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Freshworks, Inc. (FRSH)

Jefferies Software Conference

CORPORATE PARTICIPANTS

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

OTHER PARTICIPANTS

Brent Thill

Analyst, Jefferies LLC

MANAGEMENT DISCUSSION SECTION

Brent Thill

Analyst, Jefferies LLC

Welcome back. Really happy to have with us Tyler Sloat, CFO of Freshworks. Joon is in the front row as well who heads up and works with Tyler on the Investor Relations. So, thanks, gentlemen, for joining.

Tyler, maybe just to kick off from your perspective and kind of give everyone a framework of the true north where Freshworks is going and maybe talk a little longer term, we'll talk about the short term on the next question, but kind of the five-year vision of where you see the story going.

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

Sure. And I'll just do a background really quickly for everybody. So, Freshworks, software company, started with a support software, which was Freshdesk, then purpose built an ITSM solution called Freshservice once we saw a bunch of our customers starting to use that for internal use and then started to see this vision that there's going to be really this need for kind of this employee-based software, really following the journey from marketing to sales to support all the way to success on one side and on the ITSM side seeing the same thing for employees.

So, we now have three main product lines. We've got our Freshdesk product, we have our Freshservice product, and we have our Freshsales and marketer products. Along with that, we have a bunch of other add-on products. We've been able to build those two products, the Freshdesk and Freshservice, to scale, right. We've said one is over \$200 million, that's Freshdesk, and the other is Freshservice at over \$100 million, with a healthy growth rate and do it really efficiently, and that's one of the things that we've been proud of.

We are primarily out of India. The company was founded out of India, even though we're a US company. And as such, we actually have access to highly technical talent, but also every single function so the majority of our people are down there and that's one of the reasons we've been able to have such a broad product portfolio, but also be so efficient.

The other thing we've been able to do is figure out how to go attack that global SMB and do that really efficiently. We have three go-to-market motions. Our inbound motion is servicing the SMB, which is 250 employee businesses and below, and that's 100% inbound. That inbound motion also feeds some of our field presence which is in-geo sales, in-geography sales, mainly North America and Europe and some rest of world. That is really more of an outbound traditional sales motion, but it tends to be more inside sales. And then we have a big partner group as well which we're primarily utilizing in areas that we don't have physical presence.

QUESTION AND ANSWER SECTION

Brent Thill

Analyst, Jefferies LLC

Q

That's great. Maybe set stage what you're seeing in short term. We've heard a lot of conflicting messages from a lot of companies just in the last week. Last night, Salesforce not seen it. Last week, Snowflake and Workday seeing it. What do you...

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Yeah. I don't know – so, we had earnings three weeks ago, something like that. We came out and said, hey, we had a really good Q1 and we executed really well. We talked about some deals in Europe that didn't close, it was more execution, but, in general, the quarter was really good. We actually had great new logo ads, our best in a year-and-a-half.

We did flip it, though, and said, hey, we are hesitant going forward. And as a CFO, I'm curious when other CFOs say they're not, because there just is a bunch of uncertainty out there. We are a little bit different than big enterprise sales and maybe Salesforce has a lot more visibility than we do.

On our inbound motion, it's a 30-day visibility, right. We are driving to website. These are trials that then convert in 21 to 30 days. Our outbound motion is still only really servicing the mid-market kind of low enterprise and these tend to be pretty fast sales cycles. We're talking kind of 90 days and they're not like big deals. We don't go big deal hunting. We, as G like to say, we're going after kind of deer and rabbits, right, not whales or elephants.

And in that motion, they just tend to be higher velocity. And so, we don't see really what's going to happen in Q4. We don't even see really what's going to happen in all of Q3. And so, for that, we are hesitant in the macroeconomic.

Brent Thill

Analyst, Jefferies LLC

Q

I think your comments have probably been matching more what we are hearing from others. And maybe it's because these other enterprise companies, just the bigger deals they take longer to close there, longer duration, to your point. So, it feels like...

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Yeah, I think – I don't know. The back half of the year, we'll see what happens. I think, for us, I think we're just in really good shape. I mean we were already very efficient. Last year, we actually produced cash. This year we said

we're going to burn \$20 million, but we're going to be free cash flow positive from Q4 on. We have over \$1.2 billion in the bank. We're still growing at a healthy clip and I think we're diversified, meaning that we've got this high velocity inbound and this outbound and this partner, but it's across three different product lines and we're doing it on a global basis.

And so, we're constantly looking at areas of strength and areas of weaknesses and trying to lean in, in areas that we see that there's big opportunity and trying to also run an efficient business while we're doing it.

Brent Thill

Analyst, Jefferies LLC

Q

And how do you think about not saying this, but assuming it got tougher, would you flip to, hey, we're going to show more profits? Or would you just say, hey, we got to lean in because the opportunity set is too big and how do you think of that?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Actually, to be honest, I like to do both. I mean that – I think it's important to produce cash. We are still a pretty young company. We just went public in September, but saying we're going to be cash flow positive in Q4, nothing changes there and like we're going to do that.

Leaning in, though, we do have the opportunity to go spend and we can still maintain that goal while we're trying to lean in and go capture market. We've already seen in downturn. because of the products that we have and the way that we bring them to market and our capability to get a customer up and running really quickly with a set of software that's going to meet their needs, that sometimes this is opportunity for us as well. And we did see some of that in COVID where we would have customers migrate off of bigger, heavier solutions onto us and we would want to take advantage of that, too.

Brent Thill

Analyst, Jefferies LLC

Q

Many ask if you could share what you're seeing from the small versus the mid, mid-size, how do you break that out as a percentage of your revenue?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

So, we've kind of flipped over the last couple years. Right now, we'll call it 45% SMB, and again SMB is 250 employee businesses and below, to 55% mid-market enterprise. That – and a couple years ago is the inverse and a lot of that shift has happened, I think, for a couple of reasons. But the main reason is that as we continue to add feature functionality to our products, while kind of staying true to the DNA of building products for the end user, which means great usability, great user experience and really easy to onboard, they're now relevant to that mid-market enterprise customer.

And so, we don't go after deals. We still want the majority to be inbound be pulled into deals, but we are now engaging on that mid-market enterprise. And as such, we've built out the field presence throughout North America and Europe. That mix, I think, will continue to kind of slowly creep more towards that mid-market enterprise space. It's just a factor. Those are bigger deals, bigger companies.

Our ITSM product, Freshservice, naturally plays in that space. And it just makes a logical sense if you are a company of less than 250 employees. Most likely, you don't need a full ITSM product, right? You may not even have a CIO or a VP of IT or something like that. And so, that one plays more in that space and we are a kind of the – regarded as the best alternative on our e-service now, for SaaS modern day technology in that space and we want to continue to be that.

Brent Thill

Analyst, Jefferies LLC

Q

The 55% mid to – enterprise, where do you think that is long term, do you feel? Is there a parallel to Salesforce because they were really small at the beginning and obviously proved themselves and or flipped it? Is that the right analogy or not?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

I don't see that in like in the near term, meaning the next five years, no. I think we're going to stay true to the fact that, number one, being able to go attack that SMB and do it efficiently and figure out that machine, I think it's very hard to do and we have figured out how to do that and a lot of that is because we're handling all of that out of Chennai. And we're going to continue to do that and bringing on those customers are, I think, really important to us.

Clearly, we're not going to say no to deals as they're coming in on that mid-market enterprise, and we'll continue to go after that. It's just that we're not going to – we don't have any plans to go actively, proactively move upstream and go hunt those deals and that's the biggest difference, I think.

Brent Thill

Analyst, Jefferies LLC

Q

Got it. If you think about the financial framework, top line, bottom line, how do you think about that mix or where you're at today how do you feel that will shift?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Well, I talked about producing cash and then operating profit comes next on a non-GAAP perspective. Top line, obviously, we're trying to grow as fast as we can and it's not like we're making trade-offs, top line and bottom line.

What we do is we do look at spend across – we kind of separate out go-to-market spend and what we call recurring spend. And right now, we're a little heavy on G&A. We just went public and building up all this infrastructure and, okay, we're going to get that to kind of high single-digits over the next call it year.

And then, R&D, we have disproportionately more people and have more products for a company of, say, our revenue size, a traditional Bay Area company. And that's actually a competitive advantage. I do think that R&D spend will slowly come down and be in that kind of high-teens, whereas it's the low-20s now and then eventually kind of mid-teens. And then, it's just all about the go-to-market spend, right, over time. And we are going to continue to fund that as long as we think we can do it efficiently.

Brent Thill

Analyst, Jefferies LLC

Q

And so, when you think about a floor for revenue growth versus a ceiling, is there a floor that you think of like, hey, like we can maintain this with this model, is this a...?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

No, I don't think there's any floor. I mean when we look at it, we've got desk and service, our two main products. We've said service is growing faster and I think is a massive opportunity for us right now. Desk is not growing as fast, but it also has something to do with the size of the product that it means bigger, so it's growing a little bit slower.

CRM is brand new for us and we're super excited about it. We haven't really talked anything about numbers because it is too new, but like that one that's – technically the biggest TAM is that one and we just need to keep innovating and growing on that. So, we don't see a floor or ceiling right now, right, because it's across all – if we are a one-product player, maybe we would, we just – we're not.

Brent Thill

Analyst, Jefferies LLC

Q

Yeah, I guess maybe most companies are thinking about the Rule of 40. If you're growing 40% breakeven or growing 30%, I get 10% margin, do you think of it that way or...?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Not necessarily. I mean we're pretty darn close to that right now anyway, right. And so, we really do think, okay, first let's get to sustainable free cash flow productivity, then next, let's get to non-GAAP operating profit sustainability and then we'll start talking about overall margins in the long run.

Brent Thill

Analyst, Jefferies LLC

Q

Okay. Is there someone that you kind of think about emulating yourself after? Is there a model that you think of internally that you look more like, because a lot of people say, well, it feels like a lot – is it Zendesk, is it Salesforce, is it like...?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

I think if you ask like – G has been asked this question, he would say Atlassian. And Atlassian kind of started with their 100% inbound and over time they moved a little bit to outbound partially being a kind of – founded out of Australia and built up that way. Coming out of India for us and built up that way. It's an incredible company. And, yeah, if we want to emulate something, we would probably think about that.

Brent Thill

Analyst, Jefferies LLC

Q

Maybe speak to India and the strength that that is giving the model, super differentiated and again for maybe those that don't totally understand the story as well, percentage of the employees are there kind of the importance of the region to your...?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Yeah. Really, US company but founded out of India and by far the majority of all of our employees. Every single function is represented in India. And our headquarter here in San Mateo – Denver, San Mateo, kind of Bellevue, our US offices, London, Berlin, mainly in Europe with other smaller offices, but primarily Chennai and then Bangalore and Hyderabad as well. But India is a strategic advantage to us. All of product and engineering is done down there. All of our SMB sales are done down there. And again, every function represented down there and it is a strategic advantage for sure.

Brent Thill

Analyst, Jefferies LLC

Q

And cost versus here?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

I mean it's still much more efficient. There has been wage inflation down there that is significant, right, year-over-year. It has also been a really robust startup market down there, which I think is going to start slowing down quite frankly, which is an advantage to us because we've been considered one of the places to go poach from. But that being said, you still have all of these, for lack of a better phrase, kids coming out of these very highly technical schools that are really technical are now being trained in modern technologies, whereas 10, 15 years ago, it was more about services companies. Now, everybody is thinking SaaS down there and that is a big difference.

Brent Thill

Analyst, Jefferies LLC

Q

You got a big balance sheet, which is nice.

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

We do.

Brent Thill

Analyst, Jefferies LLC

Q

What are you going to do with it?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Right now, it just puts us in a great position, right, where we are completely in control of our own destiny. We don't have any plans right now. We just went public. We just raised it. And I feel like, okay, this is great, we're not really burning capital, we have money in the bank.

We said we'd look at M&A, but M&A to us, we have done deals in the past. They tend to be kind of acceleration of innovation or teams, not really revenue and I don't really see that changing. We don't have any significant plans there by any means. So, right now we're just going to play out. We're going to try to grow, invest in the business. We're still hiring like crazy and continue to grow.

Brent Thill

Analyst, Jefferies LLC

Buyback is way down the road?

Q

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

Yeah. That's not on the table right now. I mean, that wouldn't be my decision [indiscernible] (00:15:18)

A

Brent Thill

Analyst, Jefferies LLC

And everyone would say, why keep that type of capital on the balance sheet when – if it's just sitting there, it's not really doing anything. Why not be more aggressive?

Q

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

I mean, we just raised it. I mean, it's too new right?

A

Brent Thill

Analyst, Jefferies LLC

Okay.

Q

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

I mean, I'm glad we went public when we did in hindsight, right.

A

Brent Thill

Analyst, Jefferies LLC

And I guess we've heard this comment echo through this conference already which is everyone feels like there's going to be, I think if we take your example, there's going to be a lot of startup [ph] heard (00:15:51) and there's going to be some great opportunities. It seems like that's going to take some time to play out, but it feels like we're already starting to hear stories of this.

Q

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

I think it's already happening to be honest. I think you – public markets reset, multiples reset, that leads to private markets reset to term sheets, everything else, et cetera [indiscernible] (00:16:12) I think what you – the benefit is from attrition, right, employee attrition, you start to see boomerangs and things like that and it actually is healthy because private companies, if they have a lot of capital on the balance sheet, they often lead to bad behavior because they have investors who are telling them to grow and hire at all costs. It's not disciplined.

A

And so, this will just lead back to a more disciplined business model execution which I think is a good thing. For companies like us where we were not immune to the great resignation, everything else I just said like we were a target for especially the India kind of startup ecosystem, we'll start to see that change. We already are.

Brent Thill

Analyst, Jefferies LLC

Open questions from the audience.

Q

Q

Your stocks are down significantly from the high. Is there a way that you can reward shareholders who've held on?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

Is there a way to what? What's the last piece?

A

Q

Reward the shareholders you have hold on, I mean, it's...

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

Well, look, we're trying to do that by executing, right. The one thing we did change is that like our first tranche of unlock that happened right after we went public, we did a sell to cover, right. And we thought that was important because we didn't have a lot of liquidity in the market from a share count perspective.

We did flip that to doing that exercise, which mean we're buying those shares off the balance sheet and they don't hit the market, which is actually it was a significant spend. It was like \$120 million in Q1 that we're spending off of our balance sheet to – those shares because it doesn't make sense to keep pushing those into the market.

In some aspects that's almost like a buyback and it's happening now on a weekly basis, essentially. But outside of that, no, no significant plans and I think it's prudent to just let things settle and make sure that we are executing and then figure out what to do.

Brent Thill

Analyst, Jefferies LLC

Has there been any insider buying the board, your team?

Q

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

I think it was public that one of our – they're no longer on the board, but one of our earlier investors did buy something in Q1, yes.

A

Q

When you think about who you're taking share from, is it ServiceNow or is it Hubs, who do you guys think about?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Yeah. All the above. I think the TAMs are growing in general, which is good. On ServiceNow, yes, I do think we are regarded as kind of the top alternative. I think there probably the shares being taken maybe not ServiceNow because we're not necessarily competing with them. We do see movements off of ServiceNow onto us. But if it's like a big RFP for a big deal, which is where they typically play, we're not really in those deals. It's not the kind of deals we're going after.

There's a lot of legacy on the ITSM space, the Ivanti Cherwell, BMC, that whole space, there's a lot of companies who are still on that on-premise stuff and that's where we see a lot of movement. On desk, it's Zendesk and Salesforce who we're mainly competing with on the mid-market enterprise space. There's a lot of noise and players on that SMB space. And then, on the CRM side, it's too new, but if we are competing there, it's probably going to be with HubSpot.

Brent Thill

Analyst, Jefferies LLC

Q

Back to the Atlassian kind of reference, I mean that is one of the most efficient business models in software. If you think about the margin profile, I mean that – you're assuming then long term you feel like this is a 30-plus-percent margin business.

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Long term, I'd love to get there. Yeah, I mean you said who do you would you like to emulate, right. I think that's a great margin profile, yes. We are different, right. We've built out this field presence before they did. Like for a long time, they were very proud like they had no salespeople, right? That's what they would say. I don't know if that was 100% true, but that's what they were saying. And we do, right, we have a sales process on the mid-market enterprise.

And the other thing is they were mainly playing just for engineering and DevOps and focusing on that world and we are focused across multiple functions within our company and I think that's a benefit as well as a complication as well, right. But, yes, in general, it feels like that high velocity inbound product leg growth motion we think is great.

Brent Thill

Analyst, Jefferies LLC

Q

We're in a software conference, so maybe what are the most important software companies to you in helping run your business? Your standard pillars, I don't know if you've talked about what you're using for back office, front office.

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Well, we use our own products. And so, we actually use our own CRM. We use our own support. We use our own success. We use our own Freshservice and that whole side of the business. It feels like there's – the really cool stuff has kind of turned into commodity, right? Like the NetSuites of the world, procurement seems like there's kind of the old boring stuff now which we have some of the old boring. And I don't know, there's like, just like any other CFO, I try to look at the list and try to eliminate as many as possible because it just seems to be a lot of non-utility out there across a whole bunch of small solutions.

Brent Thill

Analyst, Jefferies LLC



In public cloud, what does that mean for you in terms of the Amazons, the Microsofts, the Googles? How do you – are you playing into this?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.



I think any company going out now, that's all you do. We're – Amazon, we would love to be agnostic, right. That does take work. And it's also really important, if you're a global company, you need to have a partner like Amazon that you can go deploy out in all these different geographies based on data residency rules. And so, you have to rely on that. But I mean that I think is close to commodity as well at this point.

Brent Thill

Analyst, Jefferies LLC



Best kept secret that no one knows in this audience that you can only see. What are we missing about the story?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.



I mean I can tell you why I joined, right. Looking at a lot of companies, I've been in a lot of software – not a lot. I've worked at like six software companies. The Holy Grail of SaaS in my mind is how do you – and I said this this morning, so to people in the audience I'll repeat, but how do you create a product that is built for that end user, which means great usability but incredible onboarding.

And one of the things I looked at on our – I was doing all my research like, okay, we have hardly any professional services. In fact, it's not even big enough to break out. And that's just a testament like for our SMB, you trial a product, that trial flips to production and you just go, right, there's not like there's a big services onboarding and things like that.

If you add feature functionality, but you stay true to that DNA so that you can go service a larger company but kind of have that same experience where we do have some services but it tends to be like configuration and data migration and stuff like that, that is the holy grail of SaaS.

If you can do that, but also build a software that is using a lot of common frameworks and common data models, which is what our Neo platform is, then it allows you to innovate really fast as well. And because of our roots in India, we also got to scale just really efficiently, which is pretty cool.

Brent Thill

Analyst, Jefferies LLC

It's great. Thank you so much, Tyler. Good to see you.

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

Thanks, Brent. Thanks for having me.

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