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# Freshworks, Inc. (FRSH)

Q3 2023 Earnings Call

## CORPORATE PARTICIPANTS

**Joon Huh**

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

**Rathna Girish Mathrubootham**

*Chairman, Founder & Chief Executive Officer, Freshworks, Inc.*

**Dennis M. Woodside**

*President & Director, Freshworks, Inc.*

**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

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## OTHER PARTICIPANTS

**Ryan MacWilliams**

*Analyst, Barclays Capital, Inc.*

**Scott Berg**

*Analyst, Needham & Co. LLC*

**Pinjalim Bora**

*Analyst, JPMorgan Securities LLC*

**Rob Oliver**

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

**Brett Knoblauch**

*Analyst, Cantor Fitzgerald & Co.*

**Nick Altmann**

*Analyst, Scotiabank*

**Brent Thill**

*Analyst, Jefferies LLC*

**Ethan Bruck**

*Analyst, Wolfe Research LLC*

**Brent A. Bracelin**

*Analyst, Piper Sandler & Co.*

**Brian Schwartz**

*Analyst, Oppenheimer & Co., Inc.*

**Patrick Walravens**

*Analyst, JMP Securities LLC*

**Adam Bergere**

*Analyst, BofA Securities, Inc.*

**Taylor McGinnis**

*Analyst, UBS Securities LLC*

## MANAGEMENT DISCUSSION SECTION

**Operator:** Hello and welcome to the Freshworks Third Quarter 2023 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

It is now my pleasure to introduce Vice President, Investor Relations, Joon Huh.

### Joon Huh

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

Thank you. Good afternoon and welcome to Freshworks third quarter 2023 earnings conference call. Joining me today are Girish Mathrubootham, Freshworks Chief Executive Officer; Dennis Woodside, Freshworks President; and Tyler Sloat, Freshworks Chief Financial Officer.

The primary purpose of today's call is to provide you with information regarding our third quarter 2023 performance and our financial outlook for our fourth quarter and full year 2023. 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 Freshworks' current expectations and estimates about its business and industry, including our financial outlook, macroeconomic uncertainties, management's beliefs, 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 Form 10-Q, our Form 10-Q for the quarters ended March 31, 2023 and June 30, 2023, and our 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, a replay of today's call, or to learn more about Freshworks.

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

### Rathna Girish Mathrubootham

*Chairman, Founder & Chief Executive Officer, Freshworks, Inc.*

Thank you, Joon, and welcome, everyone. Thank you for joining us today on Freshworks' earnings call covering our third quarter of 2023. We delivered another solid quarter of execution, as we outperformed our previously disclosed estimates across our key financial metrics.

Our revenue exceeded the high end of our financial outlook range, coming in at \$153.6 million for the quarter. We surpassed our estimates for our free cash flow with \$22.1 million in Q3, and we improved our free cash flow margin to 14%. We also held our first Investor Day in September, where we showcased our products and outlined the fact that we believe will drive us towards becoming \$1 billion company and beyond.

Freshworks continues to reap the benefits of three industry tailwinds. Businesses of all sizes are having to transform to compete digitally, expectations for customer and employee experience are evolving to center around modern messaging, and AI is breaking down silos, offering richer insights to help businesses understand much more about their customers and employees. This quarter in particular, we added new generative AI capabilities across products and opened up our Freddy Insights beta program, following Freddy Self Service and Freddy Copilot in Q2, which is intended to unlock more value out of our existing product suite.

You'll hear me talk about AI quite a bit today, starting with customer support. I'm really excited by the traction we have been seeing since launching our Customer Service Suite in August. It's our all-in-one solution to combine bot, modern messaging, and ticketing. In the first two months, our sales team signed on more than 200 Customer Service Suite customers from new and existing customers, and we are seeing higher levels of engagement with the product than with Freshchat alone.

The suite not only saw great traction with new customers, but also with longstanding ones, including a large US TV network and a high fashion jewelry company, who decided to migrate to help them scale self-service features with our bots capabilities. An early adopter of the Customer Service Suite, Fastway Couriers in South Africa, delivered over 16 million parcels annually to an area nearly twice the size of Texas. The company is growing, but found its previous provider offering a disjointed customer service experience across different channels. Now, with the Customer Service Suite, agents are able to better address this issue and handle live chats with automation and gain deep insights into ticket trends.

We continue to invest in cutting-edge AI capability for our customer support users. In our initial beta of our Freddy Copilot, we were predominantly focused on driving agent productivity. We have heard great feedback from our customers, including Monos, a luxury luggage brand we featured during our Investor Day; Thomas Cook, a popular global travel company in the UK, using Freshdesk since 2021; and iQor, a business process outsourcing company with 40,000 employees, are beta testing Copilot features to further enhance agent productivity.

Freddy Copilot adoption and usage among customer service customers increased meaningfully from Q2. In Q3, we continued to see growing demand for our IT product with mid-market and enterprise customers. We win with a unified service operations platform that enables customers to improve service reliability. Our customers, including [ph] Chalhoub Group (00:06:58), Valley Children's Healthcare, and Travelopia, see great value in our unified product. ITOM in particular is gaining traction, with momentum for Freshservice's Major Incident Management feature.

We added new capabilities to this feature, and the customer base is growing. Almost 1,500 customers now take advantage of post-incident reports, automated major incident creation via alert, and organizational updates through a branded status page.

We continue to harness the power of generative AI to enable IT and other business users to focus on high-value work by using auto-generated Ticket Summary and ticket response [ph] addition (00:07:39). Our newest beta release includes Gen AI powered virtual agents that eliminate forms to create a more conversational experience for employees. Early adopters of this new AI features for Freshservice include existing customers Restaurant365

and Confluent Health. Freshservice customer adoption of these features has more than doubled since Q2. Through our continued innovation to meet the IT needs of large enterprises and the mid-market, we believe we are increasing mindshare with CIOs and anticipate that this will enable us to execute on the broader ITSM opportunity.

Onto sales and marketing, we continue to execute on our vision of delivering an easy-to-use, quick to set up smart CRM that assist sales teams in generating leads, increasing conversion, and accelerating revenue. In Q3, we made improvements to the inbound experience in our sales and marketing products. We revamped the UI of Freshsales to improve user efficiency, productivity, and data accessibility. The upgraded interface for sellers helps boost context, AI-powered actions, and team collaboration for faster deal closure. For example, a local cabinetmaker in Georgia, named CliqStudios, uses both Freshsales and Freshdesk to help support and sales teams to collaborate better. With the help, CliqStudios improved sales cycle by up to 35%.

We also continue to strengthen our AI capabilities for marketers to improve campaign creation while boosting efficiency, conversion rates, and customer satisfaction. In summary, Q3 innovation was centered around unlocking more productivity for our customers through AI-powered customer service, IT, and sales and marketing products. And we will continue building and offering richer insights to help businesses understand their customers and employees.

Now, over to Dennis, who will give more detail on the opportunities we are realizing with customers and the ongoing impact of changes we are making to our GTM operation.

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## Dennis M. Woodside

*President & Director, Freshworks, Inc.*

Thanks, G, and thank you, everyone. We appreciate you joining us for today's call. As we talked about at our Investor Day, on top of product innovation, a few key growth drivers are helping us deliver on our targets for revenue, operating profit, and free cash flow.

Let me provide some highlights from Q3. Firstly, our unique go-to-market approach efficiently serves the Fortune 5 million, combining an efficient inbound sales motion, growing field sales presence, and a partner ecosystem that's built to scale. Large customers like Tri Pointe Homes and Qualfon turned to Freshworks, along with mid-market customers like Salvation Army Australia, ASPCA, and Jackson Family Wines. We added nearly 1,000 net customers in the quarter, resulting in a total of over 66,600.

While we're addressing companies of all sizes, we're also targeting larger, higher-yielding customers. In Q3, Freshworks customers paying us over \$50,000 in ARR grew 32% year-over-year, or 30% on a constant currency basis. This cohort continues to represent 46% of our ARR, as larger customers fuel the growth of our business.

One example, a national homebuilder has \$4 billion in annual sales and 6,000 employees. They needed a consolidated platform that manages ticketing, ITSM, and asset management to improve their efficiency, given each of those was previously managed in disparate systems. They chose Freshservice and added Marketplace integrations to help them scale their global service management needs.

Another large company using Freshservice is Qualfon, a leading business processing outsourcer with 15,000 employees. They used a legacy provider's ITSM tool for years, but it never delivered on automation. Qualfon chose Freshservice because it is easy-to-use and supports employee needs right out of the gate. They can now automate over 2,000 requests per month and saw an average resolution time improvement of 70%.

Looking at our opportunity for expansion, higher rates of multi-product adoption with larger customers are contributing to this growth driver. In Q3, 25% of our total customers used more than one product. In our larger customers, we're finding more than half of our \$50,000-plus ARR customers are using multiple products. One example is Giant Eagle, a retailer with more than 470 stores and approximately 36,000 team members. Giant Eagle chose Freshservice for its user-friendly, results-driven platform, and this summer introduced Freshchat to better measure employee engagement. Building off an encouraging increase in self-service among team members, Giant Eagle is now eager to integrate other communication platforms like text.

Western Financial Group is another great example of Freshservice to Freshchat expansion. The Canadian insurer needed an enterprise tool to allow support teams to collaborate and respond effectively to frontline teams, keeping data and reporting separate. Moreover, they wanted to unlock tools for change, problem and asset management, and CMDB. They chose Freshservice because of its vast automation opportunities, ease of use, and clean interface. Most recently, they have expanded and begun using Freshchat.

Turning to our SMB opportunity, this remains large. As G mentioned earlier, we're taking advantage of that by enhancing our inbound motion with a view to driving higher conversions and attracting stickier customers. We saw encouraging signs in the SMB segment in Q3 as the churn rate improved year-over-year and also quarter-over-quarter. Millions of SMBs need to adopt AI and automation now to stay competitive, and we believe AI can greatly simplify customer and employee experiences.

Underscoring this, many of our AI beta customers today are SMB and mid-market companies, including Ultrafabrics, an early pioneer of socially conscious fabric manufacturing; Jacob Stern & Sons, a distributor of specialty agricultural products since 1850; and Virtual Identity, a digital creative agency. Each of these customers uses Freddy Self-service to automate Level 0 and Level 1 support with modern virtual agent conversations.

We're embedding AI capabilities across our products as this is a critical growth driver for us. New features include contact scenario for Freddy Insights, which analyzes top contact scenarios in tickets and conversations and helps deploy bots for them. This is just one of many enhancements we released with Freddy AI to deliver more value to our customers in Q3. Our plan is to monetize increased automation through bot sessions in a consumption or usage-based model. As automation frees up agents to focus on higher value work, we can also assist with our Copilot add-on that helps them be more productive.

Our continued traction with larger customers over \$50,000 in ARR, combined with our expansion motion and large SMB opportunity, create a go-to-market motion unique to Freshworks. We believe it is this combination of growth levers that gives us confidence in our ability to reach our goal of \$1 billion in revenue in the next three years.

I'm also excited to announce the upcoming appointment of a new management team member who will be crucial in helping us reach that big goal. Mika Yamamoto will join us as Chief Customer and Marketing Officer on November 20. Mika has proven executive leadership experience at large public tech companies with deep technology, sales and marketing experience, serving multiple buyers that are relevant to Freshworks. She was most recently the Chief Customer Experience and Marketing Officer of F5 and was previously the President of Marketo, Chief Digital and Marketing Officer at SAP, and held senior roles at Amazon, Gartner, and Microsoft.

Now, over to Tyler to go through the Q3 financials and talk about how we're driving efficiency.

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## Tyler Renwick Sloat

*Chief Financial Officer, Freshworks, Inc.*

Thanks, Dennis, and thanks again to everyone for joining us. Before I get started, I want to thank you once again to everyone who attended our first Investor Day. It was great to spend time with many of you in person and to provide an update on the Freshworks story.

Once again, we had another quarter of good execution in Q3. We beat our revenue growth estimates and continued driving additional leverage in the business to expand both non-GAAP operating and free cash flow margins quarter-over-quarter. We continue to realize the financial benefits resulting from the operational changes made earlier in the year, and we're creating a healthier position to drive profitable long-term growth for the business.

For our call today, I'll cover the Q3 financial results, provide background on the key metrics, and close with our forward-looking commentary and expectations for Q4 and the full year 2023. I'll also include constant currency comparisons for certain metrics to provide a better view of our business trends. As a reminder, most of our discussion will be focused on non-GAAP financial results, which exclude the impact of stock-based compensation expenses and other adjustments.

Starting with the income statement, revenue grew 19% year-over-year to \$153.6 million on a reported basis and 18% adjusted for constant currency, as we're beginning to see the positive impacts on currency rates for the euro and pound against the dollar over the past year. ITSM deal activity continued to drive much of the growth in Q3, while expansion rates ticked down slightly in the quarter.

Turning to margins, we had another strong quarter of non-GAAP gross margin of 84% as we efficiently scale the business. In Q3, we achieved a non-GAAP operating margin of 11%, which represents a 3-percentage point improvement quarter-over-quarter. This was driven by lower than expected head count-related costs, some delays in spend, and ongoing improvements on operating expenses.

Turning to our operating metrics, we have two key business metrics, net dollar retention and customers contributing more than \$5,000 in ARR. Net dollar retention was 108% in the quarter, which includes a 2-percentage point benefit from FX. In Q3, our overall churn in came better than our initial estimates, slightly improving from the prior quarter. Looking ahead, we are planning for the lower net expansion trends to persist for the remainder of the year as we expect net dollar retention to be approximately 105% for both constant currency and as reported in Q4.

Moving to our other key business metric of number of customers contributing more than \$5,000 in ARR, this metric grew 17% year-over-year to 19,551 customers in the quarter and continues to represent 88% of our ARR. On a constant currency basis, this customer metric grew 16% year-over-year.

For our larger customer cohort contributing more than \$50,000 in ARR, this cohort grew 32% year-over-year to 2,268 customers and represents 46% of our ARR. Adjusting for constant currency, this cohort grew at 30%. We added nearly 1,000 net customers in the quarter, which was an increase from Q2. We ended the quarter with a customer count of approximately 66,600 as we continued our focus on attracting higher yielding customers in building a healthier base and driving a higher ARPA.

Moving to calculated billings, balance sheet, and cash items, calculated billings grew 21% year-over-year to \$165.3 million at 19% on a constant currency basis. Factors including timing duration of contracts and revenue reserves in the quarter created a slight benefit of 1% to these growth numbers.

Looking ahead to Q4 2023, our preliminary estimate for calculated billings growth is 18% as reported, and 17% on a constant currency basis. For the full year 2023, we expect calculated billings growth to be similar to our expected annual revenue growth of approximately 20% for both as reported and constant currency.

During the quarter, we generated \$22.1 million in free cash flow, ahead of our estimates and reflective of the efficiency improvements we're making in the business. We ended the quarter with a similar balance for cash, cash equivalents and marketable securities of \$1.16 billion. We continue to net federal vested equity amounts using \$24 million during the quarter, which is reflected in financing activities and this activity is excluded from free cash flow.

As we look forward to Q4, we plan to continue [ph] net sell (00:21:17) vested equity amounts resulting in Q4 cash usage of approximately \$18 million using current stock price levels. For the year, we expect to use approximately \$70 million to net federal vested equity amounts. Given the meaningful operational efficiencies we realized so far this year, we are raising our free cash flow estimates for the full year 2023 by \$15 million to \$75 million.

Turning to our share count for Q3, we had approximately 327 million shares outstanding on a fully diluted basis as of September 30, 2023. The fully diluted calculation consists of approximately 295 million shares outstanding, 29 million related to unvested RSUs and PRSUs and 3 million shares related to outstanding options.

Let me now provide our forward-looking estimates. For the fourth quarter of 2023, we expect revenue to be in the range of \$156.7 million to \$159.3 million, growing 18% to 20% year-over-year. Adjusting for constant currency, this reflects growth of 17% to 19% year-over-year. Non-GAAP income from operations to be in the range of \$5.5 million to \$8.5 million and non-GAAP net income per share to be in the range of \$0.04 to \$0.06 assuming weighted average shares outstanding of approximately 303.3 million shares.

For the full year 2023, we expect revenue to be in the range of \$593 million to \$595.5 million, growing 19% to 20% year-over-year. Adjusting for constant currency, this reflects growth of 19% to 20% year-over-year. Non-GAAP income from operations to be in the range of \$38.5 million to \$41.5 million, and non-GAAP net income per share to be in the range of \$0.23 to \$0.25 assuming weighted average shares outstanding of approximately 300.1 million.

Given the US dollar trends over the past year, we saw a slight positive impact to our growth rates in Q3. Our forward-looking estimates are based on FX rates as of October 27, 2023 so any future currency moves are not factored in.

Let me close by saying we continue to execute on our goals in Q3. We maintained our rapid pace of product innovation, realized the benefits of operational changes made earlier this year, and remain focused on the growth initiatives to help drive momentum into 2024. We're excited and look forward to our many opportunities ahead.

And with that, let's take your questions. Operator?

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] And our first question comes from the line of Scott Berg with Needham & Company. Pardon me, Scott, please check your mute button.

Okay. One moment, please, for our next question. And our next question comes from the line of Ryan MacWilliams with Barclays.

**Ryan MacWilliams**

*Analyst, Barclays Capital, Inc.*

Q

Hey, guys. Thanks for taking the question. Pleased to see the continued work to improve profitability here. Just asking about kind of how things moved through the third quarter. Like how would you say your new business did in the month of September and how has October been so far? Thanks.

**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

A

Hey. Sorry about that, Ryan. Thanks, man. I think the question's around linearity and so as we went through September, kind of played out as we expected, meaning that we've been dealing with larger companies and larger deals. And over the last, let's call it, year become a little bit more back end loaded. So that was expected.

October, the guidance that we just gave out takes into account everything we see. We're trying to call it as we see it so October is going as we expected as well.

**Ryan MacWilliams**

*Analyst, Barclays Capital, Inc.*

Q

Appreciate that. I know it's early, but we've heard a lot of customer interest around Freddy AI so any more detail on the timing of the rollout there? Any of the early expectations or just any more additional commentary around how that can be initially adopted within your customer base like maybe a penetration rate or what kind of customer we can see that first in. Thank you.

**Rathna Girish Mathrubootham**

*Chairman, Founder & Chief Executive Officer, Freshworks, Inc.*

A

Sure, Ryan. I'll take that. This is Girish. So we have – actually if you remember last quarter during Investor Day, we actually said that several of our customers were beta testing our Freddy AI, specifically Freddy Self-service, which is the self-service automation capability for customer service and employee service, that is being used by our customers. We are monetizing it through our bots and the customer service platform and Freddy Copilot and Freddy Insights, this quarter, we have actually put it in – when I say this quarter, I mean Q3. We have actually put it in beta into our customers. Thousands of customers are using it.

Our plans for monetizing Freddy Copilot would be we are thinking of Q1 2024 is when we would start charging for Copilot, and that's an add-on to agent seat licenses. We are still working with customers on Insights. We have not finalized the pricing for Insights yet.

**Ryan MacWilliams**

*Analyst, Barclays Capital, Inc.*

Appreciate the color. Makes sense.



**Operator:** Thank you. One moment, please, for our next question. Our next question comes from the line of Scott Berg with Needham & Company.

**Scott Berg**

*Analyst, Needham & Co. LLC*

Hi. I hope everyone can hear me this time. Congrats on the strong quarter and thanks for taking for taking my questions. I guess a couple. Dennis, wanted to start with you. Sales in the quarter, you seem quite pleased with – one of the trends I've noticed over the last couple years is your third quarter kind of customer adds are – you always have a seasonal dip versus the second quarter kind of results and this year looks like it's very much the same. Can you help remind us what you see internationally that might be causing a little bit of that change from Q2 to Q3? My guess is it has something to do with just European sales cycles, but if there's anything more nuance to call out there in particular.



**Dennis M. Woodside**

*President & Director, Freshworks, Inc.*

Yeah. Thanks, Scott. Yeah, nothing really nuanced there. I don't think we had anything this quarter related to European sales cycles. We continue to see strength in the larger accounts, continue to see strength in IT, and we did see an uptick in net adds to around 1,000 net adds for the quarter from last quarter. So we didn't see the kind of dip that perhaps we've seen in the past. Remember, last quarter, in Q2, we had a free offering for our Freshsales product that we then pulled back and that has resulted in the increase in the overall net adds for Q3.



**Scott Berg**

*Analyst, Needham & Co. LLC*

Got it. Helpful. And then I wanted to follow-up on the question on improving win rates – or excuse me, improving churn down market. I think that's always super interesting because the point improvement there makes a big difference both on the top line and bottom line profitability. How should we think about your opportunity to improve that churn in that segment? SMB churn across software is always notoriously low. I know you all have had some success improving that number, but how do we think about what that kind of runway for improvement looks like maybe over the next several quarters?



**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

Yeah. Hey, Scott. This is Tyler. You're right. We've actually done a really good job on churn just as a company over the last, I'll call it, year-plus where we've had quarters where it's kind of remained stable and then other quarters where we actually make some good improvement on it. This past quarter was a company best for us in terms of churn in general, and that's across the board, across the products.



On the SMB side, I think it's more characteristic that the products are getting better and we're getting also better at kind of focusing on the right ICPs or ideal customer profile for our customers even on SMB, which has led to maybe slightly lower total number of customers, which we've seen the last couple of quarters, but better customers in some cases. So I do think that going forward, the improvements are going to be more subtle, but I do think that we do have a little bit of room to go in terms of improving churn over the next year, year and a half.

**Scott Berg**

*Analyst, Needham & Co. LLC*

Excellent. Very helpful. Thanks for taking my questions and congrats on the strong quarter again.

Q

**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

Thanks, Scott.

A

**Operator:** Thank you. One moment, please, for our next question. And our next question comes from the line of Pinjalim Bora with JPMorgan.

**Pinjalim Bora**

*Analyst, JPMorgan Securities LLC*

Hey, guys. Thanks for taking the questions and congrats on the quarter. I want to ask you on the bot side. Can you help us maybe understand what portion of the overall ARR today is driven by bot-based pricing? And how should we think about kind of the changes in the pricing and packaging that went into effect in August? How is that going to be layered into the model?

Q

**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

Yeah. I'll start with that, talk about the financial parts, Pinjalim. This is Tyler. We changed the pricing at the end of Q2 in terms of our chat pricing which then the bots are kind of embedded in that, which would also embed the Freddy Self-service capabilities. It's really, really new and so we don't have that much embedded in terms of the new feature functionality. We do have a decent amount of chat revenue and we would expect that to continue to kind of increase as we progress here.

A

The other AI capabilities, right, we haven't started charging forward. They're still in beta and they will be coming out kind of Q1 and that's really Copilot will be the next one that's coming out. And so, every quarter, we expect to have a little bit more increase on price of service. Again, that's going to be reflected more in chat usage.

**Pinjalim Bora**

*Analyst, JPMorgan Securities LLC*

Yeah, understood. And, Tyler, on that topic then, seems like you have a few tailwinds like going into next year, the bot-based pricing, the AI SKUs that I think Girish said we'll be monetizing in Q1, maybe potential stabilization on the MDR metric. Obviously, macro and geopolitical climate is a wild card but help us understand how are you thinking about 2024. What are the puts and takes as we look forward?

Q

**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

Yeah. So, we haven't guided anything for 2024 yet. In our Investor Day, we kind of talked about 2025 in terms of getting to Rule of 40, and then we talked about some revenue numbers for 2026. We'll give out the 2024 numbers at the end of this quarter.

A

I do think you're right. In terms of churn, I just said I think we can make some slight improvements there, but it's definitely heading in the right direction. In terms of the AI SKUs, it's so new. We'll have to wait and see on those things.

And the one other comment you made on macro, we don't expect macro to immediately turn around. And for us, that would be reflected in our expansion motion, increasing with agent addition, meaning companies are going back to hiring and we expect that to see continued pressure for a while. So, we've kind of built that into our expectations.

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**Pinjalim Bora**

*Analyst, JPMorgan Securities LLC*



Got it. Thank you.

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**Operator:** Thank you. One moment, please, for our next question. And our next question comes from the line of Rob Oliver with Baird.

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**Rob Oliver**

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



Great. Hi. Good afternoon. Thanks for taking my questions. Dennis, one for you. Just on the comment around more than half of the 50,000-plus customers now using two products. Clearly, great progress on that front for you guys. I think you said overall it's at 25%, which is kind of what you had said at the Analyst Day, which is great. Just curious, as you make that move sort of upmarket, are you seeing more multi-product lands or are these still largely expands? And then, can you talk a little bit about what you see in the pipe and if there's a mix of those? And then I had a quick follow-up.

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**Dennis M. Woodside**

*President & Director, Freshworks, Inc.*



Yeah. Sure. Yeah. So, thanks, Rob. We do see multi-product lands. They tend to be multi-products within the same family. So, an example would be a customer taking IT plus ESM or Freshchat and Freshdesk.

Now, most of our expansion in those larger accounts tends to go across true persona, so from IT to CS. In fact, if we look at our largest expansions, those are true cross-product expansions. Some of them, I think, we talked about in the prepared remarks like Giant Eagle and Western Financial. So, as we continue to move upmarket, that expansion motion is becoming more and more important for us, and that's going to be a big emphasis for us going into next year.

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**Rob Oliver**

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



Great. That's really helpful. Thanks for the color there. Yeah. And just on the macro, Tyler, appreciate your comment in response to the last question just about how you're thinking about macro and around agent count. You kind of reiterated what you said at the Analyst Day, which is, hey, we're not really counting on those agent additions. And that sounds like that's pressure that's likely going to remain here, but on the other hand, it does seem like you guys – I mean, you deliver tremendous value for the price.

So, I'm just – just be curious to get a sense as the execution's been strong here, is there a flipside to the sort of macro headwinds where some of those mid-market customers are feeling like maybe upper end can get a lot more value with you guys? Are you seeing some of that as well? Thanks.

**Rathna Girish Mathrubootham**

*Chairman, Founder & Chief Executive Officer, Freshworks, Inc.*

A

Hey, Rob. I'll take that. This is Girish. So, first of all, I would like to say that, from a macro standpoint, we are not seeing any significant change in Q3 compared to Q2. And one of this – clearly, when companies are still carefully considering their spends, we are a vendor of choice because of our affordable pricing and lower total cost of ownership. So,, that may be in play, but that's not specific to Q3. That's pretty much our promise to our customers.

And as we see continued demand for AI and even to offset – moving forward, we hope that, A, our AI strategy will help us make money when businesses are not hiring agents, they will make money when businesses are hiring agents by making them more productive, and also our Insights product helping open up a new SKU for leaders.

**Rob Oliver**

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

Q

Great. Thanks, G. Thanks, everyone.

**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

A

Thanks, Rob.

**Operator:** Thank you. One moment, please, for our next question. And our next question comes from the line of Brett Knoblauch with Cantor Fitzgerald.

**Brett Knoblauch**

*Analyst, Cantor Fitzgerald & Co.*

Q

Hi, guys. Thanks for taking my questions. Congrats on the quarter. I guess the first for me, you guys talked about your AI product, and it seemed like that maybe SMEs might be the biggest early adopters of this. Is that how you're thinking about it, and you think that could help maybe drive a step function improvement in churn at the lower end of the market?

**Rathna Girish Mathrubootham**

*Chairman, Founder & Chief Executive Officer, Freshworks, Inc.*

A

So, yeah, I'll take that. So, first of all, if you look at the three pillars of our AI strategy, Freddy Self-service, I think, will be really, really useful and adopted by larger customers, because they are the ones who have a large volume of support, like millions of customers coming in for support. So that's where the scope for automation is much higher.

On the other hand, Freddy Copilot would probably be like more universally applicable to SMBs and mid-market customers, because every user can now become more productive, and SMBs really want to do more with less. And Freddy Insights is for leaders. Again, larger companies may benefit more because their needs for data from different teams could be larger.

And specifically on AI helping us deal with the macro, I think we said this in the last earnings call. So, we are focused – we are not waiting for the macro to improve. We are focused on controlling the variables that we can, like our focus on four growth pillars, like how can we use product innovation in AI, how can we cross-sell more

into our existing base, how can we focus on larger deals and drive more operational efficiency. So, that is our plan to keep executing while we wait for the macro to turn.

**Dennis M. Woodside**

*President & Director, Freshworks, Inc.*

A

And just, hey, it's Dennis. Just to add some color there, today we're seeing – even though our products are still in beta, we're seeing pretty broad adoption across all customer sizes for our AI products. So, we have over 2,500 customers in beta using Freddy Copilot to improve agent productivity. We have over 4,000 customers using some aspect of Freddy Insights, and those range the gamut from our largest to our smallest customer.

So, I think AI, it's on the agenda for every CEO. They're all looking for improved outcomes. They're looking for improved efficiency in their operations and all of our customers, whether you're a customer support leader and IT leader, you have to have an AI strategy. So that's provoking a lot of discussions and we're very optimistic about how this is going to play out over the next year.

**Brett Knoblauch**

*Analyst, Cantor Fitzgerald & Co.*

Q

Perfect. Appreciate it. Thanks, guys.

**Operator:** Thank you. One moment, please, for our next question. Our next question comes from the line of Nick Altmann with Scotiabank.

**Nick Altmann**

*Analyst, Scotiabank*

Q

Awesome. Thanks, guys. I think earlier you had noted that churn has improved in SMB both year-over-year and quarter-over-quarter. I was wondering if you can maybe talk about the expansion side and how that's trended. And then just as a follow-up, were any of the changes that you'd made to pricing earlier this year, has that been sort of a tailwind to NRR? And if you could quantify that, if you're willing to disclose that, that would be helpful. Thanks.

**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

A

Hey, Nick. This is Tyler. I'll take that one. So yeah, in churn, we're just doing better kind of and have been for a while just because these are subtle improvements and I just mentioned we made kind of a company best ever in churn this past quarter and it goes from SMB all the way up. I think part of that is because we have been moving to larger customers. They're signing annual deals so the mix shift of our customer base is changing, part of it Freshservice in general, which plays in the larger markets. That is growing faster and that has great characteristics.

When on the flipside of the question, you asked about expansion. Expansion is it really hasn't changed and it's still a pretty tough environment for expansion, specifically around agent additions. And so what we have been doing is looking at other ways to expand with our customer base. One of those which you've alluded to is that we did do some price changes on our Freshservice product and we did get some benefit from that so far this year and so that has helped our net dollar retention slightly. And so even though on one side, the expansion motion overall is coming down, we did get some expansion benefit from price a little bit, but also benefit from churn. So hopefully, that breaks it down for you.

**Nick Altmann**

*Analyst, Scotiabank*

Q

Awesome. Thanks, guys.

**Operator:** Thank you. One moment, please, for our next question. And our next question comes from the line of Brent Thill with Jefferies.

**Brent Thill**

*Analyst, Jefferies LLC*

Q

Tyler, on NRR, you mentioned it is going to moderate more in Q4. Is Q4 going to be a bottom for that moderation in NRR? And maybe for Dennis, US and EMEA held up really well, though the APAC showed a pretty big slowdown. Anything going on in APAC that would describe what happened there? Thanks.

**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

A

Hey, Brent, I'll take the first part of it. So, we had been calling kind of coming out of Q1 even that we thought Q2 is going to go to 105%, 106% range. And we've been doing a little bit better, and part of the reason is because churn has been doing better with kind of – the expansions kind of come through as we expect.

We're calling the kind of 105% for Q4. And based on what we see right now, we do hope that that's kind of the floor going – and we'll obviously update that going into next year if anything changes. That kind of assumes that we'll be able to maintain the levels of churn and expansion is not going to get dramatically worse. And so that's obviously the assumptions going into that number.

**Dennis M. Woodside**

*President & Director, Freshworks, Inc.*

A

Yeah. Just on the geography question, we really didn't see a slowdown in Asia-Pac. We have pretty consistent performance across our three big geos. So, no – I would say no appreciable trend to call out there.

**Brent Thill**

*Analyst, Jefferies LLC*

Q

Great. Thanks.

**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

A

Thanks, Brent.

**Operator:** Thank you. One moment please for our next question. And our next question comes from the line of Alex Zukin with Wolfe Research.

**Ethan Bruck**

*Analyst, Wolfe Research LLC*

Q

Hey, guys, this is Ethan Bruck on for Alex Zukin, and congrats on the solid results. I have two quick questions. Just first, so one of your peers earlier in the month noted that there's some growth slowdown in September. So, I'm just curious, like what you're seeing [ph] into that (00:44:05) environment just given the solid results, like

based on early customer conversation around budgets, like what has the discussion been like for 2024. We've heard a lot around our tool consolidation. So just curious how you guys saw them across the front office stack helping driving some larger strategic deals.

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**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

A

Hey, Ethan, I'll take that. So, in terms of the first part of the questions around September, I already mentioned, hey, we become a little bit more backend-loaded as we've been dealing with larger customers. But it kind of came through as we expected. And it wasn't – there was no real surprise there. And we expect that kind of – that backend-loaded nature of the quarters to continue, as we are kind of doing that – more of that field motion.

As we look into next year and you asked about, hey, in terms of budgets, are we seeing anything different? We're not seeing anything different. And part of our play, as G just mentioned, is to be a great kind of – a great cost alternative. And we're going to continue to try to flex that muscle as we go engage with customers, especially if they're seeing budget pressures. We feel that we can be a great alternative to some of their big heavy software that they might have.

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**Ethan Bruck**

*Analyst, Wolfe Research LLC*

Q

Yeah. And then just a quick follow-up around the AI SKU, so Copilot coming in 1Q is constructive. I'm just curious, I mean, based on the early traction you're seeing in beta, just how would you stack rank what you guys would expect to be the most impact with the 2024 numbers if we think about impact from new spend on just the Gen AI SKUs or to uplift improving gross retention SKUs, like directionally how you guys are thinking about this. Thanks again.

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**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

A

So it's a question on monetization. So AI, I mean, it's so early, Ethan, right? We have the monetization that's just starting essentially in Freddy Self Service, which is, again, going to be reflected in chat. We've talked about Q1 being kind of rolling out GA of Copilot, which we'd start selling it. I think Dennis just mentioned we've got a lot of customers across the three different AI plays that we have that are in beta right now. And we're planning to learn as we go, and then start to roll this stuff out. So I think the first time we're really going to have anything that we would talk about as part of the first half of next year.

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**Ethan Bruck**

*Analyst, Wolfe Research LLC*

Q

Got it. Thank you, guys, and congrats again on the results.

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**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

A

Thanks.

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**Operator:** Thank you. One moment please for our next question. And our next question comes from the line of Brent Bracelin with Piper Sandler.

**Brent A. Bracelin**

*Analyst, Piper Sandler & Co.*

Q

Thank you. Good afternoon. G, I'll start with you here. Sounds like you're excited by the CS Suite product, a couple hundred customers deploying that this quarter. What is the ACV uplift? As you think about a customer that moves to CS Suite, is there an ASP uplift when customers move, or should we think about this more of a modernized stack and with no uplift? Thanks.

**Rathna Girish Mathrubootham**

*Chairman, Founder & Chief Executive Officer, Freshworks, Inc.*

A

Great. Thanks, Brent. And so, first of all, yes, there is an uplift. I probably have to get back to you the exact numbers, but because the pricing is slightly higher for the CSS (sic) [CS] Suite than standard Freshdesk or Freshchat alone, I would think it's probably, I would say, 10% to 20% higher, but actual realizations could be different. But yes, in principle, there is an ASP uplift because the customer is getting bot and conversational agent experience, as well as ticketing all in one package, so it's higher than Freshdesk standalone and Freshchat standalone and bots will add on a usage-based pricing as well.

**Brent A. Bracelin**

*Analyst, Piper Sandler & Co.*

Q

Got it. Helpful color there. And then, Dennis, just as you think about the business here, there's some moving parts, you guys are doing a good job of navigating a challenging environment. One of the things that stood out to me is clearly, you're talking about strength on the enterprise, strength in ITSM. We are looking across the industry seeing some weakness on the SMB side.

But if I look at net logo adds, it did look like enterprise was down slightly and the SMB space was up. Maybe if you could just give us an update on what you saw overall in the quarter relative to larger customer demand, SMB, and the update, that PLG 2.0 initiative, is that starting to have a little bit of an impact here on net adds? Thanks.

**Dennis M. Woodside**

*President & Director, Freshworks, Inc.*

A

Yeah. So just to back up a bit, remember, the markets that we're competing in are massive between sales and marketing, customer support and IT. And any business of any size needs what we provide, needs an IT solution, needs a customer support solution, needs a sales and marketing solution. So the market is massive. And still, when you get into SMB, still relatively underpenetrated, about 40% of our revenue is from SMB today.

In any given quarter, we're going to see fluctuations across SMB versus our large account acquisition. Also, if you think about like in enterprise in particular, you tend to have a lot of buying cycles that take place at the end of the year as opposed to in the third quarter. So that potentially played into it for Q3. But in SMB in particular, we've started to do some of the things that I talked about at the Analyst Day to improve the efficiency of our – and the scale of our SMB business.

We've spent this past quarter, Q3, diversifying some of the sources of leads in – before the funnel, so early. Think about like going into affiliate marketing and investing more in SEO to drive organically into our trial funnel. What we're doing this quarter is focusing on improving the efficiency of that funnel itself, and that's through things like creating more personalized journeys for a prospect that's in the trial itself, using chat and other means to communicate to that trial as to help them get educated on the product and get to value faster. And we know if you get to value faster, ideally in the first day or two of trying the product, you're much higher – much more likely to convert.

So, we think there's a lot of levers that we haven't really pulled there in optimizing that funnel, which will play out over the course of the next year. So, I think we got – very broadly speaking, continued to be pushing into mid-market customers, lower end of enterprise, in particular with our IT products. More and more emphasis on cross-sell and expansion of our existing base, and then getting that SMB funnel humming through what we're calling PLG 2.0. Those are the three big levers we're really going to be playing with over the course of the next year and that we'll be talking about on our calls.

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**Brent A. Bracelin**

*Analyst, Piper Sandler & Co.*



Super helpful color. Thank you.

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**Operator:** Thank you. One moment please for our next question. And our next question comes from the line of Brian Schwartz with Oppenheimer & Company.

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**Brian Schwartz**

*Analyst, Oppenheimer & Co., Inc.*



Thank you for taking my question. Tyler, just to button up the NRR guidance and the compression, I think you called out ITSM kind of being the expansion is weaker than expected in your introductory commentary. But then in the Q&A, it sounds like maybe it was a little more broad-based. So, just wanted to get maybe some clarity on that if it's constrained to the ITSM business or you're seeing across the product set.

And then, Dennis, one question for you just on the new customer adds. Can you shed any light on what you're seeing across industries? We heard about some weakness in [ph] auto, modem (00:52:16) and suppliers. And just wondering if you're seeing any strength there or weaknesses across industries given how horizontal the solution is. Thank you.

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**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*



Yeah. Hey, Brian, I'll take the first part. No, I don't think we need to call out ITSM expansion in particular seeing pressure. I'm mainly just saying, the expansion motion in general continues to see pressure, which it has for over a year now, really the agent addition part of that. I think what we called out is that, on ITSM, we actually had a little bit of price leverage this year, and so that kind of offset a little bit of the agent additions that might have slowed. And so, that was kind of more of a positive for ITSM in general. ITSM also has better churn characteristics as it's dealing with larger customers. So, hopefully that clarifies. We weren't trying to call out expansion pressure on ITSM specifically.

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**Dennis M. Woodside**

*President & Director, Freshworks, Inc.*



I think – so just on the industry question, for the reasons that I was just talking about, the fact that we address such a broad market, the fact that the market is very horizontal, if you have an IT department or a customer support department, you need to automate it. We don't have any single industry that really drives a lot of concentration for us today. We tend to get – I would say on the larger accounts, we tend to get a nice reference cycle, where we get two or three travel companies. Next thing you know, we've got 10 travel companies. We've seen that with industrial recently, where we had a handful of industrial companies, some in steel, some in manufacturing, all of a sudden we've got a lot going on there.

And then the other area that we have seen, I would say, fairly continued strength over the course of the last several quarters is in higher ed and education, where lots of universities are trying to automate all aspects of their business. They're trying to become more efficient as well, typically have very fragmented IT stacks across different departments. University of Pennsylvania is an example of one that we referred to, where that was an expansion of an existing account where they're trying to put everybody on the school in the same platform.

So, those are the kinds of things that we're seeing across the board. But I wouldn't say that there's any specific industry that showed particular strength or weakness, given the broad base of customers that we have.

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**Brian Schwartz**

*Analyst, Oppenheimer & Co., Inc.*

Q

Thank you for taking my questions.

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**Operator:** Thank you. One moment please for our next question. And our next question comes from the line of Pat Walravens with JMP Securities.

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**Patrick Walravens**

*Analyst, JMP Securities LLC*

Q

Oh, great. Thank you and congratulations on the results. So, billings growth was 19% in constant currency in Q3 versus 21% in Q1 and Q2. So, Dennis, is it fair for us to assess that sales attainment was good in Q3, but maybe not quite as good as in the first half?

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**Dennis M. Woodside**

*President & Director, Freshworks, Inc.*

A

So, overall, look, we are pleased with the quarter in terms of where we landed. Of course, we set high goals for ourselves, and I think we said this at the Investor Day, we're not satisfied with the growth rates that we're seeing now. We think we can do much better. We've got a lot going on to get there. I think the addition of Mika Yamamoto as our new Chief Customer and Marketing Officer, that's a big add for us, because a lot of what we need to do also is in that marketing space. So, yeah, I mean, our aspiration, our goals are to continue to grow the business at rates that are higher than what we're seeing now, and that's what we're going to continue to do.

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**Patrick Walravens**

*Analyst, JMP Securities LLC*

Q

All right. Great. That's helpful. And then, at the Analyst Day, you guys – and I know you're very specifically not breaking out by segment. But at the Analyst Day, IT was growing in the low-40s, and customer service in the low to mid-teens, and sales less than 10%. Is that still like overall a roughly accurate assessment of the business, or was there some change?

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**Dennis M. Woodside**

*President & Director, Freshworks, Inc.*

A

Yeah. So, we shared that data at the Analyst Day specifically to give investors some sense as to the size and scale of the different parts of our business. We don't intend to update those numbers on a quarterly basis, potentially at a future Investor Day. But broadly speaking, the trends that we – and the data that we shared back in September, the trends that we shared are consistent with what we've seen this quarter, in Q3 as well.

**Patrick Walravens**

*Analyst, JMP Securities LLC*



All right. Great. Thank you very much.

**Operator:** Thank you. One moment please for our next question. And our next question comes from the line of Adam Bergere with Bank of America.

**Adam Bergere**

*Analyst, BofA Securities, Inc.*



Hey, thanks for taking my question. So, with the focus on cross-sell, what are some of the biggest initiatives or investments there? And just naturally, what products have you found to be more common pairings that you're kind of pushing for? Thanks.

**Dennis M. Woodside**

*President & Director, Freshworks, Inc.*



Yeah, I'll take that. So, I think one of the motions that we highlighted last quarter that started to really hum is that IT and ESM. So, we're finding more and more customers are looking to provision a single workflow engine for all their departments. And often we can turn an IT-only discussion into an IT plus finance plus legal department discussion. Or we can go back to our customers that are just on ITSM and broaden the discussion to include other departments, because we've proven that we can serve their IT department. So, that's a real clear motion for us that we're just making part of how we go to market.

You're seeing on the customer support side moving customers into bots who previously may not have tried to automate their interactions with their customers. So, we have a natural upsell for customers that maybe they have fairly rudimentary bots that are just handling a small fraction of their inbound inquiries. There is an opportunity there to educate them on how to automate more and more interactions with their customers, how to apply AI to those interactions to build bots. And that's actually an upsell opportunity for us because it creates this consumption revenue stream.

That's really where we're going to be spending a lot of time this quarter and then next year, because we have a lot of customers that have sizable consumer bases in particular. This is in particular B2C. It does apply to B2B as well, but particularly B2C, who have not automated as many workflows as they can, or they've automated only the rudimentary workflows. AI allows you to automate a lot more, and that in turn creates a revenue stream for us. So that's a little bit of flavor of the big things that we're focused on.

**Adam Bergere**

*Analyst, BofA Securities, Inc.*



Yeah, that's awesome color. Thank you.

**Operator:** Thank you. One moment please. And our final question comes from the line of Taylor McGinnis with UBS.

**Taylor McGinnis**

*Analyst, UBS Securities LLC*



Yeah. Hi. Thank you so much for squeezing me in. Just question on seeing, you kept the median of the constant currency revenue guide for 4Q unchanged, but you lowered the high end of the range. So is that a reflection at all

of any areas being a tad softer than expected? Perhaps maybe there was something at the end of the quarter. And if you look at the upside to billings, it was a bit lighter than what we saw last quarter. So maybe that had a role. I know earlier you mentioned things being more backend-loaded, but maybe you can help us bridge those two metrics. Thanks.

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**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

A

Hey, Taylor, this is Tyler. I wouldn't read too much into it. I think, in general, yeah, I mean, there are still macro pressures on expansion rates, so we are cautious still. And every quarter, we've kind of been like that as we go and as we want to see things play out. In terms of the guidance, we are just trying to call it as we see it.

On the billings side, we have had this shift to kind of slightly larger deals, but those tend to play annual in advance, which does help your billing cycle, but then again, we still do have a really decent expansion motion, and a lot of that's unpredictable as it comes through based on the proration of those contracts. So, I wouldn't read into much on the midpoints and whatnot. But going into Q4, I mean, we're still going to be cautious on the expansion side of it. But new businesses, it came in decent in Q3. The numbers, the net adds were good, and we just need to execute this quarter.

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**Operator:** Thank you. Ladies and gentlemen, thank you for participating. This concludes today's program. You may now disconnect.

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