connect to external systems, all using a visual, no code intuitive interface.

Secondly, we launched Freddy AI agent for email in Freshdesk, designed for organizations where email is the primary support channel. The agent reads the request, finds the right answer, responds, and closes the ticket entirely on its own.

Third, we added Freddy AI agent for unified search in Freshservice designed to connect to systems like Microsoft SharePoint and Teams so that employees can receive faster and more accurate answers. And finally, Freddy AI insights for Freshservice became generally available in Q2. It provides proactive, actionable intelligence to IT teams about the operational health of their IT service footprint.

We're pleased with the early signals we're seeing from customers and look forward to providing updates on customer use cases in the coming months.

Our third strategic imperative customer experience saw meaningful improvements. CX grew to over \$380 million in ARR, which represents 11% growth year-over-year on an as reported basis and 8% on a constant currency basis. We believe this acceleration in growth reflects customer sentiment that Freshdesk is easier to implement and use than the legacy competitors. While our small business customers continue to represent over half of our CX ARR, in Q2, we saw strong momentum with large organizations turning to Freshdesk for our powerful uncomplicated customer experience software.

We also secured a substantial cross-sell opportunity spanning both employee and customer experience with a leading science and engineering research center. Our AI products continue to be an expansion driver for CX. Honda motor Europe selected Freshdesk to modernize its customer support operations across 36 countries, deploying 220 agents with Freddy AI Copilot. The team needed a solution that could scale across the region and provide real time auto translation to serve a multilingual dealer and technician network. By replacing its legacy Java-based system, Honda now delivers faster, more consistent support experiences through Freshdesk. With Freddy Copilot, agents can streamline communication, deflect tickets via multilingual self-service, and work more efficiently, all on a flexible, secure and AI-powered platform built with a strong focus on supporting European operations. Freddy AI agents are driving measurable results for Freshdesk customers.

One example is a healthcare provider who reduced response times by 35%, improved first contact resolution by 40%, and saw a 25% boost in CSAT, all while scaling support and containing costs with AI now handling 35% of queries autonomously. In addition to the new AI capabilities for Freshdesk that I mentioned earlier, we released significant product updates such as CSAT versioning and analytics. This feature is designed to give supervisors deeper insights into customer satisfaction drivers by connecting CSAT scores to specific operational behaviors and performance indicators. They can then make data-driven coaching decisions and identify which agent actions and ticket handling patterns correlate with higher customer satisfaction scores. Another expansion path in CX is customers adopting EX products after having a positive experience with Freshdesk. A recent example of a customer using Freshworks products to drive efficiency across both customer and employee experiences is Momentum Software, a cloud-based provider serving nonprofits and mission-driven organizations.

After successfully deploying Freshdesk for customer support, Momentum expanded to Freshservice, replacing ServiceNow. Within weeks of launch, Momentum reported measurable efficiency gains, including fewer ticket reassignments and stronger SLA performance. Early validation of improved efficiency and user satisfaction. We're pleased with the results in our CX business, underscored by the improved growth rate during the second quarter.

Now, across both EX and CX, our momentum in specific industry verticals continues. We are privileged to serve 2025 sports champions, including NBA champions Oklahoma City Thunder, European football champions Paris Saint-Germain and Scottish Football Champions Celtic Football Club. I'm also excited about the partnership we announced earlier this month with the McLaren Formula 1 team, the 2024 Constructors Champions. Freshworks branding appeared on both McLaren cars last weekend at the Belgian Grand Prix, where the McLaren team finished one-two on top of the podium.

We anticipate that this multi-year partnership with McLaren will build further brand awareness and engagement with CIOs. These sports organizations trust us to power their world class operations behind the scenes so that they can power greatness on the track, court and field. We're honored that Freshworks plays a part in their historic runs.

In the public sector. More than 1,000 local, state and national government entities trust Freshworks, including the State of California Franchise Tax Board, Maryland Department of General Services, and the State of Oregon's Department of Forestry.

Finally, in Q2, we saw momentum in the new global partner program that we announced earlier in the year. Our partners touched more than one-third of our ARR in Q2, and we have onboarded over 130 new partners to our ecosystem this year. Additionally, we signed a deal with another global service integrator. This partnership will help us reach more mid-sized companies and entities in higher education, local government, and other public sectors in the UK market.

I'm energized by the opportunity ahead to serve businesses that demand speed, simplicity and value. Our enterprise grade software delivers faster time to value and a lower total cost of ownership, which is what thousands of businesses want today. 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. We are pleased to report another quarter of strong results at Freshworks. Our Q2 performance reflects continued momentum across the business with solid revenue growth, margin expansion and disciplined execution of our strategy. We're seeing healthy demand for our easy to use innovative solutions that help businesses of all sizes improve productivity and deliver exceptional customer experiences.

We exceeded our top line growth estimates and improved our non-GAAP operating margin to 22%, an increase of over 14 percentage points compared to a year ago. We grew our adjusted free cash flow 65% year-over-year to \$54.3 million, which resulted in an adjusted free cash flow margin of 27%, also ahead of our previously provided estimates.

For our call today, I'll cover the Q2 2025 financial results, provide background on the key metrics, and close with our forward-looking commentary and updated expectations for Q3 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. We continue to benefit from foreign exchange tailwinds this quarter, providing a modest uplift to our Q2 revenue while contributing over two percentage points of ARR growth, translating to a nearly \$18 million increase to ARR.

To provide greater transparency into our underlying business performance, we will include constant currency comparisons throughout today's call. Starting with the income statement, Q2 total revenue increased to \$204.7 million, growing 18% year-over-year on an as reported basis and 17% year-over-year on a constant currency basis. Professional services revenue contributed \$2.7 million in the quarter, driven by strong bookings as well as several early project kickoffs and completions that led to one time increases.

Our EX business grew to over \$450 million in ARR, representing growth of 24% year-over-year on an as reported basis and 22% year-over-year on a constant currency basis. As expected, growth moderated this quarter as we lapped the anniversary of the Device42 acquisition from last June. Adjusting for this, we're encouraged by the strong underlying performance across our portfolio, which continues to deliver our highest area of growth.

Our CX business increased to over \$380 million in ARR, reflecting growth of 11% on an as reported basis and 8% year-over-year on a constant currency basis. The growth acceleration versus recent quarters was driven by healthy momentum in our Freshdesk business and stronger execution across the board.

Moving to margins. We maintained a strong non-GAAP gross margin in Q2 of 86%, reflecting our continued progress in scaling our business efficiently. This represents an improvement of approximately 100 basis points compared to the prior year. Our non-GAAP operating income for Q2 came in at \$44.8 million, representing a non-GAAP operating margin of 22%, which was ahead of prior expectations. This reflects strong revenue outperformance and disciplined expense management, including lower than anticipated personnel-related costs, some of which will be shifted into future quarters.

Moving to operating metrics. Our two key business metrics are net dollar retention and customers contributing more than \$5,000 in ARR. While growth expansion trends remain pressured, we're encouraged by the steady improvements in our overall churn rate. Net dollar retention came in stronger than expected at 106% on an as reported basis, and was in line with our expectations on a constant currency basis at 104%.

Retention was modestly affected by Device42, primarily due to churn in its partner business that we had anticipated following our acquisition last year. As expected, this represented a headwind to net dollar retention of just over two-thirds of a percentage point. We expect Device42 retention to improve gradually as we continue to integrate the Device42 products with our ITSM offering.

Looking ahead, we estimate net dollar retention of approximately 105% on an as reported basis and 104% on a constant currency basis for Q3. For our second key business metric, the number of customers contributing more than \$5,000 in ARR as of the end of Q2, grew 10% year-over-year on an as reported basis and 9% year-over-year on a constant currency basis to 23,975 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 Q2, we saw growth of 22% year-over-year on an as-reported basis and 19% on a constant currency basis to 3,460 customers. This cohort represents over 50% of our ARR. For total customers, we added over 1,300 net new customers in the quarter, which also includes contributions from our ongoing free to paid initiatives. We ended the quarter with over 74,600 customers.

Now let's turn to calculated billings, balance sheet and cash items. Our calculated billings grew to \$213.1 million in Q2, representing growth of 15% year-over-year on an as-reported basis and 13% growth on a constant currency basis, driven primarily by stronger than expected booking performance in the quarter.

Looking ahead to Q3 2025, our initial estimate for calculated billings growth is 14% year-over-year on an as-reported basis and 13% on a constant currency basis. For the full year 2025, we expect calculated billings growth to be approximately 16% year-over-year on an as-reported basis and 14% on a constant currency basis, the latter of which is in line with our expectations from last quarter.

Moving to our cash items. We generated \$54.3 million in adjusted free cash flow in Q2, with outperformance driven by strong collections and continued operational discipline. This resulted in an adjusted free cash flow margin of 27%, which represents over 7 percentage point improvement over year-over-year. As a reminder, these results do not include a one-time use of cash of \$700,000 related to restructuring costs.

For the full-year 2025, we are expecting to generate approximately \$215 million of adjusted free cash flow, with approximately \$55 million in Q3 and \$50 million in Q4. In Q2, we repurchased an additional 8.2 million shares at

an average price of \$13.89 per share. We have now repurchased nearly 15.9 million shares using over \$240 million through Q2.

In addition to the repurchase program, we continue to manage an offset share count dilution by net settling vested equity amounts. We used approximately \$14 million during the quarter for that purpose. 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 Q3 cash usage of approximately \$17 million at current stock price levels. For the full year, we expect to use approximately \$64 million to net settle vested equity amounts. We ended the quarter with cash, cash equivalents, and marketable securities of approximately \$926 million.

Turning to our share count, as of June 30, 2025, we had approximately 320 million fully diluted shares, which represents a decline of 2% year-over-year. The fully diluted calculation includes 292 million basic shares outstanding, which represents a reduction compared to both the prior year and quarter. It also includes 25 million shares related to unvested RSUs and PRSU, and 2 million shares related to outstanding options. We expect to thoughtfully manage share count dilution with net settlement activities and share repurchases into the future.

Now, on to our forward-looking estimates. For the third quarter of 2025, we expect revenue to be in the range of \$207 million to \$210 million, growing 11% to 12% year-over-year on an as-reported and constant currency basis. Non-GAAP income from operations to be in the range of \$31.2 million to \$33.2 million, and non-GAAP net income per share to be in the range of \$0.12 to \$0.14, assuming weighted average shares outstanding of approximately 294.2 million shares.

For the full year 2025, we expect revenue to be in the range of \$822.9 million to \$828.9 million, growing 14% to 15% year-over-year. Adjusting for constant currency using FX rates from Q3 of last year, this reflects growth of 14% to 16% year-over-year. Non-GAAP income from operations to be in the range of \$153 million to \$157 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 296.9 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 July 25, 2025, and do not take into account any benefit from currency moves, which we estimate could be \$1.5 million to \$2.5 million increase to our full year 2025 revenue.

In addition, we expect spending to increase in the second half of the year, driven by the timing of certain personnel and brand-related expenses, along with incremental investments in sales and marketing to capture the growth opportunities ahead, all while remaining focused on driving operational efficiencies in the business. This increase is reflected in our financial outlook.

In closing, we are pleased with our strong Q2 execution, which reflects the strength of our business. The growing demand for our products and the incredible dedication of our global team. We are excited about the opportunities ahead as we continue to innovate, delight our customers and deliver sustainable, profitable growth. We also look forward to sharing more about our long term vision and strategic priorities at our Investor Day, which will be held in San Francisco on September 11. We will send out more details regarding the event in the coming days.

Thank you for your continued support and we look forward to keeping you updated on our progress.

With that, let us take your questions. Operator?

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] Our first question comes from the line of David Hynes with Canaccord Genuity. Your line is now open.

**David Hynes**

*Analyst, Canaccord Genuity LLC*

Q

Hey, thank you guys. Congrats on the quarter. I don't know if this is a better question for Dennis or Tyler, but specifically with AI Agent, right, you're selling session packs. From a forecasting perspective, I'm sure you have to make some assumptions around the pace at which those are consumed and presumably re-upped. What does that consumption look like relative to your expectations? Is it happening as expected, faster than you thought, slower? Any color there would be interesting.

**Dennis M. Woodside**

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

A

Yeah. So, thanks for the question. Overall, AI is pacing at or slightly ahead of what our internal expectations have been. What on AI agent, remember, we have – we introduced an Agentic platform just in June. So it's pretty early days for that product. The AI Agent that we've had previously is more of a question-and-answer product that does not take action on behalf of the user. We're seeing good traction with all the AI products we announced in June. We've got hundreds of customers that are in the early access programs for products like AI Insights and so forth.

So I think we'll get better fidelity on the AI agent product as the second half of the year rolls through. On Copilot, we've got a pretty solid motion. That's been the product that is now attached to over 55% of our larger deals. That's the product that is of interest to pretty much all of our customers. Customers are really ready to adopt. Copilot takes some of them a little bit longer to be willing to hand off an interaction with an employee or an end customer to an AI agent. So, Copilot, I think we've got a really good read on, and I think it's going to take a little bit more time for us to get that same read on the Agentic products.

**David Hynes**

*Analyst, Canaccord Genuity LLC*

Q

Yeah. Makes sense. And then, Tyler, if I could ask you one on Q3 guidance. So, it's 12% growth at the high end. If I do the math, CX is 46% of the business growing steadily, kind of 7%, 8%. That gives you like 3.5 points of growth, right? So the balance comes from EX, if my math is right, to get to 12% growth in Q3, it implies about 16% growth in EX in Q3, which that seems lower than I would have expected. It's, I think 6 points lower than what you just reported.

Well, what -- am I missing something? Is that math correct? Are we just being conservative? Any color there would be helpful.

**Tyler Renwick Sloat**

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

A

Yeah. We haven't broken out the exact revenue impacts of each product, right? We're kind of given our greater than ARR numbers, DJ. And then there's other components to revenue in there, right? We have some usage components. We have professional services that are in there a little bit, we also have a revenue reserve that we take every single quarter. And so the growth rate that we're seeing for EX is strong, right? And the growth rates of the ARR, the greater the ARR numbers we can kind of use those. And so I wouldn't try to round out too much

from it. In general, everything is kind of going according to our plan. We did anniversary of Device42 acquisition and that has a different compare now. And – but we've been talking about that and kind of preparing the market for that for the last six months.

---

**David Hynes**

*Analyst, Canaccord Genuity LLC*

Q

Right. So you feel like the EX business is a durable 20% grower for now?

---

**Tyler Renwick Sloat**

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

A

We think the EX is going really well, and we view, like, that there's a ton of potential upside even there. We are very encouraged with Device42 and how it's going and the whole thesis of that purchase is playing out kind of as we planned. We obviously have our Freddy AI products and upsells to EX as well as our ESM business team product. And then the market for EX we're just continuing to see larger and larger customers come to us trying to switch off of legacy players, and we're just going to continue to execute there.

---

**Operator:** Thank you. As a reminder, we ask that you please limit yourself to one question. Our next question comes from the line of Scott Berg with Needham and Company. Your line is now open.

---

**Scott Berg**

*Analyst, Needham & Co. LLC*

Q

Hi, everyone. Really nice quarter here. I guess for my one question, Dennis, in your prescriptive remarks, you talked about how your new global partner program contributed. I believe it was over one-third of ARR in the second quarter. I guess, it's still early in that program. You talked about signing another SI with, I guess, a higher [ph] add (00:33:47) in government focus there. But how do we think about the right long-term contribution of that partner channel in general for you? Are you seeing the best strength out of the EX side or maybe the CX side?

And then I don't know anything different in terms like deal size or composition of those deals coming out of those partner related transactions we should be aware of? Thank you.

---

**Dennis M. Woodside**

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

A

Yeah, sure. So, we've had – our network of partners continues to expand. We added over 130 new partners to the ecosystem in the first half of the year. And as you mentioned, about a third of our bookings are impacted in some way, shape or form by partners. It's pretty equally distributed across CX and EX.

What I'm expecting is, as we move into these larger partners like Unisys, like this new one that we just signed, we are seeing that the pipeline that they're able to generate tend to be larger deals, tend to be more mature companies with a lot greater expansion opportunity over time. But at the same time, it's still pretty early. We signed the Unisys deal in Q1. We've seen some really promising results there. And then we just signed our second real GSI, and that is going to be focused on the UK market to start with this past quarter. So I think if I look longer term, we would expect a greater percentage of our business is touched by partners for certain over the course of the next couple of years.

---

**Scott Berg**

*Analyst, Needham & Co. LLC*

Q

Helpful. Thanks and congrats again.

**Operator:** Our next question comes from the line of Brent Thill with Jefferies. Your line is now open.

Q

Hi. This is [ph] Leonardo (00:35:22) on for Brent Thill. Thank you for taking the question. Regarding Ian officially stepping in as the new CRO, just wondering how much change is left in the sales org going forward and how the new team is settling in as well?

**Dennis M. Woodside**

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

A

Sure. So just as a reminder, we have two revenue leaders. Mika Yamamoto leads the SMB and commercial business, which is an inbound business and service entirely out of India and through partners. And then Ian leads our field business, which is focused on eight countries around the world. He also has the partner side of things as well. Ian was our Head of International and had done a really good job over the course of the last year. He's got a long history in enterprise sales. He was at Domo prior to joining us, he was a CRO there. And he stepped into the role in April. And partway through the quarter, we decided to make change from an interim status to permanent status.

And I think the results really speak for themselves. We did really well in our field sales team in Q2, all of our regions exceeded their internal targets. Obviously, it shows up in the numbers. So pretty happy with how he's been driving things. He's been able to build his bench. He just brought on a new leader for Europe. I brought in a new leader for sales engineering overall. And we're pretty happy with where we're headed there. I don't anticipate major changes going forward.

Q

Great. Thank you.

**Operator:** Our next question comes from the line of Patrick Walravens with Citizens Bank. Your line is now open.

**Patrick D. Walravens**

*Analyst, Citizens JMP Securities LLC*

Q

Oh, great. Thank you. I don't think we've really hit on the macro yet, Dennis. So this time last quarter, we were all really worried about international exposure and tariffs and uncertainty and decision making. What did you see in your customer conversations? And if you could maybe comment on how this month has gone to, that would be really helpful?

**Dennis M. Woodside**

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

A

Look, overall, we saw really strong demand across the board. I think there's a couple things going on. First of all, we start from a really diversified base with, a little less than half our revenue in North America, a little over half international. There's no specific industry that's overrepresented in our portfolio. So we don't have big exposure to

industries that are particularly hit by tariffs. And the software that we're providing for customer support and IT teams, it's must have software.

Every team, every company in the world needs to automate those operations, needs to bring AI into those operations, become more efficient, more effective or drive growth faster. So we really have not seen. It's been a really good first half of the year for us. And if I look at kind of what the pipeline looks like, what the second half looks like, you see it in the guide. We're pretty bullish on where the business is going to go and being able to continue that momentum.

---

**Patrick D. Walravens**

*Analyst, Citizens JMP Securities LLC*



Great. Thank you.

---

**Operator:** Our next question comes from the line of Elizabeth Porter with Morgan Stanley. Your line is now open.

---

**Elizabeth Porter**

*Analyst, Morgan Stanley & Co. LLC*



Great. I wanted to come back to the AI Copilot and agents revenue, \$20 million ARR. I think it's impressive just given how recently many of these solutions have gone GA. So curious if you're thinking about any stakes in the ground for how ARR evolves through the year or next, just especially as the agent capabilities expand? And when we think about this incremental kind of ARR, is it kind of truly incremental, or do we think about any puts and takes on the core side of the business? Thank you.

---

**Dennis M. Woodside**

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



Yeah. So on AI, while we have 5,000 paying customers for those two SKUs, we have 73,000 customers. So it's still pretty early in the overall adoption of AI by our customer base. And, we're continuing to add well over 1,000 of those customers every quarter that are paying for those two SKUs. Remember, we have AI in other parts of our product. So if you buy the enterprise plan for EX, you have access to AI insights. And you also have access to AI agents for EX, but you have to buy the enterprise plan which is priced higher. So there are different ways that we're monetizing over on CX where the volume is greater, we monetize based on usage for that AI agent.

Now for the new Agentic agents that we just released into early access, we've not settled on the final pricing for them. So they're in early access now, we'll be pricing them out later in the fall. And most likely, those will be based on something along the lines of resolution and we'll look at competitive pricing there to see where that lands out. But that is something that we're going to watch closely. I think that's a big catalyst for growth, especially on that CX side where we are going to be taking and we see this already in the early access program, affecting labor directly. And you simply don't need as many people answering rote questions as you have before when you're relying on an AI agent that can take actions on behalf of the company. So that we think is going to be a big catalyst for growth mostly in the course of 2026 as we move out of EX sometime later this year and as we settle on a final pricing there.

---

**Elizabeth Porter**

*Analyst, Morgan Stanley & Co. LLC*



Great. Thank you.

**Operator:** Our next question comes from the line of Alex Zukin with Wolfe Research. Your line is now open.

**Alex Zukin**

*Analyst, Wolfe Research LLC*

Q

Hey, guys. Thanks for taking the question. Maybe, I guess, to Elizabeth's question, when -- is the thought process that in sometime in 2026, we're going to start to see AI become a growth catalyst for the business where it's driving higher ASPs, it's driving higher NRRs where that trajectory kind of inflects. Is that the right way to think about the business from here?

**Dennis M. Woodside**

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

A

So I think -- so there's multiple levers of growth in the business. And if we just look at the EX side to start with. So first, there's the share growth that we're seeing. And we're seeing every quarter more and more of these large customers like Seagate, like Steel Dynamics, like Michaels and Qualfon and a bunch of customers moving over from, it could be Atlassian or ServiceNow or some of the older players. So that's one driver. Second driver is ESM. So ESM, we think has the potential to be a really large business for us. We launched a deeper workflow for onboarding and offboarding into EA this past quarter. We're seeing good traction of that in the early program as well. A lot of customers have been asking for something like that to help them handle the mundane tasks of onboarding and offboarding their people.

The third or the next growth driver really is the Device42. And Device42, we beat our expectations this past quarter. We're right on track for the business plan that we laid out when we acquired the company. And that continues to be a big driver in larger and larger deals, both winning new deals and then selling into our base. And then you have AI. So, we'll talk about this at Investor Day, but between ESM, AI and Device42, they all could easily be \$100 million ARR business for us relatively, quickly. And that's how those are the big growth levers on that side of the business that we're driving.

AI also positively affects the CX business as well. And there a lot of our effort from a product standpoint in terms of driving growth is consolidating functionality into Freshdesk, especially the conversational capability that previously was another product. So we have a single product that any customer can use. It's easier to sell, easier to consume, easier to buy, and then over time, easier to upgrade. So I think we've got multiple paths to growth. AI is certainly an important part of it, but there's a lot more than just AI.

**Alex Zukin**

*Analyst, Wolfe Research LLC*

Q

Got it. And then Tyler, maybe for you on the billing side, was there any kind of pull ins or push outs from last quarter that that maybe worthwhile to call out clearly strong kind of constant currency billings growth in the quarter, but you're also guiding for that kind of be stable for the second half of the year on tougher comps. I just wanted to make sure I understood where the confidence is coming from?

**Tyler Renwick Sloat**

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

A

Yeah. I mean, we usually do a kind of a much deeper reconciliation. We kind of had 1% pull in, which is, it wasn't super significant. We had pull-ins every single quarter. So there wasn't anything that, that we felt like we had to call out that was like a big reconciling item. We're actually really pleased with how we did in the quarter. And from the guide, you can see when we're looking at for the back half, we actually, expect to continue to do well.

**Alex Zukin**

*Analyst, Wolfe Research LLC*

Got it, thanks, guys.

Q

**Operator:** Our next question comes from the line of Rob Oliver with Baird. Your line is now open. Rob Oliver, your line is open. Please check your mute button. Our next question comes from the line of Brian Schwartz with Oppenheimer & Company. Your line is now open.

**Brian Schwartz**

*Analyst, Oppenheimer & Co., Inc.*

Yeah. Hi, guys. Thanks for taking my question. Tyler, I wanted to ask you about NRR trends. Your guidance, clearly, you're not ready to call a bottom, but that is a lagging metric. I was wondering if you could shed light on what you're seeing in terms of in period NRR in comparison to that metric? Thanks.

Q

**Tyler Renwick Sloat**

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

Yeah. Thanks, Brian. So, yeah, net dollar retention, we come into the quarter saying it was going to be 104%. We came in at 104%, it was 106%, as reported. The Device42 business actually had let's call it a negative impact on net dollar retention, one we expected, right, when we bought it, the company we talked about how we expected some churn to be out of their existing base because they're with competitors. And we did see some of that. And so about two-thirds of a point pressure on net dollar retention. We're calling 104% for Q3 on the constant currency basis. And it's really – again, you're right, it's a look back, we look at the the prior ARR base from a year ago and kind of look at the activity. The expansion motion, we had really good expansion in Q2. So that was very positive for us. And we still continue to do well on churn, making kind of subtle progress. But we've been doing well on churn for a while now. And we're very kind of optimistic on continuing to make progress there. So in general, it happened just as expected. There's no big surprises on that dollar retention.

A

**Brian Schwartz**

*Analyst, Oppenheimer & Co., Inc.*

Thank you.

Q

**Operator:** Our next question comes from the line of Brent Bracelin with Piper Sandler. Your line is now open.

**Brent A. Bracelin**

*Analyst, Piper Sandler & Co.*

Thank you. Tyler, second consecutive quarter that Freshworks has maintained a Rule of 40 model on an organic basis. Guidance implies that won't be the case in the second half. Can you just maybe frame what is the appetite and maybe longer term kind of goal to drive efficient growth and maybe drive a sustainable return to Rule of 40? And then, Dennis, if you could just remind us on the AI opportunity, triple-digit growth here, 2% of ARR. But I think you did mention larger deals. You're seeing like a 25% attach rate. Pretty big a delta there 2% versus 20%. – 55%.

Q

**Tyler Renwick Sloat**

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

55%.

A

**Brent A. Bracelin**

*Analyst, Piper Sandler & Co.*

Q

So, what's the line of sight to sustaining the triple-digit growth in that AI business? I know small but certainly growing very fast.

**Tyler Renwick Sloat**

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

A

Yeah, I can take the first part, Brent. We're really pleased with how we've been doing on the efficiency perspective, specifically on free cash flow. We talked that we are going to make some investments in the back half of the year, but those investments are all taken into account. From a free cash flow perspective, we kind of called out what we expect Q3 and Q4 to be and for the full year, which is, well above what we did kind of coming into the year. In fact, I think it's \$12 million more for the full year than what we said we're going to do coming into the year. This is a growth business. And we've always said that we want to make sure that we are not sacrificing bottom line for growth. And as we look in front of us, there's investments we want to make on the go-to-market side. All of those investments are taking into account in our guidance, but, there was some that was timing and others that we're going to lean into.

But in general, we're very pleased with how we're doing, kind of on the balance of growth and free cash flow, and we will lean into growth where we have the opportunities.

**Dennis M. Woodside**

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

A

Yeah. So, on AI, just to clarify, these I'm not sure it came through. Our attach rate for large deals, for Copilot was over 55%, and that's up from the prior quarter. So the AI opportunity is huge. I mean, we have – well, we've had quite a bit of success in going from GA with Copilot just in Q1 of last year, to where we are now. We have 5,000 customers paying for the two AI SKUs that we monetize, but we've got 73,000 customers. So there's a very long way to go. And we do believe that every one of our customers should be using AI in both the IT space and the CX space. And our customers are starting to kind of come around to that point of view as well. So that's a very big opportunity. That's a multi-year opportunity to sustain growth for AI. And that's just those two SKUs that we're monetizing today. We also indirectly monetize through inclusion of AI functionality like AI Insights into the higher paid plans like enterprise on the EX side. So there's a long way to go. We're just getting started with Agentic, just releasing our first true Agentic capabilities into EA in June. That's another lever of growth. That pricing model will be slightly different than our current AI agent without actions. We'll be pricing closer to what you see some of our competitors pricing for their Agentic products, and that could be a meaningful driver for us because, for our customers, they're going to be able to take costs out. We're going to share in a fraction of that cost reduction. They can redeploy people to do other things than answer [ph] rote questions or do take rote (00:49:42) actions. And that we think is a big driver for us as well.

So more to come there, but we're pretty optimistic about how we're going to be able to continuously monetize AI over the course of the next several years.

**Brent A. Bracelin**

*Analyst, Piper Sandler & Co.*

Q

Helpful color. Thank you.

**Operator:** Our next question comes from the line of Rob Oliver with Baird. Your line is now open.

**Rob Oliver**

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



Great. Thanks, guys. Sorry about that. My question is on Device42. Dennis, you talked about some of the strengths there. And I was wondering if you could give us a sense for particularly with those larger deals where it sounds like it's impactful, like what kind of uplift you guys are seeing in the Device42 products relative to core EX?

And then could you just remind us as to – and I'm sure we'll get more on this in September, but as to kind of what the timeline is relative to both full product integration and business model integration transition as well? Thank you.

**Dennis M. Woodside**

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



Yeah. So thanks, Rob. I'll start with the second part of the question. So the timeline that we're operating on and that we're on is to release a cloud version of Device42 in the first quarter of 2026. And that will roll out over time in phases in terms of the functionality that we embed into the first release versus where we'll be down the road, but that's when we'll get a cloud version that we can sell alongside Freshservice.

In terms of the impact on the business at the deal level, we see deals where the Device42 recurring revenue is a third of the total bill for a customer, multi \$100,000 – we're doing multi \$100,000 deals in that space. So it can be very meaningful if you have a business with a lot of mix of on-prem and cloud assets. We priced Device42 on a per asset basis and the larger your device footprint, the higher the bill over time and it's worth it for the customer because they get visibility into their assets in a way that they didn't have before. It's well integrated into Freshservice today. So if there are any issues they can do root cause analysis, all that stuff. So it can be quite meaningful. We have had success in bringing Device42 into these new larger deals. So it's helping us move up market. We've also had success in selling it into our current account base. So overall, we're on track for, like I said earlier, the business plan that we put together before we acquired the company. We're pretty pleased with how the whole thing is working out.

**Rob Oliver**

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



Great. Very helpful I appreciate it. Thank you guys.

**Operator:** Our next question comes from the line of Brian Peterson from Raymond James. Your line is now open.

**Brian Peterson**

*Analyst, Raymond James & Associates, Inc.*



Hi, gentlemen. Thanks for taking the question. So I just wanted to follow up on the comments on AI kind of going beyond experimentation. I'm curious, is that something you're seeing with existing customers where that's really driving the expansion? Or are you also seeing that with new customers I referenced – I know you referenced the 55% attach rates, but I'm curious, how are the sizes of those initial lands with AI versus your expectations? Thanks, guys.

**Dennis M. Woodside**

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



So yeah, we're seeing adoption across both new business and our expansion motion. And that's for both SMB and our larger accounts. SMB attach rates are in the double-digit range. And for those larger deals, it's north of 55%. If you are evaluating an IT solution or a customer support solution, you are going to be evaluating AI for the most part now. And our customers typically are going to want to make the decision to build in the AI capabilities when they're making the overall decision to switch from another vendor or to move from some legacy platform.

So, I wouldn't say that there's any trend specifically to point to. It's not like it's a specific industry or specific size customer that's driving the adoption. It's pretty broad. And I think that we really saw the momentum in the first half of this year across both the Copilot products and AI Agent. And like I said, AI Agent is just getting better with a true agenda capability now available.

---

**Brian Peterson**

*Analyst, Raymond James & Associates, Inc.*



Thanks guys.

---

**Operator:** Our next question comes from the line of Matt VanVliet with Cantor Fitzgerald. Your line is now open.

---

**Matt David VanVliet**

*Analyst, Cantor Fitzgerald & Co.*



Yeah. Good afternoon. Thanks for taking the question. You highlighted a handful of deals that smaller CX customers were now buying EX. So curious on what changes or programs have you been putting in place for your go to market team to improve that cross sell into the CX base? And then kind of a separate question, can we go the other direction? Are you implementing anything to help drive more CX penetration into the larger enterprise mid-market EX customer base?

---

**Dennis M. Woodside**

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



Sure. So on CX, there are really three drivers of growth over the last couple of quarters. One is just improved rigor in the sales and marketing motion in driving growth. The second is, we made some product changes that encouraged customers that were on free plans to convert to paid plans. Now these are relatively small customers, but we did have a large free user base that, that we changed the plans on so that we used to have – be able to have a fairly large number of free users on a given plan. We limited the number of users because it ought to be more of a trial, not a perpetual free product. We limited the time that they can use the product for it, and that led to a bunch of conversions from free to paid plans.

And then the third lever is AI, where AI is part of every discussion and is motivating conversations with us. So all that's great. On the larger account side, when we last, I think we revealed – we talked about this in the past, but about half of our top 50 accounts are using both CX and EX, roughly half. So at the large end of the space, we've got pretty good cross sell. It's kind of the mid-tier and the long tail where we need to do a better job of driving that cross sell over time, and that's really a program that we have ongoing. So we do think that there's opportunity there as well.

---

**Matt David VanVliet**

*Analyst, Cantor Fitzgerald & Co.*



Great. Thank you.

**Operator:** Thank you. Our next question comes from the line of Taylor McGinnis with UBS. Your line is now open.

**Taylor McGinnis**

*Analyst, UBS Securities LLC*

Q

Yeah. Thanks for taking my question. Tyler, if I look at the midpoint of the 4Q guide, it implies about 130 basis point or so acceleration in reps growth on a constant currency basis. So just curious, what are the drivers behind improving growth in 4Q? And then, similarly, if I look at the implied operating margin guide for 4Q, it looks a bit lower than what you were previously expecting. So can you provide any additional color there? And what these exit rates potentially mean for 2026? Thanks.

**Tyler Renwick Sloat**

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

A

Sure. So on the second one on the operating margin. Yeah, we brought through \$12 million from our beat. But we also called out in the call that we are going to make some investments in the back half of the year, some of it is timing, some of it is head count related things that hires that we didn't get the full quarter of expense and things like that. Some of it – some of the brand stuff that we just mentioned. And in general, investments in the go-to-market side that, we think are the right thing to do, because we do see there's a huge opportunity. And so from an operating margin perspective, yeah, we said there's going to be a little bit of spend increase in the back half.

Going into next year, we haven't given any kind of vision into next year. But, I hope you guys can see we've been running the business very efficiently. We're going to continue to do so, but we will invest in growth. On the revenue side, I mean, our forecast for the remainder of the year is reflective of everything we see right now. And we actually have had a really good Q1 and Q2. And, from a pipeline perspective and expectations for Q3 and Q4, we built all of that in, and, we're positive on the business right now. And, both on the CX and on the EX side.

**Dennis M. Woodside**

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

A

And just on that, just remember, Q4 is our biggest quarter for EX and for field, where the business is skewing more and more towards EX, towards field, and we've got some visibility into the pipeline for Q4. We certainly know where we are in this quarter. So all that's reflected in the guide and that there is a bit of acceleration from a billing standpoint in there.

**Taylor McGinnis**

*Analyst, UBS Securities LLC*

Q

Great. Thank you so much.

**Operator:** Thank you. And I'm currently showing no further questions at this time. Thank you all for your participation. This does conclude today's conference call. You may now disconnect.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2025 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.